KAZKOMMERTSBANK

U.S.$150,000,000

KAZKOMMERTS INTERNATIONAL B.V.

7 per cent. Notes due 2009
Unconditionally and Irrevocably Guaranteed by

JSC KAZKOMMERTSBANK

Price: 98.25 per cent., plus accrued interest from 3 November 2004, to be consolidated and form a single series with the Issuer's U.S.$350,000,000 7 per cent. Notes due 2009.

Kazkommerts International B.V. (the "Issuer"), a company incorporated in The Netherlands, is offering Further Notes (the "Further Notes") which will bear interest at a rate of 7 per cent. per year. Interest on the Further Notes is payable on 3 May and 3 November of each year, beginning on 3 May 2005, and the Further Notes will mature on 3 November 2009. The Regulation S Further Notes (as defined below) will be consolidated and form a single series with the U.S.$350,000,000 7 per cent. Notes due 2009 of the Issuer issued on 3 November 2004 (the "Existing Notes", and together with the Further Notes, the "Notes") on the date which is 40 days after the later of the commencement of the offering and 10 February 2005 (the "Closing Date"), expected to be 21 March 2005. The Rule 144A Further Notes (as defined below) will be consolidated and form a single series with the Existing Notes on the Closing Date. The Further Notes are not redeemable prior to maturity, other than following the occurrence of certain changes in applicable tax laws. The Issuer is wholly owned by JSC Kazkommertsbank (the "Bank" or the "Guarantor"), a joint stock company incorporated in the Republic of Kazakhstan.

The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Further Notes. The Further Notes and the Guarantee will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively.

Application has been made to list the Further Notes on the Luxembourg Stock Exchange. After issue, application will be made by the Bank to list the Further Notes on the Kazakhstan Stock Exchange.

Investing in the Further Notes involves risks. See "Risk Factors" beginning on page 9.

The Further Notes have not been registered under the United States Securities Act of 1933, as amended, (the "Securities Act") or any state securities laws. Accordingly, the Further Notes are being offered and sold only to persons who are "qualified institutional buyers" pursuant to Rule 144A under the Securities Act (the "Rule 144A Further Notes") and outside the United States only to non-U.S. persons in accordance with Regulation S under the Securities Act the ("Regulation S Further Notes"). Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the Further Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Further Notes, see "Notice to Investors."

The Manager expects to deliver to purchasers book-entry interests in the Further Notes offered and sold pursuant to Regulation S through the facilities of Euroclear Bank S.A./N.V., as operator of the Euroclear System (the "Euroclear Operator") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and book-entry interests in the Notes offered and sold pursuant to Rule 144A through the facilities of the Depository Trust Company ("DTC"), in each case on or about 10 February 2005.

Bookrunner

UBS INVESTMENT BANK

8 February 2005

Prospective investors should rely only on the information contained in this Offering Circular. Neither the Bank nor the Issuer has authorised anyone to provide prospective investors with any information other than in this Offering Circular. The Bank and the Issuer are not, and the manager named under "Subscription and Sale" (the "Manager") is not, making an offer of the Further Notes in any jurisdiction where the offer is not permitted. Prospective investors should not assume that the information contained in this offering circular is accurate as of any date other than the date of this Offering Circular.

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

This Offering Circular has been prepared by the Bank and the Issuer solely for use in connection with the proposed offering of the Further Notes and for the listing of the Further Notes on the Luxembourg Stock Exchange. This Offering Circular does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this Offering Circular to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of its contents, without the prior written consent of the Bank and the Issuer, is prohibited.

The Manager makes no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this Offering Circular. Nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by the Manager as to the past or future. The Bank and the Issuer have furnished the information contained in this Offering Circular. The Manager has not independently verified any of the information contained herein (financial, legal or otherwise) and assumes no responsibility for the accuracy or completeness of any such information.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and other applicable securities laws pursuant to registration or exemption therefrom. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. See the sections of this Offering Circular entitled "Subscription and Sale" and "Form of Further Notes and Transfer Restrictions."

In making an investment decision, prospective investors must rely on their own examination of the Bank and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

In this Offering Circular, the Bank and the Issuer relied on and refer to information and statistics regarding the Republic of Kazakhstan and the banking industry in Kazakhstan. The Bank and the Issuer obtained this political, economic and market data from independent industry publications or other publicly available information. Although the Bank and the Issuer believe that these sources are reliable, they have not independently verified and do not guarantee the accuracy and completeness of this information.

This Offering Circular contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request.

NOTICE TO NEW HAMPSHIRE RESIDENTS

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

TABLE OF CONTENTS

In connection with the offering UBS Limited may effect transactions that stabilise or maintain the market price of the Notes at levels above those that might otherwise prevail in the open market. Such transactions shall be carried out in accordance with applicable rules and regulations. Such stabilising, if commenced, may be discontinued at any time.

AVAILABLE INFORMATION

Neither the Issuer nor the Bank is required to file periodic reports under Section 13 or 15 of the United States Securities Exchange Act of 1934, as amended, (the "Securities Exchange Act"). However, for so long as any of the Notes or the Guarantee are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, at any time when the Issuer is not exempt from reporting under Rule 12g3-2(b) under the Securities Exchange Act and is not subject to and in compliance with the reporting requirements of Section 13 or 15(d) under the Securities Exchange Act, the Issuer will furnish, at its expense to any holder or beneficial owner of the Notes or any beneficial interest in the Guarantee or to any prospective purchaser thereof designated by a holder or beneficial owner, upon request of such holder or beneficial owner, any information required to be provided by Rule 144A(d)(4) under the Securities Act.

THIRD PARTY INFORMATION

Market data and certain industry forecasts used throughout this Offering Circular were obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications prepared by third parties. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. The information contained herein 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; however, there is not necessarily any uniformity of view amongst such sources as to such information provided herein. In addition, internal surveys, estimates and market research, while believed to be reliable, have not been independently verified, and neither the Bank nor the Issuer makes any representation as to the accuracy of such information and they have not independently verified such information. The Bank and the Issuer do, however, accept responsibility for the correct reproduction of this information.

Unless otherwise stated, macroeconomic data which appear in this Offering Circular have been derived from statistics published by Kazakhstan's National Statistical Agency (the "NSA").

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Bank maintains its books of account in Tenge in accordance with the relevant laws in Kazakhstan and with the regulations of the National Bank of Kazakhstan (the "NBK"). Its consolidated financial statements as at and for the years ended 31 December 2003, 2002 and 2001 and its other financial information included in this Offering Circular have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The condensed consolidated financial statements of the Bank as at and for the nine months ended 30 September 2004 and 2003 and as at and for the six months ended 30 June 2004 and 2003 included in this Offering Circular are unaudited. In the opinion of the management of the Bank, these condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results for the periods covered thereby. Investors should not rely on interim results as being indicative of results the Bank may expect for the full year.

The Bank publishes audited consolidated full year financial statements in accordance with IFRS. It also publishes unaudited condensed consolidated interim financial statements in accordance with IFRS. In accordance with Dutch law, the Issuer is required to publish statutory annual financial statements, which must be filed with the commercial register in Rotterdam. Copies of the Issuer's audited statutory financial statements are available free of charge at the specified office of the Paying Agent. The Issuer does not publish interim financial statements.

Some financial information has been rounded and, as a result, the numerical figures shown as totals in this Offering Circular may vary slightly from the exact arithmetic sum of the figures that precede them.

In this Offering Circular:

- "Bank" and "Guarantor" refer to JSC Kazkommertsbank and, where the context permits, the Bank and its consolidated subsidiaries, the principal of these being Kazkommerts International B.V., JSC Kazkommerts Securities, JSC Kazkommerts Policy, JSC Kazkommerts Invest and JSC Kazkommertsbank Kyrgyzstan, as well as CB Moskommertsbank which is not a subsidiary but is controlled by the Bank;
- "Basle Accord" refers to the 1988 Capital Accord adopted by the Basle Committee on Bank Regulations and Supervisory Practice;
- "CIS" refers to the Commonwealth of Independent States;
- "DBK" refers to the Development Bank of Kazakhstan;
- "EBRD" refers to the European Bank for Reconstruction and Development;
- "EU" refers to the European Union;
- "NBK" refers to the National Bank of Kazakhstan;
- "NBK Regulations" refers to the regulations published by the NBK;
- "NSA" refers to Kazakhstan's National Statistical Agency;
- "OECD" refers to the Organisation for Economic Co-operation and Development;
- "Tenge" or "KZT" are to Kazakhstan Tenge, the official currency of Kazakhstan;
- "United States" or the "U.S." refers to the United States of America;
- "€" and "euros" refer to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; and
- "U.S.$" and "U.S. dollars" refer to the lawful currency of the United States.

Solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. dollars at specified rates. Prior to 2002, the Bank translated its financial statements from Tenge into U.S. dollars at the NBK's official published rates. Since 2002, the Bank, in common with other Kazakhstan commercial banks, has selected the exchange rates to be used in the translation of its financial statements.

No representation is made that the Tenge or U.S. dollar amounts in this Offering Circular could have been converted into U.S. dollars or Tenge, as the case may be, at any particular rate or at all.

FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "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. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Offering Circular and include statements regarding the Bank's intentions, beliefs or current expectations concerning, amongst other things, the Bank's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Bank's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this Offering Circular. In addition, even if the Bank's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Offering Circular, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- anticipated growth of the Bank's corporate, retail, insurance and investment banking business and diversification of its deposit base;
- expectations as to the impact of projects undertaken to improve cost efficiencies and enhance revenue growth; and
- estimates and financial targets for increasing and diversifying the composition of the Bank's loan portfolio.

Factors that might affect such forward-looking statements include, amongst other things:

- overall economic and business conditions;
- the demand for the Bank's services;
- competitive factors in the industries in which the Bank and its customers compete;
- changes in government regulation;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations and other capital market conditions, including foreign currency exchange rate fluctuations;
- economic and political conditions in international markets, including governmental changes, hostilities and restrictions on the ability to transfer capital across borders; and
- the timing, impact and other uncertainties of future actions.

The sections of this Offering Circular entitled "Risk Factors," "Management's Discussion and Analysis of Results of Operations and Financial Condition," "Description of Business" and "Selected Statistical and Other Information" contain a more complete discussion of the factors that could affect the Bank's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Offering Circular may not occur.

Neither the Bank nor the Issuer undertakes any obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Bank, the Issuer or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Offering Circular.

SUMMARY

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

The Bank

Established in 1990, Kazkommertsbank is the largest bank in Kazakhstan, measured by total assets as at 30 June 2004, providing corporate banking, retail banking and other financial services. As at and for the six months ended 30 June 2004, the Bank had net income of KZT 5,264 million, total assets of KZT 522,475 million and shareholders' equity of KZT 50,772 million.

The Bank's principal activities traditionally have been the acceptance of deposits and the provision of loans and other credit facilities in Tenge and foreign currencies. It also offers a wide-range of current account-related services, such as payment facilities, debit and credit cards, collection services and retail banking. As at 30 June 2004, in addition to its head office, the Bank had 22 branches throughout Kazakhstan and 56 settlement outlets, although the Bank intends to reduce the number of settlement outlets as part of an ongoing rationalisation programme. The Bank also has a representative office in London and a banking subsidiary in Kyrgyzstan. As at 30 June 2004, it had total customer retail deposits of KZT 77,640 million, a significant increase from the KZT 3,180 million in retail deposits held by the Bank at the end of 1999, and the Bank believes that it currently has the largest deposit base amongst Kazakhstan banks. Since the end of 2002, the Bank's gross loans to individuals have grown from KZT 12,234 million to KZT 42,834 million as at 30 June 2004.

Through its commercial banking business, the Bank provides products and services to predominantly medium- and large-sized Kazakhstan and international corporations operating in Kazakhstan, including trade and structured finance products, project finance, e-banking and asset management services, as well as short-term credit facilities and other general banking services. Consistent with the Bank's policy of maintaining high levels of liquidity, it typically provides loans with an average maturity of up to 18 months for its corporate clients, and provides long-term financing in accordance with current funding sources. The Bank also arranges syndicated loans to top corporate clients in Kazakhstan with foreign banks and provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 30 June 2004, the Bank's total gross customer loan portfolio amounted to KZT 401,909 million.

In addition to banking, the Bank offers other financial services. It is a major participant in the securities markets and the foreign currency markets in Kazakhstan. The Bank is authorised to engage in other activities, including the sale, purchase and safekeeping of precious metals (including gold and silver) as well as providing certain derivative products, under its general banking licence. In 2001, the Bank began to offer asset management services to its corporate and retail clients.

The Issuer

The Issuer, a wholly owned subsidiary of the Bank, was incorporated on 1 October 1997 under the laws of The Netherlands for the primary purpose of raising funds for the Bank.

Credit Ratings

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

The Bank's current credit ratings are as follows:

Fitch Ratings	Moody's	Standard & Poor's
Long-term – BB	Long-term Foreign Currency Debt rating – Baa2	Long-term – BB-
Short-term – B	Financial Strength – D	Short-term – B
Outlook – Stable	Outlook – Positive	Outlook – Positive

The Notes have been assigned a rating of BB by Fitch, Baa2 by Moody's and BB- by Standard & Poor's.

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.

The Bank's address is 135 "zh" Gagarin Avenue, Almaty, 480060, Kazakhstan, and the Bank's telephone number is +7-3272-585-111.

SUMMARY TERMS AND CONDITIONS

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

Issue:	U.S.$150,000,000 principal amount of 7 per cent. Notes due 2009.
Single Series:	The Regulation S Further Notes will be consolidated and form a single series with the Existing Notes on the date which is 40 days after the later of the commencement of the offering and the Closing Date. Until such time, the Regulation S Further Notes will have a temporary ISIN, Common Code and CUSIP number. The Rule 144A Further Notes will be consolidated and form a single series with the Existing Notes on the Closing Date. See "General Information".
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 7 per cent. per annum. Interest on the Notes will accrue from 3 November 2004 and will be payable semi-annually in arrear on 3 May and 3 November of each year, commencing on 3 May 2005.
Status:	The Notes constitute direct, general, unconditional and (subject to Condition 4) 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 Further Notes—Status of Notes and Guarantee."
	The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Guarantor which rank and will rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Guarantor save only for such obligations as may be preferred by mandatory provisions of applicable law.
Guarantee:	The Guarantor will, on or prior to the Closing Date, enter into a supplemental deed of guarantee under which the Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums payable by the Issuer under the Further Notes. The supplemental deed of guarantee will supplement the deed of guarantee dated 3 November 2004 entered into by the Guarantor in connection with the Existing Notes.
Negative Pledge:	Each of the Issuer and the Guarantor agrees that, so long as any Notes remain outstanding, it shall not and shall not permit any of its Subsidiaries (as defined in Condition 4) (in the case of the Issuer) or Material Subsidiaries (as defined in Condition 4) (in the case of the Guarantor) to create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than in the case of the Guarantor, a Permitted Security Interest, as defined in Condition 4) upon the whole or any part of their respective undertakings, assets or revenues to secure any Indebtedness for Borrowed Money (as defined in Condition 4) unless the Notes or the Guarantee, as the case may be, 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 Further Notes—Negative Pledge."
Certain Covenants:........................	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on transactions at less than the fair market value; and (ii) limitation on payment of dividends. See "Terms and Conditions of the Further Notes—Condition 5."
Taxation:	All payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. See "Taxation—The Netherlands Taxation." Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan-Netherlands Tax Treaty at a rate of 10 per cent. Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15 to 20 per cent. unless reduced by an applicable double taxation treaty. See "Taxation—Kazakhstan Taxation." In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee), the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required. See "Terms and Conditions of the Further Notes—Condition 9."
Governing Law:	The Notes, the Guarantee and the Trust Deed will be governed by, and construed in accordance with, the laws of England.
Listing:...	Application has been made to list the Further Notes on the Luxembourg Stock Exchange. After issue, application will be made to list the Further Notes on the Kazakhstan Stock Exchange.
U.S. Transfer Restrictions:	The Notes and the Guarantee 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 other than to qualified institutional buyers in transactions exempt from registration under the Securities Act pursuant to Rule 144A. See "Form of Further Notes and Transfer Restrictions."
Use of Proceeds:	The Issuer will use the proceeds from the issuance of the Further Notes to make a deposit with the Bank pursuant to a Deposit Agreement and the proceeds will be used by the Bank to fund loans to Kazakhstan corporate entities and for other general banking purposes. See "Use of Proceeds."

Payment and Settlement:	The Regulation S Further Notes will have temporary identification numbers until the date which is 40 days after the later of the commencement of the offering and the Closing Date. The temporary identification numbers for the Regulation S Further Notes are as follows: Regulation S Further Notes: ISIN .... XS0212252315 Common Code .... 021225231 The Regulation S Further Notes will then be consolidated and form a single series with the Existing Notes and will have the same identification numbers as the Existing Notes, namely: Regulation S Notes: ISIN .... XS0204868995 CUSIP .... N48272 AE 3 Common Code .... 020486899 The Rule 144A Further Notes will be consolidated and form a single series with the Existing Notes on the Closing Date and will have the same identification numbers as the Existing Notes, namely: Rule 144A Notes: ISIN .... US48666FAE07 CUSIP .... 48666F AE 0 Prospective investors should carefully consider certain risks discussed under "Risk Factors" beginning on page 9.

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 2003, 2002 and 2001, which were audited by TOO Deloitte & Touche, Kazakhstan, the Kazakhstan national practice of Deloitte Touche Tohmatsu, referred to herein as DTT. DTT is a Swiss Verein and each of its national practices are separate and independent legal entities. The summary information as at and for the nine months ended 30 September 2004 and 2003 and for the six months ended 30 June 2004 is extracted from the unaudited condensed consolidated interim 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 summary income statement information for the nine months ended 30 September 2004 and for the year ended 31 December 2003 into U.S. dollars at the rates of U.S.$1.00 = KZT137.64 and U.S.$1.00 = KZT 149.54, respectively and the summary balance sheet information as at 30 September 2004 and 31 December 2003 at the rates of U.S.$1.00 = KZT134.56 and U.S.$1.00 = KZT 144.22, respectively.

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

	For the nine month period ended 30 September			For the six month period ended 30 June		For the year ended 31 December			
	2004	2004	2003	2004	2003	2003	2003	2002	2001
	(U.S.$ thousands) (Unaudited)	(KZT millions) (Unaudited)		(KZT millions) (Unaudited)		(U.S.$ thousands)	(KZT millions)		
Income Statement:									
Interest income	282,820	38,928	23,741	23,815	15,121	234,762	35,106	24,501	17,871
Interest expense	(134,790)	(18,553)	(13,287)	(11,660)	(8,331)	(124,541)	(18,624)	(11,258)	(7,888)
Net interest income before provision for loan losses	148,030	20,375	10,454	12,155	6,790	110,221	16,482	13,243	9,983
Provision for loan losses	(65,779)	(9,054)	(4,442)	(5,365)	(3,184)	(39,372)	(5,887)	(7,342)	(4,572)
Net interest income	82,251	11,321	6,012	6,790	3,606	70,849	10,595	5,901	5,411
Net gain/(loss) on trading securities	928	128	150	(225)	509	(2,120)	(317)	936	1,500
Net gain on foreign exchange operations	10,488	1,444	1,050	964	560	10,706	1,600	1,207	1,386
Fee and commission income	52,582	7,237	5,519	4,611	3,516	56,171	8,400	5,792	3,850
Fee and commission expenses	(9,922)	(1,366)	(984)	(742)	(698)	(8,923)	(1,334)	(1,126)	(589)
Net gain/(loss) from investment securities	—	—	—	9	(79)	(317)	(47)	3,916	(55)
Dividends received	127	18	372	14	371	2,557	382	447	38
Other income	8,560	1,178	653	496	354	8,228	1,239	433	283
Net non-interest income	62,763	8,639	6,761	5,127	4,533	66,362	9,923	11,605	6,413
Operating income	145,014	19,960	12,773	11,917	8,139	137,211	20,518	17,506	11,824
Operating expenses	(48,871)	(6,727)	(5,658)	(4,402)	(3,641)	(59,978)	(8,969)	(7,956)	(6,120)
Operating profit	96,143	13,233	7,115	7,515	4,498	77,233	11,549	9,550	5,704
Provision for losses on other operations	(3,073)	(423)	115	124	(77)	(1,807)	(270)	(1,327)	(526)
Income/(expenses) from associates	(216)	(30)	(44)	(16)	94	(135)	(20)	34	389
Profit before taxation and minority interest	92,854	12,780	7,186	7,623	4,515	75,291	11,259	8,257	5,567
Income tax expense	(50,424)	(6,940)	(778)	(1,962)	(105)	(13,988)	(2,092)	(276)	(278)
Net profit before minority interest	42,430	5,840	6,408	5,661	4,410	(61,303)	9,167	7,981	5,289
Minority interest	(5,025)	(692)	(121)	(397)	(97)	(2,718)	(406)	(2)	—
Net profit	37,405	5,148	6,287	5,264	4,313	58,585	8,761	7,979	5,289

	As at 30 September			As at 30 June		As at 31 December			
	2004	2004	2003	2004	2003	2003	2003	2002	2001
	(U.S.$ thousands) (Unaudited)	(KZT millions) (Unaudited)		(KZT millions) (Unaudited)		(U.S.$ thousands)	(KZT millions)		
Balance Sheet									
Assets:									
Cash and balances with the national (central) banks	119,409	16,068	11,802	17,309	17,305	197,508	28,485	19,395	11,478
Precious metals	—	—	—	—	—	2,081	300	—	—
Loans and advances to banks less allowance for loan losses	236,212	31,785	56,405	27,701	60,450	267,528	38,583	43,451	17,613
Trading securities	557,850	75,064	80,549	81,431	81,034	494,696	71,201	21,279	13,395
Securities purchased under agreements to resell, less allowance for losses	65,350	8,793	381	9,004	—	18,086	2,608	2,267	—
Derivative financial instruments	669	90	30	36	—	107	15	7	—
Loans to customers, net	3,195,014	429,921	232,804	377,245	193,435	1,962,713	283,063	175,249	145,124
Securities available for sale	1,192	160	128	64	160	954	138	5,539	169
Securities held to maturity	629	85	—	76	16	225	32	17	331
Investments into associates	1,283	173	122	131	316	1,014	146	286	1,774
Fixed assets, less accumulated depreciation	44,394	5,974	5,600	6,083	5,259	40,687	5,868	3,448	2,344
Intangible assets, less accumulated amortization	3,053	411	550	416	586	3,023	436	608	528
Other assets, less allowance for losses	25,492	3,430	2,427	2,979	5,851	23,342	3,366	3,215	1,588
Total assets	4,250,547	571,954	390,798	522,475	364,411	3,010,964	434,241	274,761	194,344
Liabilities and Shareholders' Equity:									
Liabilities:									
Loans and advances from banks	959,173	129,066	40,352	83,959	32,672	528,511	76,222	54,663	43,191
Securities sold under agreements to repurchase	64,854	8,727	11,723	7,418	—	258,291	37,251	—	1,563
Derivative financial instruments	66	9	39	19	—	6	1	2	—
Customer accounts	1,260,984	169,678	174,381	178,059	171,167	1,051,098	151,589	141,372	111,007
Debt securities issued	1,255,663	168,962	102,053	162,611	100,955	681,136	98,233	30,317	—
Other borrowed funds	20,324	2,735	4,155	2,715	4,298	24,445	3,525	4,651	5,248
Dividends payable	2,408	324	340	324	340	3	1	1	1,236
Other liabilities	107,733	14,497	5,213	9,598	9,192	58,263	8,403	5,548	4,726
Subordinated debt	165,438	22,261	9,071	22,147	8,671	60,553	8,733	6,060	2,950
Total liabilities	3,836,643	516,259	347,327	466,850	327,295	2,662,306	383,958	242,614	169,921
Minority interest	37,979	5,110	381	4,853	360	32,621	4,704	81	—
Shareholders' Equity:									
Share capital	29,868	4,019	4,019	4,019	3,500	27,867	4,019	3,500	3,498
Share premium	70,259	9,454	9,453	9,454	5,473	65,549	9,453	5,473	5,465
Fixed assets revaluation reserve	5,216	702	584	774	723	3,951	570	7	8
Retained earnings	270,582	36,410	29,034	36,525	27,060	218,670	31,537	23,086	15,452
Total shareholders' equity	375,925	50,585	43,090	50,772	36,756	316,037	45,579	32,066	24,423
Total liabilities and shareholders' equity	4,250,547	571,954	390,798	522,475	364,411	3,010,964	434,241	274,761	194,344

	As at or for the nine month period ended 30 September 2004	2003	As at or for the six month period ended 30 June 2004	2003	As at or for the year ended 31 December 2003	2002	2001
	(Annualised)						
	(per cent., unless otherwise noted)						
Combined Key Ratios:							
Return on average shareholders' equity[1]	14.3	22.3	21.9	25.1	22.6	28.2	25.3
Net earnings per common share (in KZT)	12.87	19.2	13.2	13.5	25.9	25.9	18.4
Operating expenses/operating income before provisions for loan losses	23.2	32.9	25.5	32.2	34.0	32.0	37.3
Operating expenses/operating income after provisions for loan losses	33.7	44.3	36.9	44.7	43.7	45.4	51.8
Effective provisioning rate on customer loans	6.1	6.5	6.1	7.6	6.3	7.4	7.4
Profitability Ratios:[2]							
Net interest margin (i.e., net interest income before provisions for loan losses as a percentage of average interest-earning assets)	6.0	4.7	5.7	4.9	5.2	7.2	8.0
Net interest income after provisions for loan losses as a percentage of average interest-earning assets	3.3	2.7	3.2	2.6	3.3	3.2	4.4
Operating expenses as a percentage of net interest income before provisions for loan losses	33.0	54.1	36.2	53.6	54.4	60.1	61.3
Operating expense as a percentage of average total assets	1.8	2.3	1.9	2.3	2.6	3.8	4.3
Profit after taxation as a percentage of average total assets	1.6	2.6	2.4	2.8	2.6	3.8	3.7
Profit after taxation as a percentage of average shareholders' capital	13.6	22.1	21.4	29.9	22.9	27.6	28.2
Balance Sheet Ratios:							
Deposits as a percentage of total assets	29.7	44.6	34.1	47.0	34.9	51.5	57.1
Total net loans to customers as a percentage of total assets	75.2	59.6	72.2	53.1	65.2	63.8	74.7
Total equity as a percentage of total assets	9.7	11.1	10.6	10.1	11.6	11.7	12.6
Liquid assets as a percentage of customer accounts[3]	73.4	75.1	71.2	89.6	82.9	61.2	34.5
Liquid assets as a percentage of liabilities of up to one month	93.0	117.9	108.3	174.3	111.1	131.1	64.1
Capital Adequacy Ratios:[4]							
Total capital	14.9	16.6	16.9	16.7	16.4	16.4	17.2
Tier 1 capital	10.0	11.4	11.3	11.5	13.5	14.0	11.1
Credit Quality Ratios:[5]							
Non-performing loans as a percentage of total loans	1.5	1.2	1.4	1.1	0.8	1.2	0.8
Non-performing loans as a percentage of total loans and guarantees	1.3	1.0	1.2	0.9	0.7	1.0	0.7
Provisions for loan losses as a percentage of non-performing loans	399.3	550.6	442.7	690.6	777.4	606.2	962.2
Macroeconomic Data:							
Consumer Price Inflation (for the twelve months then ended)	6.8	6.3	6.6	6.8	6.8	6.6	6.4
Real GDP (change during the year)	9.1	9.1	9.1	10.2	9.2	9.5	13.5

(1) Calculated based on average opening and closing balances for the period.
(2) Averages are based upon average daily balances.
(3) Liquid assets include cash and assets with the NBK, loans and advances to banks (with maturities of less than one month), trading securities and securities purchased under agreements to resell.
(4) Calculated in accordance with the Basle 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."

RISK FACTORS

Prospective investors should carefully consider all of the information in this Offering Circular, including the following risk factors associated with an investment in Kazakhstan entities generally, and in securities guaranteed by the Bank specifically, before making an investment decision regarding the Notes. The risks and uncertainties below are not the only ones the Bank faces. Additional risks and uncertainties not presently known to the Issuer or the Bank, or that they currently believe 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.

Risks Relating to 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 Offering Circular may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

The Bank is subject to general political and regional risks.

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

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free-market economy through privatisation of state enterprises and deregulation, and is more advanced in this respect than most other countries of the CIS. However, as with any transition economy, such reforms and other reforms described elsewhere in this Offering Circular may not continue or such reforms may not achieve all or any of their intended aims.

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, Kyrgyzstan and Belarus, joined by Tajikistan in 1999, signed a customs union which, amongst other things, provides for the removal of trade tariffs between these nations, and Kazakhstan has taken other steps to promote regional economic integration. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, this could adversely impact the economy of Kazakhstan.

Like other countries in Central Asia, Kazakhstan could be affected by continued military operations taken in Afghanistan by the United States and an international coalition in response to the September 2001 terrorist attacks in the United States. In addition, the continuation of military operations by a United States and British-led coalition in Iraq could also affect the world economy and the political stability of other countries. 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, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil 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, such as Turkey, which is a major infrastructure project contributor in the Central Asian region.

The Bank is subject to macroeconomic conditions and exchange rate policies in Kazakhstan and in regional countries.

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 of Kazakhstan has promoted economic reform, inward foreign investment and the diversification of the economy. Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect Kazakhstan's economy in the future.

The Government of Kazakhstan began implementing market-based economic reforms in 1992, including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment, particularly in the oil and gas sector, and the introduction of an extensive legal framework. Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last ten years. Since mid-1994, the Government of Kazakhstan has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. According to figures compiled by the NSA, while gross domestic product, or GDP, fell in 1998 by 1.9 per cent. in the aftermath of the Asian and Russian financial crises, it began to rebound in 1999 following the flotation of the Tenge in April of that year and increased by 2.7 per cent. in real terms over the course of the full year. According to the NSA, GDP continued to grow in real terms, increasing 13.5 per cent. in 2001, by 9.5 per cent. in 2002 and by 9.2 per cent. in 2003. There was a 9.1% increase in real GDP between the end of June 2004 and the end of June 2003.

The Tenge is convertible for current account transactions, although it is not a fully convertible currency outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. However, 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 authorities instituted a number of expenditure cuts and took revenue increasing measures and, in April 1999, the NBK floated the Tenge. The Tenge fell by 64.6 per cent. against the U.S. dollar in the year ended 31 December 1999, compared to a decline of 10.7 per cent. in the year ended 31 December 1998. The Tenge has been generally stable against the U.S. dollar during 2001 and 2002 with an annual depreciation of between 3.3 per cent. and 3.8 per cent. In 2003, the Tenge strengthened against the U.S. dollar and appreciated by 7 per cent. According to the NBK, during the first half of 2004, the Tenge appreciated by 5.07 per cent. against the U.S. dollar.

While the NBK has stated that it has no plans to resume a managed exchange rate policy, the NBK's exchange rate policy may change in the future and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

The Bank's business is dependent upon the continuation of market-based economic reforms in Kazakhstan.

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

Kazakhstan's legislative and regulatory framework is less developed than in many Western countries.

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 is at an early stage of development compared to countries with established market economies. In addition, judicial and Government officials in Kazakhstan may not be fully independent of outside social, economic and political forces and there have been instances of improper payments being made. Court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent. Further, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, making it difficult for companies to ascertain whether they are liable to additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of an established system of precedent or consistency in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. The Government of Kazakhstan has stated that it believes in continued reform of corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, the Government of Kazakhstan may not continue such policy in the future, or such policy, if continued, may not ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business and prospects.

Risks Relating to the Bank

The Bank's rapid growth subjects it to additional risks.

The Bank's average net loan portfolio increased by 24 per cent. in 2003 and was KZT 197.7 billion as at the end of that year compared to KZT 159.4 billion a year earlier. In the first six months of 2004, the average net loan portfolio increased by 53.8 per cent. compared to the average net loan portfolio in the year ended 31 December 2003. The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels through the Bank's credit risk management programme. Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain 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. Furthermore, the development of relatively new products such as fixed rate mortgages and financing packages for SMEs require not only credit assessment skills and personnel, but also appropriate risk management systems, some of which are not currently in place at the Bank. For example, the Bank primarily relies on the relatively short average maturity of its loan portfolio to mitigate its interest rate risk. However, as the average maturity of its loan portfolio increases it will need to introduce more sophisticated techniques to manage this risk and there can be no assurance that it will do so 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 results of operations and financial condition.

Concentration in the Bank's loan portfolio subjects it to risks from default by its largest borrowers.

The Bank will seek to continue to diversify its portfolio and reduce concentrations in its lending. As at 30 June 2004, the Bank's top 20 borrowers comprised 26.5 per cent. of its gross loan portfolio, compared to 30.3 per cent. as at 31 December 2003, 33.4 per cent. as at 31 December 2002 and 39.5 per cent. as at 31 December 2001. Although the relatively slow reduction in concentrations reflects, in part, the limited number of high quality corporate credits in Kazakhstan, the Bank intends to concentrate on credit quality and the development of financial and management controls to monitor this credit exposure. However, if these efforts fail, any resulting default could have a material adverse effect on the Bank's business, liquidity, results of operations and financial condition.

The lack of statistical, corporate and financial information in Kazakhstan may decrease the accuracy of the Bank's assessments of credit risk.

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally, or specific economic sectors and companies within it, and the publication of corporate and financial information relating to companies and other economic enterprises, is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the 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.

The Bank, in cooperation with other Kazakhstan commercial enterprises and Experian, an international credit reference agency, established a credit reference bureau in Kazakhstan in 2004 to provide information about potential borrowers. However, the credit reference bureau is not yet a mature business and the quality of information it provides may not be accurate or sufficient, in which case the Bank will continue to have limited information on which to base its lending decisions.

The Bank faces significant competition, which may increase in the future.

In common with other Kazakhstan banks, the Bank is subject to competition from both domestic and foreign banks. As at 30 June 2004, there were 36 banks, excluding the NBK, in Kazakhstan, of which 16 were banks with foreign ownership, including subsidiaries of foreign banks. Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector due to its relatively large capitalisation and asset base, relatively low-cost deposit base and diversified client base, the Bank faces competition from a number of existing and prospective participants in the Kazakhstan banking sector.

Regulation of the banking industry in Kazakhstan may adversely affect the Bank's business, and existing regulations are not as developed as in many Western countries.

In September 1995, the NBK introduced strict rules and prudential requirements for the operations and the capital adequacy of banks. In addition, the NBK has adopted an institutional development plan for leading Kazakhstan banks, including the Bank. According to the plan, banks are required to prepare their accounts in accordance with IFRS and to start to apply the principals of the Basle Accord within a period determined by the NBK on a case-by-case basis. Banks are also required to join 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 took responsibility for most of the supervisory and regulatory functions in the financial sector which had previously been performed by the NBK. The FMSA's main task is to regulate and supervise the financial markets and financial institutions. See "The Banking Sector in Kazakhstan." In addition, the Government of Kazakhstan may implement additional regulations or policies, including with respect to taxation, interest rates, inflation, exchange controls 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 regulatory standards in Kazakhstan, which are high relative to other CIS countries, 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—Kazakhstan's legislative and regulatory framework is less developed than in many Western countries."

The proposed reform of the international capital adequacy framework could increase the Bank's borrowing costs.

In 2001, the Basle Committee issued a proposal for a new capital adequacy framework to replace the Basle Accord. With regard to the risk weightings to be applied to banks' credit exposures, the Basle Committee proposes replacing the existing approach with a system that would use both external and internal credit assessments for determining risk weightings. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk weighting of exposures to banks, securities firms and corporations. If adopted, the new framework could require financial institutions lending to Kazakhstan banks to be subject to higher capital requirements as a result of the credit risk rating of Kazakhstan. As a result, the Bank may be subject, along with other Kazakhstan banks, to higher borrowing costs, which may adversely affect the Bank's results of operations and financial condition.

The Bank's success depends on the continued services of key personnel.

The Bank's growth and development can be attributed, in particular, to the knowledge and experience of a small number of senior managers. The loss of services of these individuals for any reason could have a material adverse effect on the Bank's business, results of operations and financial condition. As the Bank's business grows, its success will depend, to a large extent, on its ability to attract and retain additional employees who are skilled in its business. The Bank is continually seeking to attract and retain new key employees. The banking industry is relatively new in Kazakhstan and there are a limited number of experienced banking managers in that country. The Bank believes that there is also a high level of competition for the services of these individuals. While the Bank believes it has been successful in attracting skilled and motivated employees and officers, it may not be able to do so in the future.

Risk Factors Relating to an Investment in the Notes

Although application has been made to list the Notes on the Luxembourg Stock Exchange, there is no prior market for the Notes.

An active trading market in the Notes may not develop or be maintained after listing. 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. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

The trading price of the Notes may be volatile.

In recent years stock markets have experienced significant price fluctuations. These fluctuations often were unrelated to the operating performance of the companies whose securities are traded on such stock markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile. Markets for such securities 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. In the last quarter of 1997, certain markets in Southeast Asia experienced significant financial turmoil that had a ripple effect on other emerging markets. In August 1998, the government of the Russian Federation declared a moratorium on the payment of certain debt obligations of Russian entities and forced a restructuring of certain short-term domestic sovereign instruments. Although this moratorium expired in November 1998, the economic and financial situation in Russia remains uncertain and events may occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998. Any such volatility may adversely affect the liquidity of the market for, or price of, the Notes.

THE ISSUER

History

The Issuer is a Dutch company whose statutory seat is in Rotterdam and was incorporated on 1 October 1997. Its number in the commercial register is 24278506.

Capitalisation and Indebtedness

The Issuer is a wholly owned subsidiary of the Bank. The following table sets forth the capitalisation of the Issuer as at 30 September 2004:

	As at 30 September 2004	
	(Euro thousands) (Unaudited)	(U.S.$ thousands)
Long-term debt:	982,462	1,210,000
Shareholders' equity:		
Share capital comprising 40 ordinary shares, par value €450 per share	18	22
Share premium	403	497
Retained earnings	2,282	2,810
Total shareholders' equity	2,703	3,329
Total Capitalisation	985,165	1,213,329

Except for the issue of the Existing Notes and the Further Notes, there has been no material change in the capitalisation of the Issuer since 30 September 2004. The total capitalisation of the Issuer has not been adjusted to reflect the issue and sale of the Notes. None of the long-term debt liabilities of the Issuer are convertible into or exchangeable for equity of the Issuer.

Business

The Issuer was established for the primary purpose of raising funds for the Bank. Consequently, the Issuer has no employees. The Issuer may in the future enter into other financing arrangements for similar purposes. The Issuer has one wholly-owned subsidiary, Kazkommerts International Limited, a limited liability company incorporated in the Cayman Islands. As at the date hereof, this subsidiary has not commenced any operations and has no employees.

In 2002, the Issuer issued U.S.$200 million of its 10.125 per cent. Notes due 2007 in two tranches of U.S.$l50 million and U.S.$50 million. In 2003, the Issuer issued U.S.$500 million 8.5 per cent. Notes due 2013 in two tranches of U.S.$350 million and U.S.$150 million. On 19 December 2003, the Issuer and the Bank entered into a U.S.$300 million term loan facility, which has two tranches of one year and two years, respectively. In April 2004 the Issuer issued U.S.$400 million 7.875 per cent. Notes due 2014 and in August 2004, with the intention of expanding the Bank's investor base, the Issuer and the Bank signed a U.S.$150 million one year loan agreement with a syndicate of banks from Asia and the Middle East. All of these financings were unconditionally and irrevocably guaranteed by the Bank. On 3 November 2004, the Issuer issued U.S.$350,000,000 7 per cent. Notes due 2009 (the "Existing Notes"). The Further Notes will be consolidated and form a single series with the Existing Notes. See "General Information".

In addition, in December 2002, the Issuer received a payment of U.S.$33 million (KZT 5,143 million) from OJSC Central Asian Industrial Holdings N.V. ("CAIH") (formerly Central Asian Industrial Investments N.V.), a Dutch Antilles company affiliated with the Bank, which was deposited with the Bank by the Issuer and pledged as collateral to secure a loan advanced by the Bank to Karakudukmunai, a Kazakhstan entity related to CAIH. The Issuer was used as a conduit for this deposit in order to comply with applicable Kazakhstan regulations. The Issuer has no direct liability with respect to the loan. To the extent that Karakudukmunai defaults on its payment obligations under the loan, the deposited funds will be applied in full satisfaction of those obligations. The Issuer receives interest from the Bank on the outstanding amount deposited at eight per cent. per annum, of which it then pays approximately 7 per cent. to CAIH. Although the deposit is recorded as a loan from third parties on the Issuer's balance sheet, the Issuer is not obliged to make any payment to CAIH under this arrangement unless and until it has received the corresponding payment from the Bank. In October 2004 the Issuer closed the account with the Bank and repaid in full the principal amount of indebtedness and accrued interest to CAIH. See also "Transactions with Related Parties."

The Issuer had no other outstanding indebtedness, including borrowings, guarantees or contingent liabilities, as at the date of this Offering Circular.

The Issuer is not involved in any legal or arbitration proceedings, including any such proceedings which are pending or, to the Issuer's knowledge, threatened, which may have, or have had since 30 September 2004, a significant effect on the financial position of the Issuer.

Financial Statements

In accordance with Dutch law, the Issuer is required to publish statutory annual financial statements, which must be filed with the commercial register in Rotterdam. Pursuant to an NBK requirement that accounts of overseas subsidiaries of Kazakhstan banks be independently audited, the Issuer engaged Mazars Paardekooper Hoffman to conduct an audit of its statutory financial statements. The audit of the Issuer's 2001, 2002 and 2003 financial statements has been completed. The Issuer's statutory financial statements as at and for the year ended 31 December 2003 are included elsewhere in this Offering Circular. Copies of the Issuer's other audited statutory financial statements, as well as the Issuer's latest published financial statements and any auditors' reports relating thereto, are available for inspection, and copies of these documents may be obtained, on any business day during usual business hours at the registered office of the Issuer and at the specified office of the Principal Paying Agent and of the Paying Agent in Luxembourg from time to time. The Issuer does not publish interim financial statements. The Issuer is a consolidated subsidiary of the Bank in the Bank's financial statements.

Management

The Issuer has two directors: Mr. Andrey I. Timchenko, aged 28, who is a Managing Director of the Bank, and Equity Trust Co. N.V. ("Equity Trust"), a company with limited liability incorporated in The Netherlands.

General Information

The business address of the Issuer is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The business address of Mr. Timchenko is 135 "Zh" Gagarin Ave., Almaty 480060, Kazakhstan. Administrative services are provided to the Issuer by Equity Trust, whose business address is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands.

The Issuer has obtained all necessary consents, approvals and authorisations in The Netherlands in connection with the issuance of the Further Notes and the performance of its obligations in relation thereto.

USE OF PROCEEDS

The net proceeds to the Issuer from the sale of the Further Notes are expected to be U.S.$149,829,166.67, out of which the Issuer will pay certain expenses in connection with the issue of the Further Notes. The balance will be deposited by the Issuer with the Bank and will be used by the Bank to fund loans to Kazakhstan corporate entities 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; however, in April 1999, the NBK and the Government of Kazakhstan publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. As a result, the Tenge depreciated from a pre-announcement rate of KZT 88 per U.S. dollar to a rate of approximately KZT 130 per U.S. dollar by May 1999. Since then, the Tenge generally has continued to depreciate in nominal terms against the U.S. dollar, although it strengthened against the U.S. dollar in 2003 and the first nine months of 2004.

The following table sets forth the period-end, average and high and low rates for the Tenge, each expressed in Tenge and based on the KZT/U.S.$ exchange rates on the Kazakhstan Stock Exchange, as reported by the NBK:

Year ended 31 December	Period end	Average(1)	High	Low
2000	145.40	142.26	145.40	138.59
2001	150.94	146.92	150.94	145.05
2002	155.85	153.49	156.29	151.31
2003	143.33	149.45	155.89	143.33
2004	130.00	134.31	131.35	130.00
Quarter ended				
31 March 2004	138.93	139.65	142.91	138.41
30 June 2004	136.06	137.19	138.92	136.00
30 September 2004	134.29	134.30	134.36	134.28

(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 7 February 2005 was 129.98.

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 Offering Circular. 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 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.

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 rated not 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.

CAPITALISATION OF THE BANK

The following table sets forth the Bank's unaudited consolidated capitalisation as at 30 September 2004 and as adjusted to reflect the issue and sale of the Further Notes:

	As at 30 September 2004			
	Actual		As adjusted[2]	
	(U.S.$ thousands)[1] (Unaudited)	(KZT millions) (Unaudited)	(U.S.$ thousands)[1] (Unaudited)	(KZT millions) (Unaudited)
Liabilities:				
Senior long-term debt[3]	1,566,020	210,723	2,066,020	278,003
Subordinated long-term debt[4]	159,740	21,495	159,740	21,495
Total liabilities	1,725,760	232,218	2,225,760	299,498
Shareholders' equity:				
Common shares	25,721	3,461	25,721	3,461
Preference shares[5]	4,147	558	4,147	558
Share capital	29,868	4,019	29,868	4,019
Share premium	70,260	9,454	70,260	9,454
Fixed assets valuation reserve	5,216	702	5,216	702
Retained earnings	270,582	36,410	270,582	36,410
Total shareholders' equity	375,926	50,585	375,926	50,585
Total capitalisation	2,101,686	282,803	2,601,686	350,083

(1) See "Presentation of Financial and Other Information" for information as to the U.S. dollar/Tenge exchange rate used to calculate U.S. dollar amounts and see "Exchange Rates" for historical exchange rate data.

(2) Long-term liabilities as at 30 September 2004 are adjusted to include the U.S.$350 million 7 per cent. Notes due 2009 issued on 3 November 2004 and the U.S.$150 million Notes due 2009 issued hereunder.

(3) Long-term debt represents liabilities that fall due after more than one year and are not subordinated.

(4) In December 2002, the Bank registered an issue of KZT 7.5 billion 8 per cent. subordinated notes due 2009. As at 30 June 2004, the Bank had sold U.S.$28.1 million of these notes primarily to pension funds on the domestic market. Subordinated long-term liabilities also include a subordinated loan from Deutsche Investitions-und-Entwicklungsgesellschaft mbH (DEG) in the amount of U.S.$12.3 million, U.S.$ 0.4 million domestic subordinated notes due 2007 and U.S.$20.4 million of 11 per cent. subordinated notes due 2007. Subordinated long-term debt also includes a subordinated loan from Citigroup Global Markets Deutschland AG & Co. KgaA in the amount of U.S.$104 million which is repayable in 2014 and was funded by an issue of 7.375 per cent. Subordinated Loan Participation Notes due 2014.

(5) On 30 and 31 December 2004, the Bank placed 17,986,340 preference shares at the price of KZT139 per share with a pension fund and two non-related corporate customers of the Bank. The total value of the placement was KZT2.5 billion.

As at 30 September 2004, the Bank's authorised share capital was KZT 5 billion, consisting of 500 million shares with a nominal value of KZT 10 each, of which 375 million are common voting shares and 125 million are non-voting preference shares. As of the same date, the Bank's issued and paid-in share capital was KZT 4,019,021,550, comprising 346,138,969 common voting shares and 55,763,186 non-voting preference shares. Each preference share entitles the holder to a fixed annual dividend of $0.04. If such dividends are not paid, holders of preference shares are entitled to one vote per share voting together with the common shares as a class until all accrued and payable dividends are paid in full. None of the preference shares are convertible into common shares.

There has been no material change in the Bank's capitalisation since 30 September 2004 other than the issue of the Existing and Further Notes.

SELECTED FINANCIAL AND OTHER 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 2003, 2002 and 2001, which were audited by TOO Deloitte & Touche, Kazakhstan. The summary information as at and for the nine months ended 30 September 2004 and for the six months ended 30 June 2004 and 2003 is extracted from the unaudited condensed consolidated interim 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 summary income statement information for the nine months ended 30 September 2004 and for the year ended 31 December 2003 into U.S. dollars at the rates of U.S.$1.00 = KZT 137.64 and U.S.$1.00 = KZT 149.54, respectively, and the summary balance sheet information as at 30 September 2004 and 31 December 2003 into U.S. dollars at the rates of U.S.$1.00 = KZT 134.56 and U.S.$1.00 = KZT 144.22, 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 financial statements and condensed consolidated interim financial statements and the related notes thereto appearing elsewhere in this Offering Circular.

	For the nine month period ended 30 September			For the six month period ended 30 June		For the year ended 31 December			
	2004	2004	2003	2004	2003	2003	2003	2002	2001
	(U.S$ thousands) (Unaudited)	(KZT millions) (Unaudited)		(KZT millions) (Unaudited)		(U.S.$ thousands)	(KZT millions)		
Income Statement:									
Interest income	282,820	38,928	23,741	23,815	15,121	234,762	35,106	24,501	17,871
Interest expense	(134,790)	(18,553)	(13,287)	(11,660)	(8,331)	(124,541)	(18,624)	(11,258)	(7,888)
Net interest income before provision for loan losses	148,030	20,375	10,454	12,155	6,790	110,221	16,482	13,243	9,983
Provision for loan losses	(65,779)	(9,054)	(4,442)	(5,365)	(3,184)	(39,372)	(5,887)	(7,342)	(4,572)
Net interest income	82,251	11,321	6,012	6,790	3,606	70,849	10,595	5,901	5,411
Net gain/(loss) on trading securities	928	128	150	(225)	509	(2,120)	(317)	936	1,500
Net gain on foreign exchange operations	10,488	1,444	1,050	964	560	10,706	1,600	1,207	1,386
Fee and commission income	52,582	7,237	5,519	4,611	3,516	56,171	8,400	5,792	3,850
Fee and commission expenses	(9,922)	(1,366)	(984)	(742)	(698)	(8,923)	(1,334)	(1,126)	(589)
Net gain/(loss) from investment securities	—	—	—	9	(79)	(317)	(47)	3,916	(55)
Dividends received	127	18	372	14	371	2,557	382	447	38
Other income	8,560	1,178	653	496	354	8,288	1,239	433	283
Net non-interest income	62,763	8,639	6,761	5,127	4,533	66,362	9,923	11,605	6,413
Operating income	145,014	19,960	12,773	11,917	8,139	137,211	20,518	17,506	11,824
Operating expenses	(48,871)	(6,727)	(5,658)	(4,402)	(3,641)	(59,978)	(8,969)	(7,956)	(6,120)
Operating profit	96,143	13,233	7,115	7,515	4,498	77,233	11,549	9,550	5,704
Provision for losses on other operations	(3,073)	(423)	115	124	(77)	(1,807)	(270)	(1,327)	(526)
Income/(expenses) from associates	(216)	(30)	(44)	(16)	94	(135)	(20)	34	389
Profit before taxation and minority interest	92,854	12,780	7,186	7,623	4,515	75,291	11,259	8,257	5,567
Income tax expense	(50,424)	(6,940)	(778)	(1,962)	(105)	(13,988)	(2,092)	(276)	(278)
Net profit before minority interest	42,430	5,840	6,408	5,661	4,410	61,303	9,167	7,981	5,289
Minority interest	(5,025)	(692)	(121)	(397)	(97)	(2,718)	(406)	(2)	—
Net profit	37,405	5,148	6,287	5,264	4,313	58,585	8,761	7,979	5,289

	As at 30 September			As at 30 June		As at 31 December			
	2004	2004	2003	2004	2003	2003	2003	2002	2001
	(U.S$ thousands)	(KZT millions) (Unaudited)		(KZT millions) (Unaudited)		(U.S.$ thousands)	(KZT millions)		
Balance Sheet Assets:									
Cash and balances with the national (central) banks	119,409	16,068	11,802	17,309	17,305	197,508	28,485	19,395	11,478
Precious metals	—	—	—	—	—	2,081	300	—	—
Loans and advances to banks less allowance for loan losses	236,212	31,785	56,405	27,701	60,450	267,528	38,583	43,451	17,613
Trading securities	557,850	75,064	80,549	81,431	81,034	439,696	71,201	21,279	13,395
Securities purchased under agreements to resell, less allowance for losses	65,350	8,793	381	9,004	—	18,086	2,608	2,267	—
Derivative financial instruments	669	90	30	36	—	107	15	7	—
Loans to customers, net	3,195,014	429,921	232,804	377,245	193,434	1,962,713	283,063	175,249	145,124
Securities available for sale	1,192	160	128	64	160	954	138	5,539	169
Securities held to maturity	629	85	—	76	16	225	32	17	331
Investments into associates	1,283	173	122	131	316	1,014	146	286	1,774
Fixed assets, less accumulated depreciation	44,394	5,974	5,600	6,083	5,259	40,687	5,868	3,448	2,344
Intangible assets, less accumulated amortization	3,053	411	550	416	586	3,023	436	608	528
Other assets, less allowance for losses	25,492	3,430	2,427	2,979	5,851	23,342	3,366	3,215	1,588
Total assets	4,250,547	571,954	390,798	522,475	364,411	3,010,964	434,241	274,761	194,344
Liabilities and Shareholders' Equity:									
Liabilities:									
Loans and advances from banks	959,173	129,066	40,352	83,959	32,672	528,511	76,222	54,663	43,191
Securities sold under agreements to repurchase	64,854	8,727	11,723	7,418	—	258,291	37,251	—	1,563
Derivative financial instruments	66	9	39	19	—	6	1	2	—
Customer accounts	1,260,984	169,678	174,381	178,059	171,167	1,051,098	151,589	141,372	111,007
Debt securities issued	1,255,663	168,962	102,053	162,611	100,955	681,136	98,233	30,317	—
Other borrowed funds	20,324	2,735	4,155	2,715	4,298	24,445	3,525	4,651	5,248
Dividends payable	2,408	324	340	324	340	3	1	1	1,236
Other liabilities	107,733	14,497	5,213	9,598	9,192	58,263	8,403	5,548	4,726
Subordinated debt	165,438	22,261	9,071	22,147	8,671	60,553	8,733	6,060	2,950
Total liabilities	3,836,643	516,259	347,327	466,850	327,295	2,662,306	383,958	242,614	169,921
Minority interest	37,979	5,110	381	4,853	360	32,621	4,704	81	—
Shareholders' Equity:									
Share capital	29,868	4,019	4,019	4,019	3,500	27,867	4,019	3,500	3,498
Share premium	70,259	9,454	9,453	9,454	5,473	65,549	9,453	5,473	5,465
Fixed assets revaluation reserve	5,216	702	584	774	723	3,951	570	7	8
Retained earnings	270,582	36,410	29,034	36,525	27,060	218,670	31,537	23,086	15,452
Total shareholders' equity	375,925	50,585	43,090	50,772	36,756	316,037	45,579	32,066	24,423
Total liabilities and shareholders' equity	4,250,547	571,954	390,798	522,475	364,411	3,010,964	434,241	274,761	194,344

	As at or for the nine month period ended 30 September		As at or for the six month period ended 30 June		As at or for the year ended 31 December		
	2004	2003	2004	2003	2003	2002	2001
	(Annualised) (per cent., unless otherwise noted)						
Combined Key Ratios:							
Return on shareholders' equity[1]	14.3	22.3	21.9	25.1	22.6	28.2	25.3
Net earnings per common share (in KZT)	12.9	19.2	13.2	13.5	25.9	25.9	18.4
Operating expenses/operating income before provisions for loan losses	23.2	32.9	25.5	32.2	34.0	32.0	37.3
Operating expenses/operating income after provisions for loan losses	33.7	44.3	36.9	44.7	43.7	45.4	51.8
Effective provisioning rate on customer loans	6.1	6,5	6.1	7.6	6.3	7.4	7.4
Profitability Ratios:[2]							
Net interest margin (i.e., net interest income before provisions for loan losses as a percentage of average interest-earning assets)	6.0	4.7	5.7	4.9	5.2	7.2	8.0
Net interest income after provisions for loan losses as a percentage of average interest-earning assets	3.3	2.7	3.2	2.6	3.3	3.2	4.4
Operating expenses as a percentage of net interest income before provisions for loan losses	33.0	54.1	36.2	53.6	54.4	60.1	61.3
Operating expense as a percentage of average total assets	1.8	2.3	1.9	2.3	2.6	3.8	4.3
Profit after taxation as a percentage of average total assets	1.6	2.6	2.4	2.8	2.6	3.8	3.7
Profit after taxation as a percentage of average shareholders' capital	13.6	22.1	21.4	29.9	22.9	27.6	28.2
Balance Sheet Ratios:							
Deposits as a percentage of total assets	29.7	44.6	34.1	47.0	34.9	51.5	57.1
Total net loans to customers as a percentage of total assets	75.2	59.6	72.2	53.1	65.2	63.8	74.7
Total equity as a percentage of total assets	9.7	11.1	10.6	10.1	11.6	11.7	12.6
Liquid assets as a percentage of customer accounts[3]	73.4	75.1	71.2	89.6	82.9	61.2	34.5
Liquid assets as a percentage of liabilities of up to one month	93.0	117.9	108.3	174.3	111.1	131.1	64.1
Capital Adequacy Ratios:[4]							
Total capital	14.9	16.6	16.9	16.7	16.4	16.4	17.2
Tier 1 capital	10.0	11.4	11.3	11.5	13.5	14.0	11.1
Credit Quality Ratios:[5]							
Non-performing loans as a percentage of total loans	1.5	1.2	1.4	1.1	0.8	1.2	0.8
Non-performing loans as a percentage of total loans and guarantees	1.3	1.0	1.2	0.9	0.7	1.0	0.7
Provisions for loan losses as a percentage of non-performing loans	399.3	550.6	442.7	690.6	777.4	606.2	962.2
Exchange Rates used in financial statements of the Bank: (KZT/U.S.$1.00)							
Period end	134.56	148.93	136.45	148.00	144.22	155.85	150.2
Average for the period[6]	137.64	150.49	138.59	152.14	149.54	153.41	146.74
Macroeconomic Data:							
Consumer Price Inflation (for the twelve months then ended)	6.8	6.3	6.6	6.8	6.8	6.6	6.4
Real GDP (change during the year)	9.1	9.1	9.1	10.2	9.2	9.5	13.5

(1) Calculation is based on average opening and closing balances for the period.
(2) Averages are based upon average daily balances.
(3) Liquid assets include cash and balances with the NBK, loans and advances to banks (with maturities of less than one month), trading securities and securities purchased under agreements to resell.
(4) Calculated in accordance with the Basle 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 monthly rate is the average of the Bank's daily rates for the month. 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 financial statements and its interim unaudited financial statements as at and for the nine months ended 30 September 2004 and as at and for the six months ended 30 June 2004 appearing elsewhere in this Offering Circular. 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 1990, Kazkommertsbank is the largest bank in Kazakhstan, measured by total assets as at 30 September 2004, providing corporate banking, retail banking and other financial services. As at and for the nine months ended 30 September 2004, the Bank had net income of KZT 5,148 million, total assets of KZT 571,954 million and shareholders' equity of KZT 50,585 million.

The Bank's financial statements as at and for the years ended 31 December 2003, 2002 and 2001 were prepared in accordance with IFRS and audited by TOO Deloitte & Touche. These financial statements are consolidated and, for 2003, reflect the results of operations of the Bank and its subsidiaries, JSC Kazkommerts Securities, JSC Kazkommerts Policy, JSC Kazkommertsbank Kyrgyzstan, Kazkommerts International B.V. and JSC Kazkommerts Invest, as well as CB Moskommertsbank, which is not a subsidiary but is controlled by the Bank.

The discussion in relation to the Bank's financial statements as at and for the years ended 31 December 2003, 2002 and 2001 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 Banks results of operations and financial condition for the nine months ended and as at 30 September 2004 and for the six months ended and as at 30 June 2004 is based on the Bank's unaudited consolidated condensed interim financial statements for the nine months ended and as at 30 September 2004 and 2003 and for the six months ended and as at 30 June 2004 and 2003 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 Offering Circular.

Kazakhstan's Economy

Overview

Kazakhstan has been recognised by both the European Union and the United States as having a market economy. It has experienced extensive economic transformation since independence; for example, real GDP, which fell by 38.6 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

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 Gross Domestic Product for the periods indicated:

	Year ended 31 December						
	2003	2002	2001	2000	1999	1998	1997
Nominal GDP (KZT millions)	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)	9.2	9.5	13.5	9.8	2.7	(1.9)	1.7
Nominal GDP per capita (KZT)	297,844	252,263	219,170	174,854	135,088	114,991	109,045
Population (millions average annual)	14.94	14.86	14.85	14.86	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.

GDP by source

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

	Year ended 31 December						
	2003	2002	2001	2000	1999	1998	1997
	(per cent. share of GDP)						
Industry	29.5	29.3	30.7	31.9	28.2	24.4	21.4
Construction	6.2	6.1	5.5	5.3	4.8	4.9	4.2
Agriculture	7.3	7.9	8.7	8.7	9.9	8.6	11.4
Transportation and Telecommunications	12.1	11.5	11.2	12.0	12.0	13.9	11.7
Trade	12.1	12.0	12.1	12.6	3.6	15.2	15.6
Other[(1)]	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

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 65 per cent. of total exports in the first six months of 2004 and in the whole of 2003.

Inflation

The year-on-year rate of consumer price inflation has fallen from 1,258.3 per cent. at the end of 1994 to 6.8 per cent. as at the end of December 2003, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

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

	As at 30 June	As at 31 December						
	2004	2003	2002	2001	2000	1999	1998	1997
Consumer Prices.................	6.6	6.8	6.6	6.4	9.8	17.8	1.9	11.2
Producer Prices...................	9.4	5.9	11.9	(14.1)	19.4	57.2	(5.5)	11.7

Source: NSA, NBK

Current account

Based on NBK data, Kazakhstan's current account deficit in 2002 was U.S.$843.4 million and U.S.$1,209.3 million in 2001 compared with a surplus of U.S.$563.1 million in 2000. The current account deficit in 2003 was U.S.$39.0 million. The current account surplus in the first six months of 2004 was U.S.$95.9 million.

Capital and financial account

The current account deficit has been offset by inflows of foreign direct investment. The capital and financial account surplus in 2000 was U.S.$1,016.5 million, resulting in a balance of payment surplus of U.S.$585.1 million. In 2001, foreign direct investment in the amount of U.S.$4,556.6 million resulted in a capital and financial account surplus of U.S.$2,428.7 million. In 2002, foreign direct investment for the year amounted to U.S.$4,106.5 million, which resulted in a capital and financial account surplus of U.S.$1,239.2 million. In 2003, foreign direct investment was U.S.$4,607 million and the capital and financial account surplus was U.S.$2,755.2 million. In the first six months of 2004, foreign direct investment was U.S.$2,523 million and the capital and financial account surplus was U.S.$1,802 million.

Critical Accounting Policies

The Bank's results of operations and financial condition presented in the financial statements, notes to the financial statements and selected statistical and other information appearing elsewhere within this Offering Circular are, to a large degree, dependent upon the Bank's accounting policies.

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

Allowance for loan losses

The determination of the Bank's allowance for loan losses requires management to make significant judgments and estimates based upon a periodic analysis of its loan portfolio, considering, amongst other factors, current economic conditions, loan portfolio composition, past loan loss experience, independent appraisals, the fair value of underlying loan collateral, the Bank's customers' ability to pay, selected key financial ratios and other factors believed to be important by management. Because of the nature of the judgments made by management, actual results could differ from the estimates and assumptions relied upon, which could have a material impact on the value of assets and liabilities and other results of operations and the financial condition of the Bank. If actual loan losses are higher or market conditions are less favourable than those projected by management, additional allowances may be required.

Financial instruments

On 1 January 2001, the Bank adopted IAS 39 "Financial Instruments: Recognition and Measurement." This did not result in any major changes in financial results. However, as no readily available market exists for a large portion of the financial instruments held by the Bank, the Bank's management is required to make judgments to determine the fair value of such instruments based on current economic conditions and specific risks attributable to the instrument.

As at 30 June 2004 and as at 31 December 2003, 2002 and 2001, the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

- *Cash and balances with the NBK and loans and advances to banks*—for these short-term instruments, the carrying amount is a reasonable estimate of fair value.
- *Trading securities*—such securities are stated at fair value.
- *Loans to customers*—the fair value of the Bank's loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the Bank's portfolio.
- *Securities available-for-sale*—such securities are initially recorded at cost, which approximates the fair value of the consideration given. The fair value of securities available-for-sale was determined by reference to an active market for those securities quoted publicly or in an over-the-counter market. For unquoted securities, the fair value was determined by reference to the market prices of securities with a similar credit risk and/or maturity, in other cases by the reference to the share in the estimated equity capital of the investee. If such quotes do not exist, management estimation is used.
- *Securities held-to-maturity*—such securities are stated at cost and adjusted for accretion and amortisation of premiums and discounts to approximate fair value.
- *Investments*—investments in associates are recorded using the equity method.
- *Loans and advances from banks and customer accounts*—the carrying amount is a reasonable estimate of fair value.
- *Customer accounts*—the carrying amount of short-term deposits and current accounts is a reasonable estimate of their fair value. The fair value of long-term customer accounts was determined based on interest rate models using interest rates on deposits with similar credit risk levels and maturities current at the reporting dates and does not deviate materially from the carrying amount.
- *Debt securities issued*—debt securities issued are stated at nominal value. Premium and discounts are amortised over the life of an instrument, whilst unamortised balances are offset and recorded in the other assets or other liabilities section.

The Bank's Treasury Department makes the initial recommendation regarding classifications; however, the final determination is made by the Asset and Liability Management Committee

Off-Balance Sheet Arrangements

In the normal course of its activity, the Bank enters into certain financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, which include guarantees, letters of credit, forward contracts and option contracts, involve varying degrees of credit risk and are not reflected in the balance sheet of the Bank. As at 30 June 2004, the Bank has issued outstanding guarantees totalling KZT 20,498 million; had outstanding open letters of credit totalling KZT 32,637 million; and had open forward contracts (i.e., foreign exchange, repurchase and swap transactions) totalling KZT 17,219 million. As at 31 December 2003 and 2002, the Bank had issued outstanding guarantees totalling KZT 22,769 million and KZT 18,951 million, respectively; had outstanding open letters of credit totalling KZT 23,409 million and KZT 18,466 million, respectively; and had open forward contracts totalling KZT 17,193 million and KZT 3,604 million, respectively. The Bank's maximum exposure to credit losses for guarantees and letters of credit is reflected in the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total contractual amount does not necessarily represent future cash requirements. Provisions for losses on contingent liabilities are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Contractual commitments

As at 30 June 2004, provisions for losses on contingent liabilities were KZT 1,390 million, as compared to KZT 1,881 million as at 30 June 2003. As at 31 December 2003, provisions for losses on contingent liabilities were KZT 1,426 million, as compared to KZT 1,790 million as at 31 December 2002.

The following table sets forth the commitments and contingent liabilities of the Bank in Tenge, by contractual maturity, as at 30 June 2004:

	Up to one month	One month to three months	Three months to one year	One year to five years	Over five years	Total
Guarantees	784	2,883	7,970	6,049	2,811	20,497
Letters of credit	16,169	3,614	10,326	2,528	—	32,637
Forward contracts	13,046	—	239	—	—	13,285

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

RECENT DEVELOPMENTS

Net income

For the nine months ended 30 September 2004, the Bank's net income was KZT 5,148 million, a decrease of 18.1 per cent. compared to the same period in 2003. This decrease was primarily due to the 792.0 per cent. increase in income tax expense (from KZT 778 million in the nine months to 30 September 2003 to KZT 6,940 million in the nine months to 30 September 2004). At the same time, the Bank's net interest income after provision for loan losses increased 88.3 per cent. from KZT 6,012 million to KZT 11,321 million. The Bank's net non-interest income increased 27.8 per cent. from KZT 6,761 million in the nine months to 30 September 2003 to KZT 8,639 million in the nine months to 30 September 2004. Operating expense for the nine months ended 30 September 2004 increased 18.9 per cent. compared to the same period in 2003 and operating profit increased 86.0 per cent. to KZT 13,233 million in the nine months to 30 September 2004 from KZT 7,115 million in the nine months to 30 September 2003.

Net interest income

Net interest margin (that is, net interest income before provisions for loan losses as a percentage of average interest-earning assets) increased from 4.7 per cent. for the nine months ended 30 September 2003 to 6.0 per cent. for the nine months ended 30 September 2004. Such growth is primarily attributable to a decrease in the cost of interest-bearing liabilities from 6.4 per cent. to 6.0 per cent. and a slight increase in the return on assets from 10.4 per cent. to 11.5 per cent. Net interest income before provisions for loan losses increased 94.9 per cent. due to the 53.3 per cent. increase in average interest-earning assets for the nine months ended 30 September 2004 compared to the same period in 2003. Loan loss provisions increased from KZT 4,442 million as at 30 September 2003 to KZT 9,054 million as at 30 September 2004, which resulted in loan loss provisions as a percentage of net interest income increasing from 42.5 per cent. to 44.4 per cent. Net interest income after loan loss provisions for the nine months ended 30 September 2004 was KZT 11,321 million compared to KZT 6,012 million for the nine months ended 30 September 2003 and, as a percentage of average interest-earning assets, increased over the period to 3.3 per cent. from 2.7 per cent.

Provision for loan losses

In the nine months ended 30 September 2004, the Bank's total gross loan portfolio increased by 51.5 per cent. (from KZT 302.3 billion at the end of 2003 to KZT 401.9 billion at 30 June 2004 and to KZT 458.0 billion at 30 September 2004). Primarily as a result of such increase, the Bank's loan loss provisions increased to KZT 9,054 million. As at 30 September 2004, the effective provisioning rate for loan losses remained at the 30 June 2004 level of 6.1 per cent. compared to 6.5 per cent. as at 30 September 2003 and 6.3 per cent. as at 31 December 2003. This can be attributed to an improvement in the general economic conditions in Kazakhstan as well as the generally improved quality of the Bank's loan portfolio.

Net non-interest income

Net non-interest income for the nine months ended 30 September 2004 was KZT 8,639 million representing an increase of 27.8 per cent. from KZT 6,761 million for the nine months ended 30 September 2003. This increase was primarily due to an increase in income from the Bank's foreign exchange operations and the simultaneous growth of fees and commissions income, which was partially offset by a decrease in income from the Bank's securities operations and in dividends received.

The Bank's net gain on trading securities in the nine months to 30 September 2004 was KZT 128 million compared to KZT 150 million in the same period in 2003, representing a decrease of 14.7 per cent. This decrease is attributable to the fact that the current yields on foreign state securities were lower than their coupon rates, a consequence of falling interest rates in international financial markets. Therefore, most of the securities purchased by the Bank in 2004 reflected a premium over book value. The amortisation of these premiums led to a decrease in net gain on trading securities.

The Bank's net gain on foreign exchange operations in the nine months to 30 September 2004 was KZT 1,444 million compared to KZT 1,050 million in the same period in 2003 representing an increase of 37.5 per cent. This increase is attributable to changes in currency exchange rates and the growth of the Bank's trading operations. As a result, the Bank's volume of foreign exchange operations increased in 2004.

In the nine months to 30 September 2004, the Bank received dividends of KZT 18 million from its portfolio of trading securities, compared to KZT 372 million in the nine months to 30 September 2003. The fall primarily reflected the sale of the Bank's holding in ABN AMRO Bank Kazakhstan.

In the nine months to 30 September 2004, the Bank recognized KZT 1,178 million as other income, as compared to KZT 653 million in the nine months to 30 September 2003 representing an increase of 80.4 per cent. Insurance premiums paid to JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT 554 million in 2003 to KZT 1,125 million in 2004 (representing 103.0 per cent. growth) which the Bank believes resulted from the continuing development of the insurance market in Kazakhstan.

Operating expenses

Operating expenses increased by 18.9 per cent. from KZT 5,658 million in the nine months to 30 September 2003 to KZT 6,727 million in the nine months to 30 September 2004. The Bank exercises tight control over expenses and as a result the ratio of its operating expense to its operating income after provisions for loan losses fell to 33.7 per cent. as at 30 September 2004 from 44.3 per cent. as at 30 September 2003. Operating expenses as a percentage of average assets decreased to 1.8 per cent. as at 30 September 2004 from 2.3 per cent. as at 30 September 2003.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. Over the nine months to 30 September 2003, the Bank's effective tax expense was 10.83 per cent., as compared to 22.9 per cent. over the nine months ended 30 September 2004. Following an audit completed by the Kazakhstan tax authorities in May 2004, the Bank was assessed with additional taxes and penalties of KZT 4,008 million. The assessment resulted mainly from a disagreement as to the deductibility for tax purposes of provisions for loan losses. As at 30 June 2004, the Bank believed that it had taken proper deductions in relation to provisions for loan losses and had sought official guidance before filing the relevant returns. Accordingly, the Bank disputed the assessment and penalties, and initiated appropriate judicial proceedings to have them withdrawn. Although the Bank was unsuccessful in the first stage of these proceedings in the Astana City Court and its application to the Supreme Court Board of Appeal for a reversal of this decision has been refused, the Bank intends to appeal, as it believes that its filing position was appropriate. In order to be eligible to appeal, it first has to pay the disputed taxes and penalties, which it has now done, resulting in a tax charge of approximately the KZT 4.0 billion claimed. See also —Results of Operations for the six months ended 30 June 2004 compared to the six months ended 30 June 2003—Taxation.

Total assets

As at 30 September 2004, the Bank's total assets amounted to KZT 572.0 billion, an increase of 31.7 per cent. over the total assets at 31 December 2003 and of 9.5 per cent. over total assets as at 30 June 2004. The growth during the nine months ended 30 September 2004 was primarily attributable to the 51.9 per cent. increase of the Bank's loan portfolio. The Bank's net loan portfolio as at 30 September 2004 was KZT 429.9 billion as compared to KZT 283.1 billion as at the end of 2003 and KZT 377.2 billion as at 30 June 2004.

In the nine months ended 30 September 2004, the Bank's securities portfolio increased by KZT 3.9 billion representing a 5.5 per cent. increase and as at 30 September 2004 totaled KZT 75.3 billion. The Bank's securities portfolio mainly comprised trading securities amounting to KZT 75.1 billion (99.7 per cent.). During the nine months ended 30 September 2004, the Bank actively acquired securities of foreign and Kazakh companies and Government and the National Bank of Kazakhstan.

As at 30 September 2004, the volume of the Bank's loans and advances to banks totaled KZT 31.8 billion, a decrease of KZT 6.8 billion (17.6 per cent.) in comparison with the figure as at the end of 2003 and a slight increase over the KZT 27.7 billion outstanding as at 30 June 2004. The decrease took place substantially as a result of a decrease in interbank lending by KZT 17.2 billion (by 51.2 per cent.) while correspondent accounts with other banks increased 4.1 times (by KZT 10.6 billion).

As at 30 September 2004, the Bank's cash and balances with the NBK, the National Bank of Kyrgyzstan and with the Central Bank of Russia decreased to KZT 16.1 billion from KZT 28.5 billion as at 31 December 2003, a decrease of KZT 12.4 billion or 43.6 per cent. but a slight increase over the KZT 17.3 billion recorded as at 30 June 2004.

As at 30 September 2004, the Bank held KZT 8.8 billion of securities as part of a reverse repurchase transaction, compared to KZT 2.6 billion of securities held at 31 December 2003, a 3.4 times increase (by KZT 6.2 billion) as the Bank used the liquidity from issues of debt securities and borrowing syndicated loans to enter into these transactions both domestically and internationally.

During the first nine months of 2004, the fixed assets of the Bank increased by KZT 105.7 million (1.8 per cent.) and as at 30 September 2004 amounted to KZT 6.0 billion against KZT 5.9 billion as at 31 December 2003 and KZT 6.1 billion as at 30 June 2004.

The Bank's average assets increased by KZT 138.1 billion, or 39.4 per cent., from KZT 350.8 billion in 2003 to KZT 488.8 billion during the first nine months in 2004. The increase was primarily due to the growth of the net average loan portfolio by KZT 135.6 billion, or 68.6 per cent. The Bank's average portfolio of marketable securities increased by KZT 22.3 billion during the first nine months of 2004 compared to the same period in 2003. The Bank's average interest-earning assets increased by 42.4 per cent. between 30 September 2003 and 30 September 2004. In the three months ended 30 September 2004 average assets and average interest-earning assets increased by 5 per cent., and 5.3 per cent., respectively, while the average securities portfolio decreased slightly by 1.6 per cent.

Total liabilities

As at 30 September 2004 the Bank's liabilities were KZT 516.3 billion, an increase of 34.5 per cent. from KZT 384.0 billion at 30 December 2003 and an increase of 10.6 per cent. compared to KZT 466.9 billion as at 30 June 2004. This increase was primarily due to an increase in international bank financing and additional issuances of debt securities.

At 30 September 2004, issued debt securities included promissory notes in the amount of KZT 16.8 billion issued by CB Moskommertsbank.

Subordinated notes and index-linked notes issued by the Bank are classified in its balance sheet as subordinated debt. As at 30 September 2004, the Bank's subordinated debt totaled KZT 22.3 billion.

Advances received from banks increased by 69.3 per cent. from KZT 76.2 billion at the end of 2003 and by 53.7 per cent. from KZT 84.0 billion at the end of June 2004 to KZT 129.1 billion as at 30

September 2004, resulting from funds received under the EBRD's credit line and a syndicated loan from Asian banks.

In the three months to 30 September 2004 customer accounts decreased by KZT 8.4 billion (by 4.7 per cent.) and totalled KZT 169.7 billion compared to KZT 178.1 billion as at the end of June 2004 as a result of an outflow in large corporate deposits.

As at 30 September 2004, the volume of securities sold under repurchase agreements totaled KZT 8.7 billion, compared to KZT 7.4 billion as at 30 June 2004.

The average liabilities of the Bank during the first nine months of 2004 increased to KZT 433.9 billion (an increase of KZT 22.0 billion in comparison with the first half of 2004 or 5.3 per cent. and an increase of KZT 124.7 billion, or 40.3 per cent., in comparison with the end of 2003). During the three months ended 30 September 2004 the Bank's average interest-bearing liabilities increased by 5.4 per cent. in comparison with the first half of 2004, primarily as a result of a syndicated loan from Asian Banks raised in August 2004, and average time deposits and demand deposits increased by 1.2 per cent. and 8.6 per cent., respectively.

Equity

As at 30 September 2004, the Bank's equity capital was KZT 50.6 billion, as compared to KZT 50.8 billion as at 30 June 2004. The additional taxes and penalties imposed by the Kazakhstan tax authorities in May 2004, referred to in "Recent Developments – Taxation", reduced the Bank's net profit for the nine months ended 30 September 2004 by KZT 4.0 billion. This decreased the Bank's equity capital by 0.4 per cent. compared to the figure as at 30 June 2004.

As at 30 September 2004, the Bank's equity capital, calculated in accordance with the Basle Accord, was KZT 74.5 billion, including Tier I capital of KZT 49.8 billion. As at 30 June 2004, the Bank's equity capital, calculated in accordance with the Basle Accord, was KZT 74.7 billion, including Tier I capital of KZT 49.6 billion. The Bank's Tier I capital adequacy ratio and total capital adequacy ratio as at 30 September 2004 were 10.0 per cent. and 14.9 per cent., respectively.

Results of Operations for the six months ended 30 June 2004 Compared to the six months ended 30 June 2003

Net income

The growth in net income in 2003 continued in 2004 with net income for the six months ended 30 June 2004 up 22.0 per cent. from KZT 4,313 million in the first six months of 2003 to KZT 5,264 million for the same period in 2004. Over the same period, operating profit rose 67.1 per cent. from KZT 4,498 million to KZT 7,515 million. During the first half of 2004, the Bank was able to reverse provisions made previously for losses on other operations but had a small loss from its participation in associated companies. Reflecting this, net income before taxes and minority interest grew 68.9 per cent. in the six months ended 30 June 2004 compared to the same period in 2003, up from KZT 4,515 million to KZT 7,624 million. However, the Bank's income tax expense also increased over the period mainly as a result of changes in Kazakhstan tax law regarding the deductibility of provisions.

Interest Income

The following table sets out details of the Bank's interest income and its period-on-period growth for the six months ended 30 June 2004 and 2003:

	For the six month period ended 30 June		
	2004	2003	Growth
	(KZT millions)		(per cent.)
Interest on loans to customers	20,521	13,647	50.4
Interest on loans and advances to banks	646	573	12.7
Interest on debt securities	2,648	901	193.9
Total	23,815	15,121	57.5

During this period, total interest income grew by 57.5 per cent., primarily as a result of the 54.0 per cent. growth in average interest-earning assets from KZT 278.3 billion as at 30 June 2003 to KZT 428.7 billion as at 30 June 2004, while the average interest rate also grew from 10.9 per cent. to 11.1 per cent. during the same period.

Interest Expense

The following table sets out details of the Bank's interest expense for the six months ended 30 June 2004 and 2003:

	Six months ended 30 June	
	2004	2003
	(KZT millions)	
Interest expense on customer accounts	3,580	3,882
Interest expense on loans and advances from banks	1,583	1,006
Interest expense on debt securities issued	5,719	2,874
Interest expense on other liabilities	778	569
Total	11,660	8,331

For the six months ended 30 June 2004, interest expense grew 40.0 per cent. compared to the same period in 2003, from KZT 8,330 million to KZT 11,660 million. This growth was attributable to a significant (50.8 per cent.) increase in average interest-bearing liabilities from KZT 261,437 million as at 30 June 2003 to KZT 394,215 million as at the same date of 2004. Interest expense on customer deposits decreased by 7.8 per cent. as a result of a decrease in interest rates on deposits. Interest expense on debt securities issued increased by 99.0 per cent. in the first half of 2004 as a result of the issue of U.S.$ 400,000,000 senior and U.S.$ 100,000,000 subordinated notes in April 2004. Interest expense on loans and advances from banks increased by 57.5 per cent. in the six months ended 30 June 2004 compared to the same period in 2003 as a result of syndicated borrowings and an increase in inter-bank deposits.

The following table sets out the average cost of the Bank's deposits for the six months ended 30 June 2004 and 2003:

	As at 30 June	
	2004	**2003**
	(per cent.)	
KZT deposits:		
Time deposits	9.2	11.2
Demand deposits	0.8	0.8
Foreign currency deposits:		
Time deposits	5.4	6.2
Demand deposits	0.5	0.9

Provision for Loan Losses

Provisions for possible loan losses were 68.5 per cent. higher at 30 June 2004 than they were at 30 June 2003, up from KZT 3,184 million to KZT 5,365 million, although the gross loan portfolio itself had increased by 33.0 per cent. from KZT 302,132 million as at the end of 2003 to KZT 401,909 million as at 30 June 2004. As a result the effective rate of provisions on customer loans fell from 6.3 per cent. at 31 December 2003 to 6.1 per cent. as at 30 June 2004. This fall reflected the improvement in the local economy over the period. The Bank's management believes that current levels of provisions are adequate in the current economic environment, but would not expect them to decrease much further. Recoveries on previously written-off loans fell 69.0 per cent. from KZT 680.5 million for the six month period ended 30 June 2003 to KZT 211.0 million for the six month period ended 30 June 2004.

Average overdue loans, including non-performing loans to customers grew from KZT 4,237 million in the first half of 2003 to KZT 6,452 million in the first half of 2004. Average overdue loans, including non-performing foreign currency loans to customers grew 33.1 per cent. from KZT 3,229 million to KZT 4,299 million over the same period.

Net non-interest Income

Net non-interest income for the six months ended 30 June 2004 increased by 13.1 per cent. compared to the same period in 2003, from KZT 4,534 million to KZT 5,127 million. This increase was primarily due to an increase in fees and commissions income, especially from loan approval fees, payment cards and cash transactions as the level of overall economic activity increased and arrangement fees for financings. There was also a 72.2 per cent. increase in gains on foreign exchange operations as increased exchange rate volatility presented the Bank with trading opportunities. Trading securities went from a KZT 509 million positive contribution in the first half of 2003 to a loss of KZT 225 million in the first half of 2004.

The Bank recorded a loss on trading and investment securities for the six month period ended 30 June 2004 of KZT 216 million compared to net income on securities of KZT 431 million in the same period of 2003.

Fee and commission income grew 31.1 per cent. in the six months ended 30 June 2004 compared to the same period in 2003, up from KZT 3,516 million to KZT 4,611 million. Credit card fees earned rose 47.7 per cent. from KZT 262.6 million to KZT 387.9 million in the same period.

In the first six months of 2004, the Bank earned KZT 512.6 million in fees for securities and foreign exchange operations, 14.7 per cent. more than for the same period in 2003. Settlement fees and fees for cashier services increased by 19.6 per cent. and 35.1 per cent. respectively, from KZT 772.3 million and KZT 885.6 million to KZT 923.5 million and KZT 1,196 million. The growth in settlement services can be attributed to the overall growth of the Bank's business and client base, although the growth in cashier services was constrained as a result of the Bank reducing charges for cashier services in respect to greater competition from other commercial banks in this area.

The Bank's contingent liabilities and credit portfolio increased 30.6 per cent. in the six months ended 30 June 2004 compared to the end of 2003, up from KZT 348.3 million to KZT 455.0 million.

As a result, fees and commissions received on letters of guarantee and letters of credit increased by 6.4 per cent. from KZT 753.2 million in the first half of 2003 to KZT 801.1 million in the first half of 2004, respectively. Reserves on possible losses in relation to these letters also decreased from KZT 1,426 million to KZT 1,390 million in the same period, a decrease of 2.5 per cent.

Other Income

Other income grew from KZT 354 million for the six months ended 30 June 2003 to KZT 496 million in the same period in 2004, primarily as a result of increased insurance premiums received by Kazkommerts Policy which rose from KZT 256 million in 2003 to KZT 364 million in 2004.

Operating Expenses

Operating expenses rose 20.9 per cent. in the six months ended 30 June 2004 compared to the same period in 2003, up from KZT 3,642 million in 2003 to KZT 4,402 million. Staff costs continued to represent the main operating expense, 39.6 per cent. of all operating expenses, and increased 14.5 per cent. from KZT 1,524 million to KZT 1,745 million. The Bank aims where possible to control headcount and to improve operating efficiencies and in the first half of 2004, the number of the Bank's employees reduced from 3,493 as at the end of 2003 to 3,254.

Depreciation and amortisation costs rose 28.4 per cent. in the six months ended 30 June 2004 compared to the same period in 2003, from KZT 489 million to KZT 628 million due to the Bank's investment in the customer service network.

The general expansion of the Bank's business in the six months ended 30 June 2004 compared to the same period in 2003, also led to an increase in other operating expenses. VAT payments rose 9.6 per cent. from KZT 93.3 million to KZT 102.3 million in line with the growth in commission income related to VAT. Travel expenses and telecommunication costs rose 6.0 per cent. and 27.7 per cent., respectively, from KZT 111.4 million and KZT 126.3 million to KZT 118.1 million and KZT 161.3 million, respectively.

Due to the fact that customs duties on the import of banknotes were abolished, there were no customs duties paid during the first half of 2004. The Bank's contributions to the Deposit Insurance Fund (the "Fund") decreased 10.6 per cent. and totalled KZT 145.5 million for the six month period ended 30 June 2004 compared to KZT 162.7 million for the six month period ended 30 June 2003 as contribution rates for term deposits were reduced when contributions in relation to demand deposits were introduced in late 2003 and, since the Bank's deposit base is more heavily weighted towards term deposits, its overall contribution rate fell. Expansion of its branch network and renovation of its customer service network led to an increase in the Bank's rental expenses from KZT 88.6 million to KZT 176.0 million.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. For the six month period ended 30 June 2003 the effective tax expense incurred by the Bank was 2.3 per cent. compared to the effective tax expense of 25.7 per cent. for the six month period ended 30 June 2004. The effective tax rate in the first half of 2004 was higher than in the same period of 2003, mainly as a result of changes in Kazakhstan tax law regarding the deductibility of provisions.

The Bank's taxation expense increased from KZT 105.2 million in the first half of 2003 to KZT 1,962 million in the first half of 2004. The Bank's management believes that in the second half of 2004 its effective tax rate will remain at about this level, slightly below the statutory tax rate of 30 per cent., because some income, such as gains on sales of treasury securities, is exempt from tax.

Following an audit completed by the Kazakhstan tax authorities in May 2004, the Bank was assessed with additional taxes and penalties of KZT 4,008 million. The assessment resulted mainly from a disagreement as to the deductibility for tax purposes of provisions for loan losses. As at 30 June 2004, the Bank believed that it had taken proper deductions in relation to provisions for loan losses and did so after seeking official guidance before filing the relevant returns. Accordingly, the Bank disputed the assessment and penalties and has initiated appropriate judicial proceedings to have them withdrawn. Although the Bank was unsuccessful in the first and second stage of these proceedings in the Astana City Court and its application to the Supreme Court Board of Appeal for a reversal of this decision has been refused, the Bank intends to appeal. The Bank's management believed that it had paid all taxes due in full and therefore made no further provisions as at 30 June 2004 as a result of this assessment. See also "— Results as at 30 September 2004 – Net Income–Taxation".

Results of Operations for the Year ended 31 December 2003 Compared to the Year ended 31 December 2002

Net income

The following table sets forth the main components of the Bank's net income for the years ended 31 December 2003 and 2002:

	Year ended 31 December		
	2003	2002	Change
	(KZT millions)		(per cent.)
Interest income	35,106	24,501	43.3
Interest expense	(18,624)	(11,258)	65.4
Net interest income before provisions for loan losses	16,482	13,243	24.5
Loan loss provisions	(5,887)	(7,342)	(19.8)
Fees and commissions, net	7,066	4,666	51.4
Gains on securities	(364)	4,852	(107.5)
Net realized and unrealized gain on foreign exchange operations	1,600	1,207	32.6
Dividends received	382	447	(14.5)
Other income	1,239	433	186.1
Net non-interest income	9,923	11,605	(14.5)
Operating expenses	(8,969)	(7,956)	12.7
Loss provisions on other operations	(270)	(1,327)	(79.7)
Equity income from associated companies	(20)	34	(158.8)
Income tax (expense)/recovery	(2,092)	(276)	658
Minority interest	(406)	(2)	20,200
Net income	8,761	7,979	9.8

The Bank's net income increased 9.8 per cent. from KZT 7,979 million in 2002 to KZT 8,761 million in 2003. This growth was primarily due to the 79.5 per cent. increase in net interest income after provisions for loan losses in 2003 (from KZT 5,901 million to KZT 10,595 million). At the same time, operating income increased 17.2 per cent. from KZT 17,506 million in 2002 to KZT 20,518 million in 2003. Operating profit in 2003 was KZT 11,549 million compared to KZT 9,550 million in 2002, representing year-on-year growth of 20.9 per cent.

Interest income

The following table sets out details of the Bank's interest income for the years ended 31 December 2003 and 2002:

	Year ended 31 December		
	2003	2002	Change
	(KZT millions)		(per cent.)
Interest on loans to customers	29,749	23,044	29.1
Interest on loans and deposits with other banks	1,527	346	341.3
Interest on debt securities	3,830	1,111	244.7
Total	35,106	24,501	43.3

Interest income in 2003 increased by KZT 10,605 million, or 43.3 per cent., to KZT 35,106 million from KZT 24,501 million in 2002, primarily due to the increase in interest income on loans to customers and on marketable securities held by the Bank as average interest-earning assets increased 72 per cent. from KZT 184.3 billion in 2002 to KZT 317.1 billion in 2003.

The following table sets out the average annual rate of interest earned by the Bank on loans in its portfolio for the years 2003 and 2002:

	Year ended 31 December	
	2003	2002
	(per cent.)	
KZT loans to customers[(1)]	14.9	13.7
Foreign currency loans to customers[(1)]	14.3	14.0
Total loans to customers[(1)]	14.4	13.9
KZT loans to banks[(2)]	4.1	5.2
Foreign currency loans to banks[(2)]	3.1	3.1
Total loans to banks[(2)]	3.1	3.2
KZT denominated securities	5.1	6.2
Foreign currency denominated securities	6.4	9.3
Total securities	5.8	8.6

(1) Includes performing loans to customers before provisions for loan losses.
(2) Loans to and deposits with other banks before provisions.

Although interest income on loans to customers continued to comprise the majority of the Bank's total interest income, its proportion of total interest income decreased in 2003 to 84.7 per cent., as compared to 94.0 per cent. in 2002. The increase in interest income on loans to customers was 29.1 per cent., mainly due to the 23.8 per cent. growth in the Bank's average loan portfolio from KZT 169.8 billion in 2002 to KZT 210.3 billion in 2003 and the increase in average interest rates on performing loans to customers from 13.9 per cent. in 2002 to 14.4 per cent. in 2003.

The Bank's loan portfolio (net) increased by 61.6 per cent., from KZT 175.3 billion in 2002 to KZT 283.1 billion in 2003. Foreign currency-denominated loans continue to dominate in the structure of the Bank's loan portfolio. The proportion of Tenge-denominated loans decreased slightly to 21.1 per cent. of the Bank's loan portfolio in 2003, as compared to 24.4 per cent. in 2002. In 2003, 75.9 per cent. of the Bank's average foreign currency-denominated performing loans to customers were in U.S. dollars.

Interest income on loans and deposits with other banks increased to KZT 1,527 million in 2003 from KZT 346 million in 2002. This growth was primarily attributable to an increase in average loans to and deposits with other banks, net of provisions, from KZT 9.4 billion in 2002 to KZT 47.6 billion in 2003.

Interest income on debt securities (which comprises interest income on the Bank's marketable securities portfolio) increased from KZT 1,111 million in 2002 to KZT 3,830 million in 2003. This increase was due to the increase in the Bank's average marketable securities portfolio from KZT 12.9 billion in 2002 to KZT 66.2 billion in 2003, partially offset by a decline in the average yield of marketable securities from 8.6 per cent. in 2002 to 5.8 per cent. in 2003.

Interest expense

The following table sets out the components of the Bank's interest expense for the years 2003 and 2002:

	Year ended 31 December		
	2003	2002	Change
	(KZT millions)		(per cent.)
Interest expense on customer accounts	7,773	6,880	13.0
Interest expense on loans and advances from banks	1,911	1,940	(1.5)
Interest expense on debt securities issued	8,578	2,083	311.8
Interest expense on other liabilities	362	355	2.0
Total	18,624	11,258	65.4

Interest expense increased by KZT 7.4 billion, or 65.4 per cent., from KZT 11.3 billion in 2002 to KZT 18.6 billion in 2003. This increase was primarily due to a 69.4 per cent. increase in average interest-bearing liabilities from KZT 172.0 billion in 2002 to KZT 291.4 billion in 2003. Average rates were 6.6 per cent. in 2002 and 6.4 per cent. in 2003. In addition, in 2003, the structure of the Bank's interest expense significantly changed. In 2002, interest expense on customer accounts represented 61.1 per cent. of total interest expense, whilst interest expense on debt securities issued represented 18.5 per cent. of such total. However, in 2003, interest expense on customer accounts represented 41.7 per cent. of total interest expense, whilst interest expense on debt securities issued represented 46.1 per cent. of such total, following various issuances of debt securities in that year.

The following table sets out the average cost of the Bank's deposits for the years 2003 and 2002:

	Year ended 31 December	
	2003	2002
	(per cent.)	
KZT deposits:		
Time deposits	10.5	9.6
Demand deposits	0.7	1.1
Foreign currency deposits:		
Time deposits	6.2	7.8
Demand deposits	0.8	1.1
Total time deposits	7.0	8.1
Total demand deposits	0.7	1.1

Interest expense on customer accounts increased 13.0 per cent. from KZT 6,880 million in 2002 to KZT 7,773 million in 2003. This increase was primarily attributable to the increase in average demand deposits from KZT 32,387 million in 2002 to KZT 43,711 million in 2003 and in average time deposits from KZT 81,007 million in 2002 to KZT 106,948 million in 2003, partially offset by a decline in rates on time deposits from 8.1 per cent. in 2002 to 7.0 per cent. in 2003 and on demand deposits from 1.1 per cent. to 0.7 per cent. This increase in customer deposits reflects the Bank's strategy in increasing funding from time deposits from corporate and retail clients.

Net interest income

The following table sets out details of the Bank's net interest income before provisions for loan losses in 2003 and 2002:

	Year ended 31 December		
	2003	2002	Growth
	(KZT millions)		(per cent.)
Interest income	35,106	24,501	43.3
Interest expense	(18,624)	(11,258)	65.4
Net interest income before provisions for loan losses	16,482	13,243	24.5

Net interest margin decreased from 7.2 per cent. in 2002 to 5.2 per cent. in 2003. Such reduction was primarily attributable to the 72.0 per cent. growth of average interest-earning assets in 2003 as compared to 2002. As a result of the decrease in loan loss provisions from KZT 7,342 million in 2002 to KZT 5,887 million in 2003, net interest income after loan loss provisions increased to KZT 10,595 million in 2003, as compared to KZT 5,901 million in 2002 and the ratio of net interest income after provisions for loan losses to average interest-earning assets increased to 3.3 per cent. in 2003 from 3.2 per cent. in 2002.

Provision for loan losses

In 2003, the Bank's total gross loan portfolio increased by 59.6 per cent. (from KZT 189.3 billion at the end of 2002 to KZT 302.1 billion at the end of 2003). Primarily as a result of an improvement in the quality of the Bank's loan portfolio, total provisions for loan losses decreased in 2003 to KZT 5,694 million. As at 31 December 2003, the effective provisioning rate for loan losses decreased to 6.3 per cent., as compared to 7.4 per cent. as at 31 December 2002. This decrease can be attributed to an improvement in the general economic conditions in Kazakhstan as well as the generally improved quality of the Bank's loan portfolio.

Average overdue loans, including non-performing loans to customers, remained relatively unchanged in increasing slightly from KZT 4,213 million in 2002 to KZT 4,394 million in 2003. Average overdue foreign currency loans, including non-performing foreign currency loans to customers declined 16.0 per cent. from KZT 3,543 million in 2002 to KZT 2,975 million in 2003 despite an increase in overall foreign currency lending to customers in 2003. Average provisions for loan losses increased from KZT 10,373 million in 2002 to KZT 12,566 million in 2003, primarily due to the increased provisioning in respect of foreign currency loans to customers in 2003. Recovery of previously written-off provisions on the loan portfolio increased 30.6 per cent. from KZT 1,215 million in 2002 to KZT 1,586 million in 2003. See "Selected Statistical and Other Information-Non-Performing Loans and Provisioning Policy."

Net non-interest income

Net non-interest income in 2003 was KZT 9,923 million, representing a decrease of 14.5 per cent. from KZT 11,605 million in 2002. This decrease was primarily due to a decrease in income from the Bank's securities operations partially offset by the growth of fees and commissions and other income.

Fees and commissions. Fees and commissions increased by 45 per cent. from KZT 5,792 million in 2002 to KZT 8,400 million in 2003. The Bank believes that this increase is attributable to increased sales of financial products resulting from its marketing campaign in 2003 to cross-sell the Bank's products to high net-worth individuals, as well as to medium-sized corporate clients. Furthermore, this increase in fees and commissions resulted from an increase in the overall volume of the Bank's operations, despite a decline in fee and commission margins resulting from increased domestic competition. Commissions for customer settlement services increased by 27.2 per cent., commissions for cashier services increased 28.1 per cent., commissions for documentary operations increased 32.9 per cent., commissions for credit and charge card operations increased 54.5 per cent. and the Bank's other fees and commissions, which include cash collection services, cheque facilities and account maintenance fees, increased 93.5 per cent. from period to period.

Fees and commissions paid increased 18.5 per cent. in 2003 to KZT 1,334 million from KZT 1,126 million in 2002. Fees and commissions paid under international borrowings (including loans and bonds) comprised the majority of the Bank's total fees and commissions paid (30 per cent. or KZT 396 million) in 2003. In 2003, 22.8 per cent. of fees and commissions were related to bank card expense, as compared to 32.7 per cent. in 2002. Fees and commissions paid to correspondent banks increased by 15.2 per cent. in 2003, while fees and commissions relating to foreign exchange and securities operations increased by 34.2 per cent. and fees and commissions from documentary operations increased by 73.6 per cent. in 2003.

Gains on securities. During 2003, the Bank increased its portfolio of marketable securities and, accordingly, entered into a greater volume of securities transactions than in 2002, representing an increase of over 230 per cent. In 2002, the Bank realised a significant amount of net income from the sale of marketable securities which it was required to sell as a result of restrictions introduced that year by the NBK on holdings of Russian sovereign paper. The Bank recorded a loss on trading and investment securities of KZT 364 million in 2003 compared to net income of KZT 4,852 million in 2002.

The Bank's loss on securities available-for-sale was KZT 47 million in 2003, as compared to a net gain of KZT 3,916 million in 2002. This item included unrealised income on securities available-for-sale in 2003 resulting from a re-assessment of shares held by JSC Kazkommerts Securities. Significant unrealised income on securities available-for-sale in 2002 resulted from the re-classification of the Bank's equity investment in ABN AMRO Bank Kazakhstan to the securities available-for-sale category. This reclassification accounted for a net unrealised gain of KZT 1,560 million in 2002. In addition, in 2002 the Bank revalued its equity shareholding in JSC Air Kazakhstan, which the Bank acquired through a partial debt-equity swap, from nil to KZT 2,391 million. The revaluation was part of a restructuring of JSC Air Kazakhstan implemented by the Government of Kazakhstan pursuant to which the Government paid the Bank KZT 2,391 million for the Bank's 50 per cent. holding in JSC Air Kazakhstan in early 2003.

In 2003, the Bank realised a loss on securities available-for-sale of KZT 88 million, primarily resulting from the KZT 171 million loss on the sale of its shareholding in JSC ABN AMRO Bank Kazakhstan which was partially offset by gains on other securities available-for-sale. See note 9 to the Bank's consolidated financial statements for that year appearing elsewhere in this Offering Circular.

Net realised and unrealised gain on foreign exchange operations. The Tenge has remained relatively stable over the last three years, during which time it has depreciated by 3.8 per cent. and 3.9 per cent. in 2001 and 2002, respectively, against the U.S. dollar, and the Tenge strengthened against the U.S. dollar in 2003 in excess of 7 per cent. The change in currency exchange rates led to an increase in the margin and volume of the Bank's currency operations in 2003. As a result, the Bank's net gain on foreign exchange operations increased to KZT 1,419 million in 2003 from KZT 640 million in 2002.

Due to uncertainties relating to the currency market, the Bank maintained an immaterial open long U.S. dollar position in 2003. Accordingly, the Bank's net change in currency position was KZT 182 million in 2003, as compared to KZT 567 million in 2002. The Bank engages in foreign currency exchange transactions for its clients. In addition, the Bank makes a market primarily in the Tenge/U.S. dollar exchange rate. The Bank does not maintain, for its own account, material open currency positions in any currency other than Tenge and U.S. dollars.

Dividends Received. In 2003, the Bank received a dividend of KZT 382 million, primarily from its holding in ABN AMRO Bank Kazakhstan, as compared to KZT 447 million in 2002.

Other income. In 2003, the Bank recognised KZT 1,239 million as other income, as compared to KZT 433 million in 2002, representing an increase of 186.1 per cent. Following the consolidation of JSC Kazkommerts Policy into the Bank's financial statements, insurance premiums of JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT 335 million in 2002 to KZT 1,049 million in 2003 (representing 3.1 times growth) which the Bank believes resulted from the continuing development of the insurance market in Kazakhstan.

Operating expenses

Operating expenses increased by 12.7 per cent. from KZT 7,956 million in 2002 to KZT 8,969 million in 2003. The Bank maintains strict expense controls, which it believes have allowed it to reduce operating expenses to 43.7 per cent. of operating income in 2003 from 45.4 per cent. in 2002. Operating expenses as a percentage of average interest-earning assets decreased in 2003 to 2.6 per cent. from 3.8 per cent. in 2002.

Staff costs comprise the major component of the Bank's operating expenses, and these costs accounted for 46.0 per cent. of the Bank's total operating expenses in 2003, as compared to 52.5 per cent. in 2002. Staff costs in 2003, including annual bonuses, were KZT 4,129 million, as compared to KZT 4,178 million in 2002, representing a period-to-period reduction of 1.2 per cent. This decrease was primarily due to changes in the applicable exchange rates from period to period. The Bank's total number of employees increased by 6.8 per cent. from 2,850 as at 31 December 2002 to 3,044 as at 31 December 2003.

Depreciation and amortisation costs increased 56.6 per cent. to KZT 979 million, as compared to KZT 625 million in 2002. This increase was primarily related to the 52.5 per cent. increase in net average fixed and intangible assets from period to period, which included the purchase of back-up servers for the Bank's Equation DBA banking information system, as well as the expansion of its ATM network from 199 machines in early 2003 to 230 at the end of the year. Depreciation and amortisation cost as a percentage of the total amount of operating expenses was 10.9 per cent. in 2003.

The Bank continued to expand its customer base in 2003, with average customer deposits increasing by 32.9 per cent. from KZT 113,394 million in 2002 to KZT 150,659 million. In addition, the Bank's deposit insurance payments to the Deposit Insurance Fund decreased by 12.2 per cent. from KZT 353 million in 2002 to KZT 310 million in 2003 as a result of a reduction of deposit insurance premium rates.

Advertising costs increased 21.5 per cent. from KZT 312 million in 2002 to KZT 379 million in 2003 due to the Bank's active advertising campaign to promote its banking products.

Fixed asset maintenance costs include all expenses for maintenance and repair of owned and rented buildings, furniture, computer and other facilities, as well as costs for property insurance. In 2003 these costs were KZT 443 million, as compared to KZT 242 million in 2003. A significant part of these costs, representing KZT 247 million, was paid for service and maintenance of the Bank's Equation DBA banking information system in 2003.

Value added tax expenses increased by 8.1 per cent. from KZT 234 million in 2002 to KZT 253 million in 2003 as a result of an increase in the volume of the Bank's operations during 2003.

The Bank's expansion has also resulted in increased rent, communication and travel expenses as well as building security and transport maintenance expenses. The Bank's communication expenses increased 19 per cent. to KZT 262 million in 2003, as compared to KZT 220 million in 2002, and comprised about 3 per cent. of the Bank's total expenses. Costs relating to rent increased 29.5 per cent. from KZT 160 million in 2002 to KZT 207 million in 2003 due to the opening of a number of new branches and settlement outlets in rented buildings. Travel expenses increased by 6.7 per cent. to KZT 270 million in 2003 from KZT 253 million in 2002, and comprised 3 per cent. of the Bank's total expenses in 2003. Security costs and transport expenses increased 34.9 per cent. from KZT 212 million in 2002 to KZT 286 million in 2003.

In 1999, the Government of Kazakhstan introduced a customs duty of 1.0 per cent. on the import of all physical foreign banknotes and, in May 2003, this rule was repealed. As a result, in 2003 the Bank's expenses relating to customs duties were KZT 20 million in 2003, as compared to KZT 89 million in 2002.

In 2003, taxes paid by the Bank, excluding corporate income tax and VAT, increased 30.6 per cent. This increase primarily related to the payment of auction duties due upon the sale of foreclosed assets of pledged property. Auction duties comprised KZT 103 million in 2003 of the total KZT 182 million in total taxes paid by the Bank in that year.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. In 2002, the effective tax expense incurred by the Bank was 3.3 per cent., compared to an effective tax expense in 2003 of 18.6 per cent. Effective tax rates are substantially lower than the statutory rate primarily as a result of certain income (including income from trading with state securities and long-term loans) being non-taxable under Kazakhstan tax legislation. The effective tax rate in 2003 was higher than in 2002, mainly as a result of changes in Kazakhstan tax law regarding the deductibility of provisions.

Results of Operations for the Year ended 31 December 2002 Compared to the Year ended 31 December 2001

Net income

The following table sets forth the main components of the Bank's net income for the years ended 31 December 2002 and 2001:

	Year ended 31 December		
	2002	2001	Change
	(KZT millions)		(per cent.)
Interest income	24,501	17,871	37.1
Interest expense	(11,258)	(7,888)	42.7
Net interest income before provisions for loan losses	13,243	9,983	32.6
Loan loss provisions	(7,342)	(4,572)	60.6
Fees and commissions	4,666	3,261	43.1
Gains on securities	4,852	1,445	235.8
Net gain on foreign exchange operations	1,207	1,386	(12.9)
Dividends received	447	38	1,076.3
Other income	433	283	53.0
Net non-interest income	11,605	6,413	80.9
Operating expenses	(7,956)	(6,120)	30.0
Loss provisions on other operations	(1,327)	(526)	152.8
Equity income from associated companies	34	389	(91.3)
Income tax (expense)/recovery	(276)	(278)	(0.7)
Minority interest	(2)	—	—
Net income	7,979	5,289	50.9

The Bank's net income after taxes and minority interests increased 50.9 per cent. in 2002 compared to 2001, up from KZT 5,289 million in 2001 to KZT 7,979 million in 2002. The growth in net income in 2002 was primarily due to an increase in operating income from KZT 11,824 million in 2001 to KZT 17,506 million in 2002, caused primarily by gains made on the revaluation of its equity holding in JSC Air Kazakhstan and the revaluation of its holding in ABN AMRO Bank Kazakhstan as a result of its reclassification to securities available-for-sale. The Bank's operating profit increased by 67.4 per cent. to KZT 9,550 million in 2002 compared to KZT 5,704 million in 2001.

Interest income

The following table sets out details of the Bank's interest income and its year-on-year growth for the years ended 31 December 2002 and 2001:

	Year ended 31 December		
	2002	2001	Change
	(KZT millions)		(per cent.)
Interest on loans to customers	23,044	15,843	45.4
Interest on loans and advances to banks	346	712	(51.4)
Interest on marketable securities	1,111	1,316	(15.6)
Total	24,501	17,871	37.1

The following table sets out the average annual interest rates earned by the Bank on loans in its portfolio for the years ended 31 December 2002 and 2001:

	Year ended 31 December	
	2002	2001
	(per cent.)	
KZT loans to customers	13.7	13.0
Foreign currency loans to customers	14.0	15.6
KZT loans to banks	5.2	7.5
Foreign currency loans to banks	3.0	5.5
KZT denominated securities	6.2	6.9
Foreign currency denominated securities	9.3	11.5

Interest income increased by 37.1 per cent. in 2002 compared to 2001, from KZT 17,871 million to KZT 24,501 million, principally as a result of the 59.3 per cent. increase in the Bank's average volume of customer loans from KZT 106,577 million in 2001 to KZT 169,812 million in 2002 (before provisions). Interest income from loans to customers increased by 45.4 per cent. to KZT 23,044 million in 2002 from KZT 15,843 million in 2001, despite falling interest rates on customer loans. The net loan portfolio grew by 20.8 per cent. in 2002 to KZT 175,249 million from KZT 145,124 million in 2001. The Bank maintained its policy of keeping the majority of its loan portfolio in foreign currency in 2002 (predominantly U.S. dollars), and the share of Tenge-denominated loans remained largely unchanged at 24.4 per cent. of the loan portfolio in 2002, as compared to 25.2 per cent. in 2001. Average loans in foreign currencies were 77.2 per cent. of the total average loan portfolio in 2002, compared to 75.6 per cent. in 2001.

In 2002, interest income from loans and advances to banks fell by 51.4 per cent. to KZT 346 million compared to KZT 712 million in 2001. The decrease was primarily attributable to a decline in average overnight interest rates from 5.6 per cent. to 3.3 per cent. and a decrease in average interest rates on deposits. The majority of the Bank's inter-bank exposure had a maturity of up to three months.

Interest income from marketable securities fell 15.6 per cent. in 2002 to KZT 1,111 million from KZT 1,316 million in 2001 due to a fall in average interest rates from 10.4 per cent. in 2001 to 8.6 per cent. in 2002. The average marketable securities portfolio remained relatively unchanged increasing by 1.2 per cent. from KZT 12,698 million in 2001 to KZT 12,855 million in 2002.

Interest expense

The following table sets out the Bank's interest expense for the years ended 31 December 2002 and 2001:

	Year ended 31 December		
	2002	2001	Growth
	(KZT millions)		(per cent.)
Interest expense on customer accounts	6,880	4,521	52.2
Interest expense on loans and advances from banks	1,940	2,267	(14.4)
Interest expense on debt securities issued	2,083	763	173.2
Interest expense on other liabilities	355	337	5.2
Total	11,258	7,888	42.7

Despite a decline in the average cost of funding to 6.2 per cent. in 2002 compared to 6.4 per cent. in 2001, interest expense increased by 42.7 per cent., from KZT 7,888 million in 2001 to KZT 11,258 million in 2002 as a result of a substantial increase in deposits placed with the Bank in 2002. Average interest-bearing liabilities increased by 46.9 per cent. from KZT 117,145 million in 2001 to KZT 172,036 million in 2002.

During 2002, the Bank increased its customer accounts from KZT 111,007 million as at 31 December 2001 to KZT 141,372 million as at 31 December 2002, resulting in an increase in interest expense on customer accounts of 52.2 per cent. Average customer accounts as a percentage of total average assets remained relatively unchanged at 53.8 per cent. in 2002 compared to 53.1 per cent. in 2001.

Interest expense on loans and advances from banks fell by 14.4 per cent. from KZT 2,267 million in 2001 to KZT 1,940 million in 2002 primarily as a result of a fall in the interest rates on correspondent accounts from 2.3 per cent. in 2001 to 1.6 per cent. in 2002. The average balance of correspondent accounts increased by 69.8 per cent. from KZT 397 million in 2001 to KZT 674 million in 2002. Despite an increase in the average cost of inter-bank borrowings from 6.8 per cent. in 2001 to 7.0 per cent. in 2002, the Bank increased its short-term inter-bank borrowings by 2.3 per cent. to KZT 3,844 million in 2002 from KZT 3,758 million in 2001. This increase was primarily due to increased short-term funding requirements in 2002 resulting from an increased use of overdraft facilities by customers, including a number of large corporate clients that used overdraft facilities to pre-pay tax liabilities. The Bank also took advantage of a reduction in long-term interest rates from 8.4 per cent. in 2001 to 7.0 per cent. in 2002 and increased its average volume of long-term borrowings by 26.7 per cent. from KZT 23,955 million in 2001 to KZT 30,357 million in 2002.

Although the Issuer repaid its U.S.$100 million 11.25 per cent. Notes due 2001 in May 2001 and the Bank repaid its U.S.$30 million 10.0 per cent. domestic Notes due 2001 in September 2001, the Issuer issued U.S.$200 million of 10.125 per cent. Notes due 2007 in 2002, comprising a U.S.$150 million tranche issued in May and a U.S.$50 million tranche issued in December. As a result, interest expense on debt securities issued increased by 173.2 per cent. from KZT 763 million in 2001 to KZT 2,083 million in 2002. See "-Asset and Liability Management-Funding and Liquidity." The following table sets out the average cost of deposits with the Bank for the years ended 31 December 2002 and 2001:

	Year ended 31 December	
	2002	2001
	(per cent.)	
KZT deposits:		
Time deposits	9.6	11.7
Demand deposits	1.1	1.5
Foreign currency deposits:		
Time deposits	7.8	8.2
Demand deposits	1.1	1.6

Average interest rates on all deposits fell in 2002. The average interest rate on demand deposits fell to 1.1 per cent. in 2002 from 1.6 per cent. in 2001, whilst the average interest rate on time deposits fell from 8.5 per cent. to 8.1 per cent. in the same period. The average interest rate on Tenge time deposits fell to 9.6 per cent. in 2002 from 11.7 per cent. in 2001 and the average interest rate of foreign currency deposits fell to 7.8 per cent. in 2002 from 8.2 per cent. in 2001. The Bank's time deposits are predominantly foreign currency accounts. As at 31 December 2002, foreign currency corporate time deposits accounted for 71.1 per cent. of total corporate time deposits and foreign currency retail time deposits accounted for 92.5 per cent. of total retail time deposits.

Net interest income

The following table sets out details of the Bank's net interest income for the years ended 31 December 2002 and 2001:

	Year ended 31 December		
	2002	2001	Growth
	(KZT millions)		(per cent.)
Interest income	24,501	17,871	37.1
Interest expense	(11,258)	(7,888)	42.7
Net interest income before loan loss provisions	13,243	9,983	32.7

Net interest margin fell to 7.2 per cent. in 2002 from 8.0 per cent. in 2001 as a result of decreases in interest rates. In addition, as a result of the increase in the Bank's loan portfolio, provisions for possible loan losses were increased from KZT 4,572 million in 2001 to KZT 7,342 million in 2002. As a result, net interest income after provision for loan losses as a percentage of average interest-earning assets fell to 3.2 per cent. in 2002 from 4.4 per cent. in 2001.

Provision for loan losses

The Bank's total loan portfolio increased by 20.7 per cent. in 2002 to KZT 189,265 million from KZT 156,796 million in 2001. Reflecting this, aggregate provisions for loan losses increased in 2002 by 69.8 per cent. to KZT 7,342 million in 2002 from KZT 4,572 million in 2001.

The Bank recovered KZT 125 million from loans and advances to banks in 2002 compared to a provision expense of KZT 202 million in 2001. This recovery can be attributed primarily to the re-allocation by the Bank of loans and advances to OECD banks in 2002 following an increase in loans and advances to non-OECD banks (including Russian and Kazakhstan banks) in 2001 which required greater loss provisioning. Recovery of provisions for customer loans previously written-off decreased 12.5 per cent. from KZT 1,388 million in 2001 to KZT 1,215 million in 2002.

As at 31 December 2002, the percentage of the Bank's loan loss reserves remained unchanged and was 7.4 per cent. of the Bank's total loan portfolio.

Net non-interest income

In 2002, net non-interest income increased by 80.9 per cent. to KZT 11,605 million from KZT 6,413 million in 2001. This increase was primarily due to the success of a marketing campaign in

2002 which targeted cross-selling of products offered by the Bank to medium-sized clients and high net-worth individuals, thereby increasing fees and commissions earned on the sale of financial products to such clients.

Fees and Commissions. Fee and commission income grew by 50.4 per cent. from KZT 3,850 million in 2001 to KZT 5,792 million in 2002. The increase can be attributed to an increase in the volume of operations, despite a decline in commissions earned due to increased competition in the domestic market. Commissions for customer settlement services, credit and charge card operations and documentary operations increased by 98.5 per cent., 72.0 per cent. and 152.8 per cent., respectively, in 2002. Commissions for cashier services increased by 23.1 per cent. and other fees and commissions, which include cash collection services, cheque facilities and account maintenance fees, increased by 8.6 per cent.

As the Bank's offered services continued to grow in 2002, expenses related to fees and commissions also increased. Fees and commissions paid in 2002 increased by 91.2 per cent. from KZT 589 million in 2001 to KZT 1,126 million in 2002. The increase in fees and commissions expenses in 2002 mainly resulted from a 46.0 per cent. growth in commissions paid to correspondent banks, a 79.3 per cent. increase in fees and commissions paid for credit and charge card services and a 3.8 times increase in fees and commissions on documentary operations. Fees and commissions paid in relation to international borrowings grew by 246.9 per cent. from KZT 141 million in 2001 to KZT 489 million in 2002 as a result of the Bank's increased international borrowings.

Gains on securities. The Bank's net realised gain on marketable securities increased 8.9 per cent. from KZT 491 million in 2001 to KZT 534 million in 2002. The unrealised gain on marketable securities fell from KZT 1,010 million to KZT 402 million as a result of limited operations with higher yielding Russian sovereign eurobonds in 2002 than in 2001.

At the same time, the Bank recorded an unrealised gain of KZT 3,916 million on securities available-for-sale compared to a loss of KZT 54 million in 2001. The loss in 2001 resulted from the revaluation of small equity holdings of JSC Kazkommerts Securities. The significant gain in securities available-for-sale in 2002 resulted from the reclassification of the Bank's equity shareholding in ABN AMRO Bank Kazakhstan to securities available-for-sale, accounting for a net unrealised gain of KZT 1,560 million and the revaluation of the Bank's equity shareholding in JSC Air Kazakhstan which it had acquired through a partial debt-equity swap from nil to KZT 2,391 million.

In 2001, the Bank realised a loss on securities available-for-sale of KZT 1.4 million primarily caused by the sale of the Bank's holding in JSC Ekskavator in 2001. There were no realised gains or losses on securities available-for-sale in 2002.

Net realised and unrealised gain on foreign exchange operations. The continued relative stability of the Tenge exchange rate in 2001 and 2002 (the Tenge depreciated by 3.8 per cent. in 2002 compared to 3.9 per cent. in 2001) resulted in lower trading margins and less volatility in the Bank's foreign currency operations and, as a result, the net gain on foreign exchange operations fell from KZT 730 million in 2001 to KZT 640 million in 2002, a 12.3 per cent. decrease. The Bank had expected trading volumes in foreign currency notes to increase in 2002 as a result of the reduction of the customs duty on physical foreign currencies from 0.4 per cent. in 2001 to 0.2 per cent. in 2002; however, such increased activity did not materialise.

Throughout 2001 and 2002, the Bank maintained its long U.S. dollar position, resulting in a net unrealised gain of KZT 567 million in 2002 compared to KZT 656 million in 2001.

Equity income from associated companies. Equity income from associated companies fell 91.3 per cent. in 2002 to KZT 34 million in 2002 from KZT 389 million in 2001, primarily as a result of re-classification of the Bank's equity shareholding in ABN AMRO Bank Kazakhstan as securities available-for-sale.

Dividends received. In 2002, the Bank received a dividend of KZT 447 million, primarily on its investment in ABN AMRO Bank Kazakhstan as compared to KZT 38 million on securities held by the Bank and JSC Kazkommerts Securities in 2001.

Other income. Other income grew by 53.0 per cent. from KZT 283 million in 2001 to KZT 433 million in 2002. Following the acquisition of JSC Kazkommerts Policy in 2000, JSC Kazkommerts

Policy was consolidated with the Bank for the year ended 31 December 2001. Following the consolidation of JSC Kazkommerts Policy into the Bank's financial statements, insurance premiums of JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT 206 million in 2001 to KZT 335 million in 2002, a 62.6 per cent. increase, resulting from the continued development of the insurance market in Kazakhstan.

Operating expenses

Operating expenses, comprising salaries and wages and related social security charges, depreciation, advertising, communication and other expenses, increased by 30 per cent. in 2002 to KZT 7,956 million from KZT 6,120 million in 2001. The Bank maintains strict expense controls, which have allowed it to reduce operating expenses to 45.4 per cent. of operating income in 2002 compared to 51.8 per cent. in 2001. Operating expenses as a percentage of average assets also improved in 2002 to 3.8 per cent. from 4.3 per cent. in 2001.

The major component of the Bank's operating expenses is staff costs which accounted for 52.5 per cent. of total operating expenses in 2002, compared to 47.6 per cent. in 2001. Staff costs grew by 43.4 per cent. in 2002 to KZT 4,178 million from KZT 2,914 million in 2001. The rise in staff costs resulted from a 19.1 per cent. increase in the number of staff employed by the Bank (2,850 employees at the end of 2002). The increase was also attributable to an increase in bonus payments to certain staff, reflecting a change in the bonus policy, effective from 2002, whereby the Bank now accounts for bonuses in the year to which they are attributable rather than the year in which such bonuses are paid. Bonus expense was KZT 758 million in 2002, comprising KZT 151 million payable for 2001 bonuses and KZT 607 million accrued in 2002 for 2002 bonuses that are payable in 2003. A substantial portion of staff salaries are linked to the U.S. dollar and are, therefore, sensitive to fluctuations in the value of Tenge, although the relative stability of the Tenge against the U.S. dollar in 2001 and 2002 meant that there was little volatility in staff costs caused by currency fluctuations in those years.

Depreciation and amortisation costs increased 21.1 per cent. to KZT 625 million in 2002 from KZT 516 million in 2001 as a result of a 24.7 per cent. increase in net average fixed and intangible assets in 2002, including the purchase and installation of the Bank's Equation DBA banking information system and the expansion of its ATM network.

As the Bank has continued to expand its customer base (average customer deposits increased by 49.5 per cent. from KZT 75,864 million in 2001 to KZT 113,394 million in 2002) the Bank's deposit insurance payments to the Deposit Insurance Fund increased by 149.9 per cent. in 2002 to KZT 353 million from KZT 141 million in 2001.

Advertising costs increased by 7.8 per cent. from KZT 289 million in 2001 to KZT 312 million in 2002, as the Bank continued with the implementation of its domestic market expansion. Fixed assets maintenance costs increased by 83.3 per cent. to KZT 242 million in 2002 from KZT 132 million in 2001 due, in part, to the completion of the installation of the Bank's Equation DBA banking information system in 2002. Vehicle maintenance, training and stationery expenses also increased in 2002 by 27.2 per cent. and 60.6 per cent., respectively, as the Bank's business continued to expand.

Following the introduction of new Tax Code in 2002, certain financial services provided by the Bank were exempt from VAT or assigned a zero VAT rating allowing the Bank to decrease VAT expenses by 8.7 per cent. from KZT 256 million in 2001 to KZT 234 million in 2002 despite the increase in the general volume of operations over the period. Communication expenses remained relatively constant in 2002 falling slightly to KZT 220 million compared to KZT 223 million in 2001. An increase in capital market operations and development of the Bank's regional activities resulted in a 24.1 per cent. increase in travel expenses to KZT 253 million in 2002 from KZT 204 million in 2001.

Charity and sponsorship expenses fell by 13.8 per cent. in 2002 from KZT 183 million in 2001 to KZT 158 million.

In 1999, the Government of Kazakhstan introduced a customs duty of 1.0 per cent. on the import of all physical foreign banknotes. At the end of 2000, this duty was decreased to 0.4 per cent.

and it was further decreased to 0.2 per cent. in 2002. As a result, the customs duty paid by the Bank on the import of foreign banknotes fell 54.2 per cent. from KZT 195 million in 2001 to KZT 89 million in 2002.

The Bank paid 15.5 per cent. less tax (other than corporate income tax and VAT) in 2002 than in 2001, the higher payment in 2001 resulting from a one-time dividend tax of KZT 96 million on dividends received from ABN AMRO Bank Kazakhstan in that year.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. In 2002, the effective tax expense incurred by the Bank was 3.3 per cent., compared to an effective tax expense in 2001 of 5 per cent. Effective tax rates are substantially lower than the statutory rate primarily as a result of certain income, including income from changes in net unrealised gain on foreign exchange operations, Government of Kazakhstan securities trading and long-term loans, being non-taxable under Kazakhstan tax legislation.

Financial Condition as at 30 June 2004 and as at 31 December 2003 and 2002

Total assets

As at 30 June 2004, the Bank's total assets amounted to KZT 522.5 billion, an increase of 20.3 per cent. on the total assets figure at 31 December 2003. During 2003, the Bank's total assets increased by KZT 159.4 billion, or 58 per cent., from KZT 274.8 billion at the end of 2002 to KZT 434.2 billion at the end of 2003. The growth for the first six months in 2004 was primarily attributable to the 33.0 per cent. increase in the Bank's loan portfolio. The growth in 2003 was primarily attributable to a 61.5 per cent. increase in the Bank's loan portfolio.

As at 30 June 2004, the total amount of outstanding loans to customers, net was KZT 377.2 billion, an increase of 33.3 per cent. on the figure as at 31 December 2003. The total amount of outstanding loans, net was KZT 283.1 billion at the end of 2003, as compared to KZT 175.2 billion at the end of 2002.

As at 30 June 2004, the securities portfolio totalled KZT 81.4 billion, an increase of 14.3 per cent. on the figure at 31 December 2003. The securities portfolio increased by KZT 44.5 billion from 31 December 2002 to 31 December 2003, or 166 per cent., and, at the end of 2003, the Bank had KZT 71.2 billion in marketable securities.

As at 30 June 2004, the Bank's cash and balances with the NBK, the National Bank of Kyrgyzstan and with the Central Bank of Russia had decreased to KZT 17.3 billion, from KZT 28.5 billion as at 31 December 2003, a decrease of 39.2 per cent. This decrease was primarily due to seasonality as increased year end customer balances result in increased reserves. During 2003, the Bank actively purchased foreign corporate securities along with securities and notes issued by the Government of Kazakhstan following an undertaking given in relation to EBRD's investment in the Bank to increase the liquidity of its assets. Cash and balances with the NBK, the National Bank of Kyrgyzstan and with the Central Bank of Russia increased by KZT 9.1 billion, or 46.9 per cent., from the end of 2002 to the end of 2003.

As at 30 June 2004, the Bank held no refined precious metals compared to a holding of KZT 300 million as at 31 December 2003.

As at 30 June 2004, the Bank held KZT 9.0 billion of securities as part of a reverse repurchase transaction, compared to KZT 2.6 billion of securities held at 31 December 2003, an increase of 245 per cent. as the Bank used the liquidity from issues of debt securities and borrowing syndicated loans to enter into these transactions both domestically and internationally.

As at 30 June 2004, fixed assets of the Bank had increased from KZT 5.9 billion as at 31 December 2003 to KZT 6.1 billion, an increase of 3.7 per cent. In 2003, the development and growth of the Bank, in terms of branches and employees, resulted in an increase in the Bank's fixed assets of KZT 2.4 billion, or 70.2 per cent., over the prior year end.

As at 30 June 2004, loans and advances to banks totalled KZT 27.7 billion, a decrease of 28.2 per cent on the figure at 31 December 2003 as a result of a 56.7 per cent. decrease in interbank lending while correspondent accounts with other banks increased 265 per cent. by KZT 9.2 billion. From 2002 to 2003, loans and advances to banks decreased by KZT 4.9 billion, or by 11.2 per cent., as a result of the reduction of funds held in correspondent accounts with banks in the amount of KZT 7.5 billion, representing a period-to-period decrease of 68.5 per cent. Inter-bank loans increased by KZT 2.9 billion, or 8.7 per cent.

As at 30 June 2004, the Bank's average assets totalled KZT 465.3 billion, an increase of 32.6 per cent. on the figure at 31 December 2003. From 2002 to 2003, the Bank's average assets increased by KZT 140 billion, or 66.5 per cent., from KZT 210.7 million to KZT 350.8 billion. The increase in the first six months of 2004 was due to the 53.8 per cent. growth in the average loan portfolio, net, or by KZT 106.4 billion. The increase in 2003 was primarily attributable to additional customer loans, as the average customer loan portfolio increased by KZT 38.3 billion, or 24 per cent. In addition, the Bank's portfolio of marketable securities increased by KZT 23.7 billion from the end of 2003 to the end of the first half of 2004 and KZT 53.3 billion from the end of 2002 to the end of 2003. The Bank's average interest-bearing assets increased by 35.2 per cent. from 31 December 2003 to 30 June 2004 and by 72 per cent. from 31 December 2002 to 31 December 2003.

Total liabilities

As at 30 June 2004, the Bank's total liabilities were KZT 466.8 billion, an increase of 21.6 per cent. on the figure at 31 December 2003. This increase was primarily due to an increase in international bond and bank financings. During 2003, the Bank's liabilities increased by 58.3 per cent. to KZT 384.0 billion from KZT 242.6 billion at the end of 2002. The increase in 2003 primarily resulted from the increase of interest-bearing liabilities.

From 31 December 2003 to 30 June 2004, issued debt securities increased 65.5 per cent. due to the issue by the Issuer of its U.S.$400 million 7.875 per cent. Notes due 2014 in April 2004. At 30 June 2004, issued debt securities include promissory notes in the amount of KZT 14.2 billion issued by CB Moskommertsbank. From 2002 to 2003, issued debt securities increased 224 per cent. due to the issue by the Issuer of its U.S.$500 million 8.5 per cent. Notes due 2013. These notes were issued in two tranches-U.S.$350 million in April 2003 and U.S.$150 million in May 2003. The Bank's liabilities as at 31 December 2003 included KZT 1.7 billion in Russian promissory notes issued by CB Moskommertsbank.

Subordinated notes and Tenge-denominated notes issued by the Bank in 2004 and 2003 are classified in its balance sheet as subordinated debt. As at 30 June 2004, the Bank's subordinated debt totalled KZT 22.1 billion, representing a 153.6 per cent. increase as compared to 31 December 2003. This increase was primarily as a result of the borrowing in April 2004 of a U.S.$100 million 7.375 per cent. subordinated loan due 2014. As at 31 December 2003, the Bank's subordinated debt was KZT 8.7 billion, representing a 44.1 per cent. increase as compared to 31 December 2002. In December 2002 the Bank made a second issue of index-linked notes in the amount of KZT 7.5 billion, due 2009, with an initial interest rate of 8 per cent. These notes were offered to investors in January 2003.

As at 30 June 2004, advances received from banks amounted to KZT 83.9 billion, an increase of 10.1 per cent. on the figure at 31 December 2003, resulting from funds received under the EBRD's line to finance contracts of the Bank's clients. Advances received from banks increased by 39.4 per cent. from KZT 54.7 billion at the end of 2002 to KZT 76.2 billion at the end of 2003. In December 2003 the Bank raised a syndicated loan in the amount of U.S.$300 million. The syndicated loan was borrowed in two tranches-U.S.$110 million due 2005 with a 2.0 per cent. margin over LIBOR and U.S.$190 million due 2004 with a 1.5 per cent. margin over LIBOR.

As at 30 June 2004, customer accounts totalled KZT 178.1 billion, an increase of 17.5 per cent. on the figure for 31 December 2003. In 2003, customer accounts increased by KZT 10.2 billion as at 31 December 2003, or by 7.2 per cent., compared to 31 December 2002. As at the end of 2003 customer accounts were KZT 151.6 billion, as compared to KZT 141.4 billion to the end of 2002.

As at 30 June 2004, the volume of securities sold under repurchase agreements totalled KZT 7.4 billion, a decrease of 80.1 per cent. on the figures at 31 December 2003, which was KZT 37.2 billion. At the end of the year 2002 the Bank had no liabilities with respect to repurchase transactions.

The average liabilities of the Bank during the first half of 2004 were KZT 411.9 billion, an increase of 33.2 per cent. on the average for 2003. This was primarily due to the issue of debt securities (there was an increase in average liabilities on issued securities of 53.5 per cent.) In 2003, the Bank's average liabilities increased to KZT 309.2 billion (representing growth in comparison with 2002 of KZT 127.4 billion, or 70.1 per cent.). As at 30 June 2004, the Bank's average interest-bearing liabilities were KZT 394.2 billion, a 35.3 per cent. increase on the figure at 31 December 2003. In 2003, the Bank's average interest-bearing liabilities increased by 69.4 per cent. compared to 2002, primarily as a result of the issuance of additional debt securities (an increase in average liabilities of 70 per cent.), the growth in average inter-bank borrowings (by 42.7 per cent.) and an increase in average customer accounts by 32.9 per cent. As at 30 June 2004, average time deposits and demand deposits were KZT 110.3 billion and KZT 50.5 billion respectively, an increase of 3.1 per cent. and 15.5 per cent. respectively on the figure for 31 December 2003. During 2003, average time deposits and demand deposits increased by 32.0 per cent. and 35.0 per cent., respectively.

Equity

As at 30 June 2004, the Bank's equity capital had increased by 11.4 per cent. to KZT 50.8 billion, as compared to the 31 December 2003 figures. This increase results primarily from the increase in retained earnings. As at 31 December 2003, the Bank's equity capital had increased by 42.1 per cent. to KZT 45.6 billion, as compared to KZT 32.1 billion as at 31 December 2002. In 2003, the Board of Directors of the EBRD resolved to purchase shares of the Bank and, in August 2003, the EBRD acquired 15.0 per cent. of outstanding common shares of the Bank by way of a subscription for new shares. Since 2003, a representative of the EBRD has had a seat on the Board of Directors of the Bank for the stated purpose of improving the Bank's corporate governance and making its decision-making processes more transparent. As at the end of 2003, CB Moskommertsbank was consolidated in the Bank's financial statements as, from that date, the Bank has controlled CB Moskommertsbank, the Bank's strategic partner in Russia. Furthermore, the Bank applied to the NBK to obtain a licence to acquire CB Moskommertsbank and intends to have seats on its Board of Directors. During the first six months of 2004, the Bank's average equity was KZT 49.1 billion, an increase of 28.5 per cent. on the figure for 31 December 2003. In 2003, the Bank's average equity increased by 32.2 per cent. over its average equity in 2002.

As at 30 June 2004, the Bank's equity capital, calculated in accordance with the Basle Accord, was KZT 74.7 billion, including Tier I capital of KZT 49.6 billion, an increase of 23.1 per cent. on the 31 December 2003 figure. As at 31 December 2003, the Bank's equity capital, calculated in accordance with the Basle Accord, was KZT 60.6 billion, including Tier I capital of KZT 49.7 billion. As at 30 June 2004, the Bank's Tier I capital adequacy ratio and total capital adequacy ratio, each calculated in accordance with the Basle Accord as currently in effect, were 11.3 per cent. and 16.9 per cent., respectively. As at 31 December 2003, the Bank's Tier I capital adequacy ratio and total capital adequacy ratio, were 13.5 per cent. and 16.4 per cent., respectively.

The following table sets out the Bank's position in relation to certain ratios prescribed by the NBK as at the dates indicated:

	NBK's minimum requirements	As at 30 June 2004	As at 31 December 2003	As at 31 December 2002
		(Unaudited) (per cent., unless otherwise noted)		
Minimum share capital (KZT)(1)	Not less than KZT 2,000 million(2)	KZT 4,019 million	KZT 4,019 million	KZT 3,500 million
Capital Adequacy Ratios:				
K1-tier I capital to total risk-weighted assets(3)	Not less than 6 per cent.	7.7	7.0	6.8
K2-own capital to total risk weighed assets(3)	Not less than 12 per cent.	13.7	12.6	12.4
K4-current liquidity ratio	Greater than 30 per cent.	142.7	91.0	78.2
K5-short-term liquidity ratio	Greater than 30 per cent.	128.6	78.0	95.8
Reserve requirements	Not less than 6 per cent. of average balances of customers' accounts	14.4	21.5	13.5
K6-investments to fixed assets and non-financial assets to equity	Not greater than 50 per cent.	10.7	13.1	15.9
Maximum aggregate net open foreign currency position(4)	50 per cent. of bank's own capital(3)	23.8 (short)	7.8 (short)	1.4 (long)
Maximum currency position in U.S. dollars(5)	30 per cent. of bank's own capital(3)	26.7	15.7	2.5
Maximum currency position in Russian roubles(6)	15 per cent. of bank's own capital(3)	0.02	0.8	0.9
Maximum currency position in Belarus roubles (2003) and Kyrgyz som (2002)(7)	5 per cent. of bank's own capital(3)	1.4	0.3	0.0
Maximum aggregate credit exposure to related parties (including on-balance and off-balance sheet exposures)(7)	100 per cent. of bank's own capital(3)	4.7	9.0	11.2
Funds placement into internal assets ratio	Not less than 100 per cent.	217.5	188.5	150.2
Maximum exposure to any single borrower	Percentage of bank's own capital(3)			
–related parties	10	2.1	5.6	5.4
–other borrowers	25	18.6	22.4	23.9
–unsecured loans	10	8.1	2.5	4.2

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

(2) For newly established second tier banks with branches.

(3) The NBK's definition of "own capital" is the sum of Tier I capital plus Tier II capital (to the extent it does not exceed Tier I capital) 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).

(4) Net currency position.

(5) Open currency position (short or long) in currencies of countries rated A or higher and the euro.

(6) Currency position in currencies of countries rated from B but lower than A.

(7) Currency position in currencies of countries rated lower than B or having no rating.

Asset and Liability Management

The Bank seeks to control the size and degree of its interest rate and exchange rate exposure in order to optimise the effect of these risks on profitability levels and to ensure that sufficient liquidity is available to meet its funding requirements. The Bank also seeks to maintain a liquid balance sheet, including substantial Tenge and foreign currency-denominated demand deposits, to enable it to respond to the cash needs of its corporate clients and to minimise the potential for short-term liquidity problems.

The issue by the Issuer during the first half of 2004 of its U.S.$400 million Notes due 2014 resulted in an increase of debt securities as a percentage of its interest liabilities to 31.8 per cent. as at 30 June 2004 compared to 25.1 per cent. as at the end of 2003. This issue also extended the average tenor of the Bank's funding.

As part of its strategy to increase the overall tenor of its funding, the Bank follows a policy aimed at lengthening maturities of its assets in accordance with maturities of its funds raised in debt capital markets to reduce the risks related to interest rate changes. When practicable, the Bank also seeks to link loans to their underlying funding sources through participation in the special programmes sponsored by the NBK, the Ministry of Finance of Kazakhstan and international financial institutions. The Bank also endeavours to increase and extend the maturities of its retail time deposits.

The Bank monitors and manages its asset and liability position through its Asset and Liability Management Committee, which is chaired by the Chairman of the Bank and includes four Managing Directors and its Director of the Treasury Department. The committee meets at least twice each week to control the Bank's exposures based on information which includes analyses of maturities, interest margins, liquidity and the Bank's net foreign currency positions. The Bank's treasury operations and investment strategies are planned at committee meetings.

Maturities

The Bank's senior management monitors asset and liability maturities to ensure that they are consistent with its strategy according to prevailing market conditions, that the Bank has sufficient liquidity and that it is in compliance with limits established by the NBK and its internal procedures. The Bank's Asset and Liability Management Committee reviews the Bank's positions at least twice each week and advises on any prospective changes to be made to them.

The following table summarises the Bank's assets and liabilities by maturity as at 30 June 2004 and contains certain information regarding interest rate sensitivity. The table assumes that the Bank is able to trade Kazakhstan and foreign government securities on the market and therefore treats them as assets with a contractual maturity of up to one month rather than long-term assets according to their maturity.

	Up to one month	One to three months	Three months to one year	One to five years	Over five years	Provisions for losses	Total
Assets:	(KZT millions, unless otherwise noted)						
Loans and advances to banks, net	18,925	5,294	3,737	—	—	(374)	27,583
Dealing securities	4,965	10,851	37,605	23,655	3,702	—	80,778
Loans to clients, net	30,391	22,791	115,842	139,589	81,940	(24,664)	365,888
Securities available-for-sale	—	—	64	—	—	—	64
Securities under repurchase agreement	8,700	15	266	—	—	—	8,981
Securities held-to-maturity	7	18	51	—	—	—	76
Total interest earning assets	62,988	38,969	157,565	163,244	85,642	(25,038)	483,370
Cash and balances with the NBK	17,307	—	—	—	—	—	17,307
Derivatives	10	18	9	—	—	—	36
Investments in associates	—	—	—	—	131	—	131
Fixed assets, net	—	—	—	—	6,083	—	6,083
Intangible assets, net	—	—	—	—	415	—	415
Accrued interest	5,800	1,195	3,147	1,817	194	—	12,153
Other assets	798	222	1,227	822	—	(89)	2,981
Total Assets	86,903	40,404	161,949	165,883	92,465	(25,127)	522,475
Liabilities:							
Loans and advances from Banks	8,612	6,288	13,812	8,441	74	—	37,227
Debt securities issued	241	180	13,600	28,489	117,485	—	159,996
Customer accounts	93,334	22,621	38,669	20,049	614	—	175,288
Other borrowed funds	3	39	1,704	480	436		2,662
Direct repurchase	7,414	—	—	—	—	—	7,414
Syndicated loans	5,458	—	25,926	15,010	—	—	46,393
Subordinated debt	—	—	—	4,403	17,433	—	21,836
Total interest bearing liabilities	115,062	29,129	93,711	76,872	136,042	—	450,816
Derivatives	19	—	—	—	—	—	19
Other liabilities	1,546	501	457	4,790	—	2,302	9,597
Accrued interests	392	643	3,149	1,074	837	—	6,094
Dividends payable		324	—	—	—	—	324
Total Liabilities	117,019	30,597	97,317	82,736	136,879	2,302	466,850
Maturity gap	(52,074)	9,840	63,854	86,372	(50,400)		
Cumulative maturity gap	(52,074)	(42,234)	21,620	107,992	57,592		

As at 30 June 2004, the Bank's cumulative maturity gap was negative for the period of up to one month at KZT 52,074 million and positive overall at KZT 57,592 million.

Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the frequency with which the Bank is able to re-price its assets and liabilities. However, a positive gap by maturities means that an increase in interest rates would, generally, have a positive effect on net interest income. The Bank believes that its sensitivity to interest rate changes is largely reduced because it has the ability to re-price certain of its loans that mature within one year and has the ability to re-price loans maturing after one year under certain circumstances. In addition, a significant percentage of its loan portfolio maturing after one year is funded by fixed rate long-term funds. However, if the average maturity of the Bank's loan portfolio increases, without a matching increase in the average maturity of its liabilities, the Bank will be exposed to increasing interest rate risk. At such time, the Bank may need to introduce new risk management techniques.

	Up to one month	One to three months	Three months to one year	One to five years	Over five years	Provisions for losses	Total
	(KZT millions, unless otherwise noted)						
Off balance sheet Commitments:							
Payable under forward contracts	(13,047)	—	(239)	—	—	—	(13,285)
Receivable under forward contracts	13,063	—	248	—	—	—	13,311
Maturity gap	16	—	9	—	—		
Cumulative maturity gap	16	16	25	25	25		
Aggregated cumulative maturity gap, balance sheet and off-balance sheet	(52,058)	(42,218)	21,645	108,017	57,617		

Funding and Liquidity

As at 30 June 2004, 52.5 per cent. of the Bank's liabilities had a maturity of less than one year, whilst the percentage of its assets with a maturity of less than one year was 55.4 per cent. in 2003, the Bank believes that loans with shorter or the same maturity as corresponding funding sources provide stability and flexibility to its funding. The Bank believes that its management of its assets and liabilities allowed the Bank to maintain prudent levels of liquidity through the first half of 2004.

Over the course of the past several years the Bank has entered into a number of financings with commercial banks and international financial institutions. Some of the most important of these are described below.

Since 1994, the Bank has participated in a number of special programmes, arranged and sponsored through the NBK and the Ministry of Finance of Kazakhstan, as well as international financial institutions, such as the EBRD, the International Bank for Reconstruction and Development, the Islamic Development Bank, Kreditanstalt Wiederaufbau and the Asian Development Bank.

In July 1997 the Bank raised U.S.$50 million through an international offering of its common shares in the form of depositary receipts which are now listed on the London and Istanbul Stock Exchanges and traded on the Frankfurt and Berlin Stock Exchanges. In December 2001, the Bank raised U.S.$21.2 million through a public offering of preference shares in Kazakhstan. In 2003, the Bank raised an additional U.S.$30.6 million by placing common shares with the EBRD. The Bank's common and preference shares are listed in the A-category on the Kazakhstan Stock Exchange.

The Bank and the Issuer have used both the domestic and international capital markets to raise funds. For example:

- in 1998 the Issuer issued U.S.$100 million of its 11.25 per cent. Notes due 2001, the first eurobonds issued by a non-sovereign corporate issuer from Kazakhstan;
- in September 1999, the Bank issued a U.S.$30 million domestic bond, which matured in September 2001;
- in 2000, the Bank issued U.S.$19.8 million of its 11 per cent. subordinated notes due 2007;
- in 2002, the Issuer raised U.S.$200 million through the issue of its 10.125 per cent. Notes due 2007 in two tranches of U.S.$l50 million and U.S.$50 million;
- in May and December, respectively, in 2003, the Issuer raised U.S.$500 million through the issue of its 8.5 per cent. Notes due 2013 in two tranches of U.S.$350 million and U.S.$150 million; and

- in April 2004, the Issuer raised U.S.$400 million through the issue of its 7.875 per cent. Notes due 2014 and simultaneously the Bank raised U.S.$100 million through the issuance by an intermediary bank of 7.375 per cent. loan participation notes that funded a 10 year subordinated loan to the Bank.

In 2001, the Bank signed a seven-year credit facility with DEG (Deutsche Investitions-und Entwicklungsgesellschaft mbH), which was subsequently converted into a subordinated loan in April 2002.

In September 2002, the Bank signed a U.S.$50 million four-year term-loan agreement with the EBRD. The loan was effectively structured as two tranches: a U.S.$30 million loan for four years provided by the EBRD and a U.S.$20 million loan syndicated with commercial banks for four years with a prepayment option at the EBRD's election after two years. In addition to this facility, as of 31 December 2003, the EBRD had an aggregate of U.S.$53.8 million in different loans outstanding to the Bank.

In December 2002, the Bank issued KZT 1,325 million subordinated notes in favour of preference shareholders in lieu of dividends.

In April 2003 the Bank signed a U.S.$45 million term loan with ING Bank N.V. providing finance to Food Contract Corporation. The proceeds were placed by the Issuer as a deposit with the Bank. On 7 July 2004, the loan was fully prepaid.

The Bank obtained its first syndicated loan in 1997. Since then, the Bank has been active in the syndicated loan market, and the Bank has obtained and repaid a total of 13 international syndicated loan facilities.

The Bank's anticipated capital expenditures primarily relates to investments in new information technology. The Bank intends that these expenditures will be fully funded and the amount of such expenditures will depend upon the Bank's net income.

The following table sets out certain liquidity ratios for the Bank:

	As at 30 June	**As at 31 December**		
	2004	**2003**	**2002**	**2001**
	(Unaudited)			
		(per cent.)		
Liquid assets as a percentage of total assets	24.3	28.9	31.5	19.7
Liquid assets as a percentage of total deposits	71.2	82.9	61.2	34.5
Liquid assets: liabilities up to one month	108.3	111.1	131.1	64.1
Loans to customers, net: total assets	72.2	65.2	63.8	74.7
Loans to customers, net: customer accounts	211.9	186.7	124.0	130.7
Loans to customers, net: total equity	678.2	562.9	545.1	594.2

The Bank's funding base consists largely (38.1 per cent.) of demand and time deposits and debt securities issued. This structure positively affects funding costs and improves the Bank's liquidity. As at 30 June 2004, demand deposits constituted 46.0 per cent. of the Bank's customer accounts and time deposits constituted the balance.

The Bank managed substantially to increase its retail deposit base as at 30 June 2004 as compared to 31 December 2003 and, over this period, total customer accounts grew from KZT 151,589 million to KZT 178,059 million, or by 17.5 per cent. The Bank intends further to increase its domestic funding through increased time deposits, which the Bank regards as a stable source of short- and medium-term funding.

As at 30 June 2004, retail deposits comprised 44 per cent. of total customer deposits. The Bank believes that expanding its geographical coverage and the range of services it offers, as well as increasing their quality, will enable it to attract more retail deposits. In accordance with its retail strategy, the Bank believes that, by offering a wider range of, and more sophisticated, services, such as electronic banking, credit and debit cards, payroll services, payments to utilities, asset management and insurance products to individuals, it will be able to attract new customers and improve its ability to cross-sell products. See "Description of Business—Banking Services—Retail Banking."

Foreign Currency Management

The Tenge was generally stable against the U.S. dollar in 2001 and 2002 (with an annual depreciation of 3.8 and 3.9 per cent. during these years, respectively). In 2003, the Tenge strengthened against the U.S. dollar and appreciated by more than 7 per cent. against the U.S. dollar. The same trend prevailed in the first half of 2004 and the Tenge appreciated by more than 5 per cent. The Bank currently maintains a short foreign currency position within the guidelines set by the NBK in order to minimise possible losses from any continued appreciation of the Tenge against the U.S. dollar.

The following table sets out the foreign currency positions of the Bank as at the indicated dates:

	As at 30 June	As at 31 December		
	2004	2003	2002	2001
	(Unaudited)	(per cent.)		
Net long (short) position (millions of U.S. dollars)	(143.4)	(65.6)	(1.2)	67.1
As a percentage of shareholders' equity (per cent.)	(26.2)	(15.6)	(0.6)	41.3
As a percentage of total liabilities (per cent.)	(4.2)	(2.5)	(0.1)	5.9

The NBK regulates and closely monitors the net open foreign currency position of banks. According to the NBK's requirements, a bank's aggregate net open foreign currency position may not exceed 50 per cent. of its capital and the open foreign currency position for any single currency of countries with sovereign rating no lower than "A" assigned by Standard & Poor's may not exceed 30 per cent. of its capital. The open short position for any currency of a country with a sovereign rating lower than "A" by Standard & Poor's is limited to 15 per cent. of its capital and the corresponding open long position is limited to five per cent. of the Bank's capital.

Foreign currency assets include all foreign currency accounts belonging to a bank and the total value of its forward currency purchases. Foreign currency liabilities include all foreign currency accounts held with a bank and the total value of its forward foreign currency sales. At weekly meetings, the Bank's Asset and Liability Management Committee monitors the size of net open foreign currencies positions.

Treasury

The main objective of the Bank's treasury is to achieve efficient management of liquidity, interest rate and market risk by operations in the foreign exchange and money markets, thus managing foreign currency exposure and funding costs. The Bank's treasury operations consist largely of spot transactions in Tenge and foreign currencies, transactions in government securities and currency swap and forward transactions for hedging purposes. Due to the lack of a developed framework and trading and accounting mechanisms in the derivatives market in Kazakhstan, combined with the underdeveloped nature of the banking sector, futures, options and forward currency trading are rare.

As at the end of the first half of 2004, the size of the Bank's average trading portfolio increased by 14.4 per cent. to KZT 81.4 billion, as compared to KZT 71.2 billion in 2003. This increase was mainly due to management of the Bank's excess Tenge liquidity derived from increases in customer accounts by increasing holdings of Treasury bills and notes issued by the NBK. The majority of the securities trading portfolio consists of highly liquid instruments of international and of the most established Kazakhstan issuers as well as Kazakhstan government paper.

DESCRIPTION OF BUSINESS

Established in 1990, the Bank is the largest bank in Kazakhstan, measured by total assets as at 30 June 2004, providing corporate banking, retail banking and other financial services. As at and for the six months ended 30 June 2004, the Bank had net income of KZT 5,264 million, total assets of KZT 522,475 million and shareholders' equity of KZT 50,772 million.

The Bank's principal activities traditionally have been the acceptance of deposits and the provision of loans and other credit facilities in Tenge and foreign currencies. It also offers a wide-range of current account-related services, such as payment facilities, debit and credit cards, collection services and also retail banking and overdraft facilities. As at 30 June 2004, in addition to its head office, the Bank had 22 branches throughout Kazakhstan and 56 settlement outlets, although the Bank intends to reduce the number of settlement outlets as part of an ongoing rationalisation programme. The Bank also has a representative office in London and a banking subsidiary in Kyrgyzstan. As at 30 June 2004, it had total customer retail deposits of KZT 77,640 million, a significant increase from the KZT 3,180 million in retail deposits held by the Bank at the end of 1999, and the Bank believes that it currently has the largest deposit base amongst Kazakhstan banks. Since the end of 2001, the Bank's gross loans to individuals have grown from KZT 12,234 million to KZT 42,834 million as at 30 June 2004.

The Bank issues both VISA and Europay/MasterCard payment cards. Its debit and credit cards provide access to the Cirrus/Maestro system. As at 30 June 2004, the Bank had 276,003 cards in issue. The Bank is also an authorised agent for distribution of American Express and Diners Club cards and was the first bank in Kazakhstan to issue to its customers EMV-standard chip cards, which incorporate a chip as well as a magnetic strip for security, in 2002. Also, the Bank was the first bank in Kazakhstan to certify POS-terminals servicing EMV-standard chip cards. In addition, the Bank has an established ATM network, and, as at 30 June 2004, it operated 270 ATMs and 852 point-of-sale terminals. The Bank was also the first local bank to offer telephone banking and internet banking services to its customers.

In 2003, the Bank passed the certification for card servicing under the 3D-Secure protocol. The 3D-Secure protocol was developed by VISA International with support of MasterCard International, and is used to protect financial transactions from Internet fraud. For the time being, the Bank is the only one to develop this segment of business. For the convenience and security of its clients who effect transactions on the Internet, the Bank also issues virtual cards.

In addition, the Bank supported Kazkommertsbank Kyrgyzstan, its subsidiary in Kyrgystan, which became an associate member of VISA International and was certified to issue payment cards.

Through its commercial banking business, the Bank provides products and services to predominantly medium- and large-sized Kazakhstan and international corporations operating in Kazakhstan, including trade and structured finance products, project finance, e-banking and asset management services, as well as short-term credit facilities and other general banking services. Consistent with the Bank's policy of maintaining high levels of liquidity, it typically provides loans with an average maturity of up to 18 months for its corporate clients, and provides long-term financing in accordance with current funding sources. The Bank also arranges syndicated loans to top corporate clients in Kazakhstan with foreign banks. In addition, the Bank also provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 31 December 2001, the Bank's total gross loan portfolio amounted to KZT 302,132 million and as at 30 June 2004 it amounted to KZT 401,909 million.

In addition to banking, the Bank offers other financial services. It is a major participant in the securities markets and the foreign currency markets in Kazakhstan. The Bank is authorised to engage in other activities, including the sale, purchase and safekeeping of precious metals (including gold and silver) as well as providing certain derivative services, under the Bank's general banking licence. In 2001, the Bank began to offer asset management services to its corporate and retail clients.

Strategy

The Bank's strategy is to maintain its position as a leading bank and financial services company in Kazakhstan, while increasing profitability through managed growth and increased operating efficiency. In order to implement this strategy, the Bank intends to focus on the following:

- *Increase its geographic presence*. The Bank seeks to increase its geographic presence, principally by expanding into other CIS countries, while maintaining its leading position in Kazakhstan. In September 2002, the Bank acquired a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan, a bank with offices in Bishkek and Osh, and, in conjunction with the EBRD, the Bank provides financings for small- and medium-sized enterprises in Kyrgyzstan. The Bank has operating control over, consolidates for financial reporting purposes and intends to purchase a controlling shareholding in, CB Moskommertsbank, a small Russian bank based in Moscow with which it currently has a strategic alliance. The Bank believes that expansion into other countries within the region will enable it to better serve clients active in those countries and to attract larger, corporate clients with regional operations.

- *Expansion of Banking Services*. The Bank will also focus on expanding its corporate and retail banking services:

  - <u>Corporate banking services</u>. The Bank intends to expand its corporate client base and improve the quality of its loan portfolio. In addition, it will seek to proportionately increase its lending to companies in the oil and gas, food processing, construction, telecommunication, commercial trade, mining and metallurgy and other sectors identified by the Bank as sectors with the potential for growth. In order to diversify its portfolio, the Bank will seek to increase its lending to small- and medium-sized enterprises. To assist its risk assessment of various sectors, the Bank has established a market research group.

  - <u>Retail banking services</u>. The Bank will continue to seek to increase its retail banking business by targeting middle-income and high net worth individuals, a market segment the Bank believes continues to be underserved by its retail competitors. The Bank intends to attract and retain these clients by providing up-to-date products, such as money transfer payment services, direct debit payments, currency exchange facilities and a reliable ATM network, as well as a high level of personal customer service. The Bank believes that, by serving these more affluent clients, it is better able to sell higher-margin products and improve its cross-selling of non-banking products, such as insurance and pension products.

- *Improvement of management information systems and operating efficiencies*. The Bank has been working to improve operating efficiencies through organisational restructuring and investments in human resources and information technology. As part of this strategy, the Bank hired officers experienced in working with international banks and companies. In 2002 the Bank fully implemented its unified information system, connecting all of its branches on a real-time basis. The Bank intends to continue to introduce more advanced information systems in the future, including a customer relationship management system based on CRM Siebel, a call centre system, an Oracle-based system for re-engineering business processes and internet banking systems.

- *Improvement of funding base*. The Bank intends to increase its capital markets funding, including subordinated and senior debt issues, asset securitisation programmes, co-operating with multilateral financial institutions and foreign export credit agencies and by increasing its market share in term deposits from corporate and, in particular, retail clients. The Bank also plans to raise further equity. In doing so, the Bank will seek to diversify its funding sources, lower its overall funding costs and increase tenors to support its anticipated asset growth.

- *Expand into other financial services markets*. The infrastructure, including the legal framework, of the Kazakhstan securities market is still developing. To capitalise on expected opportunities in this market, the Bank is taking steps to further its expertise and position itself through, amongst other things, the operations of its subsidiaries such as JSC Kazkommerts Securities and JSC Kazkommerts Policy, which provides insurance services.

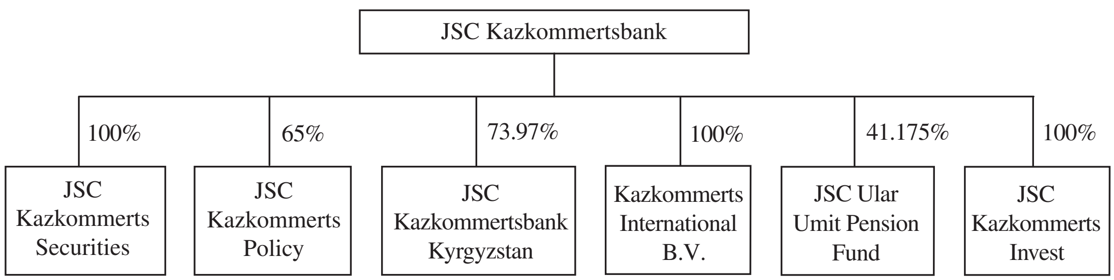
History

The Bank was incorporated on 12 July 1990 as a joint stock company with the name JSC Medeu Bank, in accordance with the laws of the Kazakh Soviet Socialist Republic, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu Bank was renamed JSC Kazkommertsbank and obtained a banking licence from the NBK on 21 October 1991. Its NBK banking licence number is 48 and the Bank's registration certificate number with the Ministry of Justice is 4466-1910-AO.

In 1994, the Bank merged with another commercial bank incorporated in Kazakhstan and, the same year, a management buy-out of the Bank was consummated. In 2003, the EBRD purchased 15.0 per cent. of the outstanding common shares of the Bank. The Bank has a representative office in London and, since September 2002, a majority holding in JSC Kazkommertsbank Kyrgyzstan, a Kyrgyzstan bank.

Corporate Structure

The following chart sets out details of the Bank's major subsidiaries and other direct and indirect equity holdings in affiliates:



The Bank's principal subsidiaries (other than the Issuer) and entities over which it exercises management control are:

- *JSC Kazkommerts Securities*. Kazkommerts Securities, a wholly-owned, consolidated subsidiary of the Bank, was established to provide investment services both to foreign and domestic clients and to participate in privatisation projects and other transactions. The company is engaged in investment banking operations and is one of the major underwriters of corporate domestic bonds in Kazakhstan. Although the securities market in Kazakhstan is relatively small, the Bank believes that the establishment of this business will enable it to take advantage of the expected growth and development in this market as the country develops and establish the Bank as a recognised and experienced name in investment banking. Its registered office is at 500 Gornaya Street, Almaty 480020, Kazakhstan.

- *JSC Kazkommerts Policy*. Kazkommerts Policy is a leading insurance company in Kazakhstan acquired by the Bank in 2000. Kazkommerts Policy primarily underwrites property and casualty insurance policies for retail and commercial clients. The Bank seeks to cross-sell products of Kazkommerts Policy to its existing banking customers. The Bank currently holds 65 per cent. of the equity of Kazkommerts Policy. In the first six months of 2004, the net income of the company totalled KZT 370 million compared to KZT 289 million in the first six months of 2003. Its registered office is at 24 Satpayev Street, Almaty 480013, Kazakhstan.

- *JSC Kazkommertsbank Kyrgyzstan*. Kazkommertsbank Kyrgyzstan is a commercial bank with branches in Bishkek and Osh. The Bank currently holds 73.97 per cent. of the equity of Kazkommertsbank Kyrgyzstan. Kazkommertsbank Kyrgyzstan was incorporated in 1989 as JSC Kyrgyzavtobank and in 2002 Kazkommertsbank acquired a 72.4 per cent. shareholding in this bank for KZT 244 million. The same year it was renamed as JSC Kazkommertsbank Kyrgyzstan. As at 31 December 2003, the Bank had increased its shareholding in Kazkommertsbank Kyrgyzstan to 73.97 per cent. As of 30 June 2004, its assets and shareholders' equity totalled KZT 2,426 million and KZT 364.3 million, respectively, compared to KZT 1,565 million and KZT 315.4 million, respectively, in 2003. As at 30 June 2004, the net income of Kazkommertsbank Kyrgyzstan totalled KZT 55.2 million compared to KZT 18.6 million for the first six months of 2003. Its registered office is at 42 Isanov Street, Bishkek 720017, Kyrgyz Republic.
- *JSC Kazkommerts Invest*. Kazkommerts Invest was established as a wholly owned subsidiary in July 2003 to engage in a wide-range of investment and advisory services. This subsidiary has been consolidated since the financial year ended 31 December 2003. The Bank believes that the provision of investment advisory services helps it to develop relationships with companies and to strengthen its relationship with existing clients. This company was established in July 2003 with a registered capital of KZT 315 million. In the first six months of 2004, the company showed a profit of KZT 21.4 million. The loss of the company for the year 2003 totalled KZT 6.7 million. Its registered office is at 500 Gornaya Street, Almaty 480020, Kazakhstan.
- *CB Moskommertsbank*. The Bank holds an exclusive right to acquire the shares of CB Moskommertsbank. In 2002 the Bank signed a partnership agreement with the predecessor of CB Moskommertsbank's majority shareholder pursuant to which the Bank controls CB Moskommertsbank's operations. CB Moskommertsbank assists the Bank by introducing it to customers in Russia for whom the Bank provides services. It currently has no licence for retail operations. The net income of CB Moskommertsbank totalled KZT 253.2 million as at 30 June 2004. The total assets and capital of CB Moskommertsbank as at the end of 2003 equalled KZT 16.9 billion and KZT 4.0 billion, respectively. As at 30 June 2004, assets and capital amounted to KZT 34.4 billion and KZT 4.1 billion, respectively. Its registered office is at 1 Bolshoy Gnezdnikovsky Pereulok, Stroeinie 2, Moscow 125009, Russian Federation.
- *JSC UlarUmit Pension Fund*. The Bank owns a minority shareholding in the UlarUmit Pension Fund, which the Bank believes is the second-largest private pension fund in Kazakhstan, measured by the value of managed assets. The Bank believes that its ownership in this fund presents additional cross-selling opportunities. Its registered office is at 115A Abay Avenue, Almaty 480008, Kazakhstan.

As the Bank continues to expand its corporate and retail banking services, management anticipates that its business will be divided into three core divisions to streamline operations and increase competitiveness within the sectors in which the Bank operates as follow:

- a Corporate Investment Banking Division, which will be responsible for cash management, e-banking, structured finance and corporate finance products for international corporations, large domestic corporations and pension funds;
- a Commercial Banking Division providing working capital, capital expenditure and trade finance facilities for small- and medium-sized enterprises; and
- a Consumer Banking Division, which will encourage retail deposits and provide consumer loans, mortgages and asset management services for high net worth individuals and middle-income clients.

Banking Services

Corporate banking

The Bank provides commercial banking products and services to predominantly medium- and large-sized Kazakhstan and international corporations operating in Kazakhstan. In 2001, the Bank developed a new method of classifying its corporate clients based on their annual volume of sales. Corporate clients with sales of U.S.$0.5 million or less are classified as "small-sized," corporate clients with sales of between U.S.$0.5 million and U.S.$10 million as "medium-sized" and corporate clients with sales of over U.S.$10 million as "large-sized." The principal services offered to corporate clients include trade and structured finance products, project finance, e-banking, asset management and short-term credit facilities denominated in Tenge and foreign currencies, predominantly U.S. dollars and euro, as well as other general banking services. The Bank typically provides loans with an average maturity of up to 18 months for corporate clients, and provides long-term financing in accordance with current funding sources ensuring that such loans allow early prepayment or interest rate adjustment. The Bank also arranges syndicated loans to large corporate clients in Kazakhstan with foreign banks.

The Bank's primary objective with respect to its lending activities is to diversify into different sectors of the economy in order to reduce its exposure to particular industries, which the Bank believes will enhance the quality of its loan portfolio. The main sectors served by the Bank are trade (which increased from KZT 57,557 million in 2003 to KZT 85,456 million and comprised 21.3 per cent. of the Bank's total gross loan portfolio as at 30 June 2004) and construction (which increased from KZT 35,166 million at the end of 2003 to KZT 51,315 million as at 30 June 2004 and comprised 12.8 per cent. of the Bank's gross loan portfolio as of such date). The Bank also increased its exposure to consumer lending to 10.7 per cent. of its gross loan portfolio in the first six months of 2004, compared to 10.1 per cent. as at the end of 2003, transport and communication to 8.1 per cent. of the loan portfolio from 4.8 per cent. for the same periods accordingly and in each case before provisions and revaluation reserve. The Bank continues to seek to expand its market share in relation to medium-size borrowers, which it considers as having high growth potential. The Bank has a market research group within its Risk Management Department that performs sectoral risk assessments. The Marketing Department of the Bank is involved in market evaluation, monitoring product development and product marketing.

In addition, the Bank provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 30 June 2004, the Bank's exposure, through CB Moskommertsbank and JSC Kazkommertsbank Kyrgyzstan, to Russian and Kyrgyzstani clients as a percentage of its total gross loan portfolio, guarantees and letters of credit was 5 per cent. and 0.5 per cent., respectively.

Retail banking

The Bank offers its retail customers traditional deposit accounts. In addition, the Bank offers lending products which are primarily mortgages relating to properties within Kazakhstan's largest cities. Lending tends to be concentrated in these areas because their more established property markets make valuation easier. The Bank also provides other lending products to its retail customers, particularly automobile loans and personal loans for customers who meet certain income levels and other requirements. In addition to the Bank's existing branch network, some new branches will be introduced over a period of time and will primarily be in regions which the Bank believes have a high growth potential. In the longer term, the Bank expects that this strategy will increase its retail deposits and enhance cross-selling opportunities relating to insurance and pension products.

In 2003 and the first half of 2004, the Bank continued its retail market strategy in developing a retail branch network in Kazakhstan. The network includes a "VIP Centre" in Almaty targeting high net worth individuals, which the Bank defines as clients maintaining deposits of at least U.S.$50,000, borrowing secured loans of more than U.S.$50,000 or holding a gold-status credit card with turnover of more than U.S.$3,000 per month. The Bank is also targeting middle-income clients maintaining deposits of between U.S.$1,000 to U.S.$50,000. Separate branches of the Bank serve mass retail customers; however, the Bank does not currently open new accounts with deposits of less than U.S.$500 and the minimum amount which can be held in an account is U.S.$100. As at 30 June 2004, retail deposits accounted for 44 per cent. of the Bank's total customer deposits with deposits by high net worth individuals constituting 53.8 per cent. of retail deposits.

In 2003, the Bank continued its policy of cross-selling products to attract new customers. Payment cards are offered as supplementary services to all customers. These cards are primarily

Europay International and VISA credit cards but also include Cirrus Maestro and VISA Electronic debit cards. As at 30 June 2004, 276,003 cards had been issued, representing an increase of more than 60,000 cards as compared to the number issued as at 31 December 2002. AIG, a leading international insurance company, provides insurance services to the Bank's card holders in Kazakhstan and abroad. Although credit cards are not as heavily used in Kazakhstan as in some other countries, the Bank believes this market will continue to grow and that at present it is one of the market leader in terms of volume of card transactions.

As at 30 June 2004, the Bank operated 270 ATMs in cities throughout Kazakhstan, and it intends to add up to 50 more ATMs by the end of the year. The Bank believes that its network is the second-largest in Kazakhstan. The Bank seeks to attract customers to its ATM network by locating machines in densely populated areas around cities and by maintaining a high proportion of operating machines. Accordingly, the Bank has a policy of operating ATMs only in areas which are accessible for maintenance on a 24-hour basis and it believes that, relative to competitors, it maintains a high ratio of machines to issued ATM cards to help ensure good service and available funds. The Bank charges fees for each ATM withdrawal, including withdrawals by its own accountholders. The Bank seeks to recoup the initial cost of its ATM machines within three years of installation, which the Bank believes is a relatively aggressive pay-back period.

In addition, the Bank operates 852 point of sale terminals, located at various retail stores, through which the stores' customers can pay for their purchases using credit or debit cards.

The Bank was the first local bank to offer telephone banking and internet banking services to its customers. At present, the systems are in an early stage of development and the Bank does not anticipate significant demand for these services in the short-term, in particular in internet banking services, as personal computers are an expensive commodity in Kazakhstan and not widely available. Current internet banking services include access to account information and payment of mobile telephone and utility bills. Telephone banking services are currently limited to obtaining account balance information and payment of mobile telephone bills. Up to 30,000 customers can utilise these services to pay their mobile telephone and utility bills.

The Bank's strategy calls for aggressive cross-selling of its insurance, pension and other services. The Bank offers commissions to its managers relating to their sales of its insurance products, as well as offering commissions to the managers of its insurance businesses for their cross-selling of banking products.

Other banking and financial services

The Bank is authorised to engage in other transactions, including the sale, purchase and safekeeping of precious metals (including gold and silver) as well as providing certain derivative products, under its general banking licence. In 2001, the Bank began to offer trust services to its corporate and retail clients, which mostly relate to asset management.

The Bank engages in securities transactions on behalf of its clients. It does not engage in any material volume of proprietary trading of securities. Each of the Bank's securities traders is subject to trading limits which are monitored by the Bank's back-office staff.

Branch Operations and Technology

Branch operations

As at 30 June 2004, the Bank's branch network comprised, in addition to its head office, 22 branches in the main industrial cities of Kazakhstan, including Astana, Zhezkazgan, Ust-Kamenogorsk, Pavlodar and Karaganda.

All branches provide both retail and corporate banking services. The operations of each branch are subject to internal regulations and to oversight by the Bank's head office. Each branch has limits on its lending authority and the branch directors and loan officers report regularly to the Bank's credit committee at the head office. All branches also undergo an annual internal audit. See "Selected Statistical and Other Information—Lending Policies and Procedures." The coordination and planning of the operations of the branches and internal controls are conducted by the Branch Banking

Department, which monitors the operations and financial results of the branches and is responsible for the development of the regional policies and expansion strategies of the Bank.

In addition to the branch network, the Bank has settlement outlets in towns and villages near to cities in which branches operate. As at 30 June 2004, the Bank had 56 settlement outlets in Kazakhstan. To support the Bank's international activities, two representative offices were opened in London and in Bishkek, Kyrgyzstan in 1999. In addition, the Bank purchased a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan in September 2002, following which it closed its representative office in Bishkek.

The Bank has implemented an organisational restructuring programme at its head office and throughout its branch network, which is intended to increase operational efficiency and reduce overstaffing within the Bank. Staffing guidelines and quotas under the programme and a new human resources management policy are being developed to improve the quality of the Bank's personnel. The Bank also holds internal and external training and staff rotation programmes designed to improve the skill base and cross-selling ability of employees. The Bank expects that these measures, combined with its Equation DBA information system which was activated in 2002, will assist it in expanding certain corporate and consumer banking products, such as credit cards, debit cards and the ATM network in some regions, which have historically suffered from a lack of sufficiently qualified staff and an insufficient computer network infrastructure.

Security

In cooperation with external consultants, the Bank has implemented security procedures and policies for all of its locations. Each new branch is initially reviewed by the Bank's Security Department to ensure compliance with the Bank's procedures and policies. All of the Bank's branches contain video surveillance systems and each of its ATMs is monitored by a camera.

The Bank maintains a strict anti-money laundering policy. As part of this policy, each new high-net worth customer must be recommended by an existing high net worth customer. The Bank interviews each such applicant and performs a background investigation. All applicants are required to provide the Bank with identification documents, as well as their Kazakhstan tax identification number.

Technology

In 2002, the Bank introduced Equation DBA, a centralised, integrated banking information system of western standards, which connects the head office and branches, to service its corporate and retail banking operations. The Bank switched to full on-line utilisation of Equation DBA by the head office as well as all branches and settlement outlets by the end of 2002. The Bank believes that its full introduction of the Equation DBA system has significantly improved the scope and efficiency of its information system with respect to risk management in treasury operations, assets and liabilities management and the management of loan transactions and liquidity, as well as financial reports prepared in accordance with IFRS.

Moreover, in order to improve its efficiency, the Bank is incrementally introducing up-to-date banking technologies such as its Customer Relationship Manager system, based on the integration of CRM Siebel and CallCenter products, its system on re-engineering of business processes based on the WorkFlow Oracle product and the Bank's Internet banking system for individuals and legal entities.

The Bank's software system has a separate power source and is equipped with emergency backup and data protection facilities. All data is copied onto a back-up server on a daily basis.

The Bank is currently studying ways to automate its risk management systems and provide real-time monitoring of its risk exposures. Over the next few years the Bank expects to implement automated risk management software systems as its business expands.

Properties

The Bank owns or leases premises in Kazakhstan where its head office, branches and settlement outlets and other facilities are located. In particular, the Bank owns an office building, with a total area of approximately 10,460 square meters, located at ul. Gagarin 135 "zh," Almaty. As at 30 June

2004, this building had a gross book value of KZT 953.7 million and a net book value of KZT 887.0 million. In addition, the Bank owns or leases office premises, branches and settlement outlets, foreign exchange bureaus, ATMs, residential apartments, garages, warehouses and other facilities in Almaty and in 20 other cities and towns within Kazakhstan. The Bank owns the majority of these properties and leases the remaining sites. The Bank typically leases property for terms of between six months and ten years. As at 30 June 2004, the gross book value of the Bank's owned premises, including its head office in Almaty, was KZT 9.5 billion.

The Bank insures its Almaty properties against loss or damage arising from fire, accident and intentional damage. These policies carry a deductible of KZT 735,000.

Competition

The Bank believes that competition in its target markets is primarily driven by brand identity and quality of customer service. Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector, being the largest bank in Kazakhstan, based on total assets, and having a relatively low cost deposit base and diversified client base, the Bank faces competition from a number of existing participants in the banking sector in Kazakhstan. As at 30 June 2004, there were a total of 36 banks, excluding the NBK, operating in Kazakhstan. These can be divided into four groups: large banks, including the Bank, Halyk Savings Bank and Bank TuranAlem; state-owned banks, including Zhylstroysberbank and DBK; subsidiaries of foreign banks, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan; and smaller banks.

Bank TuranAlem is considered by the Bank to be a major competitor. Bank TuranAlem resulted from a merger initiated by the Government of Kazakhstan between two state-owned banks, Turan Bank and Alem Bank, in April 1997. The State's interest in TuranAlem was sold by auction in March 1998 for U.S.$72 million to a group of investors from Kazakhstan. As at 30 June 2004, TuranAlem was the second-largest private bank by assets and in terms of equity in Kazakhstan after the Bank.

The extensive branch network of the formerly state-owned Halyk Savings Bank of Kazakhstan, also known as People's Savings Bank or HSBK, makes it one of the Bank's major competitors with respect to retail banking. HSBK is also the leading participant in the primary domestic securities market. In November 2001, the Government of Kazakhstan sold its remaining one-third interest in HSBK to domestic investors.

In 2001, the Government of Kazakhstan established DBK to provide longer-term financing for projects within Kazakhstan. DBK was established with a charter capital of U.S.$200 million, the largest equity base of any domestic bank in Kazakhstan. Other than, potentially, within the corporate lending sector, DBK is not considered to be a competitor of the Bank as it is not licensed to accept corporate or retail deposits or to provide corporate settlement services. The Bank plans to co-finance certain projects within the corporate lending sector with DBK.

ABN AMRO Bank Kazakhstan is the second-largest subsidiary of a foreign bank in terms of equity. Following the Bank's assessment that it ceased to have significant influence in the financial and operating affairs of ABN AMRO Bank Kazakhstan in 2002, the Bank sold its 29 per cent. shareholding in ABN AMRO Bank Kazakhstan in June 2003.

Citibank Kazakhstan was established in 1998 and has been aggressively increasing its market share in corporate banking.

Whilst subsidiaries of foreign banks do not currently provide significant domestic competition as they are not active in the retail banking sector, the Bank believes that such banks, some of which may have significantly greater resources and a cheaper funding base than the Bank, have already become the Bank's main competitors in the corporate banking sector. Foreign banks also bring international experience in servicing customers and target the best corporate clients of Kazakhstan banks as well as foreign companies.

Employees

As at 30 June 2004, the Bank had 3,254 full-time employees, of whom approximately 1,465 were employed in its branches. The number of full-time employees as at 31 December 2003 was 3,493.

Currently, there are no labour unions in the Bank. The Bank has not experienced strikes or other work stoppages resulting from labour disputes.

Litigation

The Bank is currently not involved in any, nor is it aware of any pending or threatened, legal or administrative proceedings that it would reasonably expect to have a material adverse effect on its financial condition or results of operations. From time to time, however, the Bank is involved in legal and administrative proceedings incidental to its business.

SELECTED STATISTICAL AND OTHER INFORMATION

Average Balances

The following table sets out, by currency, the Bank's average balance sheets based upon, for the year ended 31 December 2002, the average of the daily balances of the Bank and, for the six months ended 30 June 2004 and for the year ended 31 December 2003, an aggregation of the average of the daily balances of the Bank and the average of the daily balances of Kazkommertsbank Kyrgyzstan and CB Moskommertsbank.

	For the six month period ended 30 June		Year ended 31 December			
	2004		2003		2002	
	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate
	(KZT millions) (Unaudited)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Assets						
Loans to and deposits with other banks, net	30,564	4.0	47,320	3.2	9,194	3.3
Loans to and deposits with other banks	31,051	4.0	47,628	3.1	9,426	3.2
Tenge	7,075	3.4	2,822	4.1	568	5.2
Foreign currency	23,976	4.2	44,806	3.1	8,858	3.1
Provisions	(487)		(308)		(232)	
Tenge	(29)		(6)		(23)	
Foreign currency	(458)		(302)		(209)	
Correspondent account with NBK	3,253		3,122		2,723	
Tenge	2,627		3,059		2,674	
Foreign currency	626		63		49	
Marketable securities	89,842	5.9	66,169	5.8	12,855	8.6
Tenge	53,104	5.1	31,454	5.1	2,880	6.2
Foreign currency	36,738	7.0	34,715	6.4	9,975	9.3
Loans to customers, net	304,076	13.5	197,709	15.0	159,439	14.5
Performing loans	318,931	12.9	205,881	14.4	165,599	13.9
Tenge	51,238	14.4	43,343	14.9	38,059	13.7
Foreign currency	267,693	12.6	162,538	14.3	127,540	14.0
Non-performing loans	6,452		4,394		4,213	
Tenge	2,153		1,419		670	
Foreign currency	4,299		2,975		3,543	
Loan loss reserves	(21,307)		(12,566)		(10,373)	
Tenge	(5,611)		(3,689)		(3,935)	
Foreign currency	(15,696)		(8,877)		(6,438)	
Cash	8,870		8,204		6,430	
Tenge	3,896		3,579		2,793	
Foreign currency	4,974		4,625		3,637	
Correspondent accounts with other banks	4,225	1.3	5,882	0.5	2,842	1.6
Tenge	242	0.0	196	—	129	—
Foreign currency	3,983	1.4	5,686	0.6	2,713	1.7
Fixed and intangible assets, net	6,090		5,513		3,614	
Tenge	5,910		5,367		3,614	
Foreign currency	180		146		—	
Investments	2,003		3,221		2,731	
Tenge	2,003		3,000		2,731	
Foreign currency			221		—	
Other assets	16,335		13,614		10,894	
Tenge	5,705		4,230		6,865	
Foreign currency	10,630		9,384		4,029	
Total	465,258	10.2	350,754	10.0	210,722	11.6
Tenge	128,313	8.1	94,774	8.6	57,024	9.5
Foreign currency	336,945	11.1	255,980	10.5	153,698	12.4

	For the six month period ended 30 June		Year ended 31 December			
	2004		2003		2002	
	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate
	(KZT millions) (Unaudited)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Liabilities and shareholders' equity						
Demand deposits	50,507	0.7	43,711	0.7	32,387	1.1
Tenge	30,692	0.8	23,566	0.7	17,173	1.1
Foreign currency	19,815	0.5	20,145	0.8	15,214	1.1
Time deposits	110,271	6.2	106,948	7.0	81,007	8.1
Tenge	23,814	9.2	18,234	10.5	12,041	9.6
Foreign currency	86,457	5.4	88,714	6.2	68,966	7.8
Correspondent accounts of other banks	945	2.0	1,656	1.8	674	1.6
Tenge	628	0.7	391	1.4	266	1.4
Foreign currency	317	4.6	1,265	1.9	408	1.8
Short-term interbank borrowings	16,212	2.8	9,021	2.6	3,844	7.0
Tenge	1,022	3.6	499	4.2	1,325	11.5
Foreign currency	15,190	2.8	8,522	2.5	2,519	4.6
Long-term borrowings	81,023	5.0	39,779	4.3	30,357	7.0
Tenge			52	9.7	—	—
Foreign currency	81,023	5.0	39,727	4.3	30,357	7.0
Other borrowed funds	3,128	7.5	4,238	7.1	5,221	6.8
Tenge		0.0	254	0.9	192	—
Foreign Currency	3,128	7.5	3,984	7.5	5,029	7.0
Debt securities issued	132,129	8.7	86,061	10.0	18,546	8.8
Tenge	3,006	7.0	—	—	—	—
Foreign currency	129,123	8.7	86,061	10.0	18,546	8.8
Other liabilities:	17,690		17,794	—	9,788	—
Tenge	6,617		3,601	—	3,581	—
Foreign currency	11,073		14,193	—	6,207	—
Total liabilities	411,905	5.7	309,208	6.0	181,824	6.2
Tenge	65,779	4.1	46,597	4.5	34,579	4.3
Foreign currency	346,126	6.0	262,611	6.3	147,245	6.6
Shareholders' equity and reserves	49,093		38,212	—	28,898	—
Tenge	49,093		38,212	—	28,898	—
Foreign currency			0	—	—	—
Minority Interest	4,260		3,334			
Tenge			0			
Foreign currency	4,260		3,334			
Total	465,258	5.0	350,754	5.3	210,722	5.3
Tenge	114,872	2.3	84,809	2.5	63,477	2.3
Foreign currency	350,386	5.9	265,945	6.2	147,245	6.6
Average Exchange Rate KZT/U.S.$	138.59		149.54		153.41	

Assets

The total assets of the Bank were KZT 522,475 million as at 30 June 2004, reflecting an increase of 20.3 per cent. compared to 31 December 2003. The following table sets out the major asset groups of the Bank, by currency, as at the indicated dates:

	For the six month period ended 30 June		Year ended 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Trading and investment portfolio:						
Tenge	59,437	11.4	29,430	6.8	14,601	5.3
Foreign currency	22,265	4.2	42,087	9.7	12,520	4.6
Total	81,702	15.6	71,517	16.5	27,121	9.9
Cash and correspondent accounts with national (central) banks:						
Tenge	11,513	2.2	22,315	5.1	8,613	3.1
Foreign currency	5,795	1.1	6,470	1.5	10,782	3.9
Total	17,308	3.3	28,785	6.6	19,395	7.0
Loans and advances to banks:						
Tenge	1,612	0.3	1,790	0.4	122	—
Foreign currency	26,463	5.1	37,208	8.6	43,499	15.8
Reserves for loan losses	(374)	(0.1)	(415)	(0.1)	(170)	(0.1)
Total	27,701	5.3	38,583	8.9	43,451	15.7
Repurchase transactions:						
Tenge	2,543	0.5	587	0.1	2,313	0.8
Foreign currency	6,461	1.2	2,021	0.5	—	—
Reserves for losses		—	—	—	(46)	—
Total	9,004	1.7	2,608	0.6	2,267	0.8
Loans and advances to customers:						
Tenge	63,828	12.2	63,548	14.6	46,217	16.8
Foreign currency	338,081	64.7	238,584	55.0	143,048	52.1
Reserves for loan losses	(24,664)	(4.7)	(19,069)	(4.4)	(14,016)	(5.1)
Total	377,245	72.2	283,063	65.2	175,249	63.8
Other assets	9,514	1.8	9,685	2.2	7,278	2.6

As at 30 June 2004, the Bank's assets structure underwent some changes in comparison with the structure as at the end of 2003. The largest component of the Bank's assets remains Loans to customers which, as a percentage of total assets, amounted to 72.2 per cent. and 65.2 per cent. as at 30 June 2004 and 31 December 2003 respectively, of total assets, while the share of the trading and investment portfolio decreased from 16.5 per cent. to 15.6 per cent. Loans and advances to banks, including operations on reverse repurchase agreements, also decreased from 9.5 per cent. to 7 per cent.

The following table indicates average net interest income, yield, margin and spread for the six months ended 30 June 2004 and the years ended 31 December 2003 and 2002.

	For the six month period ended 30 June	Year ended 31 December	
	2004	2003	2002
	(U.S.$ millions)		
Average interest-earning assets	3,093	2,120	1,202
Interest income	344	235	160
Net interest income	175	110	86
Yield (per cent.)(1)	11.1	13.3	13.3
Margin (per cent.)(2)	5.7	5.2	7.2
Spread (per cent.)(3)	5.2	4.7	6.3

(1) Interest income as a percentage of average interest-earning assets.

(2) Net interest income as a percentage of average interest-earning assets.

(3) Average rate on interest-earning asset minus average rate on interest bearing liabilities.

Trading and Investment Portfolio

The size of the Bank's securities portfolio grew 14.3 per cent. as at 30 June 2004 with respect to 31 December 2003, and amounted to KZT 81.6 billion compared to KZT 71.4 billion as at the end of 2003. Growth was mainly in the Bank's trading portfolio, which increased by 14.4 per cent. or by KZT 10.2 billion. This increase was primarily attributable to increased yields on new issues of Kazakhstan Treasury Bills in excess of the yield on interbank placements. Thus, as at 30 June 2004, the Bank's trading portfolio of NBK notes grew 104 per cent. and amounted to KZT 46.4 billion compared to KZT 22.7 billion as at the end of 2003. The portfolio of Treasury Bills of the Ministry of Finance of the Republic of Kazakhstan increased to KZT 12.6 billion from KZT 6.1 billion as at the end of 2003 (representing 108.5 per cent. growth) and the Bank's holdings of eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan decreased by 10.1 per cent. to KZT 5.8 billion as at 30 June 2004. The Bank continued to invest in securities of prime Kazakhstan companies and Kazakhstan municipal bonds, thus the portfolio of such securities slightly decreased by 14.1 per cent. and totalled KZT 8.5 billion in the first half of 2004 compared to KZT 9.9 billion at the end of 2003. The portfolio of corporate and municipal bonds issued in the Russian Federation grew 400.0 per cent. and totalled KZT 6.5 billion as at 30 June 2004 compared to KZT 1.3 billion at the end of 2003.

The portfolio of securities available-for-sale and held to maturity is insignificant. The following table shows the composition of securities held by the Bank and its investments in associated companies as at the indicated dates:

	As at 30 June	As at 31 December	
	2004	2003	2002
	(KZT millions)		
	(Unaudited)		
Securities	81,571	71,371	26,835
Marketable securities	81,431	71,201	21,279
Securities available-for-sale	64	138	5,539
Securities held to maturity	76	32	17
Investments in associated companies	131	146	286
Total securities and investments with associated companies	81,702	71,517	27,121

The average portfolio of marketable securities increased by 35.8 per cent. to KZT 89.8 billion in the first six months of 2004 from KZT 66.2 billion in 2003, whilst average interest rates increased slightly from 5.8 per cent. in 2003 to 5.9 per cent. in the first half of 2004.

The following table shows the structure of the average marketable securities portfolio and average interest rates for the years ended 31 December 2003 and 2002:

	For the six month period ended 30 June		Year ended 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(Average interest rate, per cent.)	(KZT millions)	(Average interest rate, per cent.)	(KZT millions)	(Average interest rate, per cent.)
NBK notes	43,112	5.1	26,817	5.0	1,435	5.8
Corporate bonds	16,814	8.5	11,725	9.8	4,711	11.0
Long-term and medium-term Treasury bills	9,470	5.5	4,387	6.0	1,119	6.9
Eurobonds of foreign governments	7,037	5.8	12,498	4.7		
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	5,862	2.6	6,458	3.0	3,766	6.0
Eurobonds of the Issuer (Kazkommerts International B.V.)	5,853	6.8	3,559	8.0	237	9.0
Domestic municipal bonds	730	9.1	475	8.1	153	8.7
Short-term Treasury bills	504	5.2	250	5.5	326	5.9
Eurobonds of the Ministry of Finance of the Russian Federation	260	15.4	—		—	—
Sub-federal bonds of the Russian Federation	200	23.2	—	—	—	—
Euronotes of the Ministry of Finance of the Russian Federation	—	—	—	—	1,108	11.0
Total	89,842	5.9	66,169	5.8	12,855	8.4

The Bank's Loan Portfolio

Loan portfolio monitoring

The following table sets forth the loan portfolio diversification by loan amounts as at 30 June 2004:

	Total loan indebtedness	Principal amount due	Accrued interest	Percentage of total loan portfolio
		(U.S.$)	(Unaudited)	(per cent.)
Greater than U.S.$10 million	650,451,260	641,957,455	8,493,805	22.1
From U.S.$5 to U.S.$10 million	477,230,691	461,003,358	16,227,333	16.2
From U.S.$1 to U.S.$5 million	840,181,981	800,802,786	39,379,195	28.5
Up to U.S.$1 million	978,973,131	959,845,300	19,127,831	33.2
Total	2,946,837,063	2,863,608,899	83,228,164	100

Loans and advances to banks

As at 30 June 2004, loans and advances to banks, net of provisions, decreased by 28.2 per cent. to KZT 27.7 billion, as compared to KZT 38.6 billion as at 31 December 2003. At the same time, loans and advances to banks as a percentage of total assets fell from 8.9 per cent. as at the end of 2003 to 5.3 per cent. as at 30 June 2004. The majority of loans and advances to banks were represented by U.S. dollar accounts. The Bank adheres to a conservative approach in its deposit funding activities. Funds are usually placed for a short-term with a maximum limit on the amount deposited, unless such loans are backed by state securities or cash deposits. In particular, the majority of loans and advances to banks had maturities of less than three months.

The reserves for possible losses on loans and advances to banks decreased by 9.8 per cent. to KZT 374.0 million, as compared to KZT 414.6 million in 2003. Cash and balances with the NBK, the National Bank of Kyrgyzstan and the Central Bank of Russia decreased by 39.3 per cent., from KZT 28.785 billion in 2003 to KZT 17.3 billion as at the end of the first half of 2004.

The following table shows a breakdown by currency of correspondent account balances and loans as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June	As at 31 December	
	2004	2003	2002
	(KZT millions)		
	(Unaudited)		
Correspondent accounts	12,696	3,478	11,021
Tenge	114	8	22
Foreign currency	12,582	3,470	10,999
Loans and advances to bank	15,379	35,520	32,600
Tenge	1,498	1,782	100
Foreign currency	13,881	33,738	32,500
Loan loss reserves	(374)	(415)	(170)
Loans and advances to banks, net	27,701	38,583	43,451

Loans, letters of credit and letters of guarantee

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 as at 30 June 2004 and 31 December 2003 and 2002:

	As at 30 June	As at 31 December	
	2004	2003	2002
	(KZT millions)		
	(Unaudited)		
Loans:			
Loans and advances to customers	402,096	302,316	189,462
Revaluation reserve	(187)	(184)	(197)
Provisions for losses for contingent liabilities	(24,664)	(19,069)	(14,016)
Loans and advances to customers, net	377,245	283,063	175,249
Contingent liabilities:			
Letter of guarantee	20,498	22,769	18,951
Letter of Credit	32,637	23,409	18,466
Loan loss reserves	(1,390)	(1,426)	(1,790)
Total contingent liabilities	51,745	44,752	35,627
Total loans and contingent liabilities, net	428,990	327,815	210,876

The following table sets forth information relating to the diversification of the Bank's total guarantees of KZT 20,498 million and KZT 22,769 million by volume as at 30 June 2004 and as at 31 December 2003 respectively, expressed in U.S. dollars.

	As at 30 June 2004		As at 31 December 2003	
	Amount	**Percentage of total value**	**Amount**	**Percentage of total value**
	(U.S.$)	**(per cent.)**	**(U.S.$)**	**(per cent.)**
	(Unaudited)			
Greater than U.S.$10 million	14,830,971	9.9	53,756,065	34.1
From U.S.$ 5 to U.S.$10 million	17,291,762	11.5	27,031,211	17.1
From U.S.$ 1 to U.S.$5 million	60,727,186	40.4	31,922,639	20.2
Up to U.S.$1 million	57,370,903	38.2	45,169,137	28.6
Total	150,220,822	100.0	157,879,052	100.0

The Bank provides financing for various purposes, although the majority of loans are for working capital purposes and for the term of 12 months or less. As the demand for longer-term financing from existing customers increases, the Bank intends to increase its financing of capital expenditures, provided that the Bank can match its funding base with longer-term financing through an increase in borrowings and time deposits.

The following table shows a breakdown of the Bank's loan portfolio before provisions for loan losses by type of loan as at 30 June 2004 and as at 31 December 2003:

	As at 30 June 2004		As at 31 December 2003	
	(KZT millions)	**(share per cent.)**	**(KZT millions)**	**(share per cent.)**
	(Unaudited)			
Working capital finance	131,404	32.7	118,094	39.1
Fixed asset purchase	61,482	15.3	44,285	14.7
Construction repair	59,558	14.8	36,937	12.2
Real estate purchase	34,148	8.5	27,914	9.2
Equity investment in other enterprises	16,075	4.0	21,844	7.3
Trade finance	19,201	4.8	14,253	4.7
Other	80,228	20.0	38,989	12.9
Revaluation reserve	(187)	(0.1)	(184)	(0.1)
Total	401,909	100.0	302,132	100.0

Loan portfolio by sector

In 2003 the Bank increased its lending to companies in the trade, construction, lending to individuals, agriculture, food industry, transport and communication, hotels and catering and mining and metallurgy industries, machinery construction. Additionally, the Bank expects new opportunities for expansion in the provision of financing to medium-sized companies engaged as subcontractors or servicing companies for large international projects carried out in Kazakhstan.

The following table sets forth certain information as to the structure of the Bank's loan portfolio by economic sector, as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
Trade	85,456	21.3	57,557	19.1	31,849	16.8
Energy	40,560	10.1	50,154	16.6	43,279	22.9
Agriculture	39,626	9.9	34,861	11.5	29,065	15.4
Construction	51,315	12.8	35,166	11.6	13,429	7.1
Loans to individuals[(1)]	42,834	10.7	30,385	10.1	13,645	7.2
Food industry	26,457	6.6	22,100	8.0	16,799	8.9
Transport and communications	32,560	8.1	14,369	4.8	8,217	4.3
Hotels and catering	13,395	3.3	14,499	4.8	4,572	2.4
Mining/metallurgy	12,754	3.2	10,410	3.4	6,047	3.2
Real estate	10,200	2.5	5,985	2.0	6,537	3.5
Medicine	1,569	0.4	1,510	0.5	1,334	0.7
Finance[(2)]	12,859	3.2	1,344	0.4	3,766	2.0
Culture and arts	1,722	0.4	2,067	0.7	2,363	1.2
Machinery Construction	10,134	2.5	5,018	1.7	2,334	1.2
Other	20,655	5.1	16,891	5.6	6,226	3.3
Revaluation reserve	(187)	(0.1)	(184)	(0.1)	(197)	(0.1)
Total	401,909	100.0	302,132	100.0	189,265	100.0

(1) Consists mainly of loans to retail customers.

(2) Consists mainly of loans to financial services companies.

Whilst the Bank's total loan portfolio increased by 33.0 per cent. from 31 December 2003 to 30 June 2004, loans to trade companies increased by 48.5 per cent., resulting in an increase as a percentage of the Bank's total loan portfolio to 21.3 per cent. Loans to construction companies increased by 45.9 per cent. and resulted in a 12.8 per cent. share in the loan portfolio compared to 11.6 per cent. as at the end of 2003 due to the development of large scale construction projects in Astana, Almaty and Atyrau. The Bank considers the metallurgy and mining sector to be a sector that is expected to increase its borrowings in future years. Whilst loans to companies in the metallurgy and mining sector increased by 22.5 per cent., their share in the total loan portfolio remains small (3.2 per cent.).

The oil and gas sector is represented by large Kazakhstan companies, as well as developing but still relatively small domestic oil producers with existing production facilities. Loans to metallurgy and mining companies are generally to large companies involved in the production of export-quality metals. Due to their export-oriented business, the Bank believes that such companies can withstand a domestic economic downturn and will benefit from improvements in the international economy.

Whilst the total amount lent to companies in the agriculture sector increased by 13.7 per cent., as a percentage of the Bank's total loan portfolio such loans decreased from 11.5 per cent. in 2003 to 9.9 per cent. in the first half of 2004, as the growth in the Bank's total loan portfolio significantly exceeded the growth in loans to agricultural companies. Loans to agricultural companies are primarily provided to large integrated companies, which are involved in all stages of grain production and processing.

Loans to the food industry fell from 8.0 per cent. of the Bank's total loan portfolio in 2003 to 6.6 per cent. in the first half of 2004, despite the 19.7 per cent. growth of the total amount of loans to this sector. Loans to companies in this sector are principally provided to large conglomerates with potential export capacity. The Bank seeks to limit its exposure to high-risk sectors of the economy and focuses primarily in this sector on lending to private entities and individuals or to borrowers with Government of Kazakhstan guarantees.

Loan portfolio by currency

In line with the Bank's policy to limit its foreign currency risk and open foreign currency positions, foreign-currency loans comprise the major part of the Bank's loan portfolio. As at 30 June 2004, U.S. dollar-denominated or indexed loans comprised 81.5 per cent. of the Bank's loan portfolio, compared to 76.0 per cent. in 2003. Tenge loans remained on the same level as at the end of 2003, though their share in the loan portfolio decreased to 15.9 per cent. due to the fact that such loans have a shorter-term maturity profile and usually contain provisions to allow the Bank to increase interest rates or demand early repayment in the event of a devaluation of the Tenge.

The following table sets forth certain information as to the currency profile of the Bank's loan portfolio as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
	(Unaudited)					
Tenge	63,954	15.9	63,665	21.1	46,329	24.5
U.S. dollars	327,674	81.5	229,470	76.0	137,242	72.5
Euro	6,814	1.7	6,704	2.2	5,798	3.1
Other	3,654	0.9	2,477	0.8	93	0
Revaluation reserve	(187)	0	(184)	(0.1)	(197)	(0.1)
Total	401,909	100.0	302,132	100.0	189,265	100.0

Maturity Profile of Loan Portfolio

The maturity structure of the Bank's loan portfolio in 2003 reflects a significant number of loans with a maturity of over one year, as a result of demand for longer-term financing. The Bank's potential exposure in relation to such longer-term loans is offset, in part, by the terms of such loans which allow the Bank to require early payment of the loan and/or to revise interest rates, thereby minimising interest rate and credit risks on such longer-term loans.

As at 30 June 2004, the Bank increased its aggregate loans with maturities of one to five years from KZT 124.3 billion to KZT 141.4 billion, although the proportion of these loans within the Bank's total loan portfolio decreased from 41.1 per cent. to 35.2 per cent. This decrease resulted from an increase in loans with maturities over five years, from KZT 39.9 billion to KZT 82.1 billion and their share in the total loan portfolio increased from 13.2 per cent. as at the end of 2003 to 20.4 per cent. as at 30 June 2004.

The following table sets forth certain information as to the maturity of the Bank's loan portfolio as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
Up to one month	36,120	9.0	28,254	9.4	11,876	6.3
From one to three months	23,826	5.9	20,273	6.7	16,251	8.6
From three months to one year	118,450	29.5	89,424	29.6	48,509	25.6
From one to five years	141,441	35.2	124,318	41.1	100,266	53.0
Over five years	82,259	20.5	40,047	13.3	12,560	6.6
Revaluation reserve	(187)	(0.1)	(184)	(0.1)	(197)	(0.1)
Total	401,909	100.0	302,132	100.0	189,265	100.0

Collateralisation of Loan Portfolio

In order to limit its lending risks, the Bank requires collateral from borrowers in various forms, including, but not limited to, domestic securities and commercial goods, real estate or cash deposits and personal guarantees. The Bank estimates the net realisable market value of such collateral and regularly monitors the quality of the collateral taken as security. In cases where the existing collateral declines in value, additional collateral is requested from the borrower. In addition, the terms of the loan agreement usually provide the Bank with the flexibility to adjust the interest rate or request a prepayment of the loan or any portion of it upon a change of circumstances.

The following table sets forth the Bank's requirements as to the loan amount as a percentage of collateral value based on the type of collateral:

	Loan/Value
	(ratio, per cent.)
Shares	50
Fixed assets	70
Guarantees from non-financial institutions	50
Commodities	70
Real estate	80
Government securities	100
Guarantees from financial institutions	100
Cash	100

The following table sets forth the amount of the Bank's collateralised and non-collateralised loans and each as a percentage of total loans as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
Collateralised	367,883	91.5	290,012	96.0	180,516	95.4
Uncollateralised	34,213	8.5	12,304	4.1	8,946	4.7
Revaluation reserve	(187)	0	(184)	(0.1)	(197)	(0.1)
Total	401,909	100.0	302,132	100.0	189,265	100.0

Loans may be collateralised by a pledge of fixed assets, guarantees, goods, real estate, state securities, stocks or deposits. The Bank takes a conservative approach in its assessment of the collateral and, if necessary, independent experts are instructed to value such collateral.

Lending Policies and Procedures

The Bank's lending policies and credit approval procedures are based on strict guidelines in accordance with NBK regulations and take into account any applicable requirements of IFRS. For a summary description of the applicable legislation, see "The Banking Sector in Kazakhstan."

Under the Bank's credit approval structure, smaller loans are generally originated by local branches while larger loans are generally centrally administered at the Bank's Almaty head office. The Bank maintains the following credit committees:

- *Branch committees*. Each of the Bank's branches maintains a credit committee, although the authorisations of these committees are relatively conservative. Excluding the committee for the Almaty branch, each such committee is authorised to approve loans from U.S.$15,000 to U.S.$200,000, subject to an aggregate lending limit of between U.S.$400,000 and U.S.$12 million per branch, depending on the size of the branch and experience of its personnel. The Almaty branch is authorised to extend loans of up to U.S.$850,000, subject to an aggregate lending limit of U.S.$20 million.
- *Regional committees*. The regional credit committees cover the central, southern, western, eastern and northern regions of Kazakhstan. Within each region of Kazakhstan, there is a relatively high degree of concentration of particular industry sectors and, accordingly, the regional credit committees tend to specialise in those industries. For example, the Central Region primarily serves the agricultural industry; the East Region primarily services the heavy manufacturing industries; the West Region primarily services the oil and gas industries; the South Region primarily specialises in loans to the construction industry; and the North Region primarily services the agricultural and construction industries. The regional committees are responsible for approving loans to medium-sized companies where the proposed loan exceeds the lending limit of a particular branch. Regional credit committees have a lending limit from US$500,000 to U.S.$750,000 per borrower.
- *Head office committees*. The Bank's head office in Almaty has two credit committees:
  - *Head Office Credit Committee*. This committee is authorised to approve loans of up to U.S.$2 million which were originated by local branches but exceed such branches' individual lending authority.
  - *Commercial Directorate*. The Commercial Directorate is comprised of the Chairman of the Bank's Management Board, seven Managing Directors and the Risk Management Department Director. The Commercial Directorate is authorised to approve individual loans in an amount up to 25 per cent. of the total capital of the Bank.

In considering a loan, in addition to credit proposals by credit managers, the appropriate committee will also obtain advice and recommendations from the following:

- Risk Management Department. This department considers the loan in several respects. The analytic group, which specialises in project risks, prepares recommendations on commercial loans based on its assessment of the borrower's business and/or the project to which the loan relates. This assessment takes into account the required cash and anticipated return to determine the borrower's ability to repay the loan. Retail Banking and the operational risk division are involved in risk assessment, the monitoring of consumer lending and the assessment of operational risks. The Risk Management Department also has a division involved in the Bank's loan portfolio monitoring and in the development of procedures and guidelines on the Bank's lending.
- Collateral Assessment Department. The Bank requests collateral for almost all of its loans. The job of the Collateral Assessment Department is to create a valuation analysis with respect to the proposed collateral.

- Legal. The Bank obtains advice regarding the proposed loan including, in the case of commercial loans, confirmation as to the valid corporate existence of the borrower and its authority to enter into the loan transactions and grant collateral. Most of this work is prepared by the Bank's internal Legal Department.
- Security Department. The Security Department provides information on the assets, credit history and reputation of potential borrowers. Kazakhstan is not currently served by a central credit bureau, since it is in the process of being established and is expected to start operating in a year or so and this in-house department is designed to provide the Bank with similar credit information concerning potential borrowers.

Approval of a loan generally takes two to three weeks, but may take up to six months, depending on the complexity of the loan.

Loans are first categorised by loan officers based upon the borrower's financial condition and the nature of available collateral. These categories are:

- A — Customer is manifestly capable of repaying principal and interest out of his own working capital and it is anticipated that his financial position will be maintained in the future;
- B — Customer's financial position is stable and there is a low risk that it will deteriorate;
- C — Some negative financial aspects exist that might affect the customer's ability to perform his payment obligations;
- D — Serious and numerous unsatisfactory financial aspects exist that affect the customer's ability to perform his payment obligations; and
- E — Financial position is so poor that the performance of payment obligations is unlikely.

Loans are then further classified depending on the customer's debt service record into five risk categories ("Standard," "Watch," "Sub Standard," "Doubtful" and "Loss") according to the following matrix:

Basic category	Good debt service	Unsatisfactory debt service	Bad debt service
A	Standard	Watch	Sub Standard
B	Watch	Sub Standard	Doubtful
C	Sub Standard	Doubtful	Loss
D	Doubtful	Loss	Loss
E	Loss	Loss	Loss

In this matrix:

- "Good debt service" means that interest and principal are paid timely and there are no signs that the remaining loan amount includes any capitalised amounts of previous borrowings. It also includes amounts less than 15 days overdue.
- "Unsatisfactory debt service" means that payments of principal and interest are overdue for between 15 and 45 days, or that the due date for interest or principal payment is extended for a period of three to six months, provided that no payment of interest is overdue.
- "Bad debt service" means that payment of principal or interest is overdue for more than 45 days or that interest and/or principal has been extended for a period of more than six months. Loans on which interest due is re-arranged as a new loan shall fall into this category as well.

When making an assessment of debt service, any overdue payment which is the equivalent of more than ten per cent. of the loan amount is classified as "unsatisfactory" although exceptions can be made for technical delays. Overdue payments exceeding 20 per cent. of the loan amount are classified as "bad."

Loans are reviewed at least every six months, or annually with respect to loans to established clients, by the appropriate credit committee of the Bank. Problem loans are referred to the Bank's Committee on Problem Loans, which is comprised of representatives from the Risk Management, Problem Loan and Legal Departments. Loans may be referred to this committee based upon non-payment of interest or principal or if the Bank otherwise believes there has been an adverse change in the borrower's financial condition. The Bank also conducts a sectoral analysis and reviews lending to specific sectors if it considers that companies in such sectors may face payment difficulties as a result of economic and other factors. In addition, where a company has a seasonal business, for example, companies in the agricultural sector, loans are reviewed at appropriate times throughout the season (at the beginning of spring and the end of summer, in the case of agricultural companies). The committee decides upon the best course of action with respect to each loan referred to it, which may include court action, settlement of the outstanding amounts or restructuring or extension of the loan. As the majority of the Bank's loans are secured under agreements which provide for out-of-court enforcement proceedings, the Committee on Problem Loans may also elect to foreclose on and sell the collateral. The Bank's Valuation Department may become involved to seek a private buyer of the collateral, with the borrower's consent.

Loans to retail customers are subject to a standardised approval procedure. Credit officers in the relevant branches are required to obtain information and documentation from the applicant in accordance with specified criteria and parameters. Loans are subject to maximum limits depending on the applicant's financial standing, stability of future revenues, liquidity and quality of collateral. These limits are set by the Head Office Credit Committee. As part of the loan approval procedure, the credit officer verifies the authenticity of information furnished by the applicant and requests the Bank's Security Department to perform a credit check on the applicant. In addition, a separate subgroup of the Risk Management Department prepares a credit scoring template to be applied to the loan based upon the borrower's profile including, in the case of commercial loans, the borrower's industry.

Non-Performing Loans and Provisioning Policy

Non-performing loans, namely loans on which interest has ceased to accrue, amounted to KZT 2,453 million, or 0.81 per cent., of the Bank's loan portfolio as at 31 December 2003, as compared with KZT 2,312 million, or 1.2 per cent., as at 31 December 2002.

Loans are placed on non-accrual status when interest or principal is in arrears for a period in excess of 30 days, except when all amounts due under a loan are fully collateralised by cash or marketable securities and enforcement proceedings have commenced to realise such collateral.

The definitions in the loan classification matrix (see "—Lending Policies and Procedures") are used in determining provisioning rates. These range from two per cent. for "Standard" to 100 per cent. for "Loss." However, if management believes that "Sub Standard," "Doubtful" and "Loss" categories are adequately collateralised, a reduced level of provisioning may apply. For this reason, the overall provisioning level for the intermediate risk categories may be lower than the nominal provisioning rate. A minimum level of provisioning of two per cent. applies to all loans classified as "Sub-standard," "Loss" or "Doubtful" if the loan is covered by collateral for the full amount. Collateral is not considered when provisions are created for "Standard" and "Watch" categories.

The Bank's provisioning policy under IFRS differs from its provisioning policy under the NBK's requirements under which provisions are created for potential losses on loans and advances based principally on the borrower's debt service performance. No general provision is created for loans where payment delays have not been experienced. Thus, under the NBK's regulations, the creation of a provision is event-oriented, i.e., it relies on a lack of timeliness in interest or principal payments.

The tables below set forth certain information relating to the Bank's provisions:

Risk category	As at 30 June				As at 31 December					
	2004				2003			2002		
	Rate of provisioning	Total exposure	Total reserves	Reserves/ exposure	Total exposure	Total reserves	Reserves/ exposure	Total exposure	Total reserves	Reserves/ exposure
	(per cent.)	(KZT millions) (Unaudited)	(KZT millions)	(per cent.)	(KZT millions)	(KZT millions)	(per cent.)	(KZT millions)	(KZT millions)	(per cent.)
Standard	2.0	176,416	3,528	2.0	142,119	2,866	2.0	78,120	1,692	2.2
Watch	5.0	159,538	7,970	5.0	105,790	5,286	5.0	65,369	3,604	5.5
Sub-standard	20.0	40,491	3,441	8.5	27,363	1,764	6.4	38,231	4,431	11.6
Doubtful	50.0	7,467	1,633	21.9	10,810	2,627	24.3	1,455	386	26.5
Loss	100.0	18,184	8,092	44.5	16,234	6,526	40.2	6,287	3,903	62.1
Revaluation reserve		(187)			(184)			(197)		
Total		401,909	24,664	6.1	302,132	19,069	6.3	189,265	14,016	7.4

The effective level of provisions continued to fall and as at 30 June 2004 it has fallen to 6.1 per cent. from 6.3 per cent. at the end of 2003 as a result of the general improvement in the quality of the Bank's loan portfolio. "Standard" and "Watch" loans increased by 35.5 per cent. and amounted to KZT 335.9 billion as at 30 June 2004, as compared with KZT 247.9 billion as at 31 December 2003. In connection with the growth of these loans, the composition of the Bank's loan portfolio changed and "Standard" and "Watch" loans increased from 82.1 per cent. in 2003 to 83.6 per cent. in the first half of 2004. At the same time, "Sub-standard" loans increased by 48.0 per cent. to comprise 10.1 per cent. of the total loan portfolio as at 30 June 2004, as compared to 9.1 per cent. in 2003. "Doubtful" and "Loss" loans fell 5.2 per cent. at the end of the first half of 2004 and their share in the total loan portfolio decreased from 9.0 per cent. as at the end of 2003 to 6.4 per cent. in the first half of 2004. In 2003, the Bank wrote off loans in the aggregate amount of KZT 0.7 billion, as compared to write-offs in 2003 of KZT 2.2 billion.

Previously under the NBK's regulations, loans were written-off when interest and principal were overdue for over 180 days. This instruction of the NBK was revoked early in 2004, which has resulted in loans being written off only when management determines that it is unlikely that the loan will be repaid.

The Bank reduced the concentration of its 20 largest borrowers from 30.3 per cent. of the total loan portfolio at the end of 2003 to 26.5 per cent. as at 30 June 2004. The Bank expects to further reduce the concentration of its loan portfolio by attracting new medium- and small-sized borrowers.

The following table provides information regarding the Bank's reserves, charge-offs and recoveries of previously charged-off loans as at 30 June 2004 and 31 December 2003 and 2002.

	As at 30 June	As at 31 December	
	2004	2003	2002
	(U.S.$, thousands)		
	(Unaudited)		
Loan loss reserves at the beginning of period	132,222	89,935	77,904
Loan loss reserves at the end of period	180,756	132,222	89,935
Charge-offs	544	15,486	40,552
Recoveries	1,547	11,004	7,795
Net charge-offs	(1,003)	4,482	32,757
Ratio (per cent.)	(1.53)	12	97
Exchange rate	136.45	144.22	155.85

The following table indicates the allocation of allowance for loan losses between legal entities and individuals.

	For the six month period ended 30 June	Year ended 31 December		
	2004	**2003**	**2002**	**2001**
	(Unaudited)	**(U.S.$, thousands)**		
Legal entities	170,334	124,728	87,266	76,099
Individuals	10,422	7,494	2,699	1,805
Total	180,756	132,222	89,935	77,904

	For the six month period ended 30 June	Year ended 31 December		
	2004	**2003**	**2002**	**2001**
	(Unaudited)	**(per cent.)**		
Legal entities	6.47	6.70	7.67	7.60
Individuals	3.32	3.19	3.51	4.06
Total	6.13	6.31	7.41	7.45

Funding

The major portion of the Bank's funding base is represented by customer accounts, which the Bank's management believes to be relatively insensitive to short-term fluctuations in market rates of interest. Since 2001 the Bank has managed to increase the size of its retail funding base, having become an important source of funding which the Bank believes is more stable than corporate funding, although it is more costly. The share of customer accounts decreased from 39.5 per cent. in 2003 to 38.1 per cent. in the first six months of 2004, mainly due to the increases in debt securities from 27.8 per cent. to 39.5 per cent. from period to period.

Debt securities became an important source of funding in 2003, when the Bank, through the Issuer, issued U.S.$500 million 8.5 per cent. notes due 2013. This positively affected the maturity of the Bank's funding, increasing significantly the maturity of the raised funds. Also, during 2003 the Bank issued U.S.$27.6 million seven year 8 per cent. subordinated notes in the internal Kazakhstan market. These sources of funding have continued to be important in 2004 as the Issuer raised U.S.$400 million through the issue of its 7.875 per cent. Notes due 2014 in April and the Bank raised a U.S.$100 million 7.375 per cent. ten year subordinated loan through an issuance of loan participation notes that month.

In the composition of the Bank's funding base during the first half of 2004 the share of loans and advances from banks decreased from 29.6 per cent. to 19.6 per cent. (including amounts on repurchase transactions). As at 30 June 2004, the average tenor of repurchase transactions was one month. During the first six months of 2004, the Bank continued to exploit bilateral credit lines from banks and international financial institutions. The Bank is engaged in special programmes sponsored by the Government of Kazakhstan and various international financial institutions such as the EBRD, Asian Development Bank, Islamic Development Bank and the IBRD.

The following table sets out the Bank's sources of funds as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Customer deposits	178,059	38.1	151,589	39.5	141,372	58.3
Loans and advances from banks	83,959	18.0	76,222	19.9	54,663	22.5
Securities sold under agreement to repurchase	7,418	1.6	37,251	9.7	—	—
Promissory notes issues	14,202	3.0	1,717	0.4	—	—
Debt securities issued	148,409	31.8	96,516	25.1	30,317	12.5
Subordinated debt	22,147	4.7	8,733	2.3	6,060	2.5
Other borrowed funds	2,715	0.6	3,525	0.9	4,651	1.9
Other liabilities	9,617	2.1	8,404	2.2	5,550	2.3
Dividends payable	324	0.1	1	—	1	—
Total liabilities	466,850	100.0	383,958	100.0	242,614	100.0

As at 30 June 2004 deposits increased by 17.5 per cent. including demand deposits by 64 per cent. Time deposits decreased slightly by 4.7 per cent. compared to the end of 2003, though U.S. Dollar time deposits remained at the same level and amounted to KZT69.8 billion as at 30 June 2004 compared to KZT78.8 billion as at 31 December 2003. Corporate time deposits, being short-term deposits, decreased by 10 per cent. from KZT29.9 billion to KZT26.9 billion in the periods compared as a result of the withdrawal of funds by customers for business purposes. Retail deposits increased insignificantly by 1.4 per cent. from KZT76.5 billion to KZT77.6 billion. The fall in pace of growth was a result of the Bank's policy towards the reduction of interest rates. The share of time deposits in total customer accounts decreased to 53.95 per cent. as at 30 June 2004 from 66.87 per cent. as at 31 December 2003. The share of Tenge-denominated deposits increased slightly from 33.16 per cent. of total deposits less accrued interest in 2003 to 33.63 per cent. in the first half of 2004 as a result of the strengthening of Tenge and more favourable interest rates for Tenge deposits.

The following table sets forth a breakdown of time and demand deposits by currency as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Tenge:						
Demand deposits	34,162	19.19	28,788	19.0	18,754	13.3
Time deposits	24,792	13.92	20,424	13.5	17,105	12.1
	58,954	33.11	49,212	32.5	35,859	25.4
Foreign currency:						
Demand deposits	46,550	26.14	20,375	13.4	19,901	14.1
Time deposits	69,783	39.19	78,804	52.0	82,652	58.4
	116,333	65.33	99,179	65.4	102,553	72.5
Total customer accounts	175,287	98.44	148,391	97.9	138,412	97.9
Accrued interest	2,772	1.56	3,198	2.1	2,960	2.1
Total with accrued interest	178,059	100.0	151,589	100.0	141,372	100.0

As at 30 June 2004 the deposits of the 20 largest depositors accounted for 24.0 per cent. of total deposits, compared to 24.6 per cent. at the end of 2003. Although the concentration of deposits remains significant, the Bank has reduced the general concentration of domestic funding by attracting small- and medium-sized corporations.

The following table sets forth the structure of the Bank's wholesale funding as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions) (Unaudited)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Loans and advances from banks:						
Correspondent accounts	950	1.1	6,088	7.6	449	0.8
Loans from banks	23,818	27.5	12,488	15.7	12,323	20.8
Deposits by banks	1,897	2.2	2	—	6,499	11.0
Loans from international financial institutions	16,355	18.9	14,370	18.0	12,009	20.2
Syndicated loans	40,939	47.2	43,274	54.3	23,383	39.4
Total loans and advances from banks	83,959	96.9	76,222	95.6	54,663	92.2
Other borrowed funds:						
Due to Ministry of Finance	780	0.9	913	1.1	1,609	2.7
Due to the Fund of Small Business Support	1,935	2.2	2,612	3.3	3,042	5.1
Total other borrowed funds	2,715	3.1	3,525	4.4	4,651	7.8
Total borrowed funds	86,674	100.0	79,747	100.0	59,314	100.0

MANAGEMENT

Management

On 20 October 2003 the General Meeting of Shareholders of the Bank approved the Bank's new Charter, which was restated for the purpose of complying with the existing legislation of Kazakhstan, including the Law on Joint Stock Companies adopted at the time. According to the present Charter, the Bank must have a Board of Directors, the management body of the Bank, as well as a Management Board, the executive body of the Bank. The General Meeting of Shareholders elects the members of the Board of Directors. The Board of Directors, in turn, elects the members of the Management Board. The Board of Directors represents the interests of shareholders, is responsible for executing the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. Overall responsibility for the administration of the Bank's current activities is vested in the Management Board.

Board of Directors

The Bank's Board of Directors comprises not less than three and not more than five persons and is elected annually by the shareholders. Those members elect the chairman from amongst themselves. Members of the Board of Directors serve a one-year term, unless re-elected for an additional term. Members of the Board of Directors may be re-elected an unlimited number of times. The powers of the Board of Directors include determining the priority of the Bank's activities, approval of the strategic and operational plans for the Bank's development, making decisions on the establishment of branches and representative offices of the Bank, on participation in the establishment and activities of other enterprises, on concluding large-scale transactions and in the adoption of operational budgets and estimates of capital expenditures. The Board of Directors must approve all transactions with related parties.

The current members of the Board of Directors are as follows:

Nurzhan S. Subkhanberdin (age 39) has served as Chairman of the Board of Directors since September 2002. Mr. Subkhanberdin is a former Chairman of the Management Board of the Bank and held numerous other positions within the Bank prior to his appointment as Chairman of the Management Board in 1993. From 1991 to 1993, he was a First Deputy Chairman of the Bank. Mr. Subkhanberdin graduated from Moscow State University and has a degree in economics from Kazakhstan State University ("KSU").

Daulet H. Sembaev (age 69) has been Deputy Chairman of the Board of Directors since 2002 and was Chairman of the Board of Directors and Advisor to the Chairman of the Management Board from 1999 to 2002. Mr. Sembaev is a former Chairman of the NBK, President of the Kazakhstan Association of Financiers and a member of Parliament. He has also held other positions with different government bodies and private companies. Mr. Sembaev graduated as an engineer from the Kazakhstan Mining Institute in 1958.

Nina A. Zhussupova (age 42) has been a member of the Board since September 2002. Ms. Zhussupova is the Chairman of the Management Board of the Bank. Since August 1995, she has served as First Deputy Chairman of the Management Board of the Bank, Manager of the Accounts Office and Chief Accountant of the Bank. She holds a degree in economics from the Almaty Institute for National Economy ("AINE").

Gail Buyske (age 50) has been a member of the Board of Directors since October 2003. Ms. Buyske acts as the EBRD's representative. Prior to joining the Board, she held the position of Senior Banker with EBRD. She also worked as a Consultant to the World Bank and a Vice President of Chase Manhattan Bank. Ms. Buyske holds a Ph.D. degree in political science from Columbia University, an MPA in international relations from Princeton University and a B.A. in Russian studies from Middlebury College.

The Management Board

The Management Board consists of not less than three persons. The Management Board manages the Bank's affairs on a day-to-day basis. Specifically, its responsibilities include managing the current activities of the Bank, making business decisions and all other matters not reserved to the exclusive competence of the Board of Directors or the General Meeting of Shareholders. Meetings of the Management Board can be convened as necessary.

The current members of the Management Board are as follows:

Nina A. Zhussupova (age 42) has been a member of the Board of Directors since September 2002. Ms. Zhussupova is a Chairman of the Management Board of the Bank. Since August 1995, she served as Chief Accountant, Manager of the Accounts Office and First Deputy Chairman of the Management Board. She holds a degree in economics from AINE.

Ludmila P. Vozlublennya (age 47) has served as a Managing Director since 1998. Ms. Vozlublennya is a former Economic Analysis Manager of the Bank. She holds a degree in mathematics from Novosibirsk Electrical and Technical Institute and a Ph.D. in technical sciences from Karaganda Polytechnic Institute.

Ermek N. Shamuratov (age 48) supervises the Bank's IT and Banking Card Department and has served as a Managing Director since 1998. He is the former Deputy Chairman of Halyk Savings Bank and also held a number of positions within that organisation. He holds a degree in mathematics from KSU.

Aidar B. Akhmetov (age 36) supervises the Bank's Credit Department No. 1 and has served as a Managing Director since 1998. He is the former Chairman of the Board of ABN AMRO Asset Management. He holds a degree in English and German from Almaty Pedagogical Institute of Foreign Languages and a degree in economics from the Kazakhstan State Academy of Management.

Nurzhan Kh. Bekshenov (age 31) has served as a Managing Director since 1999. Mr. Bekshenov supervises the Bank's Department of Collateral and Debt Restructuring. He is a former Executive Director of the Bank and a former director of the law firm TOO Imashev and Partners. From 1994 to 1998, he held a number of positions in the Bank. He holds a degree in law from the Kazakhstan State National University.

Alexander V. Barsukov (age 33) supervises the Bank's Legal Department and has served as a Managing Director since January 2005. Mr. Barsukov is a former managing partner of the law firm McGuire Woods (Kazakhstan). He holds a degree in law from the Kazakh State National University.

Alexander V. Yakushev (age 46) has served as a Managing Director since 1999. He is also a Director of the Northern Regional Directorate. He is the former Director of the Bank's Correspondent Relationships with CIS and Baltic States Banks division. Before joining the Bank in 1998, Mr. Yakushev held various positions with Kramds Bank. He graduated from the Gorky Institute of Foreign Languages and AINE.

Beibit T. Apsenbetov (age 37) supervises the Bank's Retail Banking Department and has served as a Managing Director since 2002. Mr. Apsenbetov is a former Partner of TOO "Deloitte & Touche Kazakhstan." He holds a degree in economics from Leningrad State University and is a chartered accountant in Kazakhstan.

Baurzhan K. Zhumagulov (age 35) supervises the Bank's Credit Department No. 3 and has served as a Managing Director since January 2005. Mr Zhumagulov is a former Deputy General Director of TOO "Caspian Industrial Financial Group". He holds a degree in economics from the Kazakh Economic University.

Magzhan M. Auezov (age 28) supervises the Bank's Risk Management Department and has served as a Managing Director since 2002. Mr. Auezov is a former Country Head of Loan Products of ABN AMRO Bank Kazakhstan and, prior to that, Head of the Trade and Commodity Finance Department at the same bank. He holds a graduate degree in International Banking and Finance from Columbia University, New York and an undergraduate degree in International Economics from Georgetown University, Washington D.C., as well as a diploma in International Affairs from the Kazakhstan State National University.

Andrey I. Timchenko (age 28) supervises the Bank's Financial Institutions Department and has served as a Managing Director since 2003. Mr. Timchenko is a former Tax Advisor of Ernst & Young Almaty. He joined the Bank in 1998 and has held a number of positions in the Bank. He is a Director of Kazkommerts International B.V., Kazkommerts Finance 2 B.V. and Kazkommerts

Capital 2 B.V., as well as the Director of the Financial Institutions Department of the Bank. He has a graduate degree in Law from Kazakhstan State Law University.

Dennis Y. Fedossenko (age 28) supervises the Bank's Treasury Department and has served as a Managing Director since 2003. Mr. Fedossenko joined the Bank in 1996 and held a number of positions in the Treasury department of the Bank. He graduated from the Kazakhstan State Academy of Management.

Erik Z. Balapanov (age 35) supervises the Bank's Credit Department No. 2 and has served as a Managing Director of the Bank since 2003. Mr. Balapanov formerly held senior positions in Bank TuranAlem, Almaty Commercial Bank and the Development Bank of Kazakhstan. He graduated from the Kazakhstan Institute of Marketing, which is affiliated with the Kazakhstan State Academy of Management.

Baurzhan M. Kuvatov (age 43) supervises the Bank's Security Department and has served as a Manging Director since October 2004. Mr. Kuvatov formerly held different positions in the National Security Committee and Ministry of Internal Affairs of the Republic of Kazakhstan. He holds a degree in law from the Karaganda Higher School of the Ministry of Internal Affairs.

Georgy E. Gukasov (age 39) supervises the Bank's Administration Department and has served as a Managing Director since 2003. Since 1998, he has served as an Executive Director of the Bank. Mr. Gukasov is a former Chief Administrative Manager of the Bank. He was formerly General Director of Forex, a closed joint-stock company and director of cash operations of the Bank. He graduated from the Karaganda Polytechnic Institute.

The following table sets out the principal amounts of loans outstanding to, and outstanding guarantees issued on behalf of, members of the Board of Directors and Management Board as at 30 June 2004:

	Principal amount outstanding	
	(U.S.$)	**(KZT thousands)**
Nurzhan Subkhanberdin	3,460,007	472,118
Alexander Yakushev	3,363,833	458,995
Azat Abishev	837,985	114,343
Nurzhan Bekshenov	830,011	113,255
Georgy Gukasov	660,594	90,138
Andrey Timchenko	285,702	38,984
Beibit Apsenbetov	225,760	30,805
Magzhan Auezov	180,403	24,616
Askar Alshinbayev	129,740	17,703
Aidar Akhmetov	95,786	13,070
Lyudmila Vozlyublennaya	21,026	2,869
Almat Turtayev	10,004	1,365
Ermek Shamuratov	1,700	232
Nina Zhussupova	623	85
Total	10,103,173	1,378,578

There are no other outstanding loans or guarantees granted by the Bank to any member of the Board of Directors or of the Management Board or to any parties related to them. All loans to members of the Board of Directors and Management Board set out above have been approved by the Board of Directors as related party transactions and bear interest at rates from eight to nine per cent., as compared with the usual market rate of 12 per cent.

Compensation of Directors and Senior Management

In 2004, the total aggregate compensation paid to members of the Board of Directors was KZT 32.2 million (equivalent to U.S.$239,263), and the total aggregate compensation paid to members of the Management Board was KZT 214.5 million (equivalent to U.S.$1,594,419). Total aggregate compensation comprises salaries and bonuses. The Bank does not maintain any stock option or similar plans.

TRANSACTIONS WITH RELATED PARTIES

Related parties 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 related party transactions of the Bank as at 30 June 2004 and as at 31 December 2003 and the total amounts of expenses and income for the six months ended 30 June 2004 and 2003:

	As at 30 June 2004	As at 31 December 2003
	(KZT millions)	
Loans and advances	2,147	2,619
Customer accounts	2,429	2,395

For a description of loans to members of the Board of Directors, Management Board and Managing and Executive Directors, see "Management."

The following table sets forth the Bank's interest income and expense relating to transactions with related parties as at 30 June 2004 and as at 31 December 2003 and 2002:

	As at 30 June	As at 31 December	
	2004	2003	2002
		(KZT thousands)	
Interest income	95,649	178,210	275,541
Interest expense	90,364	145,829	99,341

As at 30 June 2004, letters of credit and guarantees issued for related parties amounted to KZT 0.0 and KZT 23,197 thousand respectively. As at 31 December 2003, total guarantees issued for related parties amounted to KZT 27.1 million compared to KZT 27.3 million at the end of 2002. At the end of 2003 all letter of credit transactions with related parties had been completed. At the end of 2002 their total amount was KZT 5.5 million.

During the first six months of 2004, the volume of the Bank's purchases and sales of securities with related parties amounted to KZT 2.4 million compared to KZT 391.9 million during 2003 and KZT 67.6 million in 2002.

As at 30 June 2004, the Bank's investments in shares of related companies amounted to KZT 130,672 thousand. The Bank's investments in shares of related companies as at 31 December 2003 equalled KZT 146.2 million, compared to KZT 285.9 million at the end of 2002.

In 2003 and 2002 dividends on preferred stock were accrued and paid in the amount of KZT 324.1 million and KZT 346.6 million, respectively.

PRINCIPAL SHAREHOLDERS

Introduction

Since late 1994, a majority of the Bank's common shares have been owned and controlled by the Bank's senior management. As at 30 June 2004, the Bank's senior management beneficially owned 50.5 per cent. of the Bank's outstanding (issued and placed) common shares, of which 48.6 per cent. are held through OJSC Central Asian Investment Company ("CAIC"), a Kazakhstan company.

The Bank's common and preference shares are listed on the "A" list of the Kazakhstan Stock Exchange. In June 1997, the Bank launched an international offering of its common shares in the form of depositary receipts, or GDRs. This was the first international offering of depositary receipts by a Kazakhstan corporate entity. The GDRs are listed on the London and Istanbul Stock Exchanges, traded on the Berlin and Frankfurt Stock Exchanges and are eligible for trading on PORTAL.

Principal Shareholders

The following table sets forth as at 30 June 2004 (unless a different date is noted) the beneficial ownership of the Bank's common shares by:

- each person who, to the Bank's knowledge, beneficially owned more than five per cent. of its common shares;
- each of the Bank's directors and senior managers; and
- all of the Bank's directors and senior managers as a group.

Except as indicated, beneficial ownership includes the sole power to vote and to dispose of the Bank's common shares.

	Beneficial Ownership	
Name of Beneficial Owner	**(shares)**	**(per cent.)[1]**
Major shareholders:		
CAIC[2]	180,347,855	52.1
EBRD	51,921,189	15.0
Directors and senior managers:[2]		
Nurzhan Subkhanberdin[3]	131,882,797	38.1
Nina Zhussupova	13,186,317	3.8
Askar Alshinbayev	8,073,091	2.3
Aidar Akhmetov	5,920,098	1.7
Nurzhan Bekshenov	5,920,098	1.7
Almat Turtayev	5,920,098	1.7
Azat Abishev	4,036,726	1.2
All directors and executive officers as a group (seven persons)[2]	174,939,225	50.5

(1) Based on outstanding common shares. As at 30 June 2004, there were 346,129,779 common shares outstanding.

(2) CAIC is the entity through which the Bank's directors and senior managers beneficially own common shares in the Bank. As at 30 June 2004, CAIC held 168,507,659 shares (representing 48.7 per cent. of the outstanding common shares) on behalf of the directors and senior managers listed above, representing all of the common shares beneficially owned by such persons except for 6,431,566 common shares held directly by Mr. Subkhanberdin. In addition to the shares of the directors and executive officers listed above, CAIC held an additional 11,840,196 common shares beneficially owned by former directors of the Bank.

(3) As at 30 June 2004, Mr. Subkhanberdin beneficially owned 125,451,231 (or 36.2 per cent.) of the Bank's common shares indirectly through CAIC and 6.431,566 (or 1.9 per cent.) of the Bank's common shares directly.

In addition to its common shares, as at 30 June 2004, the Bank had 55,763,186 non-voting preference shares outstanding. See "Capitalisation." Each preference share entitles the holder to a fixed annual dividend of $0.04. If such dividends are not paid, holders of preference shares are granted voting rights until all accrued and payable dividends are paid in full. None of the preference shares are convertible into common shares. As at 30 June 2004, none of the preference shares were held by any of the Bank's directors or senior managers.

Shareholders' Agreement with the EBRD

In connection with the EBRD's purchase of the Bank's common shares in August 2003, the EBRD entered into a Shareholders' Agreement dated 6 June 2003 (the "Shareholders' Agreement") with the Bank and three of the Bank's principal shareholders, Nurzhan Subkhanberdin, Nina Zhussupova and CAIC (collectively, the "Majority Shareholders") in order to set out the rights and obligations of these shareholders. The Shareholders' Agreement provides, amongst other things, that its terms and conditions shall remain in effect for so long as the EBRD holds common shares of the Bank. The Shareholders' Agreement also provides that:

- the EBRD will have the right to nominate one member of the Bank's Board of Directors;
- the Majority Shareholders shall not vote in favour of resolutions to, amongst other things, amend the Bank's charter, vary, increase or decrease its share capital or the rights attaching to shares, grant options, warrants or similar rights convertible into shares of the Bank, take steps to wind-up or dissolve the Bank, make or permit any material change in the Bank's business or sell, lease, transfer, dispose of or acquire a material part of the Bank's assets, in each case without the prior approval of the EBRD;
- the Majority Shareholders shall have the right to purchase any common shares of the Bank held by the EBRD in the event the EBRD disposes of such shares;
- the Majority Shareholders shall not sell or transfer their shares to any third party without the EBRD's prior consent; and
- the EBRD and the Majority Shareholders shall have the right to subscribe for newly issued shares in the Bank in proportion to their existing shareholdings.

The Shareholders' Agreement also contains a number of restrictive covenants binding on the Bank which are similar to the restrictive covenants in the Bank's existing credit agreements and/or NBK requirements. The Bank is required under the agreement to provide the EBRD with quarterly reports to enable the EBRD to determine the Bank's compliance with the restrictive covenants contained in the agreement.

Put Option Agreement

In addition to the Shareholders' Agreement, the EBRD also entered into a Put Option Agreement dated 6 June 2003 (the "Put Option Agreement") with two of the Bank's principal shareholders, Nurzhan Subkhanberdin and Nina Zhussupova. In accordance with the Put Option Agreement, at any time after 31 August 2009, the EBRD shall have the right to require that part or all of its shares in the Bank be purchased by Mr. Subkhanberdin or, in the event Mr. Subkhanberdin fails to comply with his obligation to purchase such shares, by Ms. Zhussupova. The price of any such purchase is to be determined in accordance with a formula contained in the Put Option Agreement. In certain limited circumstances, the EBRD may exercise its put option earlier.

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. In addition, the Government of Kazakhstan and the NBK have undertaken structural reforms in the banking sector aimed at promoting consolidation and improving the overall viability of the system.

Legislation adopted in 1995 established the current legal framework of Kazakhstan's banking system. Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks the second tier. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the NBK.

The National Bank of Kazakhstan

The NBK is the central bank of Kazakhstan. The NBK is an independent institution, but is subordinate to the President of Kazakhstan. The President has the power, amongst other things, to appoint, with the approval of Parliament, and remove the NBK's Governor and deputy Governors, to confirm the annual report of the NBK on the recommendation of the Governor, to confirm the concept and design of the national currency, and to request information from the NBK. Anvar Saidenov was appointed Governor of the NBK in January 2004, replacing Grigori Marchenko.

The principal task of the NBK is to ensure the stability of prices in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, organise banking settlement and foreign exchange systems with a view to the integration of Kazakhstan into the international economy and to ensure the stability of the financial system.

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 of Kazakhstan.

The NBK's reform of the banking sector started in 1996 with the introduction of international prudential standards such as 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, bringing accounting practices closer to IFRS, and personnel training programmes.

To strengthen the banking industry, promote stability and move toward internationally accepted practices, in December 1996 the NBK adopted a regulation requiring commercial banks to draft and adopt recapitalisation and corporate enhancement plans with the aim of ensuring that banks have reasonable plans and policies, enhancing their ability to attract long-term, private investors.

The NBK's Banking Supervision Department previously focused on ensuring financial solvency, protection of depositors and maintaining a stable monetary system. The objectives of reforms introduced in 1996 were to bring supervisory practices closer to international standards and allow for a more transparent view of the banks' capitalisation levels and exposure to financial risks. The department has adopted guidelines for bank inspections and analysis of periodic reports submitted by commercial banks to the NBK.

However, effective 1 January 2004, a new state agency, the FMSA, was created. The FMSA has, amongst other supervisory functions previously performed by the NBK's Banking Supervision Department, the following responsibilities with respect to banks operating in Kazakhstan: issuance of permits for their formation, issuance of licences for their operation, approval of prudential rules for their activities (e.g., credit limits and limits on certain types of transactions) and inspection of their operations. All of these functions were previously exercised by the NBK. The purpose of this shift of responsibilities was to prevent the problems and conflicts inherent in having the NBK regulate itself, since it is a key player in the financial market of Kazakhstan. In its role as the country's central bank, the NBK will continue to regulate activities of banks to the extent they involve currency matters or affect fiscal policy. However, the Agency for Financial Supervisions is entirely separate from the NBK and will report directly to the President.

The NBK also works closely with domestic banks to enhance the overall viability and solvency of the banking system. In July 1997, a number of amendments to Kazakhstan banking legislation were adopted to enable banks to diversify their activities in the financial services sector, including the ability to manage pension and investment funds and establish leasing and insurance companies.

In December 1999, a self-funded domestic deposit insurance scheme was established and, as at the end of June 2004, 33 banks were covered by this scheme.

In March 2001, new legislation was introduced in relation to the holding of shares in a Kazakhstan bank. As a result, any shareholding of ten per cent. or more (whether held independently or jointly with another legal entity) now requires the approval of the Agency for Financial Supervision. Furthermore, a foreign entity holding ten per cent. or more of a Kazakhstan bank must have a credit rating equal to or better than that of the Republic of Kazakhstan.

Commercial Banks

The NBK has taken measures to strengthen the banking industry and regularly monitors compliance with capital adequacy (in compliance with international standards set by the Basle Accord), current liquidity ratios, maximum credit exposure to single borrowers, maximum creditor exposure to single borrowers for bank insiders, maximum investments in fixed and other non-financial assets and contingent obligations. It also limits foreign exchange positions. Additionally, the NBK has adopted regulations on problem asset classifications and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and loan loss reserves.

As at 30 June 2004, there were 36 banks operating in Kazakhstan, excluding the DBK and the NBK. Commercial banks operating in Kazakhstan can be divided into four groups: large banks including the Bank, HSBK and Bank TuranAlem; state-owned banks, including Zhylstroysberbank and the Development Bank of Kazakhstan; subsidiaries of foreign banks, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan; and smaller banks. The banking industry has been consolidating in recent years and the current number of banks operating in Kazakhstan represents a significant reduction from 210 banks in mid-1993. This decrease was largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. This general reduction in the number of banks has largely been at the expense of small- and medium-sized banks. However, in October 1996, Kramds Bank, the fifth-largest bank in Kazakhstan in terms of assets, was liquidated by the NBK because it had violated prudential regulations and was insolvent.

For a foreign bank to establish a subsidiary or joint venture where it has more than a 50 per cent. interest, the foreign bank must initially maintain a representative office in Kazakhstan for at least one year. A number of foreign banks have opened representative offices in Kazakhstan, including Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG, ING Bank, Société Générale, American Express Bank Ltd. and Bankgesellschaft Berlin. Whilst subsidiaries of foreign banks do not currently provide significant competition in the retail banking sector, the Bank believes that such banks have already become its main competitors in the corporate banking sector. Foreign banks also bring international experience in servicing customers and target the best corporate customers of Kazakhstan banks, as well as foreign companies.

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. To operate as a bank, a Kazakhstan legal entity must be created; however, the bank may be a subsidiary or a joint venture.

Under relevant legislation, "a bank with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks. As at 30 June 2004 there were 16 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank AG, Deutsche Bank AG, American Express Bank Ltd., Commerzbank AG, Citibank N.A., ING Bank N.V., Bankgesellschaft Berlin and Société Générale.

Industry Trends

According to the NBK, the total capital of domestic, commercial banks increased 44.9 per cent. in 2003 and, as at 1 January 2004, amounted to approximately U.S.$1.6 billion. During such period, the total assets of such banks increased by 46.6 per cent. and, as at 1 January 2004, amounted to approximately U.S.$11.6 billion. In 2003, the aggregate liabilities of such banks increased by 47.7 per cent. and amounted to approximately U.S.$10.3 billion as at 1 January 2004 and their aggregate net income increased 57.1 per cent. The share of the total assets of the second-tier banks in Kazakhstan's GDP as at 31 December 2003 amounted to 37.7 per cent., as compared to 30.6 per cent. at the end of 2002.

TERMS AND CONDITIONS OF THE FURTHER NOTES

The following (subject to amendment and other than the statements in italics) are the terms and conditions of the Further Notes which will be endorsed on each Note Certificate and will be attached and (subject to the provisions thereof) apply to each Global Note:

This Note is one of a duly authorised issue of U.S.$150,000,000 7 per cent. Notes due 2009 (the "**Further Notes**") issued by Kazkommerts International B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed by JSC Kazkommertsbank (the "**Guarantor**") pursuant to a deed of guarantee dated 3 November 2004 as supplemented by a supplemental deed of guarantee dated 10 February 2005 (together, the "**Guarantee**"). The Further Notes will be consolidated and form a single series with the U.S.$350,000,000 7 per cent. Notes due 2009 of the Issuer issued on 3 November 2004 (the "**Existing Notes**", and, together with the Further Notes, the "**Notes**", which expression shall, unless the context otherwise so requires be deemed to include a reference to any further notes issued pursuant to Condition 15 and forming a single series therewith). The Notes are constituted by a trust deed dated 3 November 2004 as supplemented by a supplemental trust deed dated 10 February 2005 (together, the "**Trust Deed**") between the Issuer, the Guarantor and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**" which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes. The Issuer and the Guarantor have entered into a paying agency agreement dated 3 November 2004 as supplemented by a supplemental paying agency agreement dated 10 February 2005 (together, the "**Agency Agreement**") with the Trustee, Citibank International plc, as registrar (the "**Registrar**"), Citibank, N.A., as principal paying agent (the "**Principal Paying Agent**"), and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**") and the transfer agents (the "**Transfer Agents**") named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**" which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes and the Guarantee.

The holders of the Notes (the "**Noteholders**") are bound by, subject to, and are deemed to have notice of, all the provisions of the Notes, the Agency Agreement, the Guarantee and the Trust Deed. Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Notes, the Trust Deed, the Guarantee and the Agency Agreement and are subject to the detailed provisions contained therein. Copies of the Trust Deed, the Guarantee and the Agency Agreement are available for inspection at the specified office, for the time being, of the Principal Paying Agent, and of each of the Agents. The initial Agents and their initial specified offices are listed below.

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

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in definitive, fully registered form, without interest coupons attached. The Notes will be issued in minimum denominations of U.S.$10,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (each denomination an "**authorised denomination**"). A certificate (each a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding or holdings of Notes. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the "**Register**") which the Issuer shall procure to be kept and maintained by the Registrar.

1.2 Title

Title to the Notes will pass by and upon registration in the Register. In these Conditions, "**Noteholder**" and "**holder**" mean the Person (as such term is defined below) in whose name a Note is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Note will (except as otherwise ordered by a court of competent jurisdiction or 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 interest therein, any writing thereon by any Person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no Person will be liable for so treating the holder.

As used in these Conditions, ''**Person**'' means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality.

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. TRANSFER OF NOTES AND ISSUE OF NOTES

2.1 Transfer

Subject to Conditions 2.4 and 2.5, a Note may be transferred in whole or in part in an authorised denomination upon the surrender of the Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the ''**Transfer Form**'') duly completed and executed, 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 persons who have executed the Transfer Form. 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.

2.2 Delivery

Each new Note Certificate to be issued upon a transfer of any Notes will, within five Business Days (as such term is defined below) of the request for transfer being duly made, be delivered at the specified office of the Registrar or, as the case may be, any Transfer Agent or (at the request and the risk of such transferee) be mailed free of charge to the transferee by uninsured post to such address as the transferee entitled to the Notes represented by such Note Certificate may have specified. In this Condition 2.2, ''**Business Day**'' means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the cities in which the Registrar and any such Transfer Agent have their respective specified offices.

2.3 No Charge

Registration or transfer of Notes will be effected without charge to the holder or transferees thereof, but upon payment (or against such indemnity from the holder or the transferee thereof as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of such Note.

2.5 Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes set forth in a schedule to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee, the Registrar and the Transfer Agents. A copy of the current regulations will be sent, free of charge, by the Registrar or any Transfer Agent to any Noteholder who so requests in writing.

3. STATUS OF NOTES AND GUARANTEE

3.1 Status of the Notes

The Notes constitute direct, general, unconditional and (subject to Condition 4) 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.

3.2 Status of the Guarantee

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

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

4. NEGATIVE PLEDGE

4.1 Negative Pledge of the Issuer

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

4.2 Negative Pledge of the Guarantor

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

4.3 Certain Definitions

For the purposes of these Conditions:

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

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

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

"**Material Subsidiary**" means, at any given time, any Subsidiary of the Guarantor whose gross assets or gross revenues represent at least 10 per cent. of the consolidated gross assets, or, as the case may be consolidated gross revenues of the Guarantor and its consolidated Subsidiaries and, for these purposes:

4.3.1. 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

4.3.2. the consolidated gross assets and consolidated gross revenues of the Guarantor and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements.

A report or certificate of the Auditors (as defined in the Trust Deed) of the Guarantor (whether or not addressed to the Trustee and whether or not containing a monetary or other limit on the liability of the Auditors) that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or throughout any period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties; and the Trustee shall be entitled to rely upon any such report or certificate prepared by the Auditors and shall not be responsible for any loss occasioned by acting on any such report or certificate, as the case may be.

"**Permitted Security Interest**" means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entities to the Guarantor, (ii) which arise 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, (iii) 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 Guarantor held by financial institutions, (iv) arising in the ordinary course of the Guarantor's or a Subsidiary's business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers, (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, (vi) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (vii) 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, (viii) granted upon or with regard to any property hereafter acquired by the Guarantor or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of 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, (ix) created or outstanding upon any property or assets (including current and/or future revenues, accounts receivables and other payments) of the Guarantor or any Material 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 Guarantor and the Material Subsidiaries 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 (ix) 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 loans to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with International Accounting Standards) and (x) 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.$50,000,000 (or its equivalent in other currencies) at that time.

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

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

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at a given time, any other Person (the "**second Person**") (i) whose affairs and policies the first Person directly or indirectly controls or (ii) as to whom the first Person owns directly or indirectly more than 50 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.

5. CERTAIN COVENANTS

For so long as any Note remains outstanding:

5.1 Limitations on Certain Transactions

Neither the Issuer nor the Guarantor will, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.$5,000,000 unless such transaction or series of transactions is or are at a Fair Market Value.

For purposes of this Condition, the term "**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 or certificate of the Guarantor of the Fair Market Value of a transaction, shall, in the absence of manifest error, be conclusive and binding on all parties; and the Trustee shall be entitled to rely upon any such report prepared by such Auditors and shall not be responsible for any loss occasioned by acting on any such report or certificate.

5.2 Limitation on Payment of Dividends

The Guarantor 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 10) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default or (ii) at any time when no such Event of Default or event exists, (a) more frequently than once during any calendar year or (b) in an aggregate amount exceeding 50 per cent. of the Guarantor's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with International Accounting Standards, for which purpose, the amount of the Guarantor's net income shall be determined by reference to its audited financial statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to (i) distributions by the Guarantor of its common shares in connection with an increase of capital permitted under Condition 5.1 or (ii) the payment of any dividends in respect of any preferred shares of the Guarantor.

5.3 Provision of Financial Information

For so long as any Notes are outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, each of the Issuer and the Guarantor will furnish upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer or the Guarantor is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule l2g3-2(b) thereunder.

6. INTEREST

Each Note bears interest from 3 November 2004 (the "**Issue Date**") at a rate of 7 per cent. per annum (the "**Rate of Interest**"), payable on 3 May and 3 November in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**."

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note Certificate, 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 holder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the holders 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).

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).

If interest is required to be calculated for any other 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. REDEMPTION, PURCHASE AND CANCELLATION

7.1 Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 3 November 2009, subject as provided in Condition 8.

7.2 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 holders of the Notes (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Netherlands or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 1 November 2004 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 9 or the Guarantee, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 9 or in the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 1 November 2004 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), which change or amendment becomes effective on or after 1 November 2004, and (ii) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 7.2 the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers in form and substance satisfactory to the Trustee of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Amounts or (as the case may be) the Guarantor has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a)(i) and (a)(ii) above or (as the case may be) (b)(i) and (b)(ii) above, in which event they shall be conclusive and binding on the holders of the Notes. Upon the expiry of any such notice as is referred to in this Condition 7.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 7.2.

7.3 Purchase

The Issuer or the Guarantor may at any time purchase or procure others to purchase for its account the Notes at any price in the open market or otherwise. Notes so purchased may be held or resold (provided that such resale is outside the United States as defined in Regulation S under the Securities Act) or surrendered for cancellation, at the option of the Issuer or the Guarantor, as the case may be. Any Notes so purchased, while held by or on behalf of the Issuer or the Guarantor, as the case may be, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

7.4 Cancellation

All Notes redeemed or purchased and surrendered for cancellation as aforesaid will be cancelled forthwith and may not be re-issued or re-sold.

8. PAYMENTS

8.1 Principal

Payment of principal (whenever due) and interest due on redemption will be made by transfer to the account of the Noteholder appearing in the Register or if (i) it does not have such a registered account or (ii) the principal amount of the Notes held by such person is less than U.S.$250,000, by U.S. Dollar cheque drawn on a bank in New York City mailed to the registered address of the Noteholder by uninsured mail at the risk of the Noteholder. Such payment will only be made upon presentation and surrender of the relevant Note Certificate at the specified office of any Paying Agent.

8.2 Interest

Subject to the paragraph directly following below, and Condition 8.4, payments of interest (other than interest due on redemption) in respect of each Note will be made by U.S. Dollar cheque drawn on a bank in New York City and mailed to the relevant Noteholder at the address appearing in the Register as provided below. For the purposes of Condition 8.1 or 8.2, the Noteholder will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment.

Upon application by a Noteholder to the specified office of the Registrar not later than the fifteenth day before the due date for the payment of any interest (other than interest due on redemption) in respect of such Note, such payment will be made by transfer to a U.S. Dollar account maintained by the payee with a bank in New York City. Any such application or transfer to a U.S. Dollar account shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Notes which become payable to the Noteholder who made the initial application until such time as the Registrar is notified in writing to the contrary by such Noteholder.

8.3 Payments Subject to Fiscal Laws

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

8.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Business Day (as such term is defined below), for value on the first following day which is a Business Day) will be initiated (i) on the due date for payment or, if later, the day on which the relevant Note Certificate is surrendered at the specified office of any of the Paying Agents (in the case of principal and interest due on redemption) and (ii) on the due date for payment (in the case of interest due other than on redemption).

Where payment is to be made by cheque, the cheque will be mailed (i) on the Business Day immediately preceding the due date for payment or, if later, the day on which the relevant Note Certificate is surrendered at the specified office of any of the Paying Agents (or if such day is not a Business Day, the immediately following Business Day) (in the case of principal and interest due on redemption) and (ii) on the Business Day immediately preceding the due date for payment (in the case of interest due other than on redemption).

A Noteholder shall not be entitled to any interest or other amount in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 8 arriving after the due date for payment or being lost in the mail.

In these Conditions, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in London and New York City and, in the case of the surrender of a Note Certificate, in the place where the Note Certificate is surrendered.

8.5 Partial Payments

If at any time a partial payment of principal and/or interest is made in respect of any Note, the Issuer shall procure that the Registrar shall endorse the Register with a statement indicating the amount and date of such payment and, in the case of partial payment upon presentation of a Note Certificate, shall endorse the relevant Note Certificate with a statement indicating the amount and date of such payment.

8.6 Agents

The names of the initial Agents and their initial specified offices are set forth at the end of this Offering Circular. Any of the Agents may resign in accordance with the provisions of the Agency Agreement and each of the Issuer and the Guarantor reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents provided that it will at all times maintain (i) a Registrar, (ii) a Paying Agent and (iii) a Paying Agent and a Transfer Agent having a specified office in Europe, which will be in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. In addition, the Issuer undertakes that, if the European Council Directive 2003/48/EC or any other Directive implementing the conclusion of the ECOFIN Council Meeting of 26-27 November 2000 is brought into force, 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 any such Directive. Notice of any such termination or appointment and of any change in the specified offices of the Agents will be published in accordance with Condition 14 below.

9. TAXATION

All payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges imposed, levied, collected, withheld or assessed by The Netherlands or the Republic of Kazakhstan or, in either case, any political subdivision or any authority thereof or therein having the power to tax (collectively "**Taxes**") unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations set forth below, pay such additional amounts (the "**Additional Amounts**") to the holder of any Note as will result in receipt by the Noteholder of such amounts as would have been received by them if no such withholding or deduction on account of any such Taxes had been required. However, neither the Issuer nor the Guarantor will be required to make any payment of Additional Amounts to any such holder for or on account of any such Taxes (a) which would not have been so imposed (i) but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership or a corporation) and The Netherlands, in the case of Taxes imposed by The Netherlands, or the Republic of Kazakhstan, in the case of Taxes imposed by the Republic of Kazakhstan, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein other than the mere holding of the Note, or (ii) but for the presentation by the holder of any such Note for payment on a date more than 30 days after the date (the "**Relevant Date**") which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days; or (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; nor shall Additional Amounts be paid with respect to any payment on a Note or under the Guarantee to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for Tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

In addition, the Issuer will indemnify and hold harmless each holder of a Note (subject to the exclusions set forth in (a) and (b) above) and will, upon written request of each holder subject to the exclusions set forth in (a) and (b) above), and provided that reasonable supporting documentation is provided, reimburse each such holder for the amount of any Taxes levied or imposed by way of deduction or withholding by The Netherlands or the Republic of Kazakhstan and paid by the holder as a result of payments made under or with respect to the Notes. Any payment made pursuant to this paragraph shall be considered an Additional Amount.

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

If the Issuer or the Guarantor becomes generally subject at any time to any taxing jurisdiction other than or in addition to The Netherlands or, in the case of the Guarantor, the Republic of Kazakhstan, references in these Conditions to The Netherlands or, as the case maybe, the Republic of Kazakhstan shall be read and construed as a reference to The Netherlands and/or the Republic of Kazakhstan and/or such other jurisdiction.

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

10. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified to its satisfaction) shall, give notice to the Issuer that the Notes are and they shall immediately become due and repayable at their principal amount together with accrued interest without further action or formality if any of the following events (each, an "**Event of Default**") occurs:

10.1 *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 Additional Amounts on any of the Notes and such default in respect of interest or Additional Amounts continues for a period of 10 Business Days; or

10.2 *Breach of other obligations*: the Issuer or the Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Guarantee or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10) 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 or the Guarantor, as the case may be, by the Trustee; or

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

10.4 *Bankruptcy*: (i) 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 the Guarantor or any Material Subsidiary 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 (ii) the Issuer or the Guarantor or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be 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 the Guarantor or any Material Subsidiary, 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 the Guarantor or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

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

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

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

10.8 *Invalidity or Unenforceability*: (i) the validity of the Notes, the Trust Deed, the Guarantee or the Agency Agreement is contested by the Issuer or the Guarantor or the Issuer or the Guarantor shall deny any of its obligations under the Notes, the Trust Deed, the Guarantee or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee or the Agency Agreement or (iii) all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this clause 10.8, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

10.9 *Government Intervention*: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

10.10 *Controlling Shareholder*: the Issuer ceases to be a wholly-owned Subsidiary of the Guarantor.

11. PRESCRIPTION

Claims in respect of principal and interest will become void unless made within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

12. REPLACEMENT OF NOTE CERTIFICATES

If any Note Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or the Transfer Agent subject to all applicable laws and stock exchange requirements (if applicable), upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity or otherwise as the Issuer and/or the Registrar may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

13. MEETINGS OF NOTEHOLDERS, AMENDMENT, MODIFICATION, WAIVER AND SUBSTITUTION

13.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter relating to the Notes, including the modification by Extraordinary Resolution of these Conditions or the Guarantee. The quorum at any such meeting for passing an Extraordinary Resolution shall be one or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented, except that at any meeting the business of which includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to change the currency of payment of the Notes, (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, (v) to modify or cancel the Guarantee or (vi) to modify the percentage required to pass any resolution, the necessary quorum for passing an Extraordinary Resolution shall be one or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than one-quarter, of the aggregate principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

13.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any provision of the Trust Deed, the Guarantee or the Notes (including these Conditions) which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any provision of the Trust Deed, the Guarantee or the Notes (including these Conditions) which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

13.3 Substitution

The Trust Deed contains provisions under which the Guarantor or a Subsidiary of the Guarantor may, without the consent of the Noteholders assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes provided that certain conditions specified in the Trust Deed are fulfilled to the satisfaction of the Trustee.

14. NOTICES

Notices to Noteholders will be deemed to be validly given if sent by first class mail (airmail if overseas) to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses as recorded in the Register, and will be deemed to have been validly given on the fourth Business Day after the date of such mailing. Notices will also be published, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if in the opinion of the Trustee such publication is not practicable, in an English language newspaper having general circulation in Europe, and each such notice shall be deemed to have been given on the date of such publication or, if published more than once on different dates, on the first date on which publication is made.

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

Exchange and the rules of the Luxembourg Stock Exchange so require, publication will also be made in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort).

15. 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 securities having the same terms and conditions as the Notes in all respects (except for the issue price, issue date, and the first payment of interest on them) and so that such further securities shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed.

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

16. ENFORCEMENT

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Guarantee and the Notes (whether by arbitration pursuant to the Trust Deed or the Guarantee or by litigation), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding and (b) it shall have been indemnified to its satisfaction. No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

17. INDEMNIFICATION OF THE TRUSTEE

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

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Guarantor, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

18. GOVERNING LAW, JURISDICTION AND ARBITRATION

18.1 Governing Law

The Notes, the Trust Deed and the Guarantee are governed by, and shall be construed in accordance with, the laws of England.

18.2 Jurisdiction

Subject to Condition 18.6, each of the Issuer and the Guarantor has agreed that the courts of England shall have, subject as follows, exclusive jurisdiction to hear and determine any suit, action or proceedings which arise out of or in connection with the Notes or the Trust Deed ("Proceedings") and, for such purposes, have irrevocably submitted to the jurisdiction of such courts. Nothing in this Condition 18.2 shall limit the right of the Trustee or, as the case may be, a Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or, as the case may be, a Noteholder, in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

18.3 Appropriate Forum

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

18.4 Process Agent

Each of the Issuer and the Guarantor has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered in connection with any Proceedings in England, to JSC Kazkommertsbank, London Representative Office at 3rd Floor, Broughton House, 6-8A Sackville Street, London WlS 3DG or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or reenacted from time to time). Nothing in this sub-clause shall affect the right of the Trustee or a Noteholder to serve process in any other manner permitted by law.

18.5 Consent to enforcement etc.

Each of the Issuer and the Guarantor consents generally in respect of any Proceedings (or arbitration in accordance with Condition 18.6 to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, judgment or award which is made or given in such Proceedings or arbitration.

18.6 Arbitration

Procedure: Each of the Issuer and the Guarantor has agreed in the Trust Deed that at the option of the Trustee, any controversy, claim or cause of action brought by any party against another party or arising out of or relating to the Notes may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration, such rules are deemed to be incorporated, by reference, into this clause. The place of the arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If there is more than one claimant or respondent party in any arbitration commenced pursuant to this Condition 18.6, such claimant or respondent parties shall be deemed to be a single entity for the purposes of nominating an arbitrator. If such claimant or respondent parties are unable to agree upon the identity of such a single nominee 20 calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within 30 calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

Fees: Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar cost which shall be paid by such party) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgement upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

FORM OF FURTHER NOTES AND TRANSFER RESTRICTIONS

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

Form of Notes

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

Further Notes offered and sold in reliance on Rule 144A will be represented by interests in the Restricted Global Note, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Closing Date with Citibank, N.A., as custodian (the "Custodian") for DTC. The Restricted Global Note (and any Note Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note as set forth below.

Following the date which is 40 days after the later of the commencement of the offering and the Closing Date (the "Consolidation Date"), the Regulation S Further Notes will consolidate and form a single series with the Existing Notes. The Rule 144A Further Notes will be consolidated and form a single series with the Existing Notes on the Closing Date.

The Unrestricted Global Note issued in respect of the Regulation S Further Notes will initially have a different Common Code and ISIN to the Unrestricted Global Note issued in respect of the Existing Notes. Following the Consolidation Date, both Unrestricted Global Notes will have the same Common Code and ISIN. The Restricted Global Note issued in respect of the Rule 144A Further Notes will have the same CUSIP Number and Common Code as the Restricted Global Note issued in respect of the Existing Notes. See "General Information".

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

Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

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

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

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

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

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

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

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

"THIS NOTE AND THE GUARANTEE OF THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WERE ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE ISSUER AND THE GUARANTOR THAT (A) THE NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR THE GUARANTOR, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE."

(iv) The Issuer, the Bank, the Registrar, the Managers and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements and if the purchaser is acquiring any Further Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Each purchaser of Further Notes outside the United States pursuant to Regulation S, and each subsequent purchaser of such Further Notes in re-sales during the period which expires on and includes the 40th day after the later of the commencement of the offering of the Further Notes and the Closing Date (the "distribution compliance period"), will be deemed to have represented, agreed and acknowledged as follows:

(i) It is, or at the time Further Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. Person and it is located outside the United States (within the meaning of Regulation S).

(ii) It understands that such Further 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 Further Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States.

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

Exchange of Interests in Global Notes For Note Certificates

Registration of title to the Further Notes initially represented by the Restricted Global Note in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless such depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary and the Registrar has received a notice from the registered holder of the Restricted Global Note requesting an exchange of a specified amount of the Restricted Global Note for individual Note certificates (the "Restricted Note Certificates").

Registration of title to the Further Notes initially represented by the Unrestricted Global Note in a name other than the nominee of the common depositary for the Euroclear Operator and Clearstream, Luxembourg will only be permitted (i) if the Euroclear Operator 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 (ii) following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (i.e. common depositary) of the Unrestricted Global Note requesting an exchange of the Unrestricted Global Note for individual Note certificates (the "Unrestricted Note Certificates" and, together with the Restricted Note Certificates, the "Note Certificates").

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

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

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

Euroclear, Clearstream, Luxembourg and DTC Arrangements

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) Citivic Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through the Euroclear Operator and Clearstream, Luxembourg, on the one hand, and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in the Euroclear Operator, Clearstream, Luxembourg and DTC.

Interests in the Unrestricted Global Note and the Restricted Global Note will be in uncertificated book-entry form.

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

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

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

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the fifteenth day before the due date for such payment (the ''Record Date'). Trading between the Restricted Global Note and the Unrestricted Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, the Euroclear Operator and Clearstream, Luxembourg can only act on behalf of participants, who, in turn, act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Trading between the Euroclear Operator and/or Clearstream, Luxembourg accountholders

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

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement System.

Trading between DTC Seller and the Euroclear Operator/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for the Euroclear Operator and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to the Euroclear Operator or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between the Euroclear Operator/Clearstream, Luxembourg Seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to the Euroclear Operator or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. The Euroclear Operator or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for the Euroclear Operator and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for the Euroclear Operator and Clearstream, Luxembourg will (i) transmit appropriate instructions to the Custodian who will, in turn, deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depositary for the Euroclear Operator and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

Although the foregoing sets out the procedures of the Euroclear Operator, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes amongst participants of DTC, Clearstream, Luxembourg and the Euroclear Operator, none of the Euroclear Operator, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Bank, the Trustee, any Agent or any of the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, the Euroclear Operator and Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

SUBSCRIPTION AND SALE

UBS Limited (the "Manager") is acting as manager and bookrunner of the offering. Subject to the terms and conditions stated in the subscription agreement dated the date of this Offering Circular, the Manager has agreed to subscribe and pay for the Further Notes at an issue price of 98.25 per cent. of their principal amount, plus accrued interest from 3 November 2004, less a combined management and underwriting commission of 0.25 per cent. of such principal amount. In addition, the Issuer and the Bank have agreed to pay certain costs and expenses in connection with the issue of the Further Notes.

The subscription agreement entitles the Manager to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Bank have agreed to indemnify the Manager against certain liabilities in connection with the offer and sale of the Notes.

The Bank and the Issuer have been advised that the Manager proposes to resell the Further Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on the Rule 144A, which sales will be made through affiliated U.S. broker-dealers, and outside the United States to non-U.S. persons in reliance on Regulation S. See "Form of Further Notes and Transfer Restrictions." The price at which the Further Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Form of Further Notes and Transfer Restrictions."

Accordingly, in connection with sales outside the United States, the Manager has agreed that, except as permitted by the purchase agreement and set forth in "Form of Further Notes and Transfer Restrictions," it will not offer or sell the Further Notes within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the closing date, and it will have sent to each dealer to which it sells Notes during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Further 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 this offering, an offer or sale of Further Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

The Manager has represented, warranted and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Notes, will not offer or sell any Further Notes included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

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

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Further Notes included in this offering in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered, sold or delivered directly or indirectly within the United States of America or to, or for the account or benefit of, US persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Manager has further agreed that it will offer and sell the Unrestricted Notes (or any beneficial interests in a Unrestricted Global Certificate): (i) as part of their distribution at any time; and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "Distribution Compliance Period"), only outside of the United States to, or for the account or benefit of, persons who are not U.S. persons in accordance with Rule 903 of Regulation S under the Securities Act; and it will have sent to each distributor, dealer or other person to which it sells any Unrestricted Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Unrestricted Notes within the United States or to, of the account of, U.S. persons.

Until the expiration of 40 days after the commencement of this offering, any offer or sale or the Further Notes within the United States by any dealer (whether or not participating in such offering) may violate the registration requirements of the Securities Act if such offer or sale is made or otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Due to the restrictions set forth above in "Form of Further Notes and Transfer Restrictions-Transfer Restrictions," purchasers of the Notes in the United States are advised to consult legal counsel prior to making any offer for, resale, pledge or other transfer of the Notes.

Each purchaser of Further Notes offered hereby will be deemed to have represented and agreed that it has received a copy of this Offering Circular and such other information as it deems necessary to make an investment decision. Purchasers are also deemed to have made the representations and agreements set out in "Form of Further Notes and Transfer Restrictions-Transfer Restrictions."

Kazakhstan

The Manager has represented, warranted and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Further 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.

The Netherlands

The Manager has represented and agreed that (i) it has not offered, sold or transferred and will not offer, sell or transfer any Further Notes, directly or indirectly, to individuals or legal entities, whether situated in or outside The Netherlands, other than those who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, securities firms, investment institutions, insurance companies, pension funds, other institutional investors and commercial enterprises which regularly, as an ancillary activity, invest in securities) and (ii) it has mentioned and will mention the selling restriction to this effect in all offers, offer advertisements, publications and other documents in which an offer of the Further Notes is made or a forthcoming offer is announced.

Germany

The Manager has acknowledged that no sales prospectus (*Verkaufsprospekt*) under the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) has been, or will be, prepared in connection with the offering of the Further Notes. The Manager has represented, warranted and undertaken that it has offered, sold, publicly promoted and advertised and will offer, sell, publicly promote and advertise the Further Notes only in full accordance with the German Securities Sales Prospectus Act.

In connection with this offering, the Manager may purchase and sell Further Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilising transactions. Over-allotment involves sales of Further Notes in excess of the principal amount of Notes to be purchased by the Manager in this offering, which creates a short position for the Manager. Covering transactions involve purchases of the Further Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Manager may conduct these transactions in the over-the-counter market or otherwise. If the Manager commences any of these transactions, it may discontinue them at any time.

The Manager has performed investment banking and advisory services for the Bank from time to time for which it has received customary fees and expenses. The Manager may, from time to time, engage in transactions with and perform services for the Bank in the ordinary course of its business.

The Bank and the Issuer have agreed to indemnify the Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Manager may be required to make because of any of those liabilities.

TAXATION

Kazakhstan Taxation

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

Under Kazakhstan law as presently in effect, payments of principal and interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax.

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

Payments of interest and fees and commissions to non-Kazakhstan Holders under the Guarantee will be subject to withholding of Kazakhstan tax at a rate of 15 per cent. and payment of fees and commissions will be subject to withholding of Kazakhstan tax at a rate of 20 per cent. respectively, unless reduced by an applicable double taxation treaty. The Bank will agree in the Trust Deed and the Guarantee to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in Condition 9. See "Terms and Conditions of the Notes." Payments, if any, under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax.

Dutch Taxation

General

The following is a general summary of the Dutch tax consequences as at the date hereof in relation to payments made under the Notes and in relation to the acquisition, holding or disposal of Notes. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder of a Note or a prospective holder and in view of its general nature, it should be treated with corresponding caution. Holders should consult their tax advisers with regard to the tax consequences of investing in the Notes. Except as otherwise indicated, this summary only addresses the tax legislation as in effect at the date hereof and as interpreted in published case law until this date.

This paragraph does not describe The Netherlands tax consequences of holders, who have a substantial interest ("aanmerkelijk belang") in the Issuer. In general, a holder of a Note is considered to have a substantial interest in the Issuer, if he, alone or together with his partner (a statutorily defined term) or certain other related persons, directly or indirectly, has (i) an interest of 5 per cent. or more of the total issued capital of the Issuer or of 5 per cent. or more of the issued capital of a certain class of shares of the Issuer, (ii) rights to acquire, directly or indirectly, such interest, or (iii) certain profit sharing rights in the Issuer.

Withholding tax

All payments made by the Issuer under the Notes can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein, provided that none of the payments under the Notes will depend on or will be deemed to depend on the profits or distribution of the profits by the Issuer or an affiliated party (a statutorily defined term).

Corporate income tax and individual income tax

Residents of The Netherlands

If the holder of a Note is a resident or deemed to be a resident of The Netherlands for Netherlands corporate income tax purposes, income derived from the Notes and gains realised upon the disposal of the Notes are subject to a 34.5 per cent. corporate income tax rate (a corporate income rate of 29 per cent. applies with respect to taxable profits up to €22,689).

If the holder of a Note is an individual, resident or deemed to be resident of The Netherlands for Netherlands income tax purposes including the non resident individual holder who has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands, the income derived from the Notes and the gains realised upon the disposal of the Notes are taxable at the progressive income tax rates (with a maximum of 52 per cent.), if:

(i) the holder of a Note has an enterprise or an interest in an enterprise, to which enterprise the Notes are attributable; or

(ii) the holder of a Note is considered to perform activities with respect to the Notes that exceed regular asset management (''normaal vermogensbeheer'').

If the abovementioned conditions (i) or (ii) do not apply to the individual holder of a Note, such holder will be taxed annually on a notional income of 4 per cent. of the net average value of the Notes at a flat rate of 30 per cent. (effective rate of 1.2 per cent.), regardless of whether any interest is received or any capital gains are actually realised. The individual holder of a Note will only be subject to the above income tax in so far as certain thresholds are exceeded.

Non-residents of The Netherlands

A holder of a Note who derives income from a Note or who realises a gain on the disposal or deemed disposal of a Note will not be subject to Netherlands taxation on income or capital gains, provided that:

(i) such holder is neither resident nor deemed to be resident in The Netherlands nor, in the case of an individual, has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands; and

(ii) such holder does not have and is not deemed to have an enterprise or an interest in an enterprise which is, in whole or in part, carried on through a permanent establishment or a deemed permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the Notes are attributable; and

(iii) in the event the holder is an individual, such holder does not carry out any other activities in The Netherlands that exceed regular asset management; and

(iv) such holder does not have an interest in an enterprise in The Netherlands, other than by way of securities, to which the Notes are attributable.

A holder of a Note will not become subject to taxation in The Netherlands by reason only of the execution, delivery and/or enforcement of the Notes or the performance by the Issuer of its obligations under the Notes.

Gift, estate or inheritance taxes

Dutch gift, estate or inheritance taxes will not be levied on the occasion of the acquisition of a Note by way of gift by, or on the death of, a holder of a Note, unless: (i) the holder is, or is deemed to be, resident in The Netherlands; or (ii) such holder at the time of the gift has or at the time of his/ her death had an enterprise or an interest in an enterprise that, in whole or in part, is or was either effectively managed in The Netherlands or carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise the Notes are or were attributable; or (iii) in the case of a gift of a Note by an individual who at the date of the gift was neither resident nor deemed to be resident in The Netherlands, such individual dies within 180 days after the date of the gift, while being resident or deemed to be resident in The Netherlands.

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will be deemed to be resident in The Netherlands, if he/she has been resident in The Netherlands at any time during the ten years preceding the date of the gift or his/her death.

For purposes of Dutch gift tax, an individual not holding Dutch nationality will be deemed to be resident in The Netherlands, if he/she has been resident in The Netherlands at any time during the twelve months preceding the date of the gift.

Other taxes and duties

There is no Dutch registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable by any Noteholder in The Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes.

There is no Dutch value added tax payable in respect of payments in consideration for the issue of the Notes, in respect of the payment of interest or principal under the Notes or the transfer of the Notes.

Proposed EU Directive on the Taxation of Savings Income

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 July 2005 to provide to the tax authorities of 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 Belgium, Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

United States Federal Income Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and retirement or other disposition of Notes by a holder thereof and payments under the Guarantee. This summary applies only to Notes held as capital assets and does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organisations, dealers or traders in securities or currencies or to holders that will hold a Note as part of a position in a "straddle" or as part of a "hedging," "conversion" or "integrated" transaction for U.S. federal income tax purposes or that have a "functional currency" other than the U.S. dollar. Moreover, this summary does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership or disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at the initial issue price. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposition of Notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and existing and proposed U.S. Treasury Regulations, in each case, as available and in effect on the date hereof. All of the foregoing are subject to change, which change could apply retroactively and affect the tax consequences described herein.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Notes who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States; (ii) a corporation organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2) (a) over the administration of which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to its consequences. A ''Non-U.S. Holder'' is a beneficial owner of Notes other than a U.S. Holder.

Interest

Interest paid on a Note or under the Guarantee (including any Additional Amounts) will be included in a U.S. Holder's gross income as ordinary interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes or under the Guarantee will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute ''passive income'' or, in the case of certain U.S. Holders, ''financial services income,'' and payments with respect to interest under the Guarantee generally will constitute ''high withholding tax interest.'' U.S. Holders should note, that recently enacted legislation eliminates the ''financial services income'' and ''high withholding tax interest'' categories for taxable years beginning after 31 December 2006. Under this legislation the foreign tax credit limitation categories will be limited to ''passive category income'' and ''general category income''.

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

Sale, exchange or retirement

Subject to the discussion below under ''Market Discount'',upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise taxable gain or loss equal to the difference, if any, between the amount realised on the sale, exchange or retirement (other than amounts attributable to accrued but unpaid interest, which will be taxable as such) and the U.S. Holder's adjusted tax basis in such Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the cost of such Note to the U.S. Holder increased by any market discount that such U.S. Holder included in income as it accrued. Subject to the discussion below under ''Market Discount'', any such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if such U.S. Holder's holding period for such Notes exceeds one year. Any gain or loss realised by a U.S. Holder on the sale, exchange or retirement of a Note generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

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

Market Discount

U.S. Holders should note that if the Existing Notes are considered to be publicly traded (within the meaning of the applicable U.S. Treasury Regulations), the Further Notes issued hereunder will be treated as having the same issue price (i.e., 98.967%) and issue date as the Existing Notes (i.e., 3 November 2004). Accordingly a U.S. Holder should be treated as having purchased Notes that were issued with market discount for U.S. federal income tax purposes to the extent that the amount paid by such holder is less than the stated redemption price at maturity of the Notes, if such discount exceeds 0.25% multiplied by the number of complete years to maturity (after the holder acquired the Notes) under the Notes.

If a U.S. Holder is treated as having purchased Notes with market discount, any gain realised by the U.S. Holder on the sale, exchange or retirement of the Notes generally will be treated as ordinary income to the extent of the market discount that accrued on the Notes while held by such holder and such holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or continued to purchase or carry the Notes (unless the holder elects to include such market discount in income as it accrues). In general, market discount on a Note will be treated as accruing ratably over the term of such Note, or, at the election of the holder, under a constant yield method.

U.S. backup withholding tax and information reporting

Backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation, and payments of the proceeds of the sale or redemption of an obligation, to certain noncorporate holders of Notes that are United States persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and payments of the proceeds from the sale or redemption of an obligation made within the United States, or by a U.S. payor or U.S. middleman, to a holder (other than an exempt recipient, including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax from any such payment within the United States, or by a U.S. payor or U.S. middleman, on a Note or under the Guarantee to a holder of a Note that is a United States person (other than an "exempt recipient," such as a corporation) if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28 per cent. for years through 2010.

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

The above summary is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes and payments under the Guarantee. Prospective purchasers of Notes should consult their own tax advisers concerning the tax consequences of their particular situations.

ENFORCEMENT OF FOREIGN JUDGMENTS

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

The Notes and the Trust Deed are governed by the laws of England and the Issuer and the Bank have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder, to arbitration in London, England. See Condition 18.6 under "Terms and Conditions of the Further Notes." Kazakhstan's courts will not enforce a judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and The Netherlands are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention"), although there has recently been some doubt as to whether the courts of Kazakhstan would enforce an arbitral award under the Convention. In February 2002, the Constitutional Council of the Republic of Kazakhstan passed a decree on the interpretation of Kazakhstan's Constitution which stated that the conclusion by parties to a commercial contract in which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However, in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic of Kazakhstan. Accordingly, such arbitration awards should be generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

LEGAL MATTERS

Certain legal matters in connection with the offering of the Further Notes will be passed on for the Issuer and the Bank by Mayer, Brown, Rowe & Maw LLP, as to matters of English and United States law. Certain legal matters in connection with the offering of the Further Notes will be passed on for the Manager by White & Case LLP, London, England as to matters of English and United States law, White & Case, LLC, Almaty, Kazakhstan as to matters of Kazakhstan law and NautaDutilh N.V., Rotterdam, The Netherlands as to matters of Dutch law.

INDEPENDENT ACCOUNTANTS

The Bank's audited consolidated financial statements for the years ended 31 December 2003, 2002 and 2001 and as at 31 December 2003 and 2002 included in this Offering Circular, have been audited by TOO Deloitte & Touche, Kazakhstan, independent auditors, as stated in their report appearing herein.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg. The Regulation S Further Notes will be fungible for trading purposes with the Existing Notes on the date which is 40 days after the later of the commencement of the offering and the Closing Date. Until that time, the Unrestricted Global Note relating to the Regulation S Further Notes, which has been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg, will have a temporary Common Code of 021225231 and a temporary ISIN of XS0212252315. Thereafter, the Unrestricted Global Note relating to the Further Notes will have the same Common Code and ISIN as the Existing Notes, namely 020486899 and XS0204868995, respectively. The Restricted Global Note issued in respect of the Rule 144A Further Notes, which has been accepted for clearance through DTC, will have the same CUSIP number and ISIN as the Restricted Global Note representing the Existing Notes, namely 48666F AE 0 and US48666FAE07, respectively.

2. The Issuer and the Bank have obtained all necessary consents, approvals and authorisations in Kazakhstan and The Netherlands in connection with the transactions described herein and the issue and performance of the Notes. The issue of the Existing Notes were authorised by duly adopted resolutions of the sole shareholder and the Managing Board of the Issuer dated 22 October 2004 and 28 October 2004, respectively, and were approved by a duly convened meeting of the Board of Directors of the Bank held on 30 September 2004 and by a resolution of the General Meeting of Shareholders of the Bank held on 4 October 2004. The issue of the Further Notes and the transactions described herein were authorised by duly adopted resolutions of the sole shareholder and the Managing Board of the Issuer dated 31 January 2005 and on or about 2 February 2005, respectively, and were approved by a duly convened meeting of the Board of Directors of the Bank held on 31 January 2005 and by a resolution of the General Meeting of Shareholders of the Bank held on 4 October 2004.

3. Neither the Issuer, the Bank nor any of their subsidiaries is involved in any litigation or arbitration proceeding relating to claims or amounts which is material in the context of the issue of the Notes, nor so far as the Issuer or the Bank is aware, is any such litigation or arbitration pending or threatened.

4. There has been no adverse change, or development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Bank or any of its subsidiaries since 30 September 2004 that is material in the context of the issue of the Notes.

5. For so long as any of the Notes are outstanding, copies of the following documents may be inspected during normal business hours at the specified office of each Paying Agent:

   (a) the Agency Agreement;

   (b) the Trust Deed, including the Guarantee; and

   (c) the updated statutory documents of the Issuer and the Guarantor.

6. For so long as any of the Notes are outstanding, copies of the following documents in English may be obtained, free of charge, during normal business hours at the Specified Office of each Paying Agent:

   (a) the audited consolidated financial statements of the Bank prepared in accordance with IFRS for the years ended and as at 31 December 2003, 2002 and 2001;

   (b) the unaudited consolidated interim financial statements of the Bank prepared in accordance with IFRS for the nine months ended and as at 30 September 2004 and 2003 and for the six months ended and as at 30 June 2004 and 2003;

   (c) the latest published audited year-end consolidated and unaudited consolidated interim financial statements of the Bank;

   (d) the statutory audited consolidated financial statements of the Issuer for the years ended and as at 31 December 2003, 2002 and 2001; and

(e) the latest published statutory year-end unconsolidated financial statements of the Issuer.

The Issuer does not produce interim financial statements.

7. In connection with the application for the Further Notes to be listed on the Luxembourg Stock Exchange, copies of the Charter of the Bank and the constitutive documents of the Issuer (together with English translations thereof) and a legal notice relating to the issue of the Further Notes will be deposited prior to listing with the *Registre de Commerce et des Sociétés à Luxembourg*, where they may be inspected and copies obtained upon request.

8. Subject as provided herein under "Terms and Conditions of the Further Notes" and "Form of Further Notes and Transfer Restrictions," there are no restrictions on the transfer of the Notes. In accordance with the Rules and Regulations of the Luxembourg Stock Exchange, no transaction, once effected on the Exchange, may be cancelled.

9. The Conditions provide that any report or certificate of the auditors called for by or provided to the Trustee in accordance with or for the purposes of the Conditions may be relied upon by the Trustee notwithstanding that such certificate or report contains a monetary or other limit on the liability of the auditors in respect thereof.

INDEX TO FINANCIAL STATEMENTS

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2004 AND 2003
(in Kazakhstani tenge and in thousands, except per share amounts)

	Notes	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Interest income	4, 17	38,927,449	23,740,378
Interest expense	4, 17	(18,552,535)	(13,286,724)
Net interest income before allowance for loan losses		20,374,914	10,453,654
Allowance for loan losses		(9,053,836)	(4,442,087)
NET INTEREST INCOME		11,321,078	6,011,567
Income from services and commission received		7,237,432	5,519,008
Expense on services and commission paid		(1,365,669)	(983,788)
Net gain on operations with trading securities		127,858	185,216
Net gain on foreign exchange operations		1,443,515	1,050,332
Net loss on investments in securities		(172)	(34,826)
Dividends received		17,508	372,436
Other income	5	1,178,253	652,602
NET NON-INTEREST INCOME		8,638,725	6,760,980
OPERATING INCOME		19,959,803	12,772,547
OPERATING EXPENSE		(6,726,611)	(5,657,703)
OPERATING GAIN		13,233,192	7,114,844
(Allowance for)/recovery of losses on other transactions		(423,029)	115,773
Loss from participation in associated companies		(29,705)	(44,295)
INCOME BEFORE INCOME TAX AND MINORITY INTEREST		12,780,458	7,186,322
Income tax expense	6	(6,940,393)	(778,169)
INCOME BEFORE MINORITY INTEREST		5,840,065	6,408,153
Minority interest		(691,614)	(121,227)
NET INCOME		5,148,451	6,286,926
Earnings per share			
Basic and diluted (in KZT)	7	12.87	19.23

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank

P. A. Cheusov
Chief Accountant of JSC Kazkommertsbank

25 November 2004
Almaty, Kazakhstan

The notes on pages F-6 – F-23 form an integral part of these condensed consolidated financial statements. The review Report is on page 1.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED BALANCE SHEETS
AS AT 30 SEPTEMBER 2004, 31 DECEMBER 2003 AND 30 SEPTEMBER 2003
(in Kazakhstani tenge and in thousands)

	Notes	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
ASSETS				
Cash and balances with national (central) banks		16,067,624	28,484,613	11,801,866
Precious metals		-	300,158	-
Loans and advances to banks, less allowance for losses		31,784,687	38,582,824	56,405,248
Trading securities	8	75,064,248	71,200,859	80,548,696
Securities purchased under agreements to resell, less allowance for losses		8,793,564	2,608,318	381,121
Derivative financial instruments		90,034	15,399	30,095
Loans to customers, less allowance for loan losses	9, 17	429,921,072	283,062,443	232,803,406
Investments in securities				
- securities available-for-sale	10	160,453	137,554	128,054
- securities held-to-maturity	10	84,591	32,372	-
Investments in associates	11	172,677	146,206	122,159
Fixed assets, less accumulated depreciation		5,973,640	5,867,947	5,600,395
Intangible assets, less accumulated amortization		410,802	436,051	550,189
Other assets, less allowance for losses	12	3,430,268	3,366,413	2,426,785
TOTAL ASSETS		571,953,660	434,241,157	390,798,014
LIABILITIES AND EQUITY				
LIABILITIES:				
Loans and advances from banks		129,066,300	76,221,919	40,352,116
Securities sold under agreements to repurchase		8,726,749	37,250,675	11,723,751
Derivative financial instruments		8,872	801	39,009
Customer accounts	17	169,677,971	151,589,416	174,380,821
Debt securities issued	13	168,962,001	98,233,366	102,052,864
Other funds borrowed		2,734,871	3,525,473	4,154,916
Dividends payable	15	324,075	404	339,825
Other liabilities	14	14,496,492	8,402,672	5,213,132
		493,997,331	375,224,726	338,256,434
Subordinated debt		22,261,295	8,732,914	9,071,145
Total liabilities		516,258,626	383,957,640	347,327,579
Minority interest		5,110,497	4,704,625	380,851
SHAREHOLDERS' EQUITY:				
Share capital		4,019,022	4,018,930	4,018,900
Share premium		9,454,122	9,453,411	9,453,247
Fixed assets revaluation reserve		701,885	569,783	584,018
Retained earnings		36,409,538	31,536,768	29,033,419
Total shareholders' equity		50,584,537	45,578,892	43,089,584
TOTAL LIABILITIES AND EQUITY		571,953,660	434,241,157	390,798,014

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank

P. A. Chausov
Chief Accountant of JSC Kazkommertsbank

25 November 2004
Almaty, Kazakhstan

The notes on pages F-6 – F-23 form an integral part of these condensed consolidated financial statements. The review Report is on page 1.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2004 AND 2003
(in Kazakhstani tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Retained earnings	Total
At 31 December 2002	3,499,688	5,473,313	6,872	23,085,915	32,065,788
Fixed assets revaluation (less deferred income tax of KZT 136,074 thousand)	-	-	577,146	-	577,146
Issue of share capital	519,212	3,979,934	-	-	4,499,146
Dividends on preferred shares	-	-	-	(339,422)	(339,422)
Net income for the period	-	-	-	6,286,926	6,286,926
At 30 September 2003 (unaudited)	4,018,900	9,453,247	584,018	29,033,419	43,089,584
At 31 December 2003	4,018,930	9,453,411	569,783	31,536,768	45,578,892
Fixed assets revaluation (less deferred income tax of KZT 71,877 thousand)	-	-	180,064	-	180,064
Amortisation of fixed assets revalued	-	-	(47,992)	47,992	-
Sale of Treasury Stock repurchased	92	711	-	-	803
Dividends payable	-	-	-	(323,673)	(323,673)
Net income for the period	-	-	-	5,148,451	5,148,451
At 30 September 2004 (unaudited)	4,019,022	9,454,122	701,855	36,409,538	50,584,537

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank

P. A. Cheusov
Chief Accountant of JSC Kazkommertsbank

25 November 2004
Almaty, Kazakhstan

The notes on pages F-6 – F-23 form an integral part of these condensed consolidated financial statements. The review Report is on page 1.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2004 and 2003
(in Kazakhstani tenge and in thousands)

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax and minority interest	12,780,458	7,186,322
Adjustments for:		
Allowance for loan losses	9,053,836	4,442,087
Allowance for/(Recovery of) losses on other transactions	423,029	(115,773)
Unrealised gain and amortisation of discount on dealing securities	(701,095)	(1,067,600)
Amortization of discount/premium on securities issued	700,261	13,743
Depreciation and amortisation of fixed and intangible assets	955,868	743,792
Decrease in interest accruals	1,897,765	2,690,289
Equity loss from participation in associated companies	29,705	44,295
Net change in recovery value of derivative financial instruments (net)	(66,564)	13,711
Cash flows from operating activities before changes in operating assets/liabilities	25,073,263	13,950,866
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets		
Minimum reserve deposit with the Central Bank of the Russian Federation	(858,350)	-
Loans and advances to banks	(6,595,242)	(13,905,135)
Precious metals	300,158	-
Trading securities	(3,010,313)	(57,566,709)
Securities available-for-sale	(21,388)	5,468,951
Securities held-to-maturity	(49,578)	17,067
Securities purchased under repurchase agreements	(6,174,044)	1,932,540
Loans and advances to clients	(152,959,313)	(62,198,583)
Dividends received	17,508	371,432
Other assets	(129,089)	(1,253,874)
Increase/(decrease) in operating liabilities		
Loans and advances from banks and repurchase agreements	23,743,164	(2,788,959)
Customer accounts	18,564,024	33,723,520
Other borrowed funds	(749,623)	(420,154)
Other liabilities	(749,209)	41,485
Cash outflow from operating activities before taxation	(103,598,032)	(82,627,553)
Income tax paid	(779,853)	(429,454)
Net cash outflow from operating activities	(104,377,885)	(83,057,007)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets (net)	(767,808)	(2,203,524)
Purchase of intangible assets (net)	(88,440)	(52,844)
Acquisition of investments in subsidiaries	(56,176)	(19,079)
Net cash outflow from investing activities	(912,424)	(2,275,447)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of debt securities	66,008,395	69,676,546
Subordinated loan	12,814,434	2,807,673
Sale of shares repurchased	92	519,212
Share premium	711	3,979,934
Net cash inflow from financing activities	78,823,632	76,983,365
NET DECREASE IN CASH AND CASH EQUIVALENTS	(26,466,677)	(8,349,089)
CASH AND CASH EQUIVALENTS, at beginning of the period	47,322,122	55,226,912
CASH AND CASH EQUIVALENTS, at end of the period	20,855,445	46,877,823

Interest paid and received by the Bank in cash during the nine-month period ended 30 September 2004 amounted to KZT 13,757,766 thousand and KZT 36,030,445 thousand, respectively.
Interest paid and received by the Bank in cash during the nine-month period ended 30 September 2003 amounted to KZT 17,691,807 thousand and KZT 24,784,015 thousand, respectively.

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank
25 November 2004
Almaty, Kazakhstan

P. A. Cheusov
Chief Accountant of JSC Kazkommertsbank

The notes on pages F-6 – F-23 form an integral part of these condensed consolidated financial statements. The review Report is on page 1.

(in Kazakhstani tenge and in thousands, except per share amounts)

1. ORGANISATION

JSC Kazkommertsbank ("Kazkommertsbank") was incorporated on 12 July 1990 as an open joint stock company in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of OJSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan (the "NBRK") on 21 October 1991. In 1994, OJSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of JSC Kazkommertsbank. Astana Holding Bank was incorporated in May 1993 as a joint stock company. Kazkommertsbank is registered in the Ministry of Justice under # 4466-1910-AO.

The registered address of Kazkommertsbank is 135 "Zh", Gagarin Ave., Almaty, Republic of Kazakhstan.

Kazkommertsbank has 22 branches in the Republic of Kazakhstan and a representative office in London (England).

Kazkommertsbank is a parent company of the Banking Group (the "Bank") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Kazkommertsbank ownership interest	Type of operation
OJSC Kazkommerts Securities	Republic of Kazakhstan	100%	Securities market transactions
JSC Kazkommerts Invest	Republic of Kazakhstan	100%	Finance services to large corporate and private clients
OJSC IC Kazkommerts Policy	Republic of Kazakhstan	65%	Insurance
LLP "Processing Company"	Republic of Kazakhstan	100%	Payment card transactions and related activities
Kazkommerts International B.V.	Kingdom of Netherlands	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	73.97%	Commercial bank

The subsidiaries Kazkommerts Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100 %) are not included in the condensed consolidated financial statements due to the immaterial impact of their financial statements.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (the "MKB"), a commercial bank operating in the Russian Federation, MKB was included in the consolidated financial statements of the Bank since the Bank has the ability to, and has exercised, effective control over its operations. There is an agreement between the shareholders and the Bank on the purchase of no less than 51% of MKB shares by the Bank. Transaction completion is subject to approval of the NBRK and the Central Bank of the Russian Federation.

2. BASIS OF PRESENTATION

Accounting basis **–** The condensed consolidated interim financial statements of the Bank have been prepared by management in compliance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34). Accordingly, certain information and disclosures normally included in the notes to the annual financial statements as required by International Financial Reporting Standards (IFRS) have been omitted or condensed. The interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Bank's Annual Report for the year ended 31 December 2003.

The condensed consolidated interim financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the revaluation of buildings and constructions and the cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, and financial assets and liabilities held for trading, derivative financial instruments.

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities of the Bank, and disclosure of contingent assets and liabilities at the date of the 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 provisions for loan and investment losses and determination of the fair value of financial instruments.

Although the condensed consolidated interim financial statements are unaudited, they do reflect all adjustments that, in the opinion of management of the Bank, are necessary for a fair presentation of the results of operations for the interim periods. All such adjustments to the financial statements are of a normal, recurring nature. Because the results from common banking activities are so closely related and responsive to changes in market conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the year.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The condensed consolidated interim financial statements of the Bank include the accounts of material majority owned subsidiaries, and MKB, the operations of which are controlled by the Bank.

All intercompany transactions and related balances have been eliminated from the consolidated financial statements.

Investments in associates – Investments in companies in which the Bank has a stake of greater than 20%, and, in the opinion of management, has the ability to significantly influence the operating and financial activities of those companies, are accounted for using the equity method, unless the Bank acquired and holds those companies for resale in the near future, or that company operates under severe long term restrictions, that significantly impair its ability to transfer funds to the Bank.

Investments in other subsidiaries and associated companies – Investments in companies where the Bank owns more than 20% of the share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Bank intends to re-sell such investments in the near future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or approximated fair value, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required.

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and balances on correspondent accounts with banks in countries included in the Organization for Economic Co-operation and Development (OECD).

Precious metals – Assets and liabilities denominated in precious metals are translated at the current rate computed based on the morning fixing of the London Bullion Market (LBM) rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

Loans and advances to banks – In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks 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 losses.

Trading securities – Trading securities represent debt and equity securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable 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 management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Repurchase and reverse repurchase agreements – The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its liquidity management and trading with securities.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Transactions under repo agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collaterized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collaterized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on investments in securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities under repos is recognized as interest income or expense.

Derivative financial instruments – The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps, options on operations with foreign currency and securities.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans **–** Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as an initial recognition adjustment discounting using market rates at inception and included in the profit and loss account.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

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

Non-performing loans **–** Loans to legal entities are placed on non-performing 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. Loans to physical persons are placed on non-performing status with the approval of the authorised bodies of the Bank. 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-performing 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 losses – The Bank establishes allowances for losses 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 financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and other collateral.

Loans originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans.

The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted from loans to customers and banks reflected in the balance sheet.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity – Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at purchase cost, less any allowance for impairment taking into account amortization of discount/premium plus accrued coupon income. Amortized discounts are recognized in the interest income over the period to maturity.

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 profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets – Fixed and intangible assets, with the exception of buildings and constructions, are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by an independent appraiser. The basis for the determination of the fair market value is the real estate market. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Furniture and equipment	10 – 30%
Intangible assets	15 – 33.3%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Taxation – Taxes on income are computed in accordance with the laws of the countries where Kazkommertsbank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Countries where the Bank operates also have various other taxes. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued – Debt securities issued represent bonds and promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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

Share capital and share premium – Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

Retirement and other benefit obligations – The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans to legal entities become overdue by more than 30 days. Interest income also includes interest income earned on investment in securities. Other income is credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

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 transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange **–** The exchange rates at period-end used by the Bank in the preparation of the financial statements are as follows:

	30 September 2004	31 December 2003	30 September 2003
KZT/US Dollar	134.56	144.22	148.93
KZT/Euro	165.74	180.23	169.88
KZT/Gold (1 ounce)	55,566.55	60,031.58	56,883.81
KZT /Russian Rouble	4.61	4.93	4.86
KZT /Kyrgyz som	3.12	3.26	3.5

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

Fiduciary activities **–** The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

4. NET INTEREST INCOME

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Interest income		
Interest on loans to customers	33,971,867	20,904,788
Interest on debt securities	3,840,167	1,850,887
Interest on loans and advances to banks	786,087	928,292
Interest on reverse REPO operations	329,328	56,411
Total interest income	38,927,449	23,740,378
Interest expense		
Interest on debt securities	10,868,259	5,941,218
Interest on customer accounts	5,126,778	5,756,781
Interest on loans and advances from banks	2,203,136	1,336,382
Interest on REPO operations	185,812	15,788
Other interest expenses	168,550	236,555
Total interest expense	18,552,535	13,286,724
Net interest income before allowance for loan losses	20,374,914	10,453,654

5. OTHER INCOME

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Insurance premiums of Kazkommerts Policy	1,125,306	553,490
Income from sale of share in subsidiaries	-	36,624
Other income	52,947	62,488
Total other income	1,178,253	652,602

6. INCOME TAXES

Tax effect of temporary differences as of 30 September 2004, 31 December 2003 and 30 September 2004 comprise:

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Deferred assets:			
Investments in associates	76,694	398,466	343,833
Other assets	-	-	7,142
Total deferred assets:	76,694	398,466	350,975
Deferred liabilities:			
Loans to banks and customers	4,937,365	3,005,134	1,873,498
Provisions under guarantees and letters of credit	(196,687)	92,916	426,952
Investments in associates	7,383	71	-
Fixed and intangible assets	312,137	245,292	157,959
Other assets	190,509	-	-
Total deferred liabilities:	5,250,707	3,343,413	2,458,409
Net deferred tax liabilities	5,174,013	2,944,947	2,107,434

Deferred income tax liabilities	30 September 2004 (unaudited)	30 September 2003 (unaudited)
At beginning of the period	2,944,947	1,214,408
Decrease of fixed assets revaluation reserve	71,877	136,074
Increase in the deferred income tax for the period	2,157,189	756,952
At end of the period	5,174,013	2,107,434

Relationships between tax expenses and accounting profit for the nine months ended 30 September 2004 and 30 September 2003 are presented below:

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Profit before taxation and minority interest	12,780,458	7,186,322
Tax at the statutory tax rates	3,834,137	2,155,897
Tax effect of permanent differences	(902,184)	(1,377,728)
Tax assessment resulting from tax audit	4,008,440	-
Income tax expense	6,940,393	778,169

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Current income tax expense	4,783,204	21,217
Deferred tax expense	2,157,189	756,952
Income tax expense	6,940,393	778,169

Included in current income tax expense is an amount of 4,008,440 thousand tenge, which represents the additional tax assessment imposed by the tax authorities of Kazakhstan following a tax audit completed during 2004.

The additional assessment resulted mainly because the tax authorities disagreed with the Bank's treatment for tax purposes of expenses relating to loan loss provisions as deductions for taxable income purposes.

The Bank's management believes that it acted in good faith and on the basis of the requirements of the legislation existing at the time of the respective transactions.

7. EARNINGS PER SHARE

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Income:		
Net income for the period	5,148,451	6,286,926
Less:		
Dividends on preference stock	(323,673)	(339,422)
Income less dividends on preference shares	4,824,778	5,947,504
Weighted average number of common stock for basic and diluted earnings per share (pieces)	374,925,379	309,266,115
Earnings per share – basic and diluted (KZT)	12.87	19.23

8. TRADING SECURITIES

	Interest to nominal	30 September 2004 (unaudited)	Interest to nominal	31 December 2003	Interest to nominal	30 September 2003 (unaudited)
Debt securities:						
Short-term NBRK notes	3.17-6.31%	35,453,009	1.96-5.11%	22,700,525	1.96-5.56%	29,435,420
State treasury bills of the Republic of Kazakhstan	5.05-8.35%	16,673,575	5.8-9.99%	6,061,421	5.8-9.99%	5,606,599
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125-13.625%	5,714,926	11.125-13.625%	6,399,117	11.125-13.625%	6,878,517
Other corporate bonds of the Russian Federation emitters	7.4-18%	4,628,830	14.5-18%	566,447	-	-
Kaztransoil bonds	8.5%	2,431,813	8.5-9%	2,649,512	8.5%	3,607,857
Avtovaz bonds	11.75%	986,129	15.25%	151,400	-	-
Bonds of Almaty Merchant Bank	8.5%	1,711,401	-	-	8.6%	3,029
Karazhanbasmunai bonds	8%	1,572,384	-	-	11%	1,035,385
Bonds of Kazakh mortgage company	8.9%	1,050,302	8-8.6%	767,742	8-8.6%	13,497
Bonds of Freddie MAC	5.46%	1,127,527	9.28-15.29%	3,909,001	7.13%	7,890,187
Bonds of Development Bank of Kazakhstan	7.61%	948,698	7.125-7.375%	1,017,559	7.13%	280,166
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	455,709	12.75%	360,521	12.75%	394,767
Atyrau region's administration bonds	8.6%	290,905	8.5-8.6%	468,790	8.5%	398,279
Kazakhtelecom bonds	-	-	10.0%	428,638	10%	435,454
Astana municipality bonds	8.5%	329,976	8-8.5%	352,098	8.5%	371,146
Bonds of local executive bodies of the Russian Federation	13.5-15%	185,127	13.76%	168,345	-	-
Bonds of federal loan of the Ministry of finance of Russian Federation	11-12%	199,640	-	-	-	-
KAZTRANSCOM Bonds	8%	175,910	8.0%	157,996	-	-
KAZATOMPROM bonds	8.5%	91,493	8.5%	95,544	8.5%	103,145
Bonds of OJSC Mangistau REK	13%	68,260	-	-	-	-
Bonds of Bank TuranAlem	7,94%	51,627	-	-	7,94%	99,098
Eurobonds of TuranAlem Finance B.V.	7.88%	50,401	7.875-11.5%	1,951,242	11.4%	1,949,372
Kaztransoil Eurobonds	8.5%	23,052	8.5%	20,094	9%	19,980
Almaty Kus bonds	10%	8,887	10.0%	9,886	10%	9,426
Caspian Bank bonds	-	-	9.5%	3,008	9.5%	3,017
Bonds of Eastern Kazakhstan regional administration	-	-	5.97-6.3%	149,307	6.3%	136,420
Bonds of Nevinnomyssky Azot	-	-	18.0%	69,351	-	-
Bonds of VITA	-	-	8.6-14%	66,863	8.6-14%	20,650
State bonds of the Federal Republic of Germany	-	-	4.5%-5.25%	7,731,347	4.69%	7,309,907
The Netherlands state bonds	-	-	3.75%	3,676,560	3.75%	3,475,782
Fannie MAE bonds	-	-	2.0%	3,605,301	2%	3,717,293
Bonds of Federal Home Loan Bank	-	-	2.18%	3,579,163	2.18%	3,744,642
Bonds of PetroKazakhstan Oil Products	-	-	10.0%	1,744,830	10%	1,757,597
US treasury bonds	-	-	3.63%	1,392,056	3.2%	1,464,419
		74,229,581		70,253,664		80,161,051

	Ownership share	30 September 2004 (unaudited)	Ownership share	31 December 2003	Ownership share	30 September 2003 (unaudited)
Shares:						
Kazakhtelecom GDN	0.57%	486,659	0.54%	219,209	0.54%	210,575
Kazakhmys	0.11%	348,008	0.11%	83,649	0.11%	114,320
Ust-Kamenogorsk Titanium and Magnesium Plant	-	-	1.07%	56,474	1.07%	62,750
Gazprom	-	-	0.82%	543,508	-	-
Mosenergo	-	-	0.03%	44,355	-	-
		834,667		947,195		387,645
Total trading securities		75,064,248		71,200,859		80,548,696

9. LOANS TO CUSTOMERS

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Originated loans	444,562,571	291,696,017	238,636,672
Accrued interest income on loans to customers	13,442,763	10,619,519	10,614,030
Evaluation reserve	(120,578)	(184,015)	(210,270)
	457,884,756	302,131,521	249,040,432
Less allowance for loan losses	(27,963,684)	(19,069,078)	(16,237,026)
Total loans and advances to customers, net	429,921,072	283,062,443	232,803,406

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Loans collateralized by combined collateral	137,879,974	92,882,250	-
Loans collateralized by other collateral	97,222,484	32,617,124	93,804,662
Loans collateralized by real estate	84,567,446	59,312,062	48,504,120
Loans collateralized by guarantees of enterprises	38,208,687	40,874,235	25,872,160
Loans collateralized by shares of other companies	18,560,479	13,449,095	18,671,824
Loans collateralized by equipment	18,366,781	10,959,952	10,470,309
Loans collateralized by inventories	13,582,839	27,035,014	27,271,786
Loans collateralized by guarantees of financial institutions	8,907,170	4,341,365	15,181
Loans collateralized by cash or Kazakhstani Government guarantees	6,083,409	8,536,912	12,927,534
Unsecured loans	34,626,065	12,307,527	11,713,126
Evaluation reserve	(120,578)	(184,015)	(210,270)
	457,884,756	302,131,521	249,040,432
Less allowance for loan losses	(27,963,684)	(19,069,078)	(16,237,026)
Total loans and advances to customers, net	429,921,072	283,062,443	232,803,406

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Analysis of loans by industry:			
Trade	80,090,171	57,556,850	52,278,215
Construction	68,530,145	35,165,785	14,067,475
Individuals	56,346,316	30,384,717	25,121,912
Energy	36,255,485	50,154,044	44,872,832
Transport and communication	33,165,564	14,369,282	18,755,774
Agriculture	30,454,567	34,860,944	27,858,690
Finance sector	29,791,580	1,344,245	2,748,452
Food	28,245,068	22,100,007	19,741,820
Real estate	23,785,298	5,984,741	7,400,979
Mining and metallurgy	15,247,242	10,410,124	9,274,934
Hotel business	13,985,784	14,498,641	5,974,418
Machinery construction	12,038,689	5,018,271	5,491,957
Culture and art	1,672,808	2,067,449	2,135,274
Medicine	1,556,265	1,509,968	2,204,141
Other	26,840,352	16,890,468	11,323,829
Evaluation reserve	(120,578)	(184,015)	(210,270)
	457,884,756	302,131,521	249,040,432
Less allowance for loan losses	(27,963,684)	(19,069,078)	(16,237,026)
Total loans to customers, net	429,921,072	283,062,443	232,803,406

10. INVESTMENT SECURITIES

Securities available-for-sale

	Interest to nominal	30 September 2004 (unaudited)	Interest to nominal	31 December 2003	Interest to nominal	30 September 2003 (unaudited)
Debt securities						
JSC Chimpharm	10%	101,372	-	-	-	-
Almaty Merchant Bank	-	-	8.6%	2,860	-	-
		101,372		2,860		-
	Share %		**Share %**		**Share %**	
Shares available for sale:						
Aktubinsk chrome plant	3.07%	22,805	3.07%	22,805	3.07%	22,805
Kazakhtelecom, including:						
- ordinary shares	0.04%	26,041	0.04%	15,164	0.04%	13,464
- preference shares	0.18%	4,029	0.01%	2,149	0.01%	2,190
OJSC Aluminy Kazakhstana	0.023%	4,034	0.023%	6,404	0.023%	1,318
AktobeMunaiGaz	0.004%	2,172	0.004%	2,172	0.004%	2,172
Bank CenterCredit	-	-	1.9%	86,000	1.9%	86,105
		59,081		134,694		128,054
Total securities available-for-sale		160,453		137,554		128,054

Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Bonds of the Ministry of Finance of the Kyrgyz Republic	84,591	32,372	-
Total securities held-to-maturity	84,591	32,372	-

11. INVESTMENTS IN ASSOCIATES

The following enterprise was recorded in the financial statements using the equity method:

	30 September 2004 (unaudited)		31 December 2003		30 September 2003 (unaudited)	
	% held	**Amount**	**% held**	**Amount**	**% held**	**Amount**
UlarUmit Pension fund	41.18%	172,677	33.18%	146,206	33.18%	122,159
		172,677		146,206		122,159

12. OTHER ASSETS

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Prepaid expenses	1,234,451	686,972	298,714
Prepayments and other debtors	1,630,630	1,856,938	1,012,722
Insurance debtors	562,312	792,492	717,084
Tax settlements, other than income tax	58,945	60,531	481,825
	3,486,338	3,396,933	2,510,345
Less allowance for losses on other assets	(56,070)	(30,520)	(83,560)
Total other assets, net	3,430,268	3,366,413	2,426,785

13. DEBT SECURITIES ISSUED

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Eurobonds of Kazkommerts International B.V. due			
in April 2014 (interest rate 7.875%): issued in April 2004 at price 99.15%	53,824,000	-	-
in April 2013 (interest rate 8.5%):			
Tranche A issued in April 2003 at price 97.548%	47,096,000	50,477,000	52,125,500
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	20,184,000	21,633,000	22,339,500
in May 2007 (interest rate 10.125%):			
Tranche A issued in May 2002 at price 99.043%	20,184,000	21,633,000	22,339,500
Tranche B issued in November 2002 and placed in December 2002 at price 107.00%	6,728,000	7,211,000	7,446,500
	148,016,000	100,954,000	104,251,000
Including/(less):			
Discount on debt securities issued	(1,371,160)	(1,282,078)	(1,155,185)
Accrued interest on debt securities issued	5,593,371	1,631,951	3,903,610
Eurobonds repurchased by the Bank	(4,037,204)	(4,787,527)	(4,946,561)
Total issued Eurobonds of Kazkommerts International B.V.	148,201,007	96,516,346	102,052,864
Issued promissory notes	16,755,008	1,717,020	-
Issued bonds	4,005,986	-	-
Total debt securities issued	168,962,001	98,233,366	102,052,864

Eurobonds were issued by Kazkommerts International B.V., a subsidiary of Kazkommertsbank, and guaranteed by Kazkommertsbank. Coupons on Eurobonds are paid semi-annually:

- on Eurobonds with maturity in May 2007 - 8 May and 8 November;
- on Eurobonds with maturity in April 2013 – 16 April and 16 October;
- on Eurobonds with maturity in April 2014 – 7 April and 7 October.

14. OTHER LIABILITIES

	30 September 2004 (unaudited)	31 December 2003	30 September 2003 (unaudited)
Deferred tax liabilities	5,174,013	2,944,947	2,107,434
Tax liabilities	4,665,121	313,833	269,251
Allowance for losses on guarantees and letters of credit	1,591,601	1,426,290	1,497,077
Insurance reserves	1,285,019	1,056,744	593,435
Taxes payable, other than income tax	656,681	313,833	269,251
Payables to employees	626,970	800,355	-
Accounts payable on re-insurers	270,843	478,632	559,505
Capital expenditures payables	181,495	243,766	157,877
Other	701,430	1,138,105	28,553
	14,496,492	8,402,672	5,213,132

15. DIVIDENDS PAYABLE

As of 30 September 2004 and 31 December 2003 and 30 September 2003 the dividends payable of KZT 324,075 thousand, 404 thousand and 339,825 thousand, respectively, represented the unpaid dividends due for common and preference shares for the nine month periods of 2004 and 2003 and for the year 2003, respectively.

16. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,591,601 thousand, KZT 1,426,290 thousand and KZT 1,497,077 thousand as of 30 September 2004, 31 December 2003 and 30 September 2003, respectively.

As of 30 September 2004 and 31 December 2003, the nominal or contract amounts and risk-weighted amounts comprised:

	30 September 2004 (unaudited)		31 December 2003		30 September 2003 (unaudited)	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments						
Letters of credit and other transaction-related contingent obligations	35,381,005	6,820,837	23,408,923	4,681,785	18,902,067	3,667,530
Guarantees issued and similar commitments	28,631,282	28,631,282	22,769,317	22,769,317	25,174,604	25,174,604
Commitments on credits and unused credit lines	20,281,653	-	15,866,353	-	15,336,926	-
Total contingent liabilities and credit commitments	84,293,940	35,452,119	62,044,593	27,451,102	59,413,597	28,842,134
	Amount Payable	**Risk Weighted Amount**	**Amount Payable**	**Risk Weighted Amount**	**Amount Payable**	**Risk Weighted Amount**
Derivative financial instruments						
Foreign currency forwards	4,424,553	58,836	4,407,171	14,598	3,293,244	-
Foreign currency swaps	10,352,955	-	216,330	-	3,939,137	33,976
Forwards with securities	23,176,078	-	12,569,911	-	214,893	-
Total derivative financial instruments	37,953,586	58,836	17,193,412	14,598	7,447,274	33,976

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 30 September 2004 and 2003 and 31 December 2003.

Rental commitments – No material rental commitments were outstanding as of 30 September 2004 and 2003 and 31 December 2003.

Fiduciary activities – The Bank renders depositary services. As of 30 September 2004 the Bank had securities of clients at nominal account of the securities holder on dealing operations of 25,086,032 securities.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank 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 financial statements.

Taxation – 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 result the Bank may be assessed additional taxes, penalties and interest. The tax audit carried out by the tax authorities of Kazakhstan, which concluded at the end of May 2004 and covered the tax periods from 1999, 2000, 2001 through 2002, resulted in additional taxes of 2,366 million tenge being assessed on the Bank together with penalties of 1,643 million tenge.

The additional assessment resulted mainly because the tax authorities disagreed with the Bank's treatment for tax purposes of expenses relating to loan loss provisions as deductions for taxable income purposes. The Bank's management had applied to the authorized regulatory bodies for clarification of the treatment of such expenses prior to computing its tax returns for 1999, 2000, 2001 and 2002, and had followed the written instructions received.

The Bank's management believes that it acted in good faith and on the basis of the requirements of the legislation existing at the time of the respective transactions.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 30 September 2004, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment **–** The Bank'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 Bank's assets and operations could be at risk due to negative changes in the political and business environment.

17. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties 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 Bank;

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

c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	30 September 2004 (unaudited)		**31 December 2003**		**30 September 2003 (unaudited)**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans to customers	2,026,934	444,562,571	2,619,017	291,696,017	2,098,911	238,636,672
Accrued interest on loans to customers	127,048	13,442,763	150,067	10,619,519	127,682	10,614,030
Allowances for loan losses	(67,626)	(27,963,684)	(70,647)	(19,069,078)	(40,921)	(16,237,026)
Evaluation reserve	-	(120,578)	-	(184,015)	-	(210,270)
Customer accounts	3,570,201	166,955,282	2,395,219	148,391,258	1,066,753	171,627,230
Accrued deposit interest	46,459	2,722,689	60,678	3,198,158	29,158	2,753,591
Allowances for guarantees and letters of credit	747	1,591,601	632	1,426,290	2,340	1,497,077
Guarantees given	34,313	28,631,282	27,057	22,769,317	33,227	25,174,604

Included in the profit and loss account for the nine-months period ended 30 September 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	30 September 2004 (unaudited)		**30 September 2003 (unaudited)**	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	120,973	38,927,449	139,403	23,740,378
Interest expense	(149,835)	(18,552,535)	(51,204)	(13,286,724)

18. SUBSEQUENT EVENTS

In October 2004 the Kazkomerts International BV placed its Eurobonds in the amount of 350 million USD. The bonds have a coupon rate of 7% and a maturity date of 2009. It is expected that the Board of Directors will decide to undertake an additional placement of the above Eurobonds. The estimated additional amount of the bonds to be placed is 150 million USD (or more depending on the market terms); the coupon rate and maturity will remain unchanged. Furthermore, it is expected that the Board of Directors will make a decision to prolong the period for a year and increase tranche A of the syndicated loan issued in December 2003 (300 million USD) from 190 million USD up to 500 million USD. All funds attracted will be used for the general corporate objectives.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2004
(in KZT and in thousands, except per share amounts)

	Notes	30 June 2004 (unaudited)	30 June 2003 (unaudited)
Interest income	4, 16	23,815,031	15,120,749
Interest expense	4, 16	(11,659,737)	(8,330,423)
Net interest income before allowance for loan losses		12,155,294	6,790,326
Allowance for loan losses		(5,364,898)	(3,184,471)
NET INTEREST INCOME		6,790,396	3,605,855
Income from services and commission received		4,610,689	3,515,601
Expense on services and commission paid		(742,548)	(698,114)
Net (loss)/gain on operations with trading securities		(224,932)	508,913
Net gain on foreign exchange operations		964,305	560,055
Net gain/(loss) on investments in securities		9,137	(78,364)
Dividends received		14,327	371,457
Other income		495,818	353,983
NET NON-INTEREST INCOME		5,126,796	4,533,531
OPERATING INCOME		11,917,192	8,139,386
OPERATING EXPENSE		(4,402,012)	(3,641,545)
OPERATING GAIN		7,515,180	4,497,841
Recovery of/(allowance for) losses on other transactions		124,475	(76,664)
INCOME BEFORE INCOME TAX		7,639,655	4,421,177
(Loss)/gain from participation in associated companies		(15,534)	93,488
INCOME BEFORE INCOME TAX AND MINORITY INTEREST		7,624,121	4,514,665
Income tax expense	5	(1,962,387)	(105,164)
NET INCOME BEFORE MINORITY INTEREST		5,661,734	4,409,501
MINORITY INTEREST		(397,330)	(96,307)
NET INCOME		5,264,404	4,313,194
Earnings per share			
Basic and diluted (in KZT)	6	13.18	13.51

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board
of JSC Kazkommertsbank

P. A. Cheusov
Chief Accountant
of JSC Kazkommertsbank

29 July 2004
Almaty, Republic of Kazakhstan

The notes on pages F-29 – F-45 form an integral part of these financial statements.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2004
(in KZT and in thousands)

	Notes	30 June 2004 (unaudited)	31 December 2003
ASSETS			
Cash and balances with national (central) banks		17,308,773	28,484,613
Precious metals		–	300,158
Loans and advances to banks, less allowance for losses		27,701,010	38,582,824
Trading securities	7	81,431,377	71,200,859
Securities purchased under repurchase agreements less allowance for losses		9,004,264	2,608,318
Derivative financial instruments		35,940	15,399
Loans to customers, less allowance for loan losses	8, 16	377,244,947	283,062,443
Investments in securities			
– securities available-for-sale	9	63,891	137,554
– securities held-to-maturity	9	75,920	32,372
Investments in associates	10	130,672	146,206
Fixed assets, less accumulated depreciation		6,083,127	5,867,947
Intangible assets, less accumulated amortization		414,565	436,051
Other assets, less allowance for losses	11	2,980,862	3,366,413
TOTAL ASSETS		522,475,348	434,241,157
LIABILITIES AND SHAREHOLDER'S EQUITY			
LIABILITIES:			
Loans and advances from banks		83,959,000	76,221,919
Securities sold under repurchase agreements		7,418,193	37,250,675
Derivative financial instruments		19,461	801
Customer accounts	16	178,059,384	151,589,416
Debt securities issued	12	162,610,947	98,233,366
Other funds borrowed		2,715,358	3,525,473
Dividends payable	14	324,075	404
Other liabilities	13	9,597,347	8,402,672
		444,703,765	375,224,726
Subordinated loan		22,146,691	8,732,914
Total liabilities		466,850,456	383,957,640
Minority interest		4,852,537	4,704,625
SHAREHOLDERS' EQUITY			
Share capital		4,019,022	4,018,930
Share premium		9,454,110	9,453,411
Fixed assets revaluation reserve		773,732	569,783
Retained earnings		36,525,491	31,536,768
Total shareholders' equity		50,772,355	45,578,892
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		522,475,348	434,241,157

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board
of JSC Kazkommertsbank

P. A. Cheusov
Chief Accountant
of JSC Kazkommertsbank

29 July 2004
Almaty, Republic of Kazakhstan

The notes on pages F-29 – F-45 form an integral part of these financial statements.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004
(in KZT and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Retained earnings	Total
Balance at 31 December 2002	**3,499,688**	**5,473,313**	**6,872**	**23,085,915**	**32,065,788**
Fixed assets revaluation	–	–	716,702	–	716,702
Dividends on preferred shares	–	–	–	(339,422)	(339,422)
Net profit for the period	–	–	–	4,313,194	4,313,194
Balance at 30 June 2003 (unaudited)	**3,499,688**	**5,473,313**	**723,574**	**27,059,687**	**36,756,262**
Balance at 31 December 2003	**4,018,930**	**9,453,411**	**569,783**	**31,536,768**	**45,578,892**
Fixed assets revaluation	–	–	251,941	–	251,941
Amortisation of fixed assets revaluation	–	–	(47,992)	47,992	–
Sale of Treasury Stock repurchased	92	699	–	–	791
Dividends payable	–	–	–	(323,673)	(323,673)
Net income for the period	–	–	–	5,264,404	5,264,404
Balance at 30 June 2004 (unaudited)	**4,019,022**	**9,454,110**	**773,732**	**36,525,491**	**50,772,355**

Signed on behalf of the Bank:

N. A. Zhusupova
Chairperson of the Management Board of JSC Kazkommertsbank

P. A. Cheusov
Chief Accountant of JSC Kazkommertsbank

29 July 2004
Almaty, Republic of Kazakhstan

The notes on pages F-29 – F-45 form an integral part of these financial statements.

JSC KAZKOMMERTSBANK

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2004
(in KZT and in thousands)

	30 June 2004 (unaudited)	30 June 2003 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation and minority interest	7,624,121	4,514,665
Adjustments for:		
Allowance for loan losses	5,364,898	3,184,471
(Recovery of)/allowance for losses on other transactions	(124,475)	76,664
Unrealised gain and amortisation of discount on dealing securities	(196,555)	(959,422)
Amortization of discount/premium on securities issued	(44,939)	6,311
Depreciation and amortisation of fixed and intangible assets	627,652	488,546
Decrease in interest accruals	192,186	2,008,141
Equity loss/(gain) from participation in associated companies	15,534	(93,488)
Net change in recovery value of derivative financial instruments (net)	(1,881)	(57,526)
Cash flows from operating activities before changes in operating assets/liabilities	13,456,541	9,168,362
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets		
Minimum reserve deposit with the Central Bank of the Russian Federation	(56,011)	–
Loans and advances to banks	4,780,171	(12,088,580)
Precious metals	300,158	–
Trading securities	(10,164,583)	(58,497,919)
Securities available-for-sale	82,677	5,460,957
Securities held-to-maturity	(42,309)	726
Securities purchased under repurchase agreements	(6,375,848)	873,083
Loans and advances to clients	(98,850,343)	(20,437,596)
Dividends received	14,327	370,453
Other assets	292,772	(3,184,397)
Increase/(decrease) in operating liabilities		
Loans and advances from banks and repurchase agreements	(22,189,360)	(22,239,461)
Customer accounts	26,896,488	29,424,544
Other borrowed funds	(793,718)	(311,756)
Other liabilities	(424,586)	3,760,372
Cash outflow from operating activities before taxation	(93,073,624)	(67,701,212)
Income tax paid	(413,239)	(56,065)
Net cash outflow from operating activities	(93,486,863)	(67,757,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets (net)	(516,285)	(1,501,059)
Purchase of intangible assets (net)	(53,120)	(50,324)
Acquisition of investments in subsidiaries	–	(19,540)
Net cash outflow from investing activities	(569,405)	(1,570,923)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of debt securities	63,544,749	69,744,694
Subordinated loan	13,155,859	2,606,805
Sale of shares repurchased	791	–
Net cash inflow from financing activities	76,701,399	72,351,499
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(17,354,869)	3,023,299
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	47,322,122	55,226,912
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	29,967,253	58,250,211

Interest paid and received by the Bank in cash during the period ended 30 June 2004 amounted to KZT 10,873,006 thousand and KZT 23,220,486 thousand, respectively.

Interest paid and received by the Bank in cash during the period ended 30 June 2003 amounted to KZT 6,585,352 thousand and KZT 15,625,470 thousand, respectively.

Signed on behalf of the Bank:

N. A. Zhusupova Chairperson of the Management Board of JSC Kazkommertsbank	P. A. Cheusov Chief Accountant of JSC Kazkommertsbank

29 July 2004
Almaty, Republic of Kazakhstan

The notes on pages F-29 – F-45 form an integral part of these financial statements.

(in Kazakhstani tenge and in thousands, except per share amounts)

1 ORGANISATION

JSC Kazkommertsbank (the "Kazkommertsbank") was incorporated on 12 July 1990 as an open joint stock company in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of OJSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan (the "NBRK") on 21 October 1991. In 1994, OJSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of JSC Kazkommertsbank. Astana Holding Bank was incorporated in May 1993 as a joint stock company. Kazkommertsbank is registered in the Ministry of Justice under # 4466-1910-AO.

The registered address of the Kazkommertsbank is 135 "Zh", Gagarin Ave., Almaty, Republic of Kazakhstan.

Kazkommertsbank has 22 branches in the Republic of Kazakhstan and a representative office in London (England). In December 2002 Kazkommertsbank obtained a license for branch opening in the Republic of Cyprus.

Kazkommertsbank is a parent company of the Banking Group (the "Bank") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Kazkommertsbank ownership interest	Type of operation
OJSC Kazkommerts Securities	Republic of Kazakhstan	100%	Securities market transactions
JSC Kazkommerts Invest	Republic of Kazakhstan	100%	Finance services to large corporate and private clients
OJSC IC Kazkommerts Policy	Republic of Kazakhstan	65%	Insurance
Kazkommerts International B.V.	Kingdom of Netherlands	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	73.97%	Commercial bank

The subsidiaries Kazkommerts Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100 %) are not included in the condensed consolidated financial statements due to the immaterial impact of their financial statements.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (the "MKB"), a commercial bank operating in the Russian Federation, the MKB was included in the consolidated financial statements of the Bank since the Bank has the ability to, and has exercised, effective control over its operations. There is an agreement between the shareholders and the Bank on the purchase of no less than 51% of MKB shares by the Bank. Transaction completion is subject to approval of the NBRK and the Central Bank of the Russian Federation.

2. BASIS OF PRESENTATION

Accounting basis — The condensed consolidated interim financial statements of the Bank have been prepared by management in accordance with International Financial Reporting Standards. Certain information and disclosures normally required to be included in the notes to the annual financial statements have been omitted or condensed. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Bank's Annual Report for the year ended 31 December 2003.

The condensed consolidated interim financial statements have been prepared on the accrual basis of accounting under the historical cost convention, except for the revaluation of buildings and constructions and the cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, and financial assets and liabilities held for trading, derivative financial instruments.

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities of the Bank, and disclosure of contingent assets and liabilities at the date of the 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 setup of provisions for loan and investment losses and determination of the fair value of financial instruments.

Although the condensed consolidated interim financial statements are unaudited, they do reflect all adjustments that, in the opinion of management of the Bank, are necessary for a fair presentation of the results of operations for the interim periods. All such adjustments to the financial statements are of a normal, recurring nature. Because the results from common banking activities are so closely related and responsive to changes in market conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the year.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation — The condensed consolidated interim financial statements of the Bank include the accounts of material majority owned subsidiaries, and MKB, operations of which are controlled by the Bank.

All intercompany transactions and related balances have been eliminated from the consolidated financial statements.

Investments in associates — Investments in companies in which the Bank has a stake of greater than 20%, and, in the opinion of management, has the ability to significantly influence the operating and financial activities of those companies, are accounted for using the equity method, unless the Bank acquired and holds those companies for resale in the near future, or that company operates under severe long term restrictions, that significantly impair its ability to transfer funds to the Bank.

Investments in other subsidiaries and associated companies — Investments in companies where the Bank owns more than 20% of the share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Bank intends to re-sell such investments in the near future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or approximated fair value, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required.

Recognition and measurement of financial instruments — The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and balances on correspondent accounts with banks in countries included in the Organization for Economic Co-operation and Development ("OECD").

Precious metals — Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

Loans and advances to banks — In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks 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 losses.

Trading securities — Trading securities represent debt and equity securities that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable 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 management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Repurchase and reverse repurchase agreements — The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. Repos and reverse repos are utilized by the Bank as an element of its liquidity management and trading with securities.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Transactions under repo agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collaterized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collaterized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on investments in securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities under repos is recognized as interest income or expense.

Derivative financial instruments — The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps, options on operations with foreign currency and securities.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans — Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as an initial recognition adjustment discounting using market rates at inception and included in the profit and loss account.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

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

Non-accrual loans — Loans to legal entities 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. Loans to physical persons are placed on non-accrual status with the approval of the authorised bodies of the Bank. 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 losses — The Bank establishes allowances for losses 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 financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and other collateral.

Loans originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar loans.

The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortization of the gains/losses on origination and the related income is recorded as interest income within the consolidated statement of income using the effective yield method.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted from loans to customers and banks reflected in the balance sheet.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity — Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at purchase cost, less any allowance for impairment taking into account amortization of discount/premium plus accrued coupon income. Amortized discounts are recognized in the interest income over the period to maturity.

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 profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets — Fixed and intangible assets, with the exception of buildings and constructions, are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by an independent appraiser. The basis for the determination of the fair market value is the real estate market. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Furniture and equipment	10 – 30%
Intangible assets	15 – 33.3%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Taxation — Taxes on income are computed in accordance with the laws of the countries where Kazkommertsbank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

– the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;

– the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;

– the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Countries where the Bank operates also have various other taxes. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers — Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued — Debt securities issued represent bonds and promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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

Share capital and share premium — Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

Retirement and other benefit obligations — The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Recognition of income and expense — Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans to legal entities become overdue by more then 30 days. Interest income also includes interest income earned on investment in securities. Other income is credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

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 transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange — The exchange rates at period-end used by the Bank in the preparation of the financial statements are as follows:

	30 June 2004	**31 December 2003**	**30 June 2003**
KZT/US Dollar	136.45	144.22	148.00
KZT/Euro	165.66	180.23	168.90
KZT/Gold (1 ounce)	53,852.55	60,031.58	51,134.00
KZT /Russian Rouble	4.70	4.93	4.88
KZT /Kyrgyz som	3.20	3.26	3.64

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

Fiduciary activities — The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Reclassifications — Certain reclassifications have been made to the financial statements of the previous period to conform to the classification accepted in the financial statements of the current period.

4. NET INTEREST INCOME

	30 June 2004 (unaudited)	30 June 2003 (unaudited)
Interest income		
Interest on loans to customers	20,520,901	13,647,319
Interest on loans and advances to banks	646,413	572,970
Interest on debt securities	2,647,717	900,460
Total interest income	**23,815,031**	**15,120,749**
Interest expense		
Interest on customer accounts	3,579,627	3,881,515
Interest on loans and advances from banks	1,583,062	1,005,442
Interest on debt securities	5,719,362	2,874,231
Other interest expenses	777,686	569,235
Total interest expense	**11,659,737**	**8,330,423**
Net interest income before allowance for loan losses	**12,155,294**	**6,790,326**

5. INCOME TAXES

Tax effect of temporary differences as of 30 June 2004 and 31 December 2003 comprise:

	30 June 2004 (unaudited)	**31 December 2003**
Deferred assets:		
Investments in associates	4,589	–
Other assets	–	398,466
Total deferred assets:	**4,589**	**398,466**
Deferred liabilities:		
Loans to banks and customers	3,901,109	3,005,134
Provisions under guarantees and letters of credit	73,620	92,916
Investments in associates	–	71
Fixed and intangible assets	328,177	245,292
Other assets	36,711	–
Total deferred liabilities:	**4,339,617**	**3,343,413**
Net deferred tax liabilities	**4,335,028**	**2,944,947**

Relationships between tax expenses and accounting profit for the six months ended 30 June 2004 and 30 June 2003 are presented below:

	30 June 2004 (unaudited)	**30 June 2003 (unaudited)**
Profit before taxation and minority interest	7,624,121	4,514,665
Tax at the statutory tax rates	2,287,236	1,354,400
Tax effect of permanent differences	(324,849)	(1,249,236)
Income tax expense	1,962,387	105,164

	30 June 2004 (unaudited)	**30 June 2003 (unaudited)**
Current income tax expense	572,306	95,484
Deferred tax expense	1,390,081	9,680
Income tax expense	**1,962,387**	**105,164**

6. EARNINGS PER SHARE

	30 June 2004 (unaudited)	30 June 2004 (unaudited)
Income:		
Net income for the period	5,264,404	4,313,194
Less:		
Dividends on preference stock	(323,673)	(339,422)
Income less dividends on preference shares	**4,940,731**	**3,973,772**
Weighted average number of common stock for basic and diluted earnings per share (pieces)	374,926,091	294,176,887
Earnings per share — basic and diluted (KZT)	**13.18**	**13.51**

7. TRADING SECURITIES

	Interest to nominal	30 June 2004 (unaudited)	Interest to nominal	31 December 2003
Debt securities:				
Short-term NBRK notes	3.17-6.31%	46,383,201	1.96-5.11%	22,700,525
State treasury bills of the Republic of Kazakhstan	5.05-8.35%	12,639,774	5.8-9.99%	6,061,421
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125-13.625%	5,751,564	11.125-13.625%	6,399,117
Other corporate bonds of the Russian Federation emitters	7.4-20.5%	4,480,963	14.5-18%	566,447
Kaztransoil bonds	8.5%	2,497,302	8.5-9%	2,649,512
Avtovaz bonds	11.78%	1,172,748	15.25%	151,400
Bonds of Almaty Merchant Bank	8.5-9%	1,647,759	–	–
Karazhanbasmunai bonds	8%	1,292,678	–	–
Bonds of Kazakh mortgage company	8.1-11.75%	980,147	8-8.6%	767,742
Bonds of Freddie MAC	5.7-5.9%	955,335	9.28-15.29%	3,909,001
Bonds of Development Bank of Kazakhstan	7.125-7.375%	928,124	7.125-7.375%	1,017,559
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	456,511	12.75%	360,521
Atyrau region's administration bonds	8.5-8.6%	450,306	8.5-8.6%	468,790
Kazakhtelecom bonds	–	–	10.0%	428,638
Astana municipality bonds	8.5%	327,605	8-8.5%	352,098
Bonds of local executive bodies of the Russian Federation	13-15%	220,913	13.76%	168,345
Bonds of federal loan of the Ministry of finance of Russian Federation	11-12%	208,158	–	–
KAZTRANSCOM Bonds	8%	178,490	8.0%	157,996
KAZATOMPROM bonds	8.5%	90,057	8.5%	95,544
Bonds of OJSC Mangistau REK	13%	66,389	–	–
Eurobonds of TuranAlem Finance B.V.	7.88%	47,043	7.875-11.5%	1,951,242
Kaztransoil Eurobonds	8.5%	18,185	8.5%	20,094
Almaty Kus bonds	10%	9,139	10.0%	9,886
Caspian Bank bonds	9.5%	2,849	9.5%	3,008
Bonds of Eastern Kazakhstan regional administration	–	–	5.97-6.3%	149,307
Bonds of Nevinnomyssky Azot	–	–	18.0%	69,351
Bonds of VITA	–	–	8.6-14%	66,863
State bonds of the Federal Republic of Germany	–	–	4.5%-5.25%	7,731,347
The Netherlands state bonds	–	–	3.75%	3,676,560
Fannie MAE bonds	–	–	2.0%	3,605,301
Bonds of Federal Home Loan Bank	–	–	2.18%	3,579,163
Bonds of PetroKazakhstan Oil Products	–	–	10.0%	1,744,830
US treasury bonds	–	–	3.63%	1,392,056
		80,805,240		70,253,664

	Ownership share	30 June 2004 (unaudited)	Ownership share	31 December 2003
Shares:				
Kazakhtelecom GDR	0.54%	439,192	0.54%	219,209
Kazakhmys	0,01%	97,591	0.11%	83,649
Ust-Kamenogorsk Titanium and Magnesium Plant	1,25%	89,354	1.07%	56,474
Gazprom	–	–	0.82%	543,508
Mosenergo	–	–	0.03%	44,355
		626,137		947,195
Total trading securities		**81,431,377**		**71,200,859**

8. LOANS TO CUSTOMERS

	30 June 2004 (unaudited)	31 December 2003
Originated loans	390,739,426	291,696,017
Accrued interest income on loans to customers	11,356,486	10,619,519
Evaluation reserve	(186,749)	(184,015)
	401,909,163	302,131,521
Less allowance for loan losses	(24,664,216)	(19,069,078)
Total loans and advances to customers, net	**377,244,947**	**283,062,443**

	30 June 2004 (unaudited)	31 December 2003
Loans collateralized by combined collateral	126,441,559	92,882,250
Loans collateralized by real estate	81,152,531	59,312,062
Loans collateralized by other collateral	56,281,370	32,617,124
Loans collateralized by guarantees of enterprises	41,445,127	40,874,235
Loans collateralized by shares of other companies	21,190,883	13,449,095
Loans collateralized by inventories	16,367,592	27,035,014
Loans collateralized by equipment	15,989,956	10,959,952
Loans collateralized by cash or Kazakhstani Government guarantees	5,067,778	8,536,912
Loans collateralized by guarantees of financial institutions	3,972,711	4,341,365
Unsecured loans	34,186,405	12,307,527
Evaluation reserve	(186,749)	(184,015)
	401,909,163	302,131,521
Less allowance for loan losses	(24,664,216)	(19,069,078)
Total loans and advances to customers, net	**377,244,947**	**283,062,443**

	30 June 2004 (unaudited)	31 December 2003
Analysis of loans by industry:		
Trade	85,455,616	57,556,850
Construction	51,314,633	35,165,785
Individuals	42,834,397	30,384,717
Energy	40,559,733	50,154,044
Agriculture	39,626,113	34,860,944
Transport and communication	32,559,596	14,369,282
Food	26,457,177	22,100,007
Hotel business	13,395,209	14,498,641
Finance sector	12,858,893	1,344,245
Mining and metallurgy	12,753,885	10,410,124
Real estate	10,200,248	5,984,741
Machinery construction	10,133,631	5,018,271
Culture and art	1,721,847	2,067,449
Medicine	1,570,349	1,509,968
Other	20,654,585	16,890,468
Evaluation reserve	(186,749)	(184,015)
	401,909,163	302,131,521
Less allowance for loan losses	(24,664,216)	(19,069,078)
Total loans to customers, net	**377,244,947**	**283,062,443**

9. INVESTMENT SECURITIES

Securities available-for-sale

	Interest to nominal	30 June 2004 (unaudited)	Interest to nominal	31 December 2003
Debt securities				
Almaty Merchant Bank	–	–	8.6%	2,860
		–		2,860
	Share %		**Share %**	
Shares available for sale:				
Aktubinsk chrome plant	3.07%	22,805	3.07%	22,805
Kazakhtelecom, including:				
– ordinary shares	0.04%	22,012	0.04%	15,164
– preference shares	0.18%	4,072	0.01%	2,149
OJSC Kazakhmys Corporation	0.01%	6,426	–	–
OJSC Aluminy Kazakhstana	0.025%	6,404	–	–
Bank CenterCredit	–	–	1.9%	86,000
Other	0.004%	2,172	16.7%	8,576
		63,891		134,694
Total securities available-for-sale		**63,891**		**137,554**

Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	30 June 2004 (unaudited)	31 December 2003
Bonds of the Ministry of Finance of the Kyrgyz Republic	69,547	32,372
Notes of the National Bank of the Kyrgyz Republic	6,373	–
Total securities held-to-maturity	**75,920**	**32,372**

10. INVESTMENTS IN ASSOCIATES

The following enterprise was recorded in the financial statements using the equity method:

	30 June 2004 (unaudited)		31 December 2003	
	% held	Amount	% held	Amount
UlarUmit Pension fund	33.18%	130,672	33.18%	146,206
		130,672		**146,206**

11. OTHER ASSETS

	30 June 2004 (unaudited)	31 December 2003
Prepaid expenses	1,087,193	686,972
Prepayments and other debtors	971,664	1,856,938
Insurance debtors	852,469	792,492
Tax settlements, other than income tax	158,676	60,531
	3,070,002	3,396,933
Less allowance for losses on other assets	(89,140)	(30,520)
Total other assets, net	**2,980,862**	**3,366,413**

12. DEBT SECURITIES ISSUED

	30 June 2004 (unaudited)	31 December 2003
Eurobonds of Kazkommerts International B.V. due		
in April 2014 (interest rate 7.875%):		
issued in April 2004 at price 99.15%	54,580,000	–
in April 2013 (interest rate 8.5%):		
Tranche A issued in April 2003 at price 97.548%	47,757,500	50,477,000
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	20,467,500	21,633,000
in May 2007 (interest rate 10.125%):		
Tranche A issued in May 2002 at price 99.043%	20,467,500	21,633,000
Tranche B issued in November 2002 and placed in December 2002 at price 107.00%	6,822,500	7,211,000
	150,095,000	100,954,000
Including/(less):		
Discount on debt securities issued	(1,612,872)	(1,282,078)
Accrued interest on debt securities issued	2,509,722	1,631,951
Eurobonds repurchased by the Bank	(6,618,234)	(4,787,527)
Total issued Eurobonds of Kazkommerts International B.V.	144,373,616	96,516,346
Issued promissory notes	18,237,331	1,717,020
Total debt securities issued	**162,610,947**	**98,233,366**

Eurobonds were issued by the Kazkommerts International B.V., a subsidiary of JSC Kazkommertsbank, and guaranteed by Kazkommertsbank. Coupons on Eurobonds are paid semi-annually:

on Eurobonds with maturity in May 2007 – 8 May and 8 November,

on Eurobonds with maturity in April 2013 – 16 April and 16 October,

on Eurobonds with maturity in April 2014 – 7 April and 7 October.

13. OTHER LIABILITIES

	30 June 2004 (unaudited)	31 December 2003
Deferred tax liabilities	4,335,028	2,944,947
Allowance for losses on guarantees and letters of credit	1,389,848	1,426,290
Insurance reserves	912,548	1,056,744
Taxes payable, other than income tax	574,816	313,833
Accounts payable on re-insurers	441,016	478,632
Income tax liability	21,448	–
Other liabilities	1,922,643	2,182,226
	9,597,347	**8,402,672**

14. DIVIDENDS PAYABLE

As of 30 June 2004 and 31 December 2003 the dividends payable of KZT 324,075 thousand and 404 thousand, respectively, represented the unpaid dividends due for common and preference shares for the first six months of 2004 and for the year 2003.

15. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,389,848 thousand and KZT 1,426,290 thousand as of 30 June 2004 and 31 December 2003, respectively.

As of 30 June 2004 and 31 December 2003, the nominal or contract amounts and risk-weighted amounts comprised:

	30 June 2004 (unaudited)		31 December 2003	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	20,497,631	20,497,631	22,769,317	22,769,317
Letters of credit and other transaction-related contingent obligations	32,637,069	6,527,414	23,408,923	4,681,785
Commitments on credits and unused credit lines	18,449,350	–	15,866,353	–
Total contingent liabilities and credit commitments	**71,584,050**	**27,025,045**	**62,044,593**	**27,451,102**

	Amount Payable	Risk Weighted Amount	Amount Payable	Risk Weighted Amount
Derivative financial instruments				
Foreign currency forwards	6,360,155	29,885	4,407,171	14,598
Foreign currency swaps	4,019,751	(13,406)	216,330	–
Forwards with securities	6,839,111	–	12,569,911	–
Total derivative financial instruments	**17,219,017**	**16,479**	**17,193,412**	**14,598**

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 30 June 2004 and 31 December 2003.

Rental commitments – No material rental commitments were outstanding as of 30 June 2004 and 31 December 2003.

Fiduciary activities – The Bank renders depositary services. As of 30 June 2004 the Bank had securities of clients at nominal account of the securities holder on dealing operations of 46,060,782 securities.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank 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 financial statements.

Taxation – 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 result the Bank may be assessed additional taxes, penalties and interest. The tax audit carried out by the tax authorities of Kazakhstan, which concluded at the end of May 2004 and covered the tax periods from 1999, 2000, 2001 through 2002, resulted in additional taxes of 2,366 million tenge being assessed on the Bank together with penalties of 1,643 million tenge.

The additional assessment resulted mainly because the tax authorities disagreed with the Bank's treatment for tax purposes of expenses relating to loan loss provisions as deductions for taxable income purposes. The Bank's management had applied to the authorized regulatory bodies for clarification of the treatment of such expenses prior to computing its tax returns for 1999, 2000, 2001 and 2002, and had followed the written instructions received.

Accordingly, the Bank's management is disputing this additional assessment and related penalties, and is confident in its position and is undertaking measures to challenge the claims within the deadlines and in strict compliance with the procedural norms.

The Bank's management is also confident that all necessary tax charges are paid and, respectively, no reserves are required in addition to those reflected in the statements as deferred income tax liabilities structured with expenses related to the respective years.

The Bank's management believes that it has paid all taxes due in full as so has made no further provision in these interim financial statements in respect of this matter.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 30 June 2004, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank'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 Bank's assets and operations could be at risk due to negative changes in the political and business environment.

16. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IFRS 24, are those counter parties 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 Bank. (This includes holding companies, subsidiaries and fellow subsidiaries of one parent company);

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

c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	30 June 2004 (unaudited)		31 December 2003	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans to customers	2,147,112	390,739,426	2,619,017	291,696,017
Accrued interest on loans to customers	125,592	11,356,486	150,067	10,619,519
Allowances for loan losses	(99,573)	(24,664,216)	(70,647)	(19,069,078)
Evaluation reserve	–	(186,749)	–	(184,015)
Customer accounts	2,429,023	175,287,746	2,395,219	148,391,258
Accrued deposit interest	74,766	2,771,638	60,678	3,198,158
Allowances for guarantees and letters of credit	566	1,389,848	632	1,426,290
Guarantees given	23,197	20,497,631	27,057	22,769,317

Included in the profit and loss account for the years ended 30 June 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	30 June 2004 (unaudited)		31 December 2003 (unaudited)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income	95,469	23,815,031	109,031	15,120,749
Interest expense	(90,364)	(11,659,737)	(59,987)	(8,330,423)

17. SUBSEQUENT EVENTS

On 29 July 2004 the Board of Directors of JSC Kazkommertsbank resolved to seek a syndicated loan from Asian and Middle East lenders of 200 million dollars.

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Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Kazkommertsbank:

We have audited the accompanying consolidated balance sheet of JSC Kazkommertsbank and its consolidated subsidiaries (the "Bank") as of 31 December 2003 and 2002, and the related consolidated profit and loss accounts, statements of cash flows and changes in equity for each of the three years ended 31 December 2003, 2002 and 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 audits provide 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 Bank as of 31 December 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years ended 31 December 2003, 2002 and 2001, in accordance with International Financial Reporting Standards.

TOO Deloitte & Touche

27 February 2004

Deloitte
Touche
Tohmatsu

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
(in Kazakhstani tenge and in thousands, except per share earning amounts)

	Notes	2003	2002	2001
Interest income	4, 34	35,106,301	24,500,940	17,870,462
Interest expenses	4, 34	(18,623,916)	(11,257,899)	(7,887,765)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	4	16,482,385	13,243,041	9,982,697
Provision for loan losses	5	(5,887,610)	(7,341,589)	(4,572,275)
NET INTEREST INCOME		10,594,775	5,901,452	5,410,422
Net (loss)/gain on trading securities	6	(316,992)	935,993	1,500,266
Net gain on foreign exchange operations	7	1,600,977	1,207,409	1,385,827
Fee and commission income	8	8,399,779	5,791,790	3,850,309
Fee and commission expense	8	(1,334,332)	(1,126,385)	(588,970)
Net (loss)/gain on investment securities	9	(47,397)	3,916,126	(55,486)
Dividends received		382,449	446,719	38,327
Other income	10	1,239,355	433,141	282,910
NET NON-INTEREST INCOME		9,923,839	11,604,793	6,413,183
OPERATING INCOME		20,518,614	17,506,245	11,823,605
OPERATING EXPENSES	11	(8,969,071)	(7,955,983)	(6,119,370)
OPERATING PROFIT		11,549,543	9,550,262	5,704,235
Provision for losses on other transactions	5	(270,312)	(1,327,071)	(525,862)
(Expenses)/income from associates	22	(20,249)	33,869	389,083
PROFIT BEFORE TAXATION AND MINORITY INTEREST		11,258,982	8,257,060	5,567,456
Income tax expense	12	(2,091,667)	(276,067)	(278,555)
NET PROFIT BEFORE MINORITY INTEREST		9,167,315	7,980,993	5,288,901
Minority interest	13	(406,554)	(2,230)	–
NET PROFIT		8,760,761	7,978,763	5,288,901
Earnings per share				
Basic and diluted (in tenge)	14	25.89	25.94	18.37

On behalf of the Board:

Zhussupova N.A.	**Cheusov P.A.**
Chairperson	**Chief Accountant**
27 February 2004	27 February 2004
Almaty	Almaty

The notes on pages F-52 – F-88 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-46.

CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2003 AND 2002
(in Kazakhstani Tenge and in thousands)

	Notes	2003	2002
ASSETS:			
Cash and balances with national (central) banks	15	28,484,613	19,394,771
Precious metals		300,158	–
Loans and advances to banks, less allowance for loan losses	16	38,582,824	43,451,143
Trading securities	17, 34	71,200,859	21,279,111
Securities purchased under agreement to resell, less allowance for losses	18	2,608,318	2,266,775
Derivative financial instruments	19	15,399	7,000
Loans to customers, net	20, 34	283,062,443	175,248,585
Investment securities:			
– securities available for sale	21	137,554	5,539,019
– securities held-to-maturity	21	32,372	17,276
Investments into associates	22, 34	146,206	285,917
Fixed assets, less accumulated depreciation	23	5,867,947	3,447,613
Intangible assets, less accumulated amortization	24	436,051	608,577
Other assets, less allowance for losses	25	3,366,413	3,215,511
TOTAL ASSETS		434,241,157	274,761,298
LIABILITIES AND SHAREHOLDER EQUITY			
LIABILITIES:			
Loans and advances from banks	26	76,221,919	54,662,867
Securities sold under agreements to repurchase		37,250,675	–
Derivative financial instruments	19	801	2,203
Customer accounts	27, 34	151,589,416	141,371,975
Debt securities issued	28	98,233,366	30,316,786
Other borrowed funds	29	3,525,473	4,651,066
Dividends payable		404	406
Other liabilities	30, 34	8,402,672	5,548,558
		375,224,726	236,553,861
Subordinated debt	31	8,732,914	6,060,409
Total liabilities		383,957,640	242,614,270
Minority interest	13	4,704,625	81,240
FINANCIAL COMMITMENTS AND CONTINGENCIES	33, 34	–	–
SHAREHOLDERS' EQUITY:			
Share capital	32	4,018,930	3,499,688
Share premium		9,453,411	5,473,313
Fixed assets revaluation reserve		569,783	6,872
Retained earnings		31,536,768	23,085,915
Total shareholders' equity		45,578,892	32,065,788
TOTAL LIABILITIES AND SHAREHOLDER EQUITY		434,241,157	274,761,298

On behalf of the Board:

Zhussupova N.A.
Chairperson

27 February 2004
Almaty

Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

The notes on pages F-52 – F-88 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-46.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001

(in Kazakhstani Tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Retained earnings	Total
31 December 2000	**2,931,906**	**2,793,930**	**10,351**	**11,615,900**	**17,352,087**
Depreciation of fixed assets revaluation reserve	–	–	(2,226)	2,226	–
Share capital increase of:					
– ordinary shares	1	–	–	–	1
– preference shares	555,901	2,632,594	–	–	3,188,495
Sale of repurchased shares	9,883	38,163	–	–	48,046
Dividends declared	–	–	–	(1,454,502)	(1,454,502)
Net profit for the year	–	–	–	5,288,901	5,288,901
31 December 2001	**3,497,691**	**5,464,687**	**8,125**	**15,452,525**	**24,423,028**
Share capital increase of:	1,731	8,273			
– preference shares	–	–	10,004		
Sale of repurchased shares	266	353	–	–	619
Depreciation of fixed assets revaluation reserve	–	–	(1,253)	1,253	–
Dividends declared preference shares	–	–	–	(346,626)	(346,626)
Net profit for the year	–	–	–	7,978,763	7,978,763
31 December 2002	**3,499,688**	**5,473,313**	**6,872**	**23,085,915**	**32,065,788**
Depreciation of fixed assets revaluation reserve	–	–	(14,233)	14,233	–
Fixed assets revaluation (less deferred income tax of KZT 228,917 thousand)	–	–	577,144	–	577,144
Share capital increase of:					
– ordinary shares	519,212	3,979,934	–	–	4,499,146
Sale of repurchased shares	30	164	–	–	194
Dividends declared on preference shares	–	–	–	(324,141)	(324,141)
Net profit for the year	–	–	–	8,760,761	8,760,761
31 December 2003	**4,018,930**	**9,453,411**	**569,783**	**31,536,768**	**45,578,892**

On behalf of the Board:

Zhussupova N.A.
Chairperson

27 February 2004
Almaty

Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

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JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
(in Kazakhstani Tenge and in thousands)

	Notes	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before income tax and minority interest		11,258,982	8,257,060	5,567,456
Adjustments for:				
Provision for loan losses		5,887,610	7,341,589	4,572,275
Provision for losses on other transactions		270,312	1,327,071	525,862
Unrealised gain and amortisation of discounts on trading securities and securities available-for-sale		(171,831)	(4,317,810)	(955,650)
Amortization of discount/premium on issued securities		(1,467,824)	185,746	–
Depreciation and amortisation		978,832	625,058	516,347
Decrease/(increase) in net interest accruals		377,057	1,465,157	(2,958,124)
Expenses/(income) from associates		20,249	(33,869)	(389,083)
Net change in recovery value of derivative financial instruments (net)		(9,801)	249,036	(230,316)
Cash flows from operating activities before changes in operating assets and liabilities		17,143,586	15,099,038	6,648,767
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Minimum reserve deposit with the Central Bank of the Russian Federation		(121,865)	–	–
Loans and advances to banks		(12,151,488)	5,409,000	(9,164,838)
Precious metals		(300,158)	–	–
Trading securities		(49,174,659)	(6,764,553)	13,863,820
Securities available-for-sale		9,857,668	(744,352)	996,556
Securities held-to-maturity		(15,305)	125,726	(93,536)
Securities purchased under repurchase agreements		(228,935)	(2,313,035)	–
Loans to clients		(112,945,369)	(35,627,095)	(74,617,909)
Dividends received		382,449	380,121	541,498
Other assets		(487,380)	(2,879,510)	(1,130,365)
Increase/(decrease) in operating liabilities				
Loans and advances from banks and repurchase agreements		58,144,477	10,065,523	21,099,758
Customer accounts		9,438,227	29,436,987	54,836,729
Other borrowed funds		(1,025,302)	(674,626)	819,954
Other liabilities		958,337	(714,835)	(1,790,940)
Cash (outflow)/inflow from operating activities before taxation		(80,525,717)	10,798,389	12,009,494
Income tax paid		(471,059)	(722,962)	(20,702)
Net cash (outflow)/inflow from operating activities		(80,996,776)	10,075,427	11,988,792

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
(in Kazakhstani Tenge and in thousands)

	Notes	2003	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets (net)		(2,612,818)	(1,587,635)	(743,816)
Sale-purchase of intangible assets (net)		81,839	(196,711)	(146,177)
Sale/(acquisition) of investments into associates		119,462	(55,800)	(74,560)
Acquisition of investments into subsidiaries		–	(249,840)	–
Consolidation effect of Moskommertsbank		434,042	–	–
Net cash outflow from investing activities		(1,977,475)	(2,089,986)	(964,553)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issue of ordinary share capital		519,212	–	1
Issue of preference share capital		–	1,731	555,901
Proceeds from/(repayment of) debt securities issued		68,226,334	29,614,150	(14,899,527)
Subordinated debt		2,667,928	1,773,864	–
Sale of repurchased shares		30	266	9,883
Share premium		3,980,098	8,626	2,670,757
Dividends paid		(324,141)	(347,473)	–
Net cash inflow/(outflow) from financing activities		75,069,461	31,051,164	(11,662,985)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,904,790)	39,036,605	(638,746)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	15	55,226,912	16,190,307	16,829,053
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	15	47,322,122	55,226,912	16,190,307

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to KZT 17,185,965 thousand and KZT 34,110,598 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2002 amounted to KZT 9,822,159 thousand and KZT 21,985,172 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2001 amounted to KZT 6,597,635 thousand and KZT 12,953,470 thousand, respectively.

On behalf of the Board:

Zhussupova N.A.
Chairperson

27 February 2004
Almaty

Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

The notes on pages F-52 – F-88 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-46.

(in Kazakhstani tenge and in thousands, except per share amounts)

1. ORGANISATION

JSC Kazkommertsbank (the "Kazkommertsbank") was incorporated on 12 July 1990 as an open joint stock company, in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of JSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan (the "NBRK") on 21 October 1991. In 1994, JSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of JSC Kazkommertsbank. Astana Holding Bank, a joint stock company, was incorporated in May 1993. Kazkommertsbank is registered in the Ministry of Justice under # 4466-1910-AO.

The registered address of the Kazkommertsbank is 135 "Zh", Gagarin Ave., Almaty.

Kazkommertsbank has 22 branches in the Republic of Kazakhstan and a representative office in London (Great Britain). In December 2002 Kazkommertsbank obtained a license for branch opening in the Republic of Cyprus.

The number of employees of the Bank at 31 December 2003 and 2002 was 3,044 and 2,850, respectively.

Kazkommertsbank is a parent company of the Banking Group (the "Bank") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Kazkommerstbank ownership interest 2003	2002	Type of operation
OJSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
JSC Kazkommerts Invest	Republic of Kazakhstan	100%	–	Finance services to large corporate and private clients
OJSC IC Kazkommerts Policy	Republic of Kazakhstan	65%	100%	Insurance
Kazkommerts International B.V.	Netherlands	100%	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	73.97%	73.84%	Commercial bank

Kazkommert Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100%), subsidiaries, are not consolidated into the consolidated financial statements due to the immateriality of their financial statements.

In February 2003 53,846 ordinary shares of OJSC IC Kazkommerts-Policy of KZT 212,590 thousand were purchased by other shareholders which led to decrease of the Kazkommertsbank's ownership interest in the share capital of OJSC IC Kazkommerts Policy to 65%.

In June 2002 the Bank acquired 72.35% of outstanding common stock of Kyrgyzavtobank, a commercial bank operating in the Republic of Kyrgyzstan, and in December 2002 its investment was increased to 73.84%. On 5 December 2002 Kyrgyzavtobank was re-registered as OJSC Kazkommertsbank Kyrgyzstan. OJSC Kazkommertsbank Kyrgyzstan was consolidated into the consolidated financial statements of the Bank from 30 June 2002. The Bank paid KZT 249,840 thousand for the shares of JSC Kyrgyzautobank. On 30 May 2003 the Bank acquired 250 shares in amount of KZT 461 thousand, which increased its share holding up to 73.97%.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (the "MKB"), a commercial bank in the Russian Federation, the MKB was included into the consolidated financial statements of the Bank since the Bank has ability and has exercised effective control over its operations. There is an agreement between the shareholders of the MKB and the Bank on purchase of no less than 51% of MKB shares by the Bank. Transaction completion is subject to approval of the NBRK and the Central Bank of the Russian Federation.

These consolidated financial statements were authorized for issue by the Bank's Board of Managing Directors on 27 February 2004.

2. BASIS OF PRESENTATION

Accounting basis — These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Kazakhstani tenge ("KZT"), except for per share earning amounts and unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention, except for the buildings and constructions revaluation which was performed in 2003 to record their fair value and amounted to KZT 577,144 thousand and cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities held for trading, derivative financial instruments.

The Bank maintains its accounting records in accordance with IFRS, its foreign subsidiaries maintain accounting records in accordance with the requirements of their countries of residence where subsidiaries operate. These consolidated financial statements have been prepared based on accounting records of Kazkommertsbank and its foreign subsidiaries, and have been adjusted to conform to IFRS.

Measurement currency — The measurement currency of these consolidated financial statements is KZT.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation — The consolidated financial statements include the accounts of majority-owned subsidiaries, and MKB, operations of which are controlled by Kazkommertsbank.

All significant inter-company transactions and balances have been eliminated from the consolidated financial statements. The ownership interest of Kazkommertsbank and the proportion of voting power of the Bank in the significant subsidiaries as of 31 December 2003 and 2002 is presented in Note 1.

Enterprises acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority interests are shown separately in the balance sheets and profit and loss accounts, respectively.

In translating the financial statements of a foreign subsidiary into the measurement currency for incorporation in the financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 "The Effects of Changes in Foreign Interest Rates ("IAS 21").

Equity accounting — The share of Kazkommertsbank in net assets and net income of entities, where Kazkommertsbank holds 20 to 50% of share capital and/or has the ability to exercise significant influence over their operating and financial policies ("associates") is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition (Note 22). Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Bank.

Recognition and measurement of financial instruments — The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents — Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD").

Precious metals — Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

Loans and advances to banks — In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks 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 losses.

Trading securities — Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable 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 management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Repurchase and reverse repurchase agreements — The Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements ("reverse repos") in the normal course of its business. repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collaterized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collaterized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense.

Derivative financial instruments — The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps, foreign currency options.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of derivatives the Bank enters into are of short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans — Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for loan losses.

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

Allowance for losses — The Bank establishes an allowance for losses 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 financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity — Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment plus accrued coupon income. Amortized discounts are recognized in the interest income over the period to maturity.

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 profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets — Fixed and intangible assets are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by the independent appraiser. The basis for the determination of the fair market value is the real estate market. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Furniture and equipment	10 – 30%
Intangible assets	15 – 33.3%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Taxation — Taxes on income are computed in accordance with the laws of the countries where the Bank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Countries where the Bank operates also have various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers — Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued — Debt securities issued represent promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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

Share capital and share premium — Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

Retirement and other benefit obligations — The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Recognition of income and expense — Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more then 30 days. Interest income also includes interest income earned on investment and trading securities. Other income are credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

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 transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange — The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2003	**31 December 2002**
KZT/US Dollar	144.22	155.85
KZT/Euro	180.23	162.46
KZT/Gold (1ounce)	60,031.58	53,417.88

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

Fiduciary activities — The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Reclassifications — Certain reclassifications have been made to the financial statements as of 31 December 2002 and 2001 to conform to the presentation as of 31 December 2003.

4. NET INTEREST INCOME

	2003	2002	2001
Interest income			
Interest on loans to customers	29,749,318	23,044,439	15,842,523
Interest on debt securities	3,774,899	1,110,697	1,316,069
Interest on loans and advances to banks	1,526,766	345,804	711,870
Interest on reverse repurchase transactions	55,318	–	–
Total interest income	35,106,301	24,500,940	17,870,462
Interest expense			
Interest on debt securities issued	8,577,577	2,083,414	762,717
Interest on customer accounts	7,773,268	6,880,159	4,521,120
Interest on loans and advances from banks	1,911,084	1,939,714	2,266,854
Other interest expenses	361,987	354,612	337,074
Total interest expense	18,623,916	11,257,899	7,887,765
Net interest income before provision for loan losses	**16,482,385**	**13,243,041**	**9,982,697**

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT, OTHER PROVISIONS

The movements in allowance for losses on interest earning assets, were as follows:

	Loans and advances to banks	Loans to customers	Securities under repurchase agreements	Total
31 December 2000	93,122	8,399,789	–	8,492,911
Provision	202,038	4,370,237	–	4,572,275
Write-off of assets	–	(2,485,805)	–	(2,485,805)
Recoveries of assets previously written off	–	1,387,882	–	1,387,882
31 December 2001	295,160	11,672,103	–	11,967,263
Acquisition of subsidiary bank	–	29,047	–	29,047
(Recovery)/Provision	(125,002)	7,420,331	46,260	7,341,589
Write-off of assets	–	(6,319,964)	–	(6,319,964)
Recoveries of assets previously written off	–	1,214,865	–	1,214,865
31 December 2002	170,158	14,016,382	46,260	14,232,800
Consolidation effect of MKB	5,043	4,644	–	9,687
Provision/(Recovery)	239,385	5,694,485	(46,260)	5,887,610
Write-off of assets	(2,233,398)	(2,233,398)		
Recoveries of assets previously written off	–	1,586,965	–	1,586,965
31 December 2003	414,586	19,069,078	–	19,483,664

The movements in allowances for losses on other transactions were as follows:

	Insurance reserves	Accounts receivable	Guarantees and other commitments	Total
31 December 2000	–	3,017	287,156	290,173
Acquisition of the subsidiary	138,849	–	–	138,849
Provision	130,855	15,387	379,620	525,862
Write-offs	–	(5,495)	–	(5,495)
Recoveries	–	400	–	400
31 December 2001	269,704	13,309	666,776	949,789
Provision	150,800	52,840	1,123,431	1,327,071
Write-offs	–	(16,364)	–	(16,364)
Recoveries	–	3,300	–	3,300
31 December 2002	420,504	53,085	1,790,207	2,263,796
Consolidation effect of MKB	–	227	–	227
Provision/(Recovery)	636,240	(2,011)	(363,917)	270,312
Write-offs	–	(89,595)	–	(89,595)
Recoveries	–	68,814	–	68,814
31 December 2003	1,056,744	30,520	1,426,290	2,513,554

6. NET (LOSS)/GAIN ON TRADING SECURITIES

Net (loss)/gain on trading securities comprise:

	2003	2002	2001
Debt securities	(26,814)	885,357	1,371,559
Equity securities	(290,178)	50,636	128,707
Total net (loss)/gain on trading securities	**(316,992)**	**935,993**	**1,500,266**

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	2003	2002	2001
Dealing, net	1,419,322	640,405	730,264
Translation differences, net	181,655	567,004	655,563
Total net gain on foreign exchange operations	**1,600,977**	**1,207,409**	**1,385,827**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2003	2002	2001
Fee and commission income:			
Cash operations	2,094,290	1,634,263	1,327,706
Settlements	1,614,231	1,269,487	639,440
Documentary operations	1,614,916	1,215,418	480,819
Foreign exchange and securities operations	1,149,461	732,067	662,383
Credit cards operations	627,323	407,121	236,645
Commission for the loan issuance	605,881	110,428	158,622
Insurance operations	123,532	127,382	–
Encashment operations	112,115	79,431	86,179
Commission for consulting	10,930	2,923	13,051
Other	447,100	213,270	245,464
Total fee and commission income	**8,399,779**	**5,791,790**	**3,850,309**
Fee and commission expense:			
Commission from loans	395,761	489,254	141,050
Bank cards services	303,630	228,832	127,596
Letters of credit and guarantees	290,217	167,130	43,787
Insurance operations	132,652	55,626	15,292
Correspondent bank services	65,565	56,870	38,950
Foreign currency and securities operations	62,214	46,375	50,831
Services of processing centre of the NBRK	39,830	49,801	75,080
Other	44,463	32,497	96,384
Total fee and commission expense	**1,334,332**	**1,126,385**	**588,970**

9. NET (LOSS)/GAIN ON INVESTMENT SECURITIES

Net (loss)/gain on investment securities include results from operations with available-for-sale securities and comprise:

	2003	2002	2001
Unrealized gain/(loss) from revaluation of securities available-for-sale	40,784	3,916,126	(54,071)
Net loss on derecognition of securities available-for-sale	(88,181)	–	(1,415)
Total net (loss)/gain on investment securities	**(47,397)**	**3,916,126**	**(55,486)**

On 29 January 2003 the shares of CJSC Air Kazakhstan were sold by the Bank to the Government of Kazakhstan for the amount of KZT 2,390,700 thousand.

On 24 June 2003 the Bank sold 29% of shares of CJSC ABN AMRO Bank Kazakhstan to the existing shareholders of ABN AMRO Bank Kazakhstan for KZT 2,949,051 thousand.

The value of CJSC ABN AMRO Bank Kazakhstan investments in 2002 was determined using the generally accepted methodology of equity evaluation, where a growing factor of 7% p.a. and a discount of 13.7% were used. Application of this method has led to the double proportion of the market value to the carrying amount and amounted to KZT 3,120,172 thousand. Actual value of the transaction turned out to be less for KZT 171,121 thousand, at the same time the Bank received dividends for 2002 in amount of KZT 369,947 thousand less withholding tax.

Unrealized income from securities available-for-sale in 2002 included a revaluation gain on the cost of investments in CJSC ABN AMRO Bank Kazakhstan and CJSC Air Kazakhstan for the amount of KZT 1,560,086 thousand KZT 2,390,700 thousand, respectively.

10. OTHER INCOME

	2003	2002	2001
Insurance premiums of Kazkommerts Policy	1,048,665	335,214	205,851
Income from recovery of expenses paid	74,358	609	1,819
Proceeds from sale of fixed assets and fixed assets received free of charge	22,281	12,192	345
Fines and penalties received	4,565	649	433
Sale of low-value inventory and blanks	1,234	7,180	9,082
Other income	88,252	77,297	65,380
	1,239,355	**433,141**	**282,910**

11. OPERATING EXPENSES

	2003	2002	2001
Staff costs	4,129,235	4,178,014	2,914,122
Depreciation and amortization	978,832	625,058	516,347
Fixed assets maintenance (buildings, intangibles, etc.)	442,558	242,499	132,128
Advertising costs	379,117	311,911	289,198
Insurance of individual deposits	310,419	352,755	141,154
Business trip expenses	269,753	252,806	203,718
Communications	261,981	220,203	223,479
Value added tax	253,133	233,676	256,004
Lease	206,609	159,584	121,792
Membership fee	203,357	12,904	808
Taxes, other than income tax	181,897	139,282	164,744
Security	145,681	102,290	113,149
Vehicles maintenance	140,502	109,885	89,777
Charity and sponsorship expenses	136,755	157,740	182,931
Professional services	97,431	96,221	126,925
Training	85,055	68,093	20,375
Unused vacation and sick leave reimbursements	72,251	31,679	41,329
Cash collection expenses	70,589	65,921	69,536
Stationery	60,116	52,411	32,639
Representative expenses	47,475	35,054	21,567
Mail and courier expenses	32,764	30,157	21,333
Legal services	27,821	25,888	40,648
Custom duties for import of foreign currency	20,433	89,420	195,443
Other expenses	415,307	362,532	200,224
	8,969,071	**7,955,983**	**6,119,370**

12. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax free regime for certain income.

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
Deferred assets:		
Provisions under guarantees and letters of credit	–	252,581
Other assets	398,466	219,278
Total deferred assets	**398,466**	**471,859**
Deferred liabilities:		
Loans to banks and customers	3,005,134	341,910
Provisions under guarantees and letters of credit	92,916	–
Investments in associates	71	1,100,795
Fixed and intangible assets	245,292	243,562
Total deferred liabilities	**3,343,413**	**1,686,267**
Net deferred liabilities	2,944,947	1,214,408

Relationships between tax expenses and accounting profit for the years ended 31 December 2003, 2002 and 2001 are explained as follows:

	2003	2002	2001
Profit before income tax and minority interest	11,258,982	8,257,060	5,567,456
Tax at the statutory tax rate	3,357,404	2,477,118	1,670,237
Tax effect of permanent differences	(1,265,737)	(2,201,051)	(1,391,682)
Income tax expense	2,091,667	276,067	278,555
Current income tax expense	590,045	477,990	23,646
Reversal of prior year tax	–	–	(153,085)
Deferred tax expense/(recovery)	1,501,622	(201,923)	407,994
Income tax expense	2,091,667	276,067	278,555

Deferred income tax liabilities	**2003**	**2002**	**2001**
At beginning of the period	1,214,408	1,416,331	1,008,337
Decrease of fixed assets revaluation reserve	228,917	–	–
Increase/(decrease) in the deferred income tax for the period	1,501,622	(201,923)	407,994
At end of the period	2,944,947	1,214,408	1,416,331

13. MINORITY INTEREST

The movement in minority interest during 2003 and 2002 comprises:

31 December 2001	–
Minority interest in the subsidiary purchased by the Bank	79,010
Minority interest in the net profit of the Bank for the year	2,230
31 December 2002	**81,240**
Consolidation effect of MKB	4,220,116
Minority interest in the net profit of the Bank for the year	406,554
Foreign exchange effect	(3,285)
31 December 2003	**4,704,625**

14. EARNINGS PER SHARE

	2003	2002	2001
Income:			
Net income for the year	8,760,761	7,978,763	5,288,901
Less:			
Dividends on preference stock	(324,141)	(346,626)	–
Income less dividends on preference shares	8,436,620	7,632,137	5,288,901
Weighted average number of common stock for basic and diluted earnings per share (pieces)	325,817,299	294,182,278	287,982,090
Earnings per share — basic and diluted (KZT)	25.89	25.94	18.37

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

The balance with the Central Bank of the Russian Federation as of 31 December 2003 included amounts of KZT 121,865 thousand represented by the balances with the Central Bank of the Russian Federation. The Bank is required to maintain the reserve balances at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	2003	2002	2001
Cash on hand	10,352,004	10,135,899	5,822,268
Balances with national (central) banks	18,132,609	9,258,872	5,656,147
Loans and advances to banks in OECD countries (Note 16)	18,963,568	35,832,141	4,711,892
	47,448,181	55,226,912	16,190,307
Less minimum reserve deposit with the Central Bank of the Russian Federation	(121,865)	–	–
Less accrued interest income on balances with NBRK	(4,194)	–	–
Total cash and cash equivalents	**47,322,122**	**55,226,912**	**16,190,307**

16 LOANS AND ADVANCES TO BANKS

	2003	2002
Loans and advances to banks	35,385,911	32,554,375
Correspondent accounts with other banks	3,477,327	11,020,905
Accrued interest income on loans and advances to banks	134,172	46,021
	38,997,410	43,621,301
Less allowance for loan losses	(414,586)	(170,158)
Total loans and advances to banks	38,582,824	43,451,143

Movements in allowances for loan losses and advances to banks for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

On 31 December 2003 the Bank entered into short-term deposit transactions with two counter-parties totaling to KZT 12,979,800 thousand, which individually exceeded 10% of the Bank's equity. These transactions were closed on 5 January 2004.

17. TRADING SECURITIES

Debt securities:				
Short-term NBRK notes	1.96-5.11%	22,700,525	5.35-5.89%	5,879,159
State bonds of the Federal Republic of Germany	4.5%-5.25%	7,731,347		–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125-13.625%	6,399,117	5.36-9.26%	5,446,171
Government treasury bills	5.8-9.99%	6,061,421	6.17-14.4%	2,410,209
Freddie MAC bonds	9.28-15.29%	3,909,001		–
The Netherlands state bonds	3.75%	3,676,560		–
Fannie MAE bonds	2.0%	3,605,301		–
Federal Home Loan Bank bonds	2.18%	3,579,163		–
Kaztransoil bonds	8.5-9%	2,649,512	9.72-10.12%	586,425
Eurobonds of TuranAlem Finance B.V.	7.875-11.5%	1,951,242	8.52-11.30%	2,041,722
Bonds of PetroKazakhstan Oil Products	10.0%	1,744,830	11.22%	15,700
US Treasury bills	3.63%	1,392,056		–
Bonds of Development Bank of Kazakhstan	7.125-7.375%	1,017,559		–
Bonds of Kazakhstani Mortgage Company	8-8.6%	767,742		–
Atyrau region's administration bonds	8.5-8.6%	468,790	6.39-8.6%	6,466
Kazakhtelecom bonds	10.0%	428,638	7.11-10.25%	55,094
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	360,521	12.75%	571,093
Astana municipality bonds	8-8.5%	352,098		–
Dalsvyaz bonds	14.5%	317,536		–
Nidan Foods bonds, 1st issue.	17.0%	248,911		–
Debt securities of Yaroslav Region	13.76%	168,345		–
KAZTRANSCOM bonds	8.0%	157,996		–
Avtovaz bonds	15.25%	151,400		–
East Kazakhstan regional administration bonds	5.97-6.3%	149,307	7.83-8.96%	138,711
KAZATOMPROM bonds	8.5%	95,544		–
Nevinnomisski Azot bonds	18.0%	69,351		–
VITA bonds	8.6-14%	66,863		–
Kaztransoil bonds	8.5%	20,094	7.76-13.36%	2,229,652
Almaty Kus bonds	10.0%	9,886	12.0-12.22%	15,312
Caspian Bank bonds	9.5%	3,008		–
Karazhanbasmunai bonds	–	–	11-11.42%	989,814
Eurobonds of Hurricane Hydrocarbons Ltd	–	–	12.0%	157,470
		70,253,664		20,542,998

	Ownership share	2003	Ownership share	2002
Shares:				
Gazprom	0.82%	543,508	–	–
Kazakhtelecom GDR	0.54%	219,209	1.62%	247,904
Kazakhmys	0.11%	83,649	0.11%	348,008
Ust-Kamenogorsk Titanium and Magnesium Plant	0%	56,474	0.96%	140,201
Mosenergo	0.03%	44,355	–	–
		947,195		736,113
Total trading securities		**71,200,859**		**21,279,111**

As of 31 December 2003 and 2002 included in trading securities is accrued interest income on debt securities amounting to KZT 773,634 thousand and KZT 245,773 thousand, respectively.

As of 31 December 2003 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, Notes of the National Bank of the Republic of Kazakhstan, securities of the Government of the USA, Germany, the Netherlands, and corporate bonds pledged under repurchase agreements with other banks amounting to KZT 37,250,675 thousand. All the agreements have maturity within 3 months.

18. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2003 and 2002 the Bank purchased securities amounting to KZT 2,608,318 thousand and KZT 2,313,035 thousand under agreements to resell them within 3 months. A coupon of 4-7% p.a. of the nominal value is payable on above mentioned securities.

	2003	2002
Bonds of the Russian Federation institutions	1,043,008	–
Shares of the Russian Federation institutions	945,128	–
State mid-term obligations of the Ministry of Finance of the Republic of Kazakhstan	487,548	309,693
Notes of the National Bank of the Republic of Kazakhstan	100,000	2,000,822
Government treasury bills of the Ministry of Finance of the Kyrgyz Republic	32,634	–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	–	2,520
	2,608,318	2,313,035
Less allowance for losses of repurchase agreements	–	(46,260)
Total securities purchased under agreement to resell, net	2,608,318	2,266,775

Movements in allowances for loan losses under repurchase agreements for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2003			2002		
	Amount payable	Net Asset	fair value Liability	Amount payable	Net Asset	fair value Liability
Foreign currency contracts						
Forwards	4,407,171	15,399	–	3,117,000	7,000	–
Swaps	216,330	–	(801)	487,380	–	(2,203)
Securities contracts						
Forwards	12,569,911	–	–	–	–	–
		15,399	(801)		7,000	(2,203)

20. LOANS TO CUSTOMERS

	2003	2002
Originated loans	291,512,002	179,018,399
Accrued interest income on loans to customers	10,619,519	10,246,568
	302,131,521	189,264,967
Less allowance for loan losses	(19,069,078)	(14,016,382)
Total loans to customers, net	**283,062,443**	**175,248,585**

	2003	2002
Loans collateralized by combined collateral	125,477,075	69,031,306
Loans collateralized by real estate	59,298,681	45,256,405
Loans collateralized by guarantees of enterprises	40,758,423	18,211,792
Loans collateralized by inventories	27,035,014	15,717,804
Loans collateralized by shares of other companies	13,444,865	10,650,747
Loans collateralized by equipment	10,959,952	12,086,239
Loans collateralized by cash or Kazakhstani Government guarantees	8,536,912	9,334,649
Loans collateralized by guarantees of financial institutions	4,341,365	50,975
Unsecured loans	12,279,234	8,925,050
	302,131,521	189,264,967
Less allowance for loan losses	(19,069,078)	(14,016,382)
Total loans to customers, net	**283,062,443**	**175,248,585**

Movements in allowances for loan losses for the years ended 31 December 2003 and 2002 are disclosed in Note 5

	2003	2002
Analysis by industry:		
Trade	55,661,465	33,288,670
Energy	47,506,445	46,189,634
Construction	34,566,516	13,755,620
Agriculture	34,468,555	28,845,739
Individuals	31,790,749	12,234,452
Food	24,187,221	15,496,591
Transport and communication	14,764,673	7,701,327
Hotel business	14,128,249	4,789,925
Mining and metallurgy	10,261,097	6,133,103
Real estate	5,981,736	6,536,943
Machinery construction	4,940,297	2,350,152
Finance sector	2,640,527	357,184
Culture and art	2,335,968	2,110,036
Other	18,898,023	9,475,591
	302,131,521	189,264,967
Less allowance for loan losses	(19,069,078)	(14,016,382)
Total loans to customers, net	283,062,443	175,248,585

As of 31 December 2003 and 2002 included in loans to customers are non-accrual loans which amounted to KZT 2,452,768 thousand and KZT 2,312,351 thousand, respectively. As of 31 December 2003 and 2002 the total amount of interest on these loans non-recognized as income amounted to KZT 145,822 thousand and KZT 107,540 thousand, respectively.

As of 31 December 2003 and 2002 the Bank's loans to the clients, which individually exceeded 10% of the Bank's equity, are represented by the following enterprises and institutions:

	2003	2002
Djeilan Holding	10,330,813	–
Food Contract Corporation	9,127,803	4,844,632
CNPC Aktobemunaigaz Holding	8,292,792	–
Alibi Holding	7,852,305	3,745,787
BIPEK Auto Holding	6,771,643	–
Tolkynneftegas Holding	6,206,352	6,104,713
GOLDEN GRAIN GROUP Holding	–	5,103,966
Kazpolmunai Holding	–	4,580,200
Ai-Dan Holding	–	4,312,389
Assets Ltd	–	4,210,855
Almaty International Airport Holding	–	4,330,923
Ordabasy Corporation Holding	–	3,956,540
Seymar Holding	–	3,935,332
Zangar Kazakhstan Trade House	–	3,472,223
	48,581,708	**48,597,560**

Significant amount of loans is granted to companies operating in the Republic of Kazakhstan, which represents significant geographical concentration in one region.

21. INVESTMENT SECURITIES

Securities available-for-sale

	Interest to nominal	2003	Interest to nominal	2002
Debt securities				
JSC Almaty Merchant Bank	8.6%	2,860	–	–
		2,860		–
	Share, %		**Share, %**	
Equity securities				
Bank CenterCredit	1.9%	86,000	–	–
Aktubinsk chrome plant	3.07%	22,805	3.07%	4,613
Kazakhtelecom, including:				
– ordinary shares	0.04%	15,164	0.04%	12,779
– preference shares	0.01%	2,149	0.01%	2,657
ABN AMRO Bank Kazakhstan	–	–	29.0%	3,120,172
Air Kazakhstan	–	–	50.0%	2,390,700
Other	16.7%	8,576	16.7%	8,098
		134,694		5,539,019
Total securities available-for-sale		**137,554**		**5,539,019**

In September 2002 the Bank entered into an agreement with the Government of Kazakhstan related to the sale of the Bank's shares of Air Kazakhstan. On 29 January 2003 the shares of CJSC Air Kazakhstan were sold by the Bank at the value determined in the agreement between the Bank and the Government of the Republic of Kazakhstan in the amount of KZT 2,390,700 thousand.

On 24 June 2003 the Bank sold its holding of 29% of the shares of CJSC ABN AMRO Bank Kazakhstan to the existing shareholders of ABN AMRO Bank Group for KZT 2,949,051 thousand.

Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	Interest to nominal	2003	Interest to nominal	2002
Bonds of the Ministry of Finance of the Kyrgyz Republic	0%	32,372	0%	35
Kyrgyztelecom bonds	–	–	9.0%	17,241
Total securities held-to-maturity		**32,372**		**17,276**

22. INVESTMENTS INTO ASSOCIATES

The following enterprises were recorded in the financial statements using the equity method:

	2003		2002	
	% Held	**Amount**	**% Held**	**Amount**
UlarUmit Pension fund	33.18%	146,206	29.0%	147,375
ABN AMRO Asset Management	–	–	48.88%	82,742
Sinooil	–	–	33.33%	55,800
		146,206		**285,917**

In 2003 Kazkommertsbank purchased shares of Ular Umit Pension Fund and as of 31 December 2003 the Bank's share in the equity of the Ular Umit Pension Fund increased by 4.18%.

The percentage held of the above associates represents both direct and indirect ownership of the Bank.

The movement of investments are accounted for in the financial statements using the equity method:

31 December 2000	1,947,368
Purchase cost	74,557
Share of net income	389,083
Dividends from associates	(637,054)
31 December 2001	**1,773,954**
Purchase cost	72,841
Reclassification of securities	(1,150,756)
Share of net income	33,869
Dividends from associates	(443,991)
31 December 2002	**285,917**
Purchase cost 19,080 Investments sale	(138,542)
Share of net loss	(20,249)
31 December 2003	**146,206**

In 2003 the Bank sold its shares of CJSC ABN AMRO Asset Management and OJSC Sinooil to third parties for KZT 173,759 thousand and KZT 62,951 thousand, respectively. Income from the sale of these investments amounted to KZT 98,168 thousand.

23. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and equipment	Other	Total
At cost				
31 December 2002	1,194,330	3,747,453	134,974	5,076,757
Additions	448,757	1,974,804	166,781	2,590,342
Revaluation	876,195	–	–	876,195
Consolidation effect of MKB	–	47,282	45,511	92,793
Transfers	8,119	4,123	(12,242)	–
Disposals	(124,781)	(108,637)	(10,656)	(244,074)
31 December 2003	2,402,620	5,665,025	324,368	8,392,013
Accumulated depreciation				
31 December 2002	88,356	1,510,855	29,933	1,629,144
Depreciation expense	39,814	808,306	40,025	888,145
Consolidation effect of MKB	–	12,424	3,328	15,752
Revaluation	70,134	–	–	70,134
Transfers	44	3,079	(3,123)	–
Disposals	(2,099)	(73,281)	(3,729)	(79,109)
31 December 2003	196,249	2,261,383	66,434	2,524,066
Net book value				
31 December 2003	2,206,371	3,403,642	257,934	5,867,947
31 December 2002	1,105,974	2,236,598	105,041	3,447,613

The Bank's office building in Almaty was appraised based on an independent expertise.

24. INTANGIBLE ASSETS

	2003	2002
At cost		
1 January	879,734	689,477
Additions	118,710	201,489
Additions from acquired subsidiary bank	–	2,776
Consolidation effect of MKB	842	–
Disposals	(201,552)	(14,008)
31 December	797,734	879,734
Accumulated amortization		
1 January	271,157	161,420
Amortisation charge	90,687	118,306
Additions from acquired subsidiary bank	–	1,194
Consolidation effect of MKB	250	–
Disposals	(411)	(9,763)
31 December	361,683	271,157
Net book value		
31 December	436,051	608,577

Intangible assets include software, patents and licenses.

25. OTHER ASSETS

	2003	2002
Prepayments and other debtors	1,856,938	1,459,044
Insurance debtors	792,492	647,565
Prepaid expenses	686,972	750,933
Tax settlements, other than income tax	60,531	411,054
	3,396,933	3,268,596
Less allowance for losses on other assets	(30,520)	(53,085)
Total other assets, net	**3,366,413**	**3,215,511**

26. LOANS AND ADVANCES FROM BANKS

	2003	2002
Correspondent accounts of other banks	6,087,644	449,085
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks (Deutsche Bank AG London)		
Tranche due on 19.12.2004, coupon rate 2.22%	27,401,800	–
Tranche B due on 19.12.2005, coupon rate 2.61%	15,864,200	–
Syndicated loans from banks (ING Amsterdam) 4.02%	6,489,900	–
Syndicated loan from banks (due in December 2003, coupon rate 4.18% p.a.)	–	23,377,500
EBRD loan (due in 2003, coupon rate 1.5%-4.5% p.a.)	–	10,557,278
EBRD loan (due in 2006, coupon rate 2.72%-5.26% p.a.)	7,757,044	
Loans from NBRK	358,098	724,895
Loans from other banks and financial institutions	12,047,117	12,960,479
Deposits of banks	1,875	6,459,019
Accrued interest expenses	214,241	134,611
Total loans and advances from banks	**76,221,919**	**54,662,867**

As of 31 December 2003 and 2002 loans from NBRK include advances received under the program of gold mining enterprises support and development in the amount of KZT 300,410 thousand and KZT 502,030 thousand, respectively, as well as advances from the European Bank for Reconstruction and Development under the program of industry development and construction in the amount of KZT 57,688 thousand and KZT 222,866 thousand as of 31 December 2003 and 2002, respectively.

27. CUSTOMER ACCOUNTS

	2003	2002
Customer accounts comprise:		
Time deposits	99,227,367	99,757,812
Repayable on demand	49,163,891	38,654,476
Accrued interest expense on customer accounts	3,198,158	2,959,687
Total customer accounts	**151,589,416**	**141,371,975**

28. DEBT SECURITIES ISSUED

	2003	2002
Eurobonds of Kazkommerts International B.V. due in April 2013 coupon rate 8.5%):		
Tranche A issued in April 2003 at price of 97.548%	50,477,000	–
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	21,633,000	–
In May 2007 (coupon rate 10.125%):		
Tranche A issued in May 2002 at price of 99.043%	21,633,000	23,377,500
Tranche B issued in November 2002 and allocated in December 2002 at price of 107.00%	7,211,000	7,792,500
	100,954,000	31,170,000
Including/(less):		
(Discount)/premium on debt securities issued	(1,282,078)	185,746
Amounts of accrued interest on debt securities issued	1,631,951	516,890
Eurobonds repurchased by the Bank	(4,787,527)	(1,555,850)
Total issued Eurobonds of Kazkommerts International B.V.	96,516,346	30,316,786
Issued promissory notes	1,717,020	–
Total debt securities issued	**98,233,366**	**30,316,786**

Eurobonds were issued by the Kazkommerts International B.V., a subsidiary of Kazkommertsbank, and guaranteed by the Kazkommertsbank. For Eurobonds with a maturity of May 2007 interest is paid semi-annually on 8 May and 8 November, while for those having a maturity of April 2013, interest is paid on 16 April and 16 October.

MKB issued promissory notes with a maturity of 6 months for the amount of KZT 1,048,359 thousand and with a maturity of 1 year for the amount of KZT 668,661 thousand.

29. OTHER BORROWED FUNDS

	Interest rate	2003	Interest rate	2002
Funding by the Small Business Support Fund	8.34%	2,546,170	8.49%	2,952,022
Funding by the Ministry of Finance of the Republic of Kazakhstan	4.92%	909,395	5.41%	1,594,937
Accrued interest expenses		69,908		104,107
Total other borrowed funds		**3,525,473**		**4,651,066**

Financing by the Small Business Support Fund is made from funds of EBRD and ADB and is represented as follows:

	2003	2002
EBRD	2,321,942	2,587,110
ABD	224,228	364,912
	2,546,1700	**2,952,022**

Funding from the Ministry of Finance of the Republic of Kazakhstan is provided under the Agriculture Industry Development Programme by funds of the Asian Development Bank, International Bank for Reconstruction and Development (IBRD), and Kreditanstalt fur Wideraufbau ("KFW") and regional departments, and represented as follows:

	2003	2002
ABD, IBRD and KFW	764,330	1,464,393
Regional departments	145,065	130,544
	909,395	**1,594,937**

30. OTHER LIABILITIES

	2003	2002
Deferred tax liabilities	2,944,947	1,214,408
Other creditors	2,182,226	1,205,959
Allowance for losses on guarantees and letters of credit	1,426,290	1,790,207
Insurance reserves	1,056,744	420,504
Accounts payable on re-insurers	478,632	580,661
Taxes payable, other than income tax	313,833	336,819
	8,402,672	**5,548,558**

31. SUBORDINATED DEBT

	Maturity date	Interest rate (%)	2003	2002
Indexed subordinated bonds	2009	8.00%	3,979,575	–
Subordinated notes	2007	11.00%	2,844,149	3,062,997
Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft	2008	9.31-9.94%	1,802,300	1,624,600
International subordinated bonds	2007	5.50%	54,226	1,324,725
Accrued interest expenses	52,664	48,087		
			8,732,914	**6,060,409**

Indexed subordinated bonds were issued in January 2003 in accordance with the decision of the General Shareholders Meeting and the Board of Directors Meeting for the total amount of KZT 7.5 billion and allocated for the amount of KZT 3,979,575 thousand as of 31 December 2003.

Subordinated bonds were issued in 2002 in US dollars and represent an equivalent of US dollars 20,000 thousand as of December 2003 and 2002.

Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft was received in 2002 in Euro and represents the KZT equivalent of 10,000 thousand Euro as of 31 December 2003 and 2002.

The international subordinated bonds were issued in April 2002 in accordance with a Decision of the Shareholders' Meeting. These bonds were issued in US dollars and represent the KZT equivalent of USD 376 thousand and US dollars 8,500 thousand at 31 December 2003 and 2002, respectively.

32. SHAREHOLDERS' EQUITY

As of 31 December 2003 the Kazkommertsbank's share capital comprised the following:

	Authorized share capital	Unissued and unpaid share capital	Repurchased share capital	Total share capital
Ordinary shares	3,750,000	(288,587)	(115)	3,461,298
Preference shares	1,250,000	(692,368)	–	557,632
	5,000,000	**(980,955)**	**(115)**	**4,018,930**

As of 31 December 2002 the Kazkommertsbank's share capital comprised the following:

	Authorized share capital	Unissued and unpaid share capital	Repurchased share capital	Total share capital
Ordinary shares	3,750,000	(807,799)	(145)	2,942,056
Preference shares	1,250,000	(692,368)	–	557,632
	5,000,000	**(1,500,167)**	**(145)**	**3,499,688**

Ordinary shares: 375,000,000 shares were authorized, 346,129,915 and 294,220,100 shares were issued and partially paid, 115 and 145 shares were repurchased with par value of KZT 10 at 31 December 2003 and 2002, respectively.

Preference shares: 125,000,000 shares were authorized and registered, 55,763,155 shares were partially paid with par value of KZT 10 each with dividend of up to USD 0.04 per share at 31 December 2003 and 2002, respectively.

JSC Kazkommertsbank and EBRD agreed on EBRD having a share holding in the share capital of Kazkommertsbank and the Board of Directors of EBRD approved on 5 March 2003 the purchase of 15% ordinary shares of JSC Kazkommertsbank in 2003.

33. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank 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.

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,426,290 thousand and KZT 1,790,207 thousand as of 31 December 2003 and 2002, respectively.

As of 31 December 2003 and 2002, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2003		31 December 2002	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	22,769,317	22,769,317	18,951,094	18,951,094
Letters of credit and other transaction related contingent obligations	23,408,923	4,681,785	18,465,695	1,103,856
Commitments on credits and unused credit lines	15,866,353	–	20,065,094	–
Total contingent liabilities and credit commitments	**62,044,593**	**27,451,102**	**57,481,883**	**20,054,950**

	Amount Payable	Risk Weighted Amount	Amount Payable	Risk Weighted Amount
Derivative financial instruments				
Foreign currency forwards	4,407,171	14,204	3,117,000	31,170
Foreign currency swaps	216,330	–	487,380	–
Forwards with securities	12,569,911	–	–	–
Total derivative financial instruments	**17,193,412**	**14,204**	**3,604,380**	**31,170**

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 31 December 2003 and 2002.

Rental commitments – No material rental commitments were outstanding as of 31 December 2003 and 2002.

Fiduciary activities – The Bank renders depositary services. As of 31 December 2003 the Bank had the following securities of clients at nominal account of the securities holder: Brokerage:

– dealing operations of 956,334,557 securities,

– custodian operations of 54,000,125 securities.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank 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 financial statements.

Taxes – Due to the presence in commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance were made in the 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 respective countries. As of 31 December 2003 and 2002, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank'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 Bank's assets and operations could be at risk due to negative changes in the political and business environment.

34. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties 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 Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);

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

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	2003		2002	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Loans to customers	2,619,017	291,512,002	1,625,607	179,018,399
Accrued interest on loans to customers	150,067	10,619,519	83,010	10,246,568
Allowance for loans	(70,647)	(19,069,078)	(100,875)	(14,016,382)
Customer accounts	2,395,219	148,391,258	953,229	138,412,288
Accrued deposit interest	60,678	3,198,158	64,614	2,959,687
Allowance for guarantees and letters of credit	632	1,426,290	670	1,790,207
Unused loan commitments	27,057	15,866,353	32,729	20,065,094
Letters of credit	–	23,408,923	5,455	18,465,695
Guarantees given	27,057	22,769,317	27,274	18,951,094

The increase of loans to related parties and deposits from related parties occurred in 2003 in comparison with 2002 was mainly due to Bank's management and Ular Umit Pension Fund.

Transactions turnover on trading securities of the Bank with related parties in 2003 and 2002 amounted to KZT 391,909 thousand and KZT 67,573 thousand, respectively.

The Bank's investments into equity of related parties as of 31 December 2003 and 2002 amounted to KZT 146,206 thousand and KZT 285,917 thousand, respectively. The decrease was due to the sale of CJSC ABN AMRO Asset Management and CJSC Sinooil shares.

As of 31 December 2002 Central Asian Industrial Investments N.V. placed a deposit in Kazkommerts International B.V., a subsidiary of Kazkommertsbank, of KZT 5,143,050 thousand (equal to US dollars 33,000 thousand) recognized as customers accounts (see Note 27). This deposit later was pledged to secure a loan issued to Karakudukmunai Company.

Included in the profit and loss account for the years ended 31 December 2003, 2002 and 2001 are the following amounts which arose due to transactions with related parties:

	2003				2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	178,210	35,106,301	275,541	24,500,940	215,720	17,870,462
Interest expense	(145,829)	(18,623,916)	(99,341)	(11,257,899)	(46,384)	(7,887,765)

In 2003 and 2002, dividends on preference shares were accrued and paid in the amount of KZT 324,141 thousand and KZT 346,626 thousand, respectively. Dividends for 2001 amounted to KZT 1,454,502 thousand.

35. FAIR VALUE 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 Bank'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 Bank 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 Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with national (central) banks – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – As of 31 December 2003 and 2002, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

Trading securities – As of 31 December 2003 and 2002 trading securities are stated at fair value amounting to KZT 70,427,225 thousand and KZT 21,033,338 thousand, respectively, plus accrued interest income totalling KZT 773,634 thousand and KZT 245,773 thousand, respectively. The fair value of trading securities was determined with reference to an active market.

Derivative financial instruments – As of 31 December 2003 and 2002 derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on quoted market prices.

Securities purchased under repurchase agreements – As of 31 December 2003 and 2002, the carrying amount of securities purchased under repurchase agreements is a reasonable estimate of the fair value.

Loans 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.

Securities available-for-sale – As of 31 December 2003 and 2002 securities available-for-sale are stated at fair value amounting to KZT 137,431 thousand and KZT 5,539,019 thousand, respectively, plus accrued coupon income totalling KZT 123 thousand as of 31 December 2003. The 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. For unquoted securities the fair value was determined by reference to market prices of securities with a similar credit risk and/or maturity, in other cases by reference to the share in estimated equity capital of the investee. If such quotes do not exist, management estimation is used (see Note 9).

Securities held-to-maturity – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively. The fair value of securities held-to-maturity as of 31 December 2003 and 2002 was KZT 32,372 thousand and KZT 17,067 thousand, respectively, plus accrued interest income totalling KZT 209 thousand as of 31 December 2002. The fair value of securities held-to-maturity was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with similar credit risk and/or maturity.

Deposits from banks – As of 31 December 2003 and 2002 the carrying amount is a reasonable estimate of their fair value.

Customer accounts – As of 31 December 2003 and 2002 the carrying amount of deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

Securities sold under repurchase agreements – As of 31 December 2003 the carrying value of securities sold under agreement to repurchase amounting to KZT 37,250,675 thousand 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 their fair value.

Other borrowed funds – As of 31 December 2003 and 2002 the carrying amount of other borrowed funds is a reasonable estimate of the fair value.

Subordinated debt – As of 31 December 2003 and 2002 the carrying amount of subordinated debt is a reasonable estimate of its fair value.

36. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of the Republic of Kazakhstan
0%	State debt securities in Tenge
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
100%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual Amount in KZT thousand	For Capital Adequacy purposes in KZT thousand	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As of 31 December 2003				
Total capital	45,578,892	60,642,904	16.43%	8%
Tier 1 capital	49,713,734	49,713,734	13.47%	4%
As of 31 December 2002				
Total capital	32,065,788	37,484,463	16.37%	8%
Tier 1 capital	32,059,916	32,059,916	14.00%	4%

As of 31 December 2003 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated loan received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this loan is subordinate to the repayments of the Bank's liabilities to all other creditors.

37. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals on the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Interest rate risk

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

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with the positive interest margin. The Department of Financial Control conducts monitoring of the current Bank's financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rates on financial assets and liabilities are disclosed in the corresponding Notes.

The analysis of interest rate and liquidity risk on balance sheet transaction is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2003 Total
ASSETS							
Loans and advances to banks, net	23,064,504	11,609,691	4,189,043	–	–	(414,586)	38,448,652
Trading securities	31,091,764	11,976,770	14,783,571	9,153,225	3,421,895	–	70,427,225
Securities purchased under agreement to resell	2,512,145	60,200	32,600	–	–	–	2,604,945
Investment securities	–	27,286	139,780	2,737	–	–	169,803
Loans to customers	23,672,832	18,849,182	86,946,870	122,369,177	39,673,941	(19,069,078)	272,442,924
Total interest bearing assets	**80,341,245**	**42,523,129**	**106,091,864**	**131,525,139**	**43,095,836**	**(19,483,664)**	**384,093,549**
Cash and balances with national (central) banks	28,480,419	–	–	–	–	–	28,480,419
Precious metals	300,158	–	–	–	–	–	300,158
Derivative financial instruments	15,399	–	–	–	–	–	15,399
Investments into associates	–	–	–	–	146,206	–	146,206
Fixed assets, net	–	–	–	–	5,867,947	–	5,867,947
Intangible assets, net	–	–	–	–	436,051	–	436,051
Interest accrued on interest bearing assets	4,680,285	1,571,893	3,088,830	1,911,285	282,722	–	11,535,792
Other assets	541,237	318,948	2,022,971	504,162	9,615	(30,520)	3,366,413
TOTAL ASSETS	**114,358,743**	**44,413,970**	**111,203,665**	**133,940,586**	**49,838,377**	**(19,514,184)**	**434,241,157**
LIABILITIES							
Loans and advances from banks	9,648,980	310,540	39,911,806	26,136,352	–	–	76,007,678
Securities sold under agreements to repurchase	37,216,263	–	–	–	–	–	37,216,263
Customer accounts	64,183,505	19,433,587	51,903,435	12,726,511	144,220	–	148,391,258
Debt securities issued	137,365	1,039,145	540,510	25,838,315	69,046,080	–	96,601,415
Other borrowed funds	–	216,330	982,450	1,623,628	633,157	–	3,455,565
Subordinated debt	–	–	–	4,702,161	3,978,089	–	8,680,250
Total interest bearing liabilities	**111,186,113**	**20,999,602**	**93,338,201**	**71,026,967**	**73,801,546**	**—**	**370,352,429**
Derivative financial instruments	801	–	–	–	–	–	801
Other financial liabilities	1,707,447	145,476	1,122,703	2,944,012	–	(2,483,034)	8,402,672
Interest accrued on interest bearing liabilities	250,893	821,695	3,385,874	742,872	–	–	5,201,334
Dividends payable	30	374	–	–	–	–	404
TOTAL LIABILITIES	**113,145,284**	**21,967,147**	**97,846,778**	**74,713,851**	**73,801,546**	**(2,483,034)**	**383,957,640**
Interest sensitivity gap	(30,844,868)	21,523,527	12,753,663	60,498,172	(30,705,710)		
Cumulative interest sensitivity gap	(30,844,868)	(9,321,341)	3,432,322	63,930,494	33,224,784		
Cumulative interest sensitivity gap as a percentage of total assets	(7.10%)	(2.15%)	0.79%	14.72%	7.65%		

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2003 is presented in the table below.

OFF-BALANCE SHEET LIABILITIES	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	Total
Accounts payable on forwards	(17,193,412)	–	–	–	–	–	(17,193,412)
Accounts receivable on forwards	17,208,010	–	–	–	–	–	17,208,010
Liquidity gap	14,598	–	–	–	–		
Cumulative liquidity gap	14,598	14,598	14,598	14,598	14,598		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2002 Total
ASSETS							
Loans and advances to banks, net	43,575,280	–	–	–	–	(170,158)	43,405,122
Trading securities	4,486,828	1,361,260	8,960,062	6,219,521	5,667	–	21,033,338
Securities purchased under agreement to resell	2,311,517	–	–	–	–	(46,260)	2,265,257
Loans to customers, net	9,175,553	13,923,107	46,547,690	97,214,900	12,157,149	(14,016,382)	165,002,017
Investment securities	–	–	5,556,086	–	–	–	5,556,086
Total interest bearing assets	59,549,178	15,284,367	61,063,838	103,434,421	12,162,816	(14,232,800)	237,261,820
Cash and balances with national (central) banks	19,394,771	–	–	–	–	–	19,394,771
Derivative financial instruments	7,000	–	–	–	–	–	7,000
Investments into associates	–	–	–	–	285,917	–	285,917
Fixed assets, net	–	–	–	–	3,447,613	–	3,447,613
Intangible assets, net	–	–	–	–	608,577	–	608,577
Interest accrued on interest bearing assets	2,849,254	2,455,656	1,975,563	2,968,701	290,915	–	10,540,089
Other assets	960,123	123,746	1,744,218	436,607	3,902	(53,085)	3,215,511
TOTAL ASSETS	**82,760,326**	**17,863,769**	**64,783,619**	**106,839,729**	**16,799,740**	**(14,285,885)**	**274,761,298**
LIABILITIES							
Loans and advances from banks	9,968,303	284,785	38,261,304	5,504,772	509,091	–	54,528,255
Customer accounts	54,531,114	23,753,871	40,408,715	19,718,545	43	–	138,412,288
Debt securities issued	–	–	185,746	29,614,150	–	–	29,799,896
Other borrowed funds	399	467	325,858	3,537,525	682,710	–	4,546,959
Subordinated loan	–	–	–	1,272,265	4,740,057	–	6,012,322
Total interest bearing liabilities	64,499,816	24,039,123	79,181,623	59,647,257	5,931,901	–	233,299,720
Derivative financial instruments	2,203	–	–	–	–	–	2,203
Other liabilities	1,194,695	233,946	356,924	337,874	1,214,408	2,210,711	5,548,558
Interest accrued on interest bearing liabilities	361,027	726,412	2,349,431	326,513	–	–	3,763,383
Dividends payable	406	–	–	–	–	–	406
TOTAL LIABILITIES	**66,058,147**	**4,999,481**	**81,887,978**	**60,311,644**	**7,146,309**	**2,210,711**	**242,614,270**
Interest sensitivity gap	(4,950,638)	(8,754,756)	(18,117,785)	43,787,164	6,230,915		
Cumulative interest sensitivity gap	(4,950,638)	(13,705,394)	(31,823,179)	11,963,985	18,194,900		
Cumulative interest sensitivity gap as a percentage of total assets	(1.80%)	(4.99%)	(11.58%)	4.35%	6.62%		

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2002 is presented in the table below.

OFF-BALANCE SHEET LIABILITIES	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2002 KZT thousand
Accounts payable on forwards	(2,045,880)	(1,558,500)	–	–	–	–	(3,604,380)
Accounts receivable on forwards	2,044,177	1,565,000	–	–	–	–	3,609,177
Liquidity gap	(1,703)	6,500	–	–	–		
Cumulative liquidity gap	(1,703)	4,797	4,797	4,797	4,797		

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of national (central) banks.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	**USD** USD1= KZT 144.22	**EUR** USD1= KZT 180.23	**Other currency**	**Allowance for losses**	**2003 Total**
ASSETS						
Cash and balances with national (central) banks	22,310,905	4,533,995	800,584	834,935	–	28,480,419
Precious metals	–	–	–	300,158	–	300,158
Loans and advances to banks, net	1,786,062	34,219,406	1,963,138	894,632	(414,586)	38,448,652
Trading securities	29,020,756	28,698,320	11,179,126	1,529,023	–	70,427,225
Securities purchased under agreement to resell	585,200	–	–	2,019,745	–	2,604,945
Investment securities	134,694	2,737	–	32,372	–	169,803
Loans to customers, net	58,616,965	223,933,230	6,492,375	2,469,432	(19,069,078)	272,442,924
Derivative financial instruments	15,399	–	–	–	–	15,399
Investments into associates	146,206	–	–	–	–	146,206
Fixed assets, net	5,718,297	–	–	149,650	–	5,867,947
Intangible assets, net	419,320	–	–	16,731	–	436,051
Interest accrued on interest bearing assets	5,067,997	5,981,428	442,368	43,222	–	11,535,015
TOTAL ASSETS	**125,328,413**	**299,215,426**	**20,896,550**	**8,314,952**	**(19,514,184)**	**434,241,157**
LIABILITIES						
Loans and advances from banks	1,711,996	72,331,640	1,913,930	50,112	–	76,007,678
Securities sold under agreements to repurchase	6, 827, 000	19,634,063	10,755,200	–	–	37,216,263
Customer accounts	49,212,509	93,237,189	4,647,984	1,293,576	–	148,391,258
Debt securities issued	–	95,831,580	–	769,835	–	96,601,415
Subordinated debt	–	6,877,950	1,802,300	–	–	8,680,250
Other borrowed funds	145,065	2,680,657	629,843	–	–	3,455,565
Derivative financial instruments	801	–	–	–	–	801
Dividends payable	374	–	–	30	–	404
Interest accrued on interest bearing liabilities	361,032	4,742,751	96,575	976	–	5,201,334
Other liabilities	4,745,183	1,143,509	19,720	11,226	(2,483,034)	8,402,672
TOTAL LIABILITIES	**63,003,960**	**296, 479,339**	**19,865,552**	**2,125,755**	**(2,483,034)**	**383,957,640**
OPEN BALANCE SHEET POSITION	**62,324,453**	**2,736,087**	**1,030,998**	**6,189,197**		

Derivative financial instruments

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2003:

DERIVATIVE FINANCIAL INSTRUMENTS	KZT	USD USD1= KZT 144.22	EUR USD1= KZT 180.23	Other currency	Allowance for losses	2003 Total
Accounts payable on forwards	(143,780)	(14,037,219)	–	(3,012,413)	–	(17,193,412)
Accounts receivable on forwards	388,595	10,886,734	2,072,645	3,860,036	–	17,208,010
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**244,814**	**(3,150,485)**	**2,072,645**	**847,623**	**–**	
TOTAL OPEN POSITION	**62,569,268**	**(414,398)**	**3,103,643**	**7,036,820**	–	

	KZT	USD USD1= KZT 155.85	EUR USD1= KZT 162.46	Other currency	Allowance for losses	2002 Total
ASSETS						
Cash and balances with national (central) banks	8,613,309	9,734,538	666,027	380,897	–	19,394,771
Loans and advances to banks, net	121,773	41,043,691	470,545	1,939,271	(170,158)	43,405,122
Trading securities	8,733,946	12,297,544	1,848	–	–	21,033,338
Loans to customers, net	41,681,084	131,649,095	5,595,330	92,890	(14,016,382)	165,002,017
Investment securities	5,539,019	17,031	–	36	–	5,556,086
Securities purchased under agreement to resell	2,311,517	–	–	–	(46,260)	2,265,257
Derivative financial instruments	7,000	–	–	–	–	7,000
Investments in associates	285,917	–	–	–	–	285,917
Fixed assets, net	3,428,847	–	–	18,766	–	3,447,613
Intangible assets, net	592,880	–	–	15,697	–	608,577
Interest accrued on interest bearing assets	4,578,959	5,757,876	202,733	521	–	10,540,089
Other assets	2,415,591	758,515	85,716	8,774	(53,085)	3,215,511
TOTAL ASSETS	**78,309,842**	**201,258,290**	**7,022,199**	**2,456,852**	**(14,285,885)**	**274,761,298**
LIABILITIES						
Loans and advances from banks	1,191,548	48,712,442	3,055,794	1,568,471	–	54,528,255
Customer accounts	35,859,377	100,395,367	1,318,849	838,695	–	138,412,288
Debt securities issued	–	29,799,896	–	–	–	29,799,896
Other borrowed funds	130,544	3,733,705	682,710	–	–	4,546,959
Derivative financial instruments	2,203	–	–	–	–	2,203
Dividends payable	374	–	–	32	–	406
Interest accrued on interest bearing liabilities	792,656	2,914,725	52,724	3,278	–	3,763,383
Other liabilities	2,391,300	934,572	552	11,423	2,210,711	5,548,558
Subordinated debt	–	4,387,722	1,624,600	–	–	6,012,322
TOTAL LIABILITIES	**40,368,002**	**190,878,429**	**6,735,229**	**2,421,899**	**2,210,711**	**242,614,270**
OPEN BALANCE SHEET POSITION	**37,941,840**	**10,379,861**	**286,970**	**34,953**		

Derivative financial instruments

The fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2002:

	KZT	USD USD1= KZT 155.85	EUR USD1= KZT 162.46	Other currency	Allowance for losses	2002 Total
DERIVATIVE FINANCIAL						
Accounts payable on forwards	–	(3,117,000)	(487,380)	–	–	(3,604,380)
Accounts receivable on forwards	3,124,000	485,177	–	–	–	3,609,177
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**3,124,000**	**(2,631,823)**	**(487,380)**	**–**		
TOTAL OPEN POSITION	**41,065,840**	**7,748,038**	**(200,410)**	**34,953**		

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its products which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Commercial Directorate. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level 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 (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. 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. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments.

However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Bank's Commercial Directorate sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	OECD countries	Non-OECD countries	Allowance for losses	2003 Total
ASSETS				
Cash and balances with national (central) banks	–	28,484,613	–	28,484,613
Precious metals	300,158	–	–	300,158
Loans and advances to banks, net	18,975,185	20,022,225	(414,586)	38,582,824
Trading securities	25,748,751	45,452,108	–	71,200,859
Investment securities	–	169,926	–	169,926
Securities purchased under agreement to resell	538	2,607,780	–	2,608,318
Loans to customers, net	9,057,608	293,073,913	(19,069,078)	283,062,443
Derivative financial instruments	–	15,399	–	15,399
Investments in associates	–	146,206	–	146,206
Fixed assets, net	–	5,867,947	–	5,867,947
Intangible assets, net	–	436,051	–	436,051
Other assets	996,797	2,400,136	(30,520)	3,366,413
TOTAL ASSETS	**55,079,037**	**398,676,304**	**(19,514,184)**	**434,241,157**
LIABILITIES				
Loans and advances from banks	47,533,427	28,688,492	–	76,221,919
Securities sold under agreements to repurchase	30,417,589	6,833,086	–	37,250,675
Debt securities issued	96,516,346	1,717,020	–	98,233,366
Subordinated debt	4,683,221	4,049,693	–	8,732,914
Customer accounts	7,970,186	143,619,230	–	151,589,416
Other borrowed funds	–	3,525,473	–	3,525,473
Derivative financial instruments	–	801	–	801
Other liabilities	100,815	5,818,823	2,483,034	8,402,672
Dividends payable	–	404	–	404
TOTAL LIABILITIES	**187,221,584**	**194,253,022**	**2,483,034**	**383,957,640**
NET BALANCE SHEET POSITION	**(132,142,547)**	**204,423,282**		

	OECD countries	Non-OECD countries	Allowance for losses	2002 Total
ASSETS				
Cash and balances with national (central) banks	5,727,509	13,667,262	–	19,394,771
Loans and advances to banks, net	35,877,084	7,744,217	(170,158)	43,451,143
Trading securities	2,425,106	18,854,005	–	21,279,111
Investment securities	–	5,556,295	–	5,556,295
Securities purchased under agreement to resell	–	2,313,035	(46,260)	2,266,775
Loans to customers, net	206,583	189,058,384	(14,016,382)	175,248,585
Derivative financial instruments	–	7,000	–	7,000
Investments into associates	–	285,917	–	285,917
Fixed assets, net	–	3,447,613	–	3,447,613
Intangible assets, net	–	608,577	–	608,577
Other assets	2,592,837	675,759	(53,085)	3,215,511
TOTAL ASSETS	**46,829,119**	**242,218,064**	**(14,285,885)**	**274,761,298**
LIABILITIES				
Loans and advances from banks	41,146,350	13,516,517	–	54,662,867
Debt securities issued	30,316,786	–	–	30,316,786
Subordinated debt	4,729,429	1,330,980	–	6,060,409
Customer accounts	6,118,270	135,253,705	–	141,371,975
Other borrowed funds	–	4,651,066	–	4,651,066
Derivative financial instruments	–	2,203	–	2,203
Other liabilities	95,855	3,241,992	2,210,711	5,548,558
Dividends payable	–	406	–	406
TOTAL LIABILITIES	**82,406,690**	**157,996,869**	**2,210,711**	**242,614,270**
NET BALANCE SHEET POSITION	**(35,577,571)**	**84,221,195**		

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AUDITOR'S REPORT

INTRODUCTION

We have audited the annual accounts of Kazkommerts International B.V., Rotterdam, The Netherlands for the year 2003 with capital and reserves as at 31 December 2003 of EUR 2.030.370 and the profit for the period 2003 of EUR 1.369.803. These annual accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

SCOPE

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of the company as at 31 December 2003 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, 18 June 2004

MAZARS PAARDEKOOPER HOFFMAN

G.A.P.M. Kannekens RA

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Kazkommerts International B.V.

Balance Sheet
(after appropriation of results and expressed in Euros)

	Notes	31 December 2003	31 December 2002
FIXED ASSETS			
Financial fixed assets			
Loans to shareholder	3	641.764.076	187.168.242
CURRENT ASSETS			
Loan to shareholder	3	151.033.386	138.082.087
Bonds of Russian Federation		2.901.868	3.232.830
Bonds of third party		0	913.056
Current account group companies		122.627	8.899
Interest receivable		9.528.991	2.562.325
VAT receivable		3.621	10.105
Corporation tax		(477.620)	198.945
Cash at banks	4	63.618.602	31.704.132
		226.731.475	176.712.379
CURRENT LIABILITIES			
Loans from third parties	5	186.804.451	138.082.087
Current account shareholder		75.365	3.560.011
Current account third parties		26.232.114	31.472.657
Interest payable to group companies		0	41.300
Interest payable to third parties		11.578.175	2.867.014
Deferred put option income		0	22.743
Accrued expenses		11.000	6.000
		224.701.105	176.051.812
NET CURRENT ASSETS/(LIABILITIES)		2.030.370	660.567
TOTAL ASSETS LESS CURRENT LIABILITIES		643.794.446	187.828.809
Less: **LONG-TERM DEBT**			
Loans from third parties	5	641.764.076	187.168.242
		2.030.370	660.567
CAPITAL AND RESERVES	6		
Share capital		18.000	18.000
Legal reserve		151	151
Proposed dividend 2003		183.736	0
Retained earnings		1.828.483	642.416
		2.030.370	660.567

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KAZKOMMERTS INTERNATIONAL B.V.

Kazkommerts International B.V.

Profit and loss account
(expressed in Euros)

	year ended 31 December 2003	year ended 31 December 2002
FINANCIAL INCOME/(CHARGES)		
Gross income on loans to group companies		
to group companies	51.895.903	15.769.368
withholding tax	(2.299.290)	(1.624.639)
Net income on loans		
to group companies	49.596.613	14.144.729
Interest expenses on loans		
from third parties	(48.889.967)	(13.893.075)
Net income on loans	706.646	251.654
Interest expenses on loan shareholder	0	(364.121)
Interest expenses on loan group company	(8.553)	(41.300)
Interest income loan third party	0	22
Interest income Bonds	265.974	468.090
Result on bonds transactions	238.208	(9.592)
Unrealised result on securities	1.061.703	0
Amortized premium on issued bonds	702.409	43.206
Amortized premium on provided bonds	(702.409)	(43.206)
Amortized Income on options	19.612	3.510
Bank interest	21.087	79.994
Bank charges	(2.683)	(1.166)
Ruling shortage/surplus	59.556	(18.666)
Exchange result	(238.963)	(51.948)
Total financial income/(charges)	**2.122.587**	**316.477**
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative expenses	48.938	28.159
Legal fees	0	4.787
General expenses	55.023	7.531
	103.961	**40.477**
PROFIT BEFORE TAXATION	2.018.626	276.000
CORPORATION TAX	648.823	77.145
NET PROFIT FOR THE YEAR	**1.369.803**	**198.855**

KAZKOMMERTS INTERNATIONAL B.V.

Kazkommerts International B.V.

Notes to the accounts as at 31 December 2003

1. General

The Company is a private limited liability company established in Rotterdam on 1 October 1997. The Company acts as a finance company.

2. Summary of principal accounting policies

(a) General

The accompanying accounts have been prepared in accordance with EU Directives as implemented in Part 9, Book 2 of the Dutch Civil Code.

(b) Foreign currencies

All assets and liabilities expressed in currencies other than Euros have been translated at the rates of exchange prevailing at the balance sheet date. All transactions in foreign currencies have been translated into Euros at rates of exchange approximating to those ruling at the date of the transactions. Resulting exchange differences, if any, are recognised in the profit and loss account.

(c) Bonds

Bonds are till 31 December 2002 not valued at market value but valued at cost, because of lack of market values. In 2003 the market value of the bonds as of 31 December 2003 is available. The unrealised result because of market values and exchange rates differences amounts to EUR 1,061,703.

(d) Other assets and liabilities

Unless otherwise indicated assets and liabilities are stated at face value.

(e) Revenue recognition

Expenses and income are accounted for under the accrual basis.

(f) Corporation tax

Taxation is incurred and provided for in accordance with generally accepted ruling practice.

3. Loan to shareholder/Deferred premium on loans provided

This item reflects the following loans to shareholder:

1. a dollar term deposit facility to the amount of USD 200,000,000. The repayment date of the loan is 8 May 2007. The loans consists of two tranches: Tranche A, USD 150 million and Tranche B USD 50 million. Tranche A bears deposit interest at a nominal rate of 5.26% (4.734% + withholding tax compensation) and commission of 5.516%. Tranche B bears deposit interest at a nominal rate of 3.22% (2.898% + withholding tax compensation) and commission of 7.532%. The borrower shall pay to the Company interest from time to time. In December 2002 Tranche B was issued with a premium of USD 3,500,000.

3. Loan to shareholder/Deferred premium on loans provided (cont'd)

This amount has been partially amortized for USD 839,207.05 (EUR 745,614.28) leading to a deferred bond issue premium of USD 2,660,792.95 (EUR 2,115,097.73).

2. a dollar term deposit facility to the amount of USD 500,000,000. The repayment date of the loan is 16 April 2013. The loan consists of two tranches: Tranche A USD 350 million and Tranche B USD 150 million. Tranche A bears deposit interest at a nominal rate of 2.9% (2.61% + withholding tax compensation) and commission of 6.015% Tranche B bears deposit interest at a nominal rate of 2.505 (2.2545% + withholding tax compensation) and commission of 6.3705%. The borrower shall pay to the Company interest from time to time.

3. a dollar term deposit facility to the amount of USD 300,000,000. The repayment date of the loan is 17 December 2004 and 19 December 2005 for Tranche A, USD 190 million and Tranche B, USD 110 million, accordingly. Tranche A bears deposit interest at a nominal rate of LIBOR + 0.771% + withholding tax compensation and commission of 0.854%. Tranche B bears deposit interest at a nominal rate of LIBOR + 1.221% + withholding tax compensation and commission of 1.004%. The borrower shall pay to the Company interest from time to time.

4. Cash at bank

Cash at banks consists of current account balances and deposit balances at different banks (ING-bank, ABN AMRO bank and Kazkommertsbank) which are available on demand.

5. Issued Bonds/Deferred interest income on bonds

This refer to the following items:
1. Bonds were issued in the amount of USD 200 million with an interest percentage of 10,125%. The repayment date of the bond is 8 May 2007. In December 2002 part of these bonds were issued at a premium of USD 3,500,000. This amount has been partially amortized for USD 839,207.05 (EUR 745,614.28) leading to a deferred bond issue premium of USD 2,660,792.95 (EUR 2,115,097.73).

2. Bonds were issued in the amount of USD 500 million with an interest percentage of 8.5%. The repayment date of the bonds is 16 April 2013

3. a term loan agreement in the amount of USD 300m with interest percentages of LIBOR + 1.5% (Tranche A, USD 190 million) and LIBOR + 2% (Tranche B, USD 110 million). The repayment date of the loan is 17 December 2004 and 19 December 2005 for Tranche A and Tranche B accordingly.

The shareholder guarantees due and punctual observance and performance of all terms, conditions and covenants on the part of Kazkommerts International B.V. in the agreements.

Kazkommerts International B.V.

Notes to the accounts as at 31 December 2003

6. Capital and reserves

The authorised share capital of the Company consisted of 200 shares of EUR 450 each, amounting to EUR 90,000. As at balance sheet date 40 shares were issued and fully paid-up.

The movements in capital and reserves can be summarised as follows:

	31 December 2003	31 December 2002
Issued share capital	18.000	18.000
Legal (non-distributable) reserve	151	151
Proposed dividend 2003	183.736	0
Retained earnings/(Accumulated deficit):		
-position as at the beginning of the year	642.416	443.561
-profit/(loss) for the year	1.369.803	198.855
-proposed dividend	(183.736)	0
-position as at the end of the year	1.828.483	642.416
Total capital and reserves	**2.030.370**	**660.567**

All shares are held by JSC Kazkommertsbank, Almaty, Kazakhstan.

7. Staff numbers and employment costs

The Company has no employees, other than its directors, and hence incurred no wages, salaries, pension costs and other social security premiums during the year under review or the previous year.

8. Directors

The Company has two directors and no supervisory directors. No remuneration nor any other benefits were paid to the present directors during the year under review or the previous year.

The Management,

BURGPLEIN 30-34 ROTTERDAM SCHOUWBURGPLEIN
KAZKOMMERTS INTERNATIONAL B.V.

A. Timchenko

Equity Trust Co. N.V.

Rotterdam, June 2004

Kazkommerts International B.V.

Supplementary information to the Accounts as at 31 December 2003

Retained earnings

Article 20 of the Articles of Association provides that the profit established shall be at the disposal of the General Meeting of Shareholders who may apply such profit in whole or in part towards the creation of or as an allocation to one or several general or special reserve funds, or for payment of bonuses and/or for payment of dividends. Insofar as there is a profit in the Company the Board of Directors may, subject to approval by the Annual General Meeting of Shareholders, decide to declare an interim dividend. Furthermore Dutch law prescribes that no dividends can be declared until all losses, if any, have been recovered.

Proposed appropriation of result

The management proposes a dividend of EUR 183,736 be paid from the net result of 2003 The remaining result for the past financial year will be carried forward. In the annual accounts this proposal has already been accounted for.

Audit

Since the Company qualifies as a "medium-sized" company it is, consequently, legally required to have its accounts audited as provided for in Section 396, Paragraph 6, Part 9, Book 2 of the Dutch Civil Code.

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imprima de bussy — C90917

U.S. $150,000,000

KAZKOMMERTS INTERNATIONAL B.V.

7 per cent. Notes due 2009
(to be consolidated and form a single series with the Issuer's
U.S.$350,000,000 7 per cent. Notes due 2009)
Unconditionally and Irrevocably Guaranteed by

JSC KAZKOMMERTSBANK

OFFERING CIRCULAR

8 February 2005

UBS INVESTMENT BANK