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THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS BASE PROSPECTUS MAY ONLY BE DISTRIBUTED IN “OFFSHORE TRANSACTIONS” TO PERSONS THAT ARE NOT U.S. PERSONS AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (EACH, A “QIB”) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**CONFIRMATION OF YOUR REPRESENTATION:** In order to be eligible to view this Base Prospectus or make an investment decision with respect to the securities, you must be (i) a person other than a U.S. person (within the meaning of Regulation S under the Securities Act) or (ii) a QIB. By accepting the e-mail and accessing this Base Prospectus, you shall be deemed to have represented to us that you are not a U.S. person or that you are a QIB and that you consent to delivery of such Base Prospectus by electronic transmission.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

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

Under no circumstances shall this Base Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Base Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Base Prospectus. This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of ING Bank N.V., London Branch, J.P. Morgan Securities Ltd. and UBS Limited nor any person who controls it nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from ING Bank N.V., London Branch, J.P. Morgan Securities Ltd. or UBS Limited.



**KAZKOMMERTS INTERNATIONAL B.V.**

*(incorporated with limited liability in The Netherlands)*

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**U.S.\$1,500,000,000**

**Guaranteed Debt Issuance Programme**

**Unconditionally and irrevocably guaranteed by**

**JSC Kazkommertsbank**

*(an open joint stock company incorporated in  
the Republic of Kazakhstan)*

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This Base Prospectus has been approved by the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom (the "UK Listing Authority"), as a base prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of notes ("Notes") under the Guaranteed Debt Issuance Programme (the "Programme") during a twelve month period after the date hereof.

Applications have been made to admit Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof to listing on the official list of the UK Listing Authority (the "Official List") and to trading on the Gilt Edged and Fixed Interest Market (the "Regulated Market") of the London Stock Exchange plc (the "London Stock Exchange"). The Programme also permits Notes to be issued on an unlisted basis or to be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges, regulated markets and/or quotation systems as may be agreed with the Issuer and the Guarantor. In addition, after issue, application may be made by the Guarantor to list Notes on the Kazakhstan Stock Exchange ("KASE").

**An investment in the Notes involves a high degree of risk. See "Risk Factors" beginning on page 18.**

The Notes and the Guarantee (together the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")). The Notes may be offered and sold (i) within the United States to qualified institutional buyers (each, a "QIB"), as defined in Rule 144A under the Securities Act ("Rule 144A"), in reliance on the exemption from registration provided by Rule 144A (such Notes so offered and sold, the "Rule 144A Notes") and (ii) to non-U.S. persons in offshore transactions in reliance on Regulation S (such Notes so offered and sold, the "Regulation S Notes"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain other restrictions, see "Subscription and Sale" and "Transfer Restrictions".

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*Arranger*

**ING Financial Markets**

*Permanent Dealers*

**ING Financial Markets**

**JPMorgan**

**UBS Investment Bank**

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## IMPORTANT NOTICE

This Base Prospectus contains information provided by Kazkommerts International B.V. (the “Issuer”) and JSC Kazkommertsbank (“KKB”, the “Bank” or the “Guarantor”) in connection with a guaranteed debt issuance programme (the “Programme”) under which the Issuer may issue and have outstanding at any time global medium term notes (the “Notes”) on the terms set out herein (the “Terms and Conditions of the Notes” as supplemented by the final terms applicable to each issue (the “applicable Final Terms”) up to a maximum aggregate amount of U.S.\$1,500,000,000 or its equivalent in alternative currencies. The Notes will be constituted by, and have the benefit of, a trust deed dated 31 October 2005 (the “Trust Deed”) between the Issuer, the Guarantor and The Bank of New York, London Branch (the “Trustee”, which term shall include any successor trustee or trustees under the Trust Deed). The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts due and payable in respect of Notes issued by the Issuer pursuant to Clause 5 of the Trust Deed (the “Guarantee”). The Issuer and the Guarantor have, pursuant to a dealer agreement (the “Dealer Agreement”) dated 31 October 2005, appointed ING Bank N.V., London Branch, J.P. Morgan Securities Ltd. and UBS Limited (the “Dealers”) as dealers for the Notes under the Programme, and have authorised and requested the Dealers to circulate this Base Prospectus in connection with the Programme, subject as provided in the Dealer Agreement.

No Notes may be issued under the Programme which have a minimum denomination of less than €50,000 (or its equivalent in another currency). Subject thereto and to compliance with all applicable legal, regulatory and/or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

References in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market and admitted to the Official List.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Dealers or the Trustee that any recipient of this Base Prospectus or any other information supplied relating to the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Guarantor. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Guarantor or any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness at any time of this Base Prospectus or any supplement hereto. No person has been authorised by the Issuer, the Guarantor, the Dealers or the Trustee to give any information or to make any representation not contained in this Base Prospectus or any supplement hereto, and, if given or made, such information or representation must not be relied upon as having been authorised.

The distribution of this Base Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Notes come are required by the Issuer, the Guarantor, the Dealers and the Trustee to inform themselves about and to observe any such restrictions. In particular, such persons are required to comply with the restrictions on offers or sales of Notes and on distribution of this Base Prospectus and other information in relation to the Notes set out under “Subscription and Sale” and “Transfer Restrictions” below.

Furthermore, none of the Issuer, the Guarantor, the Dealers or the Trustee makes any comment about the treatment for taxation purposes of payments or receipts in respect of any Notes. Each investor contemplating acquiring Notes under the Programme must seek such tax or other professional advice as it considers necessary for the purpose.

Certain figures included in this Base Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Application has been made to list Notes issued under the Programme on the Regulated Market of the London Stock Exchange. The Programme provides that Notes may in the future be listed on such other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) in relation to each issue, provided that the relevant requirements have been met. The applicable Final Terms in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Official List and traded on the Regulated Market of the London Exchange (or any other stock exchange). The Issuer may also issue unlisted Notes pursuant to the Programme. Application may also be made to have Rule 144A Notes designated as eligible for trading on the Private Offering, Resale and Trading through Automated Linkages (“PORTAL”) system of the National Association of Securities Dealers, Inc., as specified in the applicable Final Terms.

Regulation S Notes of each Series which are sold in an “offshore transaction” within the meaning of Regulation S will initially be represented by interests in a global unrestricted note in registered form (each, a “Regulation S Global Note”), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”) on its Issue Date (as defined below). Beneficial interests in a Regulation S Global Note will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs, as referred to in, and subject to, the transfer restrictions described in “Subscription and Sale” and “Transfer Restrictions”, will initially be represented by interests in a global restricted Note in registered form (each, a “Rule 144A Global Note” and, together with any Regulation S Global Notes, the “Global Notes”), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) on its Issue Date. Beneficial interests in a Rule 144A Global Note will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See “Summary of the Provisions Relating to the Notes in Global Form”. Individual definitive Notes in registered form will only be available in certain limited circumstances as described herein.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

#### STABILISATION

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes provided that, in the case of any Tranche of Notes to be listed on the London Stock Exchange or other recognised stock exchange or regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.**

#### 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 LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE 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 A 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.

#### **ENFORCEABILITY OF 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 Base Prospectus are residents of Kazakhstan, apart from Mrs Gail Buyske, a member of the board, who is a U.S. citizen. 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 Guarantor has agreed in the Trust Deed that disputes arising thereunder or in respect of the Notes 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. Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention") and, accordingly, such an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

## **SUPPLEMENTAL BASE PROSPECTUS**

The Issuer (failing which the Guarantor) will, in connection with the listing of the Notes on the Official List and admission to trading on the Regulated Market, so long as any Note remains outstanding and listed on such exchange, in the event of any material change in the condition of the Issuer or the Guarantor which is not reflected in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the Official List and admitted to trading on the Regulated Market.

The Issuer and the Guarantor may agree with any dealer that a Series of Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Base Prospectus, if appropriate, will be published which will describe the effect of the agreement reached in relation to such Series of Notes.

## 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 2004, 2003 and 2002 and its other financial information included in this Base Prospectus have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The condensed consolidated financial statements of the Bank as at and for the six months ended 30 June 2005 and 2004 included in this Base Prospectus 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 Base Prospectus may vary slightly from the exact arithmetic sum of the figures that precede them.

In this Base Prospectus:

- “Bank”, “KKB” 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 Base Prospectus presents unaudited translations of certain Tenge amounts into U.S. dollars at the rates specified below. 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. The Bank has translated the summary income statement information for the six months ended 30 June 2005 and for the year ended 31 December 2004 into U.S. dollars at the rates of U.S.\$1.00 = KZT131.19 and U.S.\$1.00 = KZT136.07, respectively and the summary balance sheet information as at 30 June 2005 and 31 December 2004 at the rates of U.S.\$1.00 = KZT135.26 and U.S.\$1.00 = KZT130.00. See “Exchange Rates and Exchange Controls”.

No representation is made that the Tenge or U.S. dollar amounts in this Base Prospectus 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 Base Prospectus 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 Base Prospectus. 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 Base Prospectus, 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 Base Prospectus 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 Base Prospectus 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 Base Prospectus.



## **ADDITIONAL INFORMATION**

Neither the Issuer nor the Guarantor is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). For so long as either the Issuer or the Guarantor is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or the Guarantor will, upon request, furnish to each holder or beneficial owner of Notes that are “restricted securities” (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Rule 144A Notes under the Securities Act, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

## **RESPONSIBILITY STATEMENT**

The Issuer and Guarantor accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer and Guarantor (which have taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The information in this Base Prospectus contained under the headings “Management’s Discussion and Analysis of Results of Operations and Financial Condition – Kazakhstan’s Economy” and “The Banking Sector in Kazakhstan” has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information provided herein. The Issuer and the Guarantor accept responsibility for accurately reproducing such extracts, and as far as each of them is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.

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## OVERVIEW OF THE BANK

*The following overview highlights significant aspects of the Bank's business and the Programme, but prospective investors should read this entire Base Prospectus, including the Bank's historical audited consolidated financial statements and related notes, included elsewhere in this Base Prospectus, together with the related Final Terms 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 2005, providing wholesale and retail banking and other financial services. As at and for the six months ended 30 June 2005, the Bank had net income of KZT10,915 million, total assets of KZT789,253 million and shareholders' equity of KZT84,796 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 2005, 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 2005, it had total customer retail deposits of KZT83,895 million, a significant increase from the KZT3,180 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 KZT12,234 million to KZT81,007 million as at 30 June 2005.

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 2005, the Bank's total gross customer loan portfolio amounted to KZT588,136 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 expects its credit ratings to be as follows:

<b>Fitch Ratings</b>	<b>Moody's</b>	<b>Standard &amp; Poor's</b>
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

Notes to be issued under the Programme may be rated or unrated, and where an issue of Notes under the Programme is rated, its rating will not necessarily be the same as the Bank's credit ratings as set out in this Base Prospectus.

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.

## OVERVIEW OF THE PROGRAMME

*The following summary is qualified in its entirety by the remainder of this Base Prospectus.*

<b>Issuer:</b> .....	Kazkommerts International B.V.
<b>Guarantor:</b> .....	JSC Kazkommertsbank
<b>Description:</b> .....	Guaranteed Debt Issuance Programme
<b>Size:</b> .....	Up to U.S.\$1,500,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time.
<b>Arranger:</b> .....	ING Bank N.V., London Branch
<b>Dealers:</b> .....	ING Bank N.V., London Branch, J.P. Morgan Securities Ltd. and UBS Limited. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches (as defined below) or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to “Dealers” are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Trustee:</b> .....	The Bank of New York, London Branch
<b>Principal Paying Agent, Calculation Agent and Transfer Agent:</b> .....	The Bank of New York, London Branch
<b>Registrar</b> .....	The Bank of New York, New York Branch
<b>Paying Agent and Transfer Agent:</b> .....	The Bank of New York, New York Branch
<b>Method of Issue:</b> .....	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a “Series”) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a “Tranche”) on the same or different issue dates. The specific terms of each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be set out in the relevant Final Terms.
<b>Issue Price:</b> .....	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly paid Notes may be issued, the issue price of which will be payable in two or more instalments.
<b>Form of Notes:</b> .....	Each Series of Notes will be issued in registered form only. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be exchangeable for Definitive Notes (as defined herein) in the limited circumstances specified in the Global Notes.
<b>Clearing Systems:</b> .....	DTC (in the case of Rule 144A Notes) and Clearstream, Luxembourg and Euroclear (in relation to any Regulation S Notes), and such other clearing system as may be agreed between the Issuer, the Guarantor, the Principal Paying Agent, the

Trustee and the relevant Dealer. Application may be made for trading of the Rule 144A Notes in PORTAL, as specified in the relevant Final Terms.

**Initial Delivery of Notes:**..... On or before the issue date for each Tranche, the Rule 144A Global Note will be deposited with a custodian for DTC and the Regulation S Global Note shall be deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Rule 144A Global Notes will be registered in the name of a nominee of DTC, and the Regulation S Global Notes will be registered in the name of a nominee for the common depository for Euroclear and Clearstream, Luxembourg. Global Notes relating to Notes that are not listed on the Regulated Market may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Guarantor, the Principal Paying Agent, the Trustee and the relevant Dealer.

**Currencies:**..... Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealers.

**Maturities:** ..... Subject to compliance with all relevant laws, regulations and directives, Notes may have any maturity between one month and 30 years.

**Denomination:**..... Notes will be in such denominations as may be specified in the relevant Final Terms (the “Specified Denomination”), provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies, (ii) with respect to (a) Notes which are not admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive and (b) Notes with a maturity of less than 365 days, a lower Specified Denomination may apply as more fully set out in the relevant Final Terms and (iii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000 or its equivalent in other currencies.

**Fixed Rate Notes:** ..... Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

**Floating Rate Notes:** ..... Floating Rate Notes will bear interest determined separately for each Series as follows:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., or
- (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin. Interest periods will be specified in the relevant Final Terms.

**Zero Coupon Notes:**..... Zero Coupon Notes may be issued at their nominal amount or at a discount and will not bear interest.

<b>Dual Currency Notes:</b> .....	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Final Terms.
<b>Index Linked Notes:</b> .....	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Final Terms.
<b>Interest Periods and Interest Rates:</b> ....	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
<b>Redemption:</b> .....	The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA (Financial Services and Markets Act 2000) must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
<b>Redemption by Instalments:</b> .....	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
<b>Other Notes:</b> .....	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set out in the relevant Final Terms.
<b>Optional Redemption:</b> .....	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
<b>Status of Notes:</b> .....	The Notes and the Guarantee will constitute unsubordinated and unsecured obligations of the Issuer and the Guarantor, respectively, all as described in “Terms and Conditions of the Notes — Status”.
<b>Negative Pledge:</b> .....	See “Terms and Conditions of the Notes — Condition 4”.
<b>Certain Covenants:</b> .....	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: <ul style="list-style-type: none"> <li>(i) limitation on transactions at less than the fair market value; and</li> <li>(ii) limitation on payment of dividends. See “Terms and Conditions of the Notes — Condition 4.”</li> </ul>
<b>Cross Default:</b> .....	See “Terms and Conditions of the Notes — Events of Default”.



**Rating:**..... Notes to be issued under the Programme may be rated or unrated, and where an issue of Notes under the Programme is rated, its rating will not necessarily be the same as the rating applicable to the Programme.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of securities do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Guarantor could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

**Early Redemption:**..... Except as provided in “Optional Redemption” above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See “Terms and Conditions of the Notes — Redemption, Purchase and Options”.

**Withholding Tax:**..... 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 Notes — Condition 8.”

**Governing Law:**..... The Notes and the Trust Deed will be governed by, and shall be construed in accordance with, English law.

**Listing:**..... Application has been made to list Notes issued under the Programme on the Official List and traded on the Regulated Market or as otherwise specified in the relevant Final Terms. Application may also be made to list Notes after their issue on KASE. As specified in the relevant Final Terms, a Series of Notes may be unlisted.

**Selling Restrictions:** ..... The offering and sale of Notes is subject to all applicable selling restrictions, including, without limitation, those of the United States, United Kingdom, The Netherlands and Japan. See “Subscription and Sale”.

**Further Issues:** ..... The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as a Series of Notes that was previously issued in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single Series with the outstanding securities of any Series (including such Notes) or upon such terms as the Issuer may determine at the time of their issue.

Additional Notes that are treated for non-tax purposes as a single series with previously issued Notes may be treated as a separate series for U.S. federal income tax purposes. In such case, the additional Notes may be considered to have been issued with “original issue discount” (as defined under the U.S. Internal Revenue Code and the Treasury Regulations issued thereunder), which creates certain adverse tax consequences for certain holders subject to U.S. federal income taxation. Since additional Notes may not be distinguishable from the previously issued Notes, the market value of the previously issued Notes could be impacted by any original issue discount imposed with respect to the additional Notes.

## RISK FACTORS

*Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Base Prospectus and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or collectively, could have a material adverse effect on the Issuer's or the Guarantor's, or the Group's respective business, operations and financial condition and/or the rights under the Notes of the holders of the Notes.*

### **Risks Relating to the Issuer**

The Issuer is a finance subsidiary of the Guarantor without independent operations or revenues. As such, its ability to meet its obligations under the Notes will be dependent upon the support of the Guarantor. This list is not exclusive.

### **Risks Relating to the Bank**

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

The Bank's net loan portfolio increased by 74.8 per cent. in 2004 and was KZT494.9 billion as at the end of that year compared to KZT283.1 billion a year earlier. In the first six months of 2005, the net loan portfolio increased by 11.7 per cent. compared to the net loan portfolio in the year ended 31 December 2004. 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 were only recently introduced in the Bank. 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 2005, the Bank's top 20 borrowers comprised 28.0 per cent. of its gross loan portfolio compared to 26.5 per cent. as at 30 June 2004. As at 31 December 2004, the Bank's top 20 borrowers comprised 24.8 per cent. of its gross loan portfolio compared to 30.3 per cent. as at 31 December 2003 and 33.4 per cent. as at 31 December 2002. Despite the growing diversity of its portfolio, 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 market 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.

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 2005, there were 36 banks, excluding the NBK, in Kazakhstan, of which 14 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". The Bank faces the risk of changes in certain legislative and regulatory acts that may have an adverse effect on its business, results of its operations or the liquidity and market value of the Notes. However, in most cases the changes in legislative and regulatory acts that substantially influence the banking sector are only made after preliminary discussions and consideration of the comments made by the Kazakhstan Financier's Association. The Kazakhstan Financier's Association is a trade representative of second tier banks and other financial institutions. 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 be at risk of losing qualified personnel in the increasingly competitive environment.

### **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 Prospectus may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is 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 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 Prospectus 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 9.5 per cent. in 2002, 9.2 per cent. in 2003 and 9.4 per cent. in 2004. There was a 9.1 per cent. increase in real GDP between the end of June 2005 and the end of June 2004.

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 and 2004, the Tenge strengthened against the U.S. dollar and appreciated by 7 per cent. and 10 per cent. respectively. According to the NBK, during the first half of 2005, the Tenge depreciated by 4 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. In May 2004, the Bank received an assessment in respect of additional tax which it is disputing. See "Management's Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations for the Year ended 31 December 2004 Compared to the Year ended 31 December 2003 – Taxation". 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 an Investment in the Notes**

#### ***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In Particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

***A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors.***

Set out below is a description of the most common such features:

#### ***Notes subject to optional redemption by the Issuer***

An optional redemption feature of notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being

redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### *Index Linked Notes and Dual Currency Notes*

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a “Relevant Factor”). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified;
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield;
- (viii) a direct investment in the shares, commodities or other assets underlying an index or in a fund that invests in those assets, or in the currencies comprised in a Dual Currency Note, might give rise to different, and potentially higher returns, than an investment in the Index Linked Notes or Dual Currency Notes; and
- (ix) no statutory, judicial, or administrative authority directly addresses the characterisation of Index Linked Notes or securities similar to Index Linked Notes for United States federal income tax purposes. As a result, significant United States federal income tax consequences of an investment in such Notes are not certain. The Issuer has not requested a ruling from the United States Internal Revenue Service for any such Notes and gives no assurance that the Internal Revenue Service will agree with the statements made in this document or the applicable Final Terms relating to those Notes.

#### *Partly-paid Notes*

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

#### *Variable rate Notes with a multiplier or other leverage factor*

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related feature, their market values may be even more volatile than those for securities that do not include those features.

#### *Inverse Floating Rate Notes*

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as a LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreased the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

#### *Fixed/Floating Rate Notes*

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer



may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rate on its Notes.

*Notes issued at a substantial discount or premium*

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

***Noteholders may be bound by the decision of other holders notwithstanding that they were not present at the meeting***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined percentages of Noteholders to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a contrary manner.

***Payments of interest to individuals within a Member State of the EU could be subject to taxation under EC Council Directive 2003/48/EC***

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

***Further Issues***

The Issuer may offer further Notes with original issue discount for United States federal income tax purposes (“OID”) as part of a further issue of Notes to be consolidated with and form a single Series therewith. Purchasers of Notes after the date of consolidation of any further issue of Notes will not be able to differentiate between the Notes sold as part of the further issue and previously issued Notes. If the Issuer were to issue further Notes with OID, purchasers of Notes after such a further issue of Notes may be required to accrue OID (or greater amounts of OID than they would otherwise have accrued) with respect to their Notes. These OID consequences may affect the price of outstanding Notes following a further issue. Prospective purchasers of Notes should consult their own tax advisers with respect to the implications of any future decision by the Issuer to undertake a further issue of Notes with OID.

***Trading in the clearing systems***

The terms and conditions of the Notes provide that Notes will be issued with a minimum denomination of €50,000 (or its equivalent in other currencies) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If definitive Notes are required to be issued in relation to such Notes in

accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

***Although application may be made to list the Notes on the London Stock Exchange, there is no prior market for the Notes.***

An active trading market in the Notes may not develop or be maintained after any 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.

***Exchange rate risks and exchange controls***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***Interest rate risks***

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

***Credit ratings may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised or withdrawn by the rating agency at any time.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (1) Notes are lawful investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

***Enforceability of judgments***

Kazakhstan's courts will not enforce any judgment 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. Each of Kazakhstan and the United Kingdom are parties to the 1958 New York convention on Recognition and Enforcement of Arbitral Awards (the "Convention") and, accordingly, an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions of enforcement set out in the Convention are met. See "Enforceability of Judgments".

## 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 KZT88 per U.S. dollar to a rate of approximately KZT130 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 2004. Whilst depreciating slightly in the first six months of 2005, the Tenge has remained relatively stable against the U.S. dollar to date in 2005.

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:

<u>Year ended 31 December</u>	<u>Period end</u>	<u>Average<sup>(1)(2)</sup></u>	<u>High</u>	<u>Low</u>
2000 .....	144.50	142.13	144.50	138.20
2001 .....	150.20	146.72	150.20	145.00
2002 .....	155.60	153.28	155.60	150.60
2003 .....	144.22	149.50	155.89	143.66
2004 .....	130.00	136.07	143.33	130.00
<b>2005</b>				
January .....	130.37	130.09	130.64	129.98
February .....	130.15	130.10	130.59	129.83
March .....	132.59	130.44	132.59	129.88
April .....	131.61	131.38	132.55	130.45
May .....	132.49	131.38	132.49	130.28
June .....	135.26	133.79	136.00	131.39
July .....	135.84	135.59	136.12	134.41
August .....	135.25	135.47	135.89	135.05
September .....	133.89	134.31	135.35	133.89

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

(2) For the six months ended 30 June 2005, the average rate was KZT131.19.

The middle KZT/U.S. dollar exchange rate on the Kazakhstan Stock Exchange, as reported by the NBK on 27 October 2005 was 133.98/1.00.

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.

## **USE OF PROCEEDS**

The Issuer will lend the net proceeds it receives from each issue of Notes to the Guarantor. The Guarantor will use such proceeds to fund loans to its customers and for other general banking purposes.

## CAPITALISATION

The following table sets forth the Bank's unaudited consolidated capitalisation as at 30 June 2005. This information should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition".

	As at 30 June 2005	
	(U.S.\$ thousands) (Unaudited) <sup>(1)</sup>	(KZT millions) (Unaudited)
<b>Liabilities:</b>		
Senior long-term debt <sup>(2)</sup> .....	2,081,128	281,493
Subordinated long-term debt <sup>(3)</sup> .....	198,610	26,864
	2,279,738	308,357
<b>Equity:</b>		
Common shares .....	27,725	3,750
Preference shares .....	9,238	1,250
Share capital .....	36,963	5,000
Share premium .....	165,179	22,342
Fixed assets valuation reserve .....	11,380	1,539
Retained earnings .....	366,975	49,637
Minority interest .....	46,414	6,278
	626,911	84,796
<b>Total capitalisation</b> .....	<b>2,906,649</b>	<b>393,153</b>

(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 and Exchange Controls" for historical exchange rate data.

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

(3) In December 2002, the Bank registered an issue of KZT7.5 billion 8 per cent. subordinated notes due 2009. As at 30 June 2005, the Bank had sold U.S.\$27.4 million of these notes primarily to pension funds on the domestic market. Subordinated long-term liabilities also include U.S.\$ 0.4 million domestic subordinated notes due 2007 and U.S.\$19.8 million of 11 per cent. subordinated notes due 2007. In March 2005 the Bank issued U.S.\$51 million 7.5 per cent. domestic subordinated notes due 2005. Subordinated long-term debt also includes a subordinated loan from Citigroup Global Markets Deutschland AG & Co. KgaA in the amount of U.S.\$100 million which is repayable in 2014 and was funded by an issue of 7.375 per cent. Subordinated Loan Participation Notes due 2014.

As at 30 June 2005, the Bank's authorised share capital was KZT5 billion, consisting of 500 million shares with a nominal value of KZT10 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 KZT4,999,554,600, comprising 374,997,700 common voting shares and 124,957,760 non-voting preference shares. Each preference share entitles the holder to a fixed annual dividend of U.S.\$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.

Other than as set out above, there has been no material change in the Bank's capitalisation since 30 June 2005.

## SELECTED CONSOLIDATED FINANCIAL DATA

The following table contains summary historical financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2004, 2003 and 2002. The summary information as at and for the six months ended 30 June 2005 and 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 six months ended 30 June 2005 and for the year ended 31 December 2004 into U.S. dollars at the rates of U.S.\$1.00 = KZT131.19 and U.S.\$1.00 = KZT136.07, respectively and the summary balance sheet information as at 30 June 2005 and 31 December 2004 at the rates of U.S.\$1.00 = KZT135.26 and U.S.\$1.00 = KZT130.00, respectively.

Prospective investors should read the following summary consolidated financial and other information in conjunction with the information contained in "Capitalisation", "Management's Discussion and Analysis of 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 Prospectus.

	For the six month period ended 30 June			For the year ended 31 December			
	2005	2005	2004	2004	2004	2003	2002
	(U.S.\$ thousands) (Unaudited)	(KZT millions) (Unaudited)		(U.S.\$ thousands) (Unaudited)	(KZT millions) (Audited)		
<b>Income Statement:</b>							
Interest income .....	288,351	37,829	23,815	404,223	55,003	35,106	24,501
Interest expense .....	(147,008)	(19,286)	(11,660)	(192,899)	(26,248)	(18,624)	(11,258)
Net interest income before provisions for loan losses .....	141,343	18,543	12,155	211,324	28,755	16,482	13,243
Provision for loan losses .....	(47,127)	(6,183)	(5,365)	(82,469)	(11,222)	(5,887)	(7,342)
Net interest income .....	94,216	12,360	6,790	128,854	17,533	10,595	5,901
Net gain/(loss) on trading securities.....	1,301	171	(225)	163	22	(317)	936
Net gain on foreign exchange operations ..	6,268	822	964	11,442	1,557	1,600	1,207
Fee and commission income .....	42,360	5,557	4,611	76,358	10,390	8,400	5,792
Fee and commission expenses .....	(3,881)	(509)	(742)	(14,341)	(1,951)	(1,334)	(1,126)
Net gain/(loss) from investment securities..	—	—	9	143	19	(47)	3,916
Dividends received.....	76	10	14	111	15	382	447
Other income .....	6,439	845	496	14,425	1,963	1,239	433
Net non-interest income .....	52,563	6,896	5,127	88,300	12,015	9,923	11,605
Operating income .....	146,779	19,256	11,917	217,154	29,548	20,518	17,506
Operating expenses .....	(46,849)	(6,146)	(4,402)	(69,898)	(9,511)	(8,969)	(7,956)
Operating profit.....	99,930	13,110	7,515	147,256	20,037	11,549	9,550
Provision for losses on other operations....	(6,716)	(881)	124	(5,303)	(722)	(270)	(1,327)
Income/(expenses) from associates .....	761	99	(15)	92	13	(20)	34
Profit before taxation and minority interest	93,975	12,328	7,624	142,045	19,328	11,259	8,257
Income tax expense .....	(10,772)	(1,413)	(1,962)	(70,354)	(9,573)	(2,092)	(276)
Net profit before minority interest.....	83,203	10,915	5,662	71,691	9,755	9,167	7,981
Minority interest.....	(5,915)	(776)	(397)	(7,832)	(1,066)	(406)	(2)
Net profit.....	77,288	10,139	5,265	63,859	8,689	8,761	7,979

	As at 30 June			As at 31 December			
	2005	2005	2004	2004	2004	2003	2002
	(U.S.\$ thousands) (Unaudited)	(KZT millions) (Unaudited)		(U.S.\$ thousands) (Unaudited)	(KZT millions) (Audited)		
<b>Balance Sheet:</b>							
<i>Assets:</i>							
Cash and balances with the national (central) banks .....	146,507	19,817	17,309	509,945	66,293	28,485	19,395
Precious metals .....	—	—	—	—	—	300	—
Loans and advances to banks less allowance for loan losses .....	1,049,371	141,938	27,701	321,797	41,834	38,583	43,451
Trading securities .....	382,171	51,693	81,431	575,229	74,780	71,201	21,279
Securities purchased under agreements to resell, less allowance for losses .....	77,191	10,441	9,004	64,634	8,402	2,608	2,267
Derivative financial instruments .....	2,742	371	36	153	20	15	7
Loans to customers, net .....	4,085,886	552,657	377,245	3,807,158	494,931	283,062	175,249
Securities available for sale .....	240	32	64	3,759	489	138	5,539
Securities held to maturity .....	320	43	76	494	64	32	17
Investments into associates .....	2,351	318	131	1,677	218	146	286
Fixed assets, less accumulated depreciation	57,385	7,762	6,083	53,854	7,001	5,868	3,448
Intangible assets, less accumulated amortization .....	3,575	483	414	2,965	385	436	608
Other assets, less allowance for losses .....	27,339	3,698	2,981	74,155	9,640	3,366	3,215
<b>Total assets .....</b>	<b>5,835,078</b>	<b>789,253</b>	<b>522,475</b>	<b>5,415,820</b>	<b>704,057</b>	<b>434,241</b>	<b>274,761</b>
<b>Liabilities and Shareholders' Equity:</b>							
<i>Liabilities:</i>							
Loans and advances from banks .....	1,245,530	168,470	83,959	1,310,241	170,331	76,222	54,663
Securities sold under agreements to repurchase .....	66,961	9,057	7,418	218,805	28,445	37,251	—
Derivative financial instruments .....	1,511	204	20	241	31	1	2
Customer accounts .....	1,740,312	235,395	178,059	1,521,749	197,827	151,589	141,372
Debt securities issued .....	1,730,885	234,120	162,611	1,598,775	207,841	98,233	30,317
Other borrowed funds .....	102,116	13,812	2,715	34,338	4,464	3,525	4,651
Dividends payable .....	4,063	550	324	3	1	1	1
Other liabilities .....	114,988	15,553	9,597	99,187	12,894	8,403	5,548
Subordinated debt .....	201,801	27,296	22,147	149,598	19,448	8,733	6,060
<b>Total liabilities .....</b>	<b>5,208,167</b>	<b>704,457</b>	<b>466,850</b>	<b>4,932,937</b>	<b>641,282</b>	<b>383,958</b>	<b>242,614</b>
Minority interest .....	46,414	6,278	4,853	42,062	5,468	4,705	81
<i>Shareholders' Equity:</i>							
Share capital .....	36,963	5,000	4,019	32,286	4,197	4,019	3,500
Share premium .....	165,179	22,342	9,454	90,403	11,752	9,453	5,473
Fixed assets revaluation reserve .....	11,380	1,539	774	10,102	1,313	570	7
Retained earnings .....	366,975	49,637	36,525	308,030	40,044	31,537	23,086
<b>Total shareholders' equity .....</b>	<b>580,497</b>	<b>78,518</b>	<b>50,772</b>	<b>440,821</b>	<b>57,307</b>	<b>45,579</b>	<b>32,066</b>
<b>Total liabilities and shareholders' equity ...</b>	<b>5,835,078</b>	<b>789,253</b>	<b>522,475</b>	<b>5,415,820</b>	<b>704,057</b>	<b>434,241</b>	<b>274,761</b>



	As at or for the six month period ended 30 June		As at or for the year ended 31 December		
	2005	2004	2004	2003	2002
<b>Combined Key Ratios:</b>					
Return on average shareholders' equity <sup>(1) (2)</sup> .....	29.9%	21.9%	16.9%	22.6%	28.2%
Net earnings per common share (in KZT) .....	25.6	13.2	24.3	25.9	25.9
Operating expenses/operating income before provisions for loan losses .....	24.2%	25.5%	23.3%	34.0%	32.0%
Operating expenses/operating income after provisions for loan losses .....	31.9%	36.9%	32.2%	43.7%	45.4%
Effective provisioning rate on customer loans .....	6.0%	6.1%	5.7%	6.3%	7.4%
<b>Profitability Ratios:<sup>(3)</sup></b>					
Net interest margin (i.e., net interest income before provisions for loan losses as a percentage of average interest-earning assets) <sup>(2)(3)</sup> .....	5.7%	5.7%	6.1%	5.2%	7.2%
Net interest income after provisions for loan losses as a percentage of average interest-earning assets <sup>(2)(3)</sup> .....	3.8%	3.2%	3.7%	3.3%	3.2%
Operating expenses as a percentage of net interest income before provisions for loan losses .....	33.1%	36.2%	33.1%	54.4%	60.1%
Operating <sup>(2)(3)</sup> expense as a percentage of average total assets .....	1.8%	1.9%	1.8%	2.6%	3.8%
Profit after taxation as a percentage of average total assets <sup>(2)(3)</sup> .....	3.1%	2.4%	1.9%	2.6%	3.8%
Profit after taxation as a percentage of average shareholders' capital .....	31.0%	21.4%	16.8%	22.9%	27.6%
<b>Balance Sheet Ratios:</b>					
Deposits as a percentage of total assets .....	29.8%	34.1%	28.1%	34.9%	51.5%
Total net loans to customers as a percentage of total assets .....	70.0%	72.2%	70.3%	65.2%	63.8%
Total equity as a percentage of total assets .....	10.7%	10.6%	8.9%	11.6%	11.7%
Liquid assets as a percentage of customer accounts <sup>(4)</sup> ...	88.4%	71.2%	89.4%	82.9%	61.2%
Liquid assets as a percentage of liabilities of up to one month .....	168.8%	108.3%	103.7%	111.1%	131.1%
<b>Capital Adequacy Ratios:<sup>(5)</sup></b>					
Total capital .....	16.6%	16.9%	15.0%	16.4%	16.4%
Tier 1 Capital .....	11.1%	11.2%	10.6%	13.5%	14.0%
<b>Credit Quality Ratios:<sup>(6)</sup></b>					
Non-performing loans as a percentage of total loans ....	2.3%	1.4%	1.5%	0.8%	1.2%
Non-performing loans as a percentage of total loans and guarantees .....	2.1%	1.2%	1.3%	0.7%	1.0%
Provisions for loan losses as a percentage of non- performing loans .....	257.9%	442.7%	380.6%	777.4%	606.2%
<b>Macroeconomic Data:</b>					
Consumer Price Inflation (for the twelve months then ended) .....	3.5	2.4	6.7	6.8	6.6
Real GDP (change during the year) .....	9.1	9.1	9.4	9.2	9.5

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

(2) Annualised.

(3) Averages are based upon average daily balances.

(4) 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.

(5) Calculated in accordance with the Basle Accord, as currently in effect.

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

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

*The following discussion should be read in conjunction with "Selected Consolidated Financial Data" and the Financial Statements included elsewhere in this Base Prospectus. This discussion includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in "Risk Factors" appearing elsewhere in this Base Prospectus.*

### **Introduction**

Established in 1990, Kazkommertsbank is the largest bank in Kazakhstan, measured by total assets as at 30 June 2005, providing corporate banking, retail banking and other financial services. As at and for the six months ended 30 June 2005, the Bank had net income of KZT10,915 million, total assets of KZT789,253 million and shareholders' equity of KZT84,796 million.

The Bank's financial statements as at and for the years ended 31 December 2004, 2003 and 2002 were prepared in accordance with IFRS. These financial statements are consolidated and, for 2004, reflect the results of operations of the Bank and its subsidiaries, JSC Kazkommerts Securities, JSC Kazkommerts Policy, JSC Kazkommertsbank Kyrgyzstan and Kazkommerts International B.V., 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 2004, 2003 and 2002 is, unless otherwise stated, based upon the Bank's audited consolidated financial statements as at and for the years ended on such dates. This discussion, in so far as it refers to average amounts, has been based upon an analysis of average daily balances calculated on the basis used in the Bank's IFRS financial statements.

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

### **Kazakhstan's Economy**

#### ***Overview***

Kazakhstan has been recognised by both the European Union and the United States as having a market economy. It has experienced extensive economic transformation since independence; 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 largely 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.

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

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
Nominal GDP (KZT millions).....	5,543,000	4,449,800	3,747,200	3,250,593	2,599,902	2,016,456	1,733,264
Real GDP (percentage change during the twelve months then ended).....	9.4	9.2	9.5	13.5	9.8	2.7	(1.9)
Nominal GDP per capita (KZT) .....	367,086	297,844	252,263	219,170	174,854	135,088	114,991
Population (millions average annual)....	15.1	14.94	14.86	14.85	14.86	14.9	15.0

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						
	2004	2003	2002	2001	2000	1999	1998
	(per cent. share of GDP)						
Industry .....	10.0	29.5	29.3	30.7	31.9	28.2	24.4
Construction.....	11.2	6.2	6.1	5.5	5.3	4.8	4.9
Agriculture .....	0.1	7.3	7.9	8.7	8.7	9.9	8.6
Transportation and Telecommunications ...	12.2	12.1	11.5	11.2	12.0	12.0	13.9
Trade .....	10.4	12.1	12.0	12.1	12.6	3.6	15.2
Other <sup>(1)</sup> .....	43.9	32.8	33.2	31.8	29.5	31.5	33.0
Total.....	100	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 50 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 6.6 per cent. as at the end of December 2004, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

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

	As at 30 June	As at 31 December						
	2005	2004	2003	2002	2001	2000	1999	1998
Consumer Prices.....	3.5	6.6	6.8	6.6	6.4	9.8	17.8	1.9
Producer Prices.....	6.0	9.4	5.9	11.9	(14.1)	19.4	57.2	(5.5)

Source: NSA, NBK

### ***Current account***

Based on NBK data, Kazakhstan's current account deficit in 2003 was U.S.\$39.0 million, U.S.\$843.4 million in 2002 and U.S.\$1,209.3 million in 2001 compared with a surplus of U.S.\$563.1 million in 2000. The current account surplus in 2004 was U.S.\$533 million. The current account surplus in the first six months of 2005 was U.S.\$508.8 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, compared to U.S.\$5,886.5 million and U.S.\$2,529.1 million respectively in 2004. In the first six months of 2005, foreign direct investment was U.S.\$1,841.9 million and the capital and financial account surplus was U.S.\$271.6 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 Prospectus 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 Prospectus.

### **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 2005 and 2004 and as at 31 December 2004, 2003 and 2002, certain securities available for sale are accounted for at fair value. 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.

#### 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 2005, the Bank has issued outstanding guarantees totalling KZT25,631 million compared to KZT20,498 million as at 30 June 2004; had outstanding open letters of credit totalling KZT48,938 million compared to KZT32,637 million as at 30 June 2004; and had open forward contracts (i.e., foreign exchange, repurchase and swap transactions) totalling KZT25,819 million compared to KZT17,219 million as at 30 June 2004. As at 31 December 2004 and 2003, the Bank had issued outstanding guarantees totalling KZT22,972 million and KZT22,769 million, respectively; had outstanding open letters of credit totalling KZT41,490 million and KZT23,409 million, respectively; and had open forward contracts totalling KZT13,753 million and KZT17,193 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 2005, provisions for losses on contingent liabilities were KZT2,062 million, as compared to KZT1,530 million as at 31 December 2004.

The following table sets forth the commitments and contingent liabilities of the Bank in Tenge, by contractual maturity, as at 30 June 2005:

	Up to one month	One month to three months	Three months to one year	One year to five years	Over five years	Total
Guarantees.....	1,099	2,097	11,727	7,891	2,817	25,631
Letters of credit .....	20,966	7,935	16,594	3,443	—	48,938
Forward contracts.....	21,989	—	3,830	—	—	25,819

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.

## Results of Operations for the Six Months ended 30 June 2005 Compared to the Six Months ended 30 June 2004

### Net income

The following table presents the main components of the Bank's net income as at 30 June 2004 and 30 June 2005:

	Six months ended 30 June		
	2005	2004	Change
	(KZT millions)		(per cent.)
Interest income .....	37,829	23,815	58.8
Interest expense .....	(19,286)	(11,660)	65.4
Net interest income before provisions for loan losses .....	18,543	12,155	52.6
Provisions for loan losses .....	(6,183)	(5,365)	15.2
Net interest income .....	12,360	6,790	82.0
Net non-interest income .....	6,896	5,127	34.5
Operating expenses .....	(6,146)	(4,402)	39.6
(Provisions for)/recovery of losses on other transactions .....	(881)	124	(810.5)
Expenses/Income from associates .....	99	(15)	(760.0)
<b>Income Before Tax</b> .....	12,328	7,624	61.7
Income tax expense .....	(1,413)	(1,962)	(28.0)
Minority Interest .....	776	397	95.5
<b>Net income before minority interest</b> .....	10,915	5,662	92.8

Net income before taxes and minority interest increased 61.7 per cent. to KZT12,328 million for the six months ended 30 June 2005 from KZT7,624 million for the same period in 2004. The Bank's tax liability decreased by 28 per cent. over the same period to KZT1,413 million as at 30 June 2005. The Bank's net income after taxes has almost doubled (an increase of 92.8 per cent.), mainly as a result of increased net interest income.

### 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 2005 and 2004:

	Six months ended 30 June		
	2005	2004	Change
	(KZT millions)		(per cent.)
Interest on loans to customers .....	34,528	20,521	68.3
Interest on loans and advances to banks .....	1,275	840	51.8
Interest on debt securities.....	2,026	2,454	(17.4)
Total .....	37,829	23,815	58.8

During the first six months of 2005, total interest income increased by 58.8 per cent. (or KZT14,014 million) to KZT37,829 million from KZT23,815 million in the first six months of 2004, primarily as a result of growth in loans to customers and loans and advances to banks.

The following table sets out the average annual rate of interest earned by the Bank on loans to clients before provisions and on securities for the six months ended 30 June 2005 and 2004:

	<b>Six months ended 30 June</b>	
	<b>2005</b>	<b>2004</b>
	<b>(per cent.)</b>	
KZT loans to customers.....	13.9	14.4
Foreign currency loans to customers.....	13.4	12.6
Total loans to customers .....	13.5	12.9
KZT loans to banks .....	2.2	3.4
Foreign currency loans to banks .....	2.7	4.2
Total loans to banks.....	2.7	4.0
KZT denominated securities.....	3.4	5.1
Foreign currency denominated securities .....	11.0	7.0
Total securities.....	6.0	5.9

Interest income from loans to customers continued to make up the largest share in interest income, constituting 91.3 per cent. of interest income in the first six months of 2005 compared to 86.2 per cent. in the same period of 2004. Although there was only a minor increase in average interest rates from 12.9 per cent. in the first half of 2004 to 13.5 per cent. in the same period of 2005, interest income from loans to clients grew by 68.3 per cent. in this period. This growth was caused by a 62.1 per cent. (or KZT202.1 billion) increase in the average volume of loans to clients. The average volume of loans in the first six months of 2005 constituted KZT527.5 billion compared to KZT325.4 billion in the first six months of 2004.

Interest income from loans and advances to banks increased by 51.8 per cent. (or KZT435 million) to KZT1,275 million as at 30 June 2005 from KZT840 million for the six months ended 30 June 2004 despite the decrease in average annual interest rates from 4 per cent. as at 30 June 2004 to 2.6 per cent. as at 30 June 2005. This increase was due a KZT41.9 billion growth in the average gross volume of loans to banks. The average volume of loans to banks was KZT72.9 billion for the six months ended 30 June 2005 compared to KZT31.1 billion for the six months ended 30 June 2004. In the first six months of 2005, interest income from loans and funds to banks as a proportion of total interest income remained insignificant at 3.4 per cent.

Interest income from tradable securities decreased from KZT2,454 million in the first six months of 2004 to KZT2,026 million in the first six months of 2005. This decrease of 17.4 per cent. (or KZT428 million) was due to a 14.1 per cent. decrease in the average volume of the tradable securities portfolio from KZT89.8 billion as at 30 June 2004 to KZT77.2 billion as at 30 June 2005 and minor fluctuations of average yield on trade securities from 5.9 per cent. as at 30 June 2004 to 6.0 per cent. as at 30 June 2005. Interest income from trading securities as a proportion of total interest income was 5.4 per cent. for the six months ended 30 June 2005 compared to 10.3 per cent. for the six months ended 30 June 2004.

### ***Interest Expense***

The following table sets out details of the Bank's interest expense for the six months ended 30 June 2005 and 2004:

	<b>Six months ended 30 June</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>
	<b>(KZT millions)</b>		<b>(per cent.)</b>
Interest expense on debt securities issued.....	10,761	5,719	88.2
Interest expense on customer accounts .....	4,666	3,580	30.3
Interest expense on loans and advances from banks .....	3,575	1,583	125.8
Interest expense on other liabilities .....	284	778	(63.5)
Total .....	<u>19,286</u>	<u>11,660</u>	<u>65.4</u>

Interest expense increased by 65.4 per cent. (or KZT7.6 billion) to KZT19.3 billion for the six months ended 30 June 2005 from KZT11.7 billion for the six months ended 30 June 2004. All categories of interest expense increased during this period and the share of different categories of

interest expense also changed substantially. Interest expense on issued debt securities grew to 55.8 per cent. of total interest expense for the six months ended 30 June 2005 compared to 49.0 per cent. as at 30 June 2004. Interest expense on loans and advances from banks also increased to 18.5 per cent. of total interest expense as at 30 June 2005 compared to 13.6 per cent. as at 30 June 2004. In contrast, interest expense on customer accounts fell to 24.2 per cent. of total interest expense in the six months ended 30 June 2005 compared to the same period in 2004 as accounts as a proportion of the Bank's funding decreased slightly. Interest expense on other liabilities also fell to 1.5 per cent. of total interest expense in the first six months of 2005 compared to 6.7 per cent. in the same period in 2004.

Interest expense on issued debt securities increased by 88.2 per cent. (or KZT5 billion) in the first six months of 2005 compared to the same period of 2004. This increase resulted from the issuance of the U.S.\$500 million 7 per cent. Notes in two tranches in November 2004 and February 2005. The average volume of issued debt securities grew by 66 per cent. to KZT219.4 billion as at 30 June 2005 from KZT132.1 billion as at 30 June 2004.

Interest expense on customer accounts increased by 30.3 per cent. to KZT4,666 as at 30 June 2005 from KZT3,580 million as at 30 June 2004. This increase was due to a 31.4 per cent. (or KZT50.5 billion) growth in the average volume of customer accounts as well as a fall in interest rates on term deposits and demand deposits. The average volume of demand deposits was KZT66.3 billion as at 30 June 2005 in comparison to KZT50.5 billion as at 30 June 2004. The average volume of term deposits was KZT144.9 billion as at 30 June 2005 in comparison to KZT110.3 billion as at 30 June 2004.

The following table sets out the average cost of the Bank's deposits for the six months ended 30 June 2005 and 2004:

	<b>Six months ended 30 June</b>	
	<b>2005</b>	<b>2004</b>
	<b>(per cent.)</b>	
<b>KZT deposits:</b>		
Time deposits .....	7.9	9.2
Demand deposits .....	0.5	0.8
<b>Foreign currency deposits:</b>		
Time deposits .....	5.2	5.4
Demand deposits .....	0.2	0.5

Interest expense on loans and advances from banks increased 2.3 times to KZT3,575 million for the six months ended 30 June 2005 from KZT1,583 million for the six months ended 30 June 2004. This was due to a 66.3 per cent. increase in the average volume of borrowing from banks and financial institutions and certain changes in average interest rates.

The following table contains data on the average cost of interbank borrowings in the first six months of 2005 and 2004:

	<b>Six months ended 30 June</b>	
	<b>2005</b>	<b>2004</b>
	<b>(per cent.)</b>	
Correspondent Accounts .....	0.3	2.0
Tenge .....	0.4	0.8
Foreign currency .....	0.03	4.6
Short term interbank loans.....	4.4	2.8
Tenge .....	2.5	3.6
Foreign currency .....	4.7	2.8
Long term loans from banks.....	4.5	5.0
Tenge .....	6.5	—
Foreign currency .....	4.5	5.0



### ***Provisions for Loan Losses***

Provisions for loan losses increased by 15.2 per cent. to KZT6,183 million as at 30 June 2005 from KZT5,365 million as at 30 June 2004.

The following table presents data on the Bank's provisions for loan losses for the first six months ended 30 June 2005 and 2004:

	<b>Six months ended 30 June</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>
	<b>(KZT millions)</b>		<b>(per cent.)</b>
Provisions for losses on loans to clients.....	6,020	5,405	11.4
Provisions for losses on loans to banks .....	163	(40)	507.5
Total .....	6,183	5,365	15.2

Provisions for loan losses increased by 15.2 per cent. to KZT6,183 million as at 30 June 2005 to KZT5,365 million as at 30 June 2004, while the gross loan portfolio increased by 46.3 per cent. to KZT588.1 billion as at 30 June 2005 from KZT401.9 billion as at 30 June 2004. As a consequence, the effective rate of provisions on customer loans fell from 6.1 per cent. as at 30 June 2004 to 6.0 per cent. as at 30 June 2005. This reduction reflected the improvement in the local economy over the period as well as the overall improvement in the Bank's loan portfolio.

Average provisions for losses on loans to clients increased by 45.9 per cent. (or KZT9.8 billion) to KZT31,098 million as at 30 June 2005 from KZT21,307 million as at 30 June 2004. The increase resulted from the 62.1 per cent. (or KZT202.1 billion) growth in the average volume of loans in this period. Non-performing and overdue loans as a percentage of the average volume of loan portfolio was 3 per cent. as at 30 June 2005 compared to 2 per cent. as at 30 June 2004. For further discussion, please see "Selected Statistical and other Information; Non-Performing Loans and Provisioning Policy".

### ***Net interest income***

The following table sets out details of the Bank's net interest income in the six months ended 30 June 2005 and 2004:

	<b>Six months ended 30 June</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>
	<b>(KZT millions)</b>		<b>(per cent.)</b>
Interest income .....	37,829	23,815	58.8
Interest expense.....	(19,286)	(11,660)	65.4
Net interest income before provisions for loan losses.....	18,543	12,155	52.6
Provisions for loan losses .....	(6,183)	(5,365)	15.2
Net interest income.....	12,360	6,790	82.0

Net interest margin (net interest income before provisions for loan losses as a percentage of average interest earning assets) remained static at 5.7 per cent. period on period. Net interest income before provisions for loan losses increased by 52.6 per cent. to KZT18,543 million as at 30 June 2005 from KZT12,155 million as at 30 June 2004. This resulted from a 51.8 per cent. growth in average interest-earning assets. Provisions for loan losses increased by 15.2 per cent. to KZT6,183 million as at 30 June 2005 from KZT5,365 million as at 30 June 2004. Provisions for loan losses as a percentage of net interest income before provisions for loan losses decreased to 33.3 per cent. as at 30 June 2005 from 44.1 per cent. as at 30 June 2004. Net interest income after deducting provisions for loan losses increased by 82 per cent. to KZT12,360 million as at 30 June 2005 from KZT6,790 million as at 30 June 2004. The ratio of net interest income to average interest-earning assets increased to 3.8 per cent. as at 30 June 2005 from 3.2 per cent. as at 30 June 2004.

### ***Net Non-Interest Income***

Net non-interest income increased by 34.5 per cent. to KZT6,896 million as at 30 June 2005 from KZT5,127 million as at 30 June 2004. This increase was primarily due to an increase in net fees and commissions and income from securities operations. The composition of net non-interest income changed slightly in the first six months of 2005 compared to the same period in 2004. Net fee income remained the main part of net non-interest income and constituted 73.2 per cent. of total net non-interest income as at 30 June 2005 compared to 75.5 per cent. as at 30 June 2004. Gains on foreign exchange operations decreased to 11.9 per cent. as at 30 June 2005 from 18.8 per cent. as at 30 June 2004. The Bank made a profit of KZT171 million from trading securities operations as at 30 June 2005 compared to a loss of KZT216 million as at 30 June 2004.

Fee and commission income increased by 20.5 per cent. to KZT5,557 million as at 30 June 2005 from KZT4,611 million as at 30 June 2004 primarily as a result of an increase in the range of banking products sold to corporate and private clients and an increase in the number of customers. The increase was also a result of the increase in the volume of general banking operations and occurred despite narrowing margins in a highly competitive domestic market. Income from credit card fees increased by 33.1 per cent., income from cashier services increased by 28.5 per cent. and fees from customers settlement services increased by 26.7 per cent. Other fees, including collection, documentary operations, foreign exchange operations and securities operations remained at KZT1.3 billion as at 30 June 2005 and 30 June 2004.

Fee and commission expenses decreased by 31.4 per cent. to KZT509 million as at 30 June 2005 from KZT742 million as at June 2004. The composition of the Bank's fee and commission expenses changed substantially during this period. 23.8 per cent. (or KZT121 million) of fee and commission expenses were paid in relation to international borrowing as at 30 June 2005, compared to 48.2 per cent. (or KZT358 million) as at 30 June 2004. This decrease was due to the reduced volume of external borrowing in the first six months of 2005 as most of the Bank's external borrowing is scheduled for the second half of 2005. Bank card fees and commission expenses constituted 40 per cent. (or KZT203 million) of all fee and commission expenses as at 30 June 2005 compared to 21.5 per cent. (or KZT160 million) as at 30 June 2004. As at 30 June 2005, commissions on letters of credit and guarantees decreased by 37.4 per cent. and commissions paid to correspondent banks decreased by 35.4 per cent. as compared to 30 June 2004. As at 30 June 2005, foreign exchange and securities related commissions increased by 9.7 per cent., commissions paid for services of the IT centre of the NBK increased by 64.9 per cent. and other commissions decreased by 32.2 per cent. as compared to 30 June 2004.

Net income from foreign exchange operations for the six months ended 30 June 2005 was KZT822 million in comparison to KZT964 million in the same period in 2004, a decrease of 14.7 per cent. The decrease can be attributed to the less significant changes in exchange rates in the first six months of 2005 (8 per cent. annualized) in comparison to the same period in 2004 (11 per cent. annualized) that has narrowed the Bank's margin on foreign exchange operations.

During the six months ended 30 June 2005, the Bank received dividends on shares held in its trading portfolio in the amount of KZT10 million in comparison to KZT14 million for the same period in 2004.

Another component of the increase in other non-interest income was an increase by 102.2 per cent. to KZT736 million as at 30 June 2005 from KZT364 million as at 30 June 2004 in insurance premiums from Kazkommerts Policy. It accounts for 10.7 per cent. of other non-interest income as at 30 June 2005 compared to 7.1 per cent. as at 30 June 2004. The Bank believes that the continuing growth of Kazakhstan's insurance market led to the growth in insurance premiums to KZT736 million as at 30 June 2005 from KZT364 million as at 30 June 2004.

### ***Operating Expenses***

The Bank continued to develop its retail network based on international standards and best practice. This involved investment in facilities, personnel, management information systems and the development and implementation of new banking products.

Operating expenses increased by 39.6 per cent. to KZT6,146 million as at 30 June 2005 from KZT4,402 million as at 30 June 2004. As a result of strict cost controls, the Bank reduced the ratio of operating expenses to operating income after provisions for loan losses from 36.9 per cent. as at 30 June 2004 to 32.2 per cent. as at 31 December 2004 and to 31.9 per cent. as at 30 June 2005. The

ratio of operating expenses to average assets has also decreased from 1.9 per cent. as at 30 June 2004 to 1.8 per cent. as at 30 June 2005.

Staff costs comprised the main operating expense and accounted for 48.7 per cent. of operating expenses as at 30 June 2005 compared to 40.8 per cent. as at 30 June 2004. Staff costs increased by 66.8 per cent. to KZT2,996 million as at 30 June 2005 from KZT1,797 million as at 30 June 2004. This increase reflects an increase in the number of employees and an increase in employees' salaries as the Bank grew its retail business.

Depreciation and amortisation costs increased by 17.1 per cent. to KZT735 million as at 30 June 2005 from KZT628 million as at 30 June 2004 due to the Bank's investment in its customer service network. For example, average tangible and intangible assets in the first six months of 2005 increased by 36 per cent. as compared to the average in the same period in 2004. As a percentage of overall operating expenses, depreciation and amortisation costs decreased to 12 per cent. as at 30 June 2005 compared to 14.3 per cent. as at 30 June 2004.

Current expenses relating to maintenance of tangible and intangible assets (including owned and rented real estate, furniture, office and other equipment, software, as well as property insurance) decreased by 22.6 per cent. to KZT264 million as at 30 June 2005 from KZT341 million as at 30 June 2004.

Advertising expenses increased by 97.5 per cent. to KZT226 million as at 30 June 2005 from KZT115 million as at 30 June 2004.

Rental expenses increased by 29.0 per cent. to KZT227 million as at 30 June 2005 from KZT176 million as at 30 June 2004 as a result of the Bank opening new branches.

Tax paid by the Bank (not including corporate income tax and VAT) decreased by 30.3 per cent. to KZT54 million as at 30 June 2005 from KZT77 million as at 30 June 2004. VAT payments increased by 87.6 per cent. to KZT192 million as at 30 June 2005 from KZT102 million as at 30 June 2004 in line with overall operating expenses.

### ***Taxation***

The statutory corporate tax rate in Kazakhstan is 30 per cent. Tax expense decreased by 28 per cent. to KZT1,413 million for the six months ended 30 June 2005 compared to KZT1,962 million for the six months ended 30 June 2004. For the six-month period ended 30 June 2005 the effective tax expense incurred by the Bank was 11.5 per cent. compared to 25.7 per cent. for the six-month period ended 30 June 2004 following increases in tax exempt development loans by the Bank and the increased deductibility of interest expense as the Bank's equity increased. Tax expense in the first half of 2004 did not contain any accrual in respect of the tax assessment issued in May 2004 because the Bank believed the assessment to be incorrect. See “– Results of Operations for the Year ended 31 December 2005 compared to the Year ended 31 December 2004 – Taxation”.

## Results of Operations for the Year ended 31 December 2004 Compared to the Year ended 31 December 2003

### Net income

The following table presents the main components of the Bank's net income as at 31 December 2004 and 2003:

	Year ended 31 December		
	2004	2003	Change
	(KZT millions)		(per cent.)
Interest income .....	55,003	35,106	56.7
Interest expense.....	(26,248)	(18,624)	40.9
Net interest income before provisions for loan losses.....	28,755	16,482	74.5
Provisions for loan losses .....	(11,222)	(5,888)	90.6
Net interest income.....	17,533	10,595	65.5
Net non-interest income .....	12,015	9,924	21.1
Operating expenses .....	(9,511)	(8,969)	6.0
Provision for losses on other transactions.....	(722)	(270)	167.4
Expenses/Income from associates .....	13	(20)	—
<b>Income Before Tax</b> .....	19,328	11,259	71.7
Income tax expense.....	(9,573)	(2,092)	357.6
Minority Interest .....	(1,066)	(4,077)	161.9
<b>Net income before minority interest</b> .....	9,755	9,167	6.4

For the year ended 31 December 2004, the Bank's net income was KZT8,689 million, an increase of 0.8 per cent. compared to the same period in 2003. This relatively low increase was primarily due to the 357.6 per cent. increase in income tax expense (from KZT2,092 million in the year ended 31 December 2003 to KZT9,573 million in the year ended 31 December 2004). At the same time, the Bank's net interest income after provisions for loan losses increased 65.5 per cent. from KZT10,595 million to KZT17,533 million. The Bank's net non-interest income increased 21.1 per cent. from KZT9,924 million in the year ended 31 December 2003 to KZT12,015 million in the year ended 31 December 2004. Operating expense for the year ended 31 December 2004 increased 6.0 per cent. compared to the same period in 2003 and operating profit increased 73.5 per cent. to KZT20,037 million in the year ended 31 December 2004 from KZT11,550 million in the year ended 31 December 2003.

### Interest Income

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

	Year ended 31 December		
	2004	2003	Change
	(KZT millions)		(per cent.)
Interest on loans to customers .....	48,630	29,749	63.5
Interest on loans and advances to banks .....	1,488	1,582	(5.9)
Interest on debt securities.....	4,885	3,775	29.4
Total .....	55,003	35,106	56.7

During this period, total interest income grew by 56.7 per cent. or KZT19,897 million to KZT55,003 million as at 31 December 2004 from KZT35,106 million as at 31 December 2003, primarily as a result of growth in interest on loans to customers and interest on debt securities.

The following table sets out the average annual rate of interest earned by the Bank on loans to clients before provisions and on securities for the years 2004 and 2003:

	Year ended 31 December	
	2004	2003
	(per cent.)	
KZT loans to customers.....	14.6	14.9
Foreign currency loans to customers.....	12.6	14.3
Total loans to customers .....	12.9	14.4
KZT loans to banks .....	2.8	4.1
Foreign currency loans to banks .....	4.3	3.1
Total loans to banks.....	3.8	3.1
KZT denominated securities.....	4.7	5.1
Foreign currency denominated securities .....	8.8	6.4
Total securities.....	6.2	5.8

Interest income from loans to customers was the largest component of interest income, constituting 88.4 per cent. of interest income as at 31 December 2004 compared to 84.7 per cent. as at 31 December 2003. The increase in interest income on loans to customers was 63.5 per cent., mainly due to the 31.8 per cent. growth in the Bank's average loan portfolio from KZT197.7 billion to KZT359.5 billion and the decrease in average interest rates on performing loans to customers from 14.4 per cent. in 2003 to 12.9 per cent. in 2004.

The Bank's loan portfolio (net) increased by 74.8 per cent. from KZT283.1 billion in 2003 to KZT494.9 billion in 2004. Foreign currency-denominated loans constituted the largest share of the Bank's loan portfolio.

Interest income on loans and advances to banks decreased by 5.9 per cent. from KZT1,582 million to KZT1,488 million, primarily attributable to a decrease in average loans and advances to banks, net of provisions, from KZT47.6 billion in 2003 to KZT25.2 billion in 2004.

Interest income on debt securities increased from KZT3,775 million in 2003 to KZT4,885 million in 2004. This increase was due to the increase in the Bank's average marketable securities portfolio from KZT66.2 billion in 2003 to KZT85.8 billion in 2004.

### *Interest Expense*

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

	Year ended 31 December		
	2004	2003	Change
	(KZT millions)		(per cent.)
Interest expense on debt securities issued.....	14,995	8,578	74.8
Interest expense on customer accounts .....	6,970	7,773	(10.3)
Interest expense on loans and advances from banks .....	4,076	1,911	113.0
Interest expense on other liabilities .....	207	362	(42.8)
Total .....	26,248	18,624	40.9

Interest expense increased by 40.9 per cent. from KZT18,624 million in the year ended 31 December 2003 to KZT26,248 million in the year ended 31 December 2004. This growth was attributable to a 74.8 per cent. increase in interest expense on issued debt securities. Interest expense on issued debt securities increased as a result of the Bank's issuance of the U.S.\$400 million 7.875 per cent. Notes and the U.S.\$350 million 7 per cent. Notes. The average volume of issued debt securities increased by 76.6 per cent. to KZT152 billion in 2004 from KZT86.1 billion in 2003.

Interest expense on issued debt securities as a percentage of total interest expense grew to 57.1 per cent in 2004 from 46.1 per cent. in 2003, while interest expense on loans and advances from banks as a percentage of total interest expense increased to 15.5 per cent. in 2004 from 10.3 per cent.

in 2003. In contrast, interest expense on customer accounts as a percentage of total interest expense fell to 26.6 per cent in 2004 from 41.7 per cent in 2003. Interest expense on other liabilities as a percentage of total interest expense also decreased to 0.8 per cent in 2004 from 1.9 per cent. in 2003.

Interest expense on customer accounts decreased by 10.3 per cent. to KZT6,970 million in the year ended 31 December 2004 from KZT7,773 million in the year ended 31 December 2003 as a result of a fall in interest rates on term deposits as well as demand deposits.

The following table sets out the average cost of the Bank's deposits for the years ended 31 December 2004 and 2003:

	<b>As at 31 December</b>	
	<b>2004</b>	<b>2003</b>
	<b>(per cent.)</b>	
<b>KZT deposits:</b>		
Time deposits .....	8.7	10.5
Demand deposits .....	0.5	0.7
<b>Foreign currency deposits:</b>		
Time deposits .....	5.1	6.2
Demand deposits .....	0.6	0.8

Interest expense on loans and advances from banks increased 113 per cent. to KZT4,076 in the year ended 31 December 2004 from KZT1,911 in the previous year.

The following table contains data on the average cost of interbank borrowing in 2004 compared with 2003:

	<b>Year ended 31 December</b>	
	<b>2004</b>	<b>2003</b>
	<b>(per cent.)</b>	
Correspondent Accounts .....	0.8	1.8
Tenge .....	0.4	1.4
Foreign currency .....	1.1	1.9
Short term interbank loans.....	2.6	2.6
Tenge.....	2.5	4.2
Foreign currency .....	2.6	2.5
Long term loans from banks.....	3.8	4.3
Tenge.....	—	9.7
Foreign currency .....	3.8	4.3

#### ***Provisions for loan losses***

In the year ended 31 December 2004, the Bank's total gross loan portfolio increased by 73.7 per cent. (from KZT302.1 billion at the end of 2003 to KZT524.8 billion at the end of 2004). Primarily as a result of such increase, the Bank's provisions for loan losses increased by 90.6 per cent. from KZT5,888 million as at 31 December 2003 to KZT11,222 million as at 31 December 2004. As at 31 December 2004, the effective provisioning rate for loan losses fell to 5.7 per cent. as at 31 December 2004 compared to 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 interest income*

The following table sets out details of the Bank's net interest income in the years ended 31 December 2004 and 2003:

	Year ended 31 December		
	2004	2003	Change
	(KZT millions)		(per cent.)
Interest income .....	55,003	35,106	56.7
Interest expense.....	(26,248)	(18,624)	40.9
Net interest income before provisions for loan losses.....	28,755	(16,482)	74.5
Provisions for loan losses .....	(11,222)	(5,888)	90.6
Net interest income.....	<u>17,533</u>	<u>10,595</u>	65.5

Net interest margin increased from 5.2 per cent. for the year ended 31 December 2003 to 6.1 per cent. for the year ended 31 December 2004. Such growth is primarily attributable to a decrease in the cost of interest-bearing liabilities from 6.3 per cent. to 6.0 per cent. and a slight decrease in the return on assets from 2.0 per cent. to 1.2 per cent. Net interest income before provisions for loan losses increased 74.5 per cent. due to the 49.9 per cent. increase in average interest-earning assets for the year ended 31 December 2004 compared to the same period in 2003. Loan loss provisions increased from KZT5,888 million as at 31 December 2003 to KZT11,222 million as at 31 December 2004, which resulted in loan loss provisions as a percentage of net interest income increasing from 55.6 per cent. to 64.0 per cent. Net interest income after loan loss provisions for the year ended 31 December 2004 was KZT17,533 million compared to KZT10,595 million for the year ended 31 December 2003 and, as a percentage of average interest-earning assets, decreased over the period to 3.7 per cent. from 3.3 per cent.

### *Net non-interest income*

Net non-interest income for the year ended 31 December 2004 was KZT12,015 million representing an increase of 21.1 per cent. from KZT9,924 million for the year ended 31 December 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 main component of net non-interest income is net fee income, which constituted 70.2 per cent. of net non-interest income in 2004 compared to 71.2 per cent in 2003. Whereas there was a net loss from operations with trading securities in the amount of KZT317 million in 2003, the Bank had a net gain of KZT22 million in 2004.

Fee and commission income grew 23.7 per cent. from KZT8,400 million in 2003 to KZT10,390 million in 2004 primarily as a result of an increase in the range of banking products the Bank provided to corporate and private clients. Fees from credit card operations increased by 42.3 per cent., fees from cash operations increased by 33.0 per cent. and fees for customers settlement services increased by 23.3 per cent in 2004. Other fees, including collection, documentary operations, foreign exchange operations, operations with securities and other incomes increased by 16.0 per cent. during this period.

The Bank's net gain on trading securities in the year ended 31 December 2004 was KZT22.2 million compared to a net loss of KZT317.0 million in the same period in 2003. The Bank's net gain on foreign exchange operations in the year 31 December 2004 was KZT1,557 million compared to KZT1,601 million in the same period in 2003 representing a decrease of 2.8 per cent.

In the year ended 31 December 2004, the Bank received dividends of KZT15.1 million from its portfolio of trading securities, compared to KZT382 million in the year ended 31 December 2003. The fall primarily reflected the sale of the Bank's holding in ABN AMRO Bank Kazakhstan.

In the year ended 31 December 2004, the Bank recognised KZT1,963 million as other income, as compared to KZT1,239 million in the year ended 31 December 2003, representing an increase of 58.4 per cent. Insurance premiums paid to JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT1,049 million as at 31 December 2003 to KZT1,479

million as at 31 December 2004 (representing a 41.0 per cent. growth) which the Bank believes resulted from the continuing development of the insurance market in Kazakhstan.

### ***Operating expenses***

Operating expenses increased by 6.0 per cent. from KZT8,969 million in the year ended 31 December 2003 to KZT9,511 million in the year ended 31 December 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 32.2 per cent. as at 31 December 2004 from 43.7 per cent. as at 31 December 2003. Operating expenses as a percentage of average assets decreased to 1.8 per cent. as at 31 December 2004 from 2.6 per cent. as at 31 December 2003.

Staff costs was the main operating expense, constituting 39.8 per cent. of total operating expenses. Staff costs decreased by 10.0 per cent. from KZT4,201 million as at 31 December 2003 to KZT3,782 million as at 31 December 2004 due to changes in headcount and applicable exchange weighting of salaries during the period.

Depreciation and amortisation costs rose 33.0 per cent. in 2004 compared to the same period in 2003, from KZT979 million to KZT1,302 million due to the Bank's investment in the customer service network.

In 2004 the Bank paid KZT333.0 million in taxes (excluding corporate income tax and VAT), a 44.4 per cent. increase from KZT230.7 million in 2003 as a result of an increase in withholding tax relating to operations with clients who are non-residents of Kazakhstan. Withholding tax comprised KZT236.0 million of the total amount of taxes, KZT333.0 million.

The general expansion of the Bank's business in 2004 also led to an increase in other operating expenses. VAT payments increased by 31.2 per cent. from KZT253.1 million in 2003 to KZT332.1 million in 2004. Communications costs increased by 27.4 per cent. from KZT262.0 million in 2003 to KZT333.8 million in 2004. The Bank's contributions to the Deposit Insurance Fund decreased by 8.1 per cent. and totalled KZT285.1 million in 2004 compared to KZT310.4 million in 2003 as a result of a reduction in contribution rates on a quarterly basis from 0.25 per cent. of all deposits to be guaranteed to 0.16 per cent. per quarter. Expansion of its branch network and renovation of its customer service network led to a 81.7 per cent. increase in the Bank's lease expenses from KZT206.6 million in 2003 to KZT375.3 million.

### ***Taxation***

During the year ended 31 December 2003, the Bank's effective tax expense was 18.6 per cent., as compared to 49.5 per cent. over the year ended 31 December 2004. Following an audit completed by the Kazakhstan tax authorities in May 2004, the Bank was assessed with additional taxes and penalties of KZT4,008 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 has lodged an appeal, as it believes that its filing position was appropriate. In order to be eligible to appeal, the Bank paid the disputed taxes and penalties on 23 November 2004, resulting in a tax charge of approximately the KZT4.0 billion claimed. The hearing of the appeal is expected to take place before the end of this year.



## 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		Change (per cent.)
	2003 (KZT millions)	2002 (KZT millions)	
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
Provisions for loan losses .....	(5,888)	(7,342)	(19.8)
Net interest income.....	10,595	5,901	79.5
Net non-interest income .....	9,924	11,605	(14.5)
Operating expenses .....	(8,969)	(7,956)	12.7
Provisions for losses on other transactions .....	(270)	(1,327)	(79.6)
Expenses/Income from associates .....	(20)	34	(158.8)
<b>Income Before Tax</b> .....	11,259	8,257	36.4
Income tax expense.....	(2,092)	(276)	658
Minority Interest .....	(406)	(2)	18,131
<b>Net income before minority interest</b> .....	<b>8,761</b>	<b>7,979</b>	9.8

The Bank's net income increased 9.8 per cent. from KZT7,979 million in 2002 to KZT8,761 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 KZT5,901 million to KZT10,595 million). At the same time, operating income increased 17.2 per cent. from KZT17,506 million in 2002 to KZT20,518 million in 2003. Operating profit in 2003 was KZT11,549 million compared to KZT9,550 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		Change (per cent.)
	2003 (KZT millions)	2002 (KZT millions)	
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 .....	<b>35,106</b>	<b>24,501</b>	43.3

Interest income in 2003 increased by KZT10,605 million, or 43.3 per cent., to KZT35,106 million from KZT24,501 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 KZT184.3 billion in 2002 to KZT317.1 billion in 2003.

The following table sets out the average annual rate of interest earned by the Bank on loans to clients before provisions and on securities for the years 2003 and 2002:

	<b>Year ended 31 December</b>	
	<b>2003</b>	<b>2002</b>
	<b>(per cent.)</b>	
KZT loans to customers .....	14.9	13.7
Foreign currency loans to customers.....	14.3	14.0
Total loans to customers .....	14.4	13.9
KZT loans to banks .....	4.1	5.2
Foreign currency loans to banks .....	3.1	3.1
Total loans to banks.....	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

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 KZT169.8 billion in 2002 to KZT210.3 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 KZT175.3 billion in 2002 to KZT283.1 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 KZT1,527 million in 2003 from KZT346 million in 2002. This growth was primarily attributable to an increase in average loans to and deposits with other banks, net of provisions, from KZT9.4 billion in 2002 to KZT47.6 billion in 2003.

Interest income on debt securities (which comprises interest income on the Bank's marketable securities portfolio) increased from KZT1,111 million in 2002 to KZT3,830 million in 2003. This increase was due to the increase in the Bank's average marketable securities portfolio from KZT12.9 billion in 2002 to KZT66.2 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:

	<b>Year ended 31 December</b>		
	<b>2003</b>	<b>2002</b>	<b>Change</b>
	<b>(KZT millions)</b>		<b>(per cent.)</b>
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	20
Total .....	<u>18,624</u>	<u>11,258</u>	<u>65.4</u>

Interest expense increased by KZT7.4 billion, or 65.4 per cent., from KZT11.3 billion in 2002 to KZT18.6 billion in 2003. This increase was primarily due to a 69.4 per cent. increase in average interest-bearing liabilities from KZT172.0 billion in 2002 to KZT291.4 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:

	<b>Year ended 31 December</b>	
	<b>2003</b>	<b>2002</b>
	<b>(per cent.)</b>	
<b>KZT deposits:</b>		
Time deposits .....	10.5	9.6
Demand deposits .....	0.7	1.1
<b>Foreign currency deposits:</b>		
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 KZT6,880 million in 2002 to KZT7,773 million in 2003. This increase was primarily attributable to the increase in average demand deposits from KZT32,387 million in 2002 to KZT43,711 million in 2003 and in average time deposits from KZT81,007 million in 2002 to KZT106,948 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.

Interest expense on loans and advances from banks fell 1.5 per cent. period on period as a result of falling interest rates notwithstanding a 39 per cent. increase in such loans and advances.

The following table contains data on the average cost of interbank borrowing in 2003 compared with 2002:

	<b>Year ended 31 December</b>	
	<b>2003</b>	<b>2002</b>
	<b>(per cent.)</b>	
Correspondent Accounts .....	1.8	1.6
Tenge.....	1.4	1.4
Foreign currency .....	1.9	1.8
Short term interbank loans.....	2.6	7.0
Tenge.....	4.2	11.5
Foreign currency .....	2.5	4.6
Long term loans from banks.....	4.3	7.0
Tenge.....	9.7	—
Foreign currency .....	4.3	7.0

#### **Provisions for loan losses**

In 2003, the Bank's total gross loan portfolio increased by 59.6 per cent. (from KZT189.3 billion at the end of 2002 to KZT302.1 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 KZT5,694 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 KZT4,213 million in 2002 to KZT4,394 million in 2003. Average overdue foreign currency loans, including non-performing foreign currency loans to customers declined 16.0 per cent. from KZT3,543 million in 2002 to KZT2,975 million in 2003 despite

an increase in overall foreign currency lending to customers in 2003. Average provisions for loan losses increased from KZT10,373 million in 2002 to KZT12,566 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 KZT1,215 million in 2002 to KZT1,586 million in 2003. See “Selected Statistical and Other Information – Non-Performing Loans and Provisioning Policy.”

**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
Provisions for loan losses .....	(5,888)	(7,342)	(19.8)
Net interest income.....	10,595	5,901	79.5

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 KZT7,342 million in 2002 to KZT5,887 million in 2003, net interest income after loan loss provisions increased to KZT10,595 million in 2003, as compared to KZT5,901 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.

**Net non-interest income**

Net non-interest income in 2003 was KZT9,923 million, representing a decrease of 14.5 per cent. from KZT11,605 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 increased by 45 per cent. from KZT5,792 million in 2002 to KZT8,400 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 KZT1,334 million from KZT1,126 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 KZT396 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.

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 KZT364 million in 2003 compared to net income of KZT4,852 million in 2002.

The Bank's loss on securities available-for-sale was KZT47 million in 2003, as compared to a net gain of KZT3,916 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 KZT1,560 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 KZT2,391 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 KZT2,391 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 KZT88 million, primarily resulting from the KZT171 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.

The Tenge remained relatively stable over the years in question, during which time it 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 KZT1,419 million in 2003 from KZT640 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 KZT182 million in 2003, as compared to KZT567 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.

In 2003, the Bank received a dividend of KZT382 million, primarily from its holding in ABN AMRO Bank Kazakhstan, as compared to KZT447 million in 2002.

In 2003, the Bank recognised KZT1,239 million as other income, as compared to KZT433 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 KZT335 million in 2002 to KZT1,049 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 KZT7,956 million in 2002 to KZT8,969 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 KZT4,129 million, as compared to KZT4,178 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 KZT979 million, as compared to KZT625 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 KZT113,394 million in 2002 to KZT150,659 million. In addition, the Bank's deposit insurance payments to the Deposit Insurance Fund decreased by 12.2 per cent. from KZT353 million in 2002 to KZT310 million in 2003 as a result of a reduction of deposit insurance premium rates.

Advertising costs increased 21.5 per cent. from KZT312 million in 2002 to KZT379 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 KZT443 million, as compared to KZT242 million in 2002. A significant part of these costs, representing KZT247 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 KZT234 million in 2002 to KZT253 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 KZT262 million in 2003, as compared to KZT220 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 KZT160 million in 2002 to KZT207 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 KZT270 million in 2003 from KZT253 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 KZT212 million in 2002 to KZT286 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 KZT20 million in 2003, as compared to KZT89 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 KZT103 million in 2003 of the total KZT182 million in total taxes paid by the Bank in that year.

### ***Taxation***

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 30 per cent. 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.

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

### ***Total Assets***

The Bank's total assets increased by 12.1 per cent. to KZT789.3 billion as at 30 June 2005 from KZT704.1 billion as at 31 December 2004, which in turn represented a 62.1 per cent increase from KZT434.2 billion as at 31 December 2003. The growth in the first half of 2005 was primarily due to a 11.7 per cent. increase in the Bank's net loan portfolio. The net loan portfolio of the Bank increased by KZT57.7 billion to KZT552.7 billion as at 30 June 2005 from KZT494.9 billion as at 31 December 2004 and KZT283.1 billion as at 31 December 2003.

Loans and advances to banks increased by 239 per cent. to KZT141.9 billion as at 30 June 2005 from KZT41.8 billion as at 31 December 2004 and KZT38.6 billion as at 31 December 2003 as the Bank responded to falls in interest rates on Tenge denominated securities by switching into foreign currency deposits. During the first half of 2005, deposit accounts increased by KZT102.6 billion, inter-bank lending increased by KZT1.6 billion and funds held in correspondent accounts with banks decreased by KZT4 billion.

The Bank's securities portfolio decreased by 31.3 per cent. to KZT51.8 billion as at 30 June 2005 from KZT75.3 billion as at 31 December 2004 and KZT71.4 billion as at 31 December 2003 in part because of the switch into foreign currency deposits described above but also as a result of

liquidation of part of the portfolio to fund loans to customers. Trading securities constitute almost all of this portfolio.

The Bank's cash and balances with the NBK and other central banks decreased by 70.1 per cent. to KZT19.8 billion as at 30 June 2005 from KZT66.3 billion as at 31 December 2004, which in turn represented a 132.7 per cent. increase from KZT28.5 billion as at 31 December 2003. The decrease in the first half of 2005 was in response to changing regulatory requirements.

As at 30 June 2005, the Bank held KZT10.4 billion of securities as part of a reverse repurchase transaction compared to KZT8.4 billion held as at 31 December 2004 and KZT2.6 billion held as at 31 December 2003. The increase resulted from the Bank's use of liquidity from debt securities issues and syndicated loans to enter into short-term assets.

The Bank's fixed assets and intangible assets increased by 11.6 per cent. to KZT8.2 billion as at the 30 June 2005 from KZT7.4 billion as at the 31 December 2004, which in turn represented a 17.2 per cent. increase from KZT6.3 billion as at 31 December 2003.

The Bank's average assets increased by 35.5 per cent. to KZT697.6 billion as at 30 June 2005 from KZT514.8 billion as at 31 December 2004, which in turn represented a 46.8 per cent. increase from KZT350.8 billion as at 31 December 2003. The increase in the first half of 2005 was due to the 38.1 per cent. growth in average net loan portfolio. During the same period, the average portfolio of loans and funds extended to banks increased by KZT47.2 billion, the Bank's average portfolio of marketable securities decreased by KZT8.6 billion and the Bank's average interest-earning assets increased by KZT175.5 billion.

### ***Total Liabilities***

The Bank's total liabilities increased by 9.9 per cent. to KZT704.5 billion as at 30 June 2005 from KZT641.3 billion as at 31 December 2004, which in turn represented a 67.0 per cent. increase from KZT384.0 billion as at 31 December 2003. The increase in the first half of 2005 was primarily due to an additional international bond issuance of KZT26.3 billion and a growth in client deposit of KZT37.6 billion.

Between 31 December 2003 and 2004, the Bank's issued debt securities increased 111.6 per cent to KZT207.8 billion. Between 31 December 2004 and 30 June 2005, issued debt securities increased 12.6 per cent. due to the issue by the Bank of its U.S.\$150 million 7 per cent. Notes. As at 30 June 2005, issued debt securities included Russian promissory notes in the amount of KZT12.8 billion issued by CB Moskommertsbank according to the Law of the Russian Federation.

International subordinated and indexed notes issued by the Bank in 2005, 2004 and 2003 are classified in its balance sheet as subordinated debt. The Bank's subordinated debt increased by 40.4 per cent. to KZT27.3 billion as at 30 June 2005 from KZT19.4 billion as at 31 December 2004 which in turn represented a 122.7 per cent. increase from KZT8.7 billion as at 31 December 2003. The increase in the first half of 2005 was primarily due to the fourth issue in March 2005 of a KZT7 billion floating rate 10 year subordinated loan.

Advances received from banks decreased by 1.1 per cent. to KZT168.5 billion as at 30 June 2005 from KZT170.3 billion which in turn represented a 123.5 per cent. increase from KZT76.2 billion as at 31 December 2003. Customer accounts increased by 19 per cent. to KZT235.4 billion as at 30 June 2005 from KZT197.8 billion as at 31 December 2004 which in turn represented a 30.5 per cent. increase from KZT151.6 billion as at 31 December 2003. The volume of securities sold under repurchase agreements decreased by 68.2 per cent. to KZT9.1 billion from KZT28.4 billion as at 31 December 2004, which in turn represented a 23.6 per cent. decrease from KZT37.3 billion as at 31 December 2003.

The average liabilities of the Bank increased by 36.7 per cent. to KZT626.8 billion as at 30 June 2004 from KZT458.4 billion as at 31 December 2004, which in turn represented a 48.3 per cent. increase on the average as at 31 December 2003. The Bank's average interest-bearing liabilities as at 30 June 2005 increased by 37.2 per cent. in comparison to the figure as at 31 December 2004, primarily as a result of the issuance of additional debt securities (as shown in the 44.3 per cent. increase in average liabilities) and the 40.4 per cent. increase in average inter-bank borrowings. In 2004, the Bank's average interest bearing liabilities increased by 50.7 per cent. compared to 2003. During the first six months of 2005, average time deposits and demand deposits increased by 30.2 per cent. and 14.2 per cent., respectively. During 2004, average time deposits and demand deposits increased by 4.1 per cent. and 32.8 per cent., respectively.

### ***Equity and Capital Ratios***

The Bank's equity capital increased by 35.1 per cent. to KZT84.8 billion as at 30 June 2005 from KZT62.8 billion as at 31 December 2004, which in turn represented a 24.9 per cent. increase from KZT50.3 billion as at 31 December 2003. This increase resulted primarily from the new issue of the Bank's shares as well as from the capitalisation of current profits.

The Bank's average equity increased by 26.3 per cent. to KZT65.4 billion as at 30 June 2005 from KZT51.8 billion as at 31 December 2004 and KZT38.2 billion as at 31 December 2003. The Bank's equity capital, calculated in accordance with the Basle Accord, increased by 25.3 per cent. to KZT109.3 billion as at 30 June 2005 (including Tier I capital of KZT73.1 billion) from KZT87.2 billion as at 31 December 2004 (including Tier I capital of KZT61.5 billion). As at 31 December 2003, the Bank's equity capital, calculated in accordance with the Basle Accord, was KZT60.6 billion, including Tier I capital of KZT49.7 billion. The Bank's Tier I capital adequacy ratio, calculated in accordance with the Basle Accord, increased to 11.1 per cent. as at 30 June 2005 from 10.6 per cent. as at 31 December 2004, which decreased from 13.5 per cent. as at 31 December 2003. The Bank's total capital adequacy ratio, calculated in accordance with the Basle Accord, increased to 16.6 per cent. as at 30 June 2005 from 15.0 per cent. as at 31 December 2004, which decreased from 16.4 per cent. as at 31 December 2003.



The following table sets out the Bank's position in relation to share capital and certain ratios prescribed by the NBK as at 30 June 2005 and as at 31 December 2004, 2003 and 2002:

	NBK's minimum requirements	As at 30 June	As at 31 December		
		2005	2004	2003	2002
		(per cent., unless otherwise noted)			
Share capital <sup>(1)</sup> .....	Not less than KZT2 billion <sup>(2)</sup>	KZT5.0 billion	KZT4.2 billion	KZT4.0 billion	KZT3.5 billion
Capital Adequacy Ratios:					
K1-tier I capital to total risk-weighted assets <sup>(3)</sup> .....	Not less than 6 per cent.	7.4	6.1	7.0	6.8
K2-own capital to total risk weighed assets <sup>(3)</sup>	Not less than 12 per cent.	13.8	12.2	12.6	12.4
K4-current liquidity ratio .....	Greater than 30 per cent.	193.0	96.3	91.0	78.0
K5-short-term liquidity ratio.....	Greater than 30 per cent.	184.0	102.7	78.0	95.8
K6-investments to fixed assets and non- financial assets to equity as a percentage of own capital <sup>(3)</sup> .....	Not greater than 50 per cent.	9.1	10.6	13.1	15.9
Reserve requirements as a percentage of average customer account balances.....	Not less than 6 per cent.	14.0	78.9	21.5	13.5
Maximum aggregate net open foreign currency position <sup>(4)</sup> as a percentage of own capital <sup>(3)</sup> .....	50 per cent.	7.8 (short)	18.7 (short)	7.8 (short)	1.4 (long)
Maximum currency position in U.S. dollars <sup>(5)</sup> as a percentage of own capital <sup>(3)</sup>	30 per cent.	12.0	19.5	15.7	2.5
Maximum currency position in Russian roubles <sup>(6)</sup> as a percentage of own capital <sup>(3)</sup>	15 per cent.	0.2	0.0	0.8	0.9
Maximum aggregate credit exposure to related parties (including on-balance and off-balance sheet exposures) <sup>(7)</sup> as a percentage of own capital <sup>(3)</sup> .....	100 per cent.	11.3	5.9	9.0	11.2
Funds placement into internal assets ratio ...	Not less than 100 per cent.	187.0	240.0	189.0	150.0
Maximum exposure as a percentage of own capital <sup>(3)</sup> to any single borrower					
–related parties .....	10 per cent.	6.7	3.1	5.6	5.4
–other borrowers .....	25 per cent.	19.1	18.7	22.4	23.9
–unsecured loans.....	10 per cent.	5.2	7.2	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 revenue reserves 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.

### **Asset and Liability Management**

The Bank controls the size and degree of its interest rate and exchange rate exposure in order to optimise their effects on profitability levels and to ensure that there is sufficient liquidity to meet its funding requirements. The Bank also maintains a liquid balance sheet, including substantial Tenge

and foreign currency-denominated demand deposits, so as to respond to the cash needs of its corporate clients and to minimise short-term liquidity problems.

The additional issue by the Bank in 2004 of its U.S.\$350 million Notes due 2009 resulted in an increase in debt securities to 33.2 per cent. of the Bank's interest liabilities as at 30 June 2005 from 32.4 per cent. as at 31 December 2004 and 25.6 per cent. as at 31 December 2003. Long term liabilities increased to 43.8 per cent. of the Bank's interest liabilities as at 30 June 2005 from 42.6 per cent. as at 31 December 2004 and 38.7 per cent. as at 31 December 2003.

The Bank also adopts a policy of extending the maturities of its assets in accordance with the maturities of its funds raised in the debt capital markets so as to reduce risks related to interest rate changes. Long-term assets (i.e. assets over five years) increased by 14.0 per cent. during the first half of 2005 and accounted for 47.9 per cent. of assets as compared to 47.1 per cent. as at 31 December 2004. The asset and liability interest gap was positive both in the short and in the long term, at 13 per cent. of assets. The positive gap means that the interest rate growth will have a positive effect on net interest income. Where practicable, the Bank also links 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 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 2005 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 maturity of up to one month rather than long-term assets according to their maturity. As at 30 June 2005, the Bank's cumulative maturity gap was positive for all periods at KZT102,849 million.

	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)						
<b>Assets:</b>							
Term deposits with NBK.....	4,000	—	—	—	—	—	4,000
Loans and advances to banks, net.....	126,132	9,507	6,878	—	—	(696)	141,821
Dealing securities .....	16,885	6,525	27,662	—	—	—	51,072
Loans to clients, net.....	45,488	33,786	126,563	227,748	140,400	(35,749)	538,506
Securities .....	—	—	75	—	—	—	75
Securities purchased under agreement to resell ...	10,425	—	—	—	—	—	10,425
<b>Total interest earning assets.....</b>	<b>202,930</b>	<b>49,818</b>	<b>161,178</b>	<b>227,748</b>	<b>140,400</b>	<b>(36,175)</b>	<b>745,899</b>
Cash and balances with the NBK.....	15,811	—	—	—	—	—	15,811
Derivative financial instruments.....	371	—	—	—	—	371	—
Investments in associates .....	—	—	—	—	318	—	318
Fixed assets, net .....	—	—	—	—	7,762	—	7,762
Intangible assets, net .....	—	—	—	—	483	—	483
Accrued interest .....	8,446	1,945	3,630	885	5	—	14,911
Other assets .....	1,942	244	1,338	238	16	(80)	3,968
<b>Total Assets.....</b>	<b>229,500</b>	<b>52,007</b>	<b>166,146</b>	<b>228,871</b>	<b>148,894</b>	<b>(36,255)</b>	<b>789,253</b>
<b>Liabilities:</b>							
Loans and advances from Banks.....	18,770	11,779	19,870	13,811	712	—	64,942
Debt securities issued.....	—	—	1,046	108,533	120,637	—	230,216
Customer accounts.....	92,505	51,670	67,099	19,827	1,024	—	232,125
Other borrowed funds.....	—	139	4,063	3,254	6,190	—	13,646
Securities sold under agreements to repurchase...	9,057	—	—	—	—	—	9,057
Syndicated loan.....	—	20,266	82,276	—	—	—	102,542
<b>Total interest bearing liabilities.....</b>	<b>120,332</b>	<b>83,854</b>	<b>174,354</b>	<b>151,863</b>	<b>148,989</b>	<b>—</b>	<b>679,392</b>
Derivative financial instruments.....	147	—	23	34	—	—	204
Other liabilities.....	1,950	1,098	1,840	6,730	—	3,935	15,553
Accrued interests.....	851	2,316	4,849	742	—	—	8,758
Dividends payable.....	—	—	550	—	—	—	550
<b>Total Liabilities.....</b>	<b>123,280</b>	<b>87,268</b>	<b>181,616</b>	<b>159,369</b>	<b>148,989</b>	<b>3,935</b>	<b>704,457</b>
<b>Maturity gap.....</b>	<b>82,598</b>	<b>48,562</b>	<b>35,386</b>	<b>111,271</b>	<b>102,682</b>		
<b>Cumulative maturity gap.....</b>	<b>10.5%</b>	<b>6.2%</b>	<b>4.5%</b>	<b>14.1%</b>	<b>13.0%</b>		
<b>Off balance sheet assets and liabilities</b>							
Payables from forwards and tradable securities .	(21,989)	—	(3,830)	—	—	—	(25,819)
Receivables from forwards and tradable securities .....	25,986	—	—	—	—	—	25,986
<b>Off balance sheet assets and liabilities gap .....</b>	<b>(3,997)</b>	<b>—</b>	<b>(3,830)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Cumulative off balance sheet assets and liabilities gap .....</b>	<b>3,997</b>	<b>3,997</b>	<b>167</b>	<b>167</b>	<b>167</b>		
<b>Aggregated cumulative gap, balance sheet and off balance sheet assets and liabilities .....</b>	<b>86,595</b>	<b>52,559</b>	<b>35,553</b>	<b>111,438</b>	<b>102,849</b>		

Although the relative maturities of the Bank's assets and liabilities give an indication of the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take into account 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 due to its ability to re-price certain loans that mature within one year, as well as 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 corresponding increase in the average maturity of its liabilities, the Bank will be exposed to increasing interest rate risk.

### ***Funding and Liquidity***

As at 30 June 2005, 56.7 per cent. of the Bank's liabilities had a maturity of less than one year, while the 55.7 per cent. of its assets had a maturity of less than one year. 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 assets and liabilities allowed the Bank to maintain prudent levels of liquidity from 2003 until now.

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 eurobond issue 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.\$150 million and U.S.\$50 million;
- in May and December 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;
- 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 November 2004, the Issuer raised U.S.\$350 million through the issue of its 7 per cent. Notes due 2009. In February 2005 the Issuer raised U.S.\$150 million through the additional issue of the same notes; and
- in March 2005, the Bank issued a KZT7 billion floating rate 10-year note (the rate is fixed at 7.5 per cent. until 2007).

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 KZT1,325 million subordinated notes to preference shareholders in lieu of dividends.

In April 2003 the Bank signed a U.S.\$45 million term loan with ING 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.

In the first six months of 2005, the Bank attracted loans from DEG in the amount of U.S.\$37 million for a nine-year period, and EBRD for the total amount of U.S.\$ 31.5 million.

The Bank obtained its first syndicated loan in 1997. Since then, the Bank has been active in the syndicated loan market and has obtained and repaid a total of 14 international syndicated loan facilities. The Bank is currently looking to raise more funds on the syndicated loan market and to issue subordinated debt in the international capital markets.

The Bank's anticipated capital expenditures primarily relates to investments in new information technology. The Bank intends that these expenditures 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 30 December		
	2005	2004	2004	2003	2002
	(Unaudited)		(per cent.)	(Audited)	
Liquid assets as a percentage of total assets .....	26.4	24.3	25.1	28.9	31.5
Liquid assets as a percentage of total deposits .....	88.4	71.2	89.4	82.9	61.2
Liquid assets: liabilities up to one month .....	168.8	108.3	103.7	111.1	131.1
Loans to customers, net: total assets.....	70.0	72.2	70.3	65.2	63.8
Loans to customers, net: customer accounts.....	234.8	211.9	250.2	186.7	124.0
Loans to customers, net: total equity.....	651.7	678.2	788.4	562.9	545.1

The Bank's funding base consists of demand and time deposits (33.4 per cent.), debt securities issue (33.2 per cent.), loans and advances from banks including REPO (25.2 per cent.), subordinated debt (3.9 per cent.) and other liabilities (4.3 per cent.). This structure positively affects funding costs and improves the Bank's liquidity.

The Bank managed to increase its retail deposit base as total customer accounts increased by 19 per cent. to KZT235,395 million as at 30 June 2005 from KZT197,827 million as at 31 December 2004, which in turn represented a 30.5 per cent. increase from KZT151,589 million as at 31 December 2003. 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 2005, retail deposits (less interests accrued) comprised 36.1 per cent. of total customer deposits (less interests accrued). 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 services, as well as 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."

The following table sets out the net open foreign currency position of the bank for the dates indicated.

	As at 30 June		As at 30 December		
	2005	2004	2004	2003	2002
	(Unaudited)		(per cent.)	(Audited)	
Net long (short) position (millions of U.S. dollars).....	38.2	(143.4)	(156.0)	(65.6)	(1.2)
As a percentage of shareholders' equity (per cent.) .....	4.7	(26.2)	(23.3)	(15.6)	(0.6)
As a percentage of total liabilities (per cent.) .....	0.7	(4.2)	(2.9)	(2.5)	(0.1)

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.

The size of the Bank's trading portfolio decreased by 30.9 per cent. to KZT51.7 billion as at 30 June 2005 from KZT74.8 billion as at 31 December 2004, which in turn represented a 5.1 per cent. increase from KZT71.2 billion as at 31 December 2003.

## THE ISSUER

### General

#### History

The Issuer was incorporated as a private company with limited liability (a *besloten vennootschap met beperkte aansprakelijkheid*, or B.V.) under and subject to, the laws of The Netherlands on 1 October 1997 for an unlimited duration. The Issuer has a statutory seat in Rotterdam and is registered in the commercial register under number 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 June 2005:

	<b>As at 30 June 2005</b>
	<b>(Unaudited) (U.S.\$ thousands)</b>
<b>Long-term debt:</b> .....	1,598,132
<b>Shareholders' equity:</b>	
Share capital comprising 40 ordinary shares, par value €450 per share .....	23
Share premium.....	497
Retained earnings .....	4,479
Total shareholders' equity .....	4,999
<b>Total capitalisation</b> .....	<b>1,608,130</b>

Except for the issue of the Notes under the Programme, there has been no material change in the capitalisation of the Issuer since 30 June 2005. 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 had a wholly owned subsidiary, Kazkommerts International Limited established in the Cayman Islands, although as of 30 June 2005 this was removed from the companies register prior to commencing any trading operations.

In 2002, the Issuer issued U.S.\$200 million of its 10.125 per cent. Notes due 2007 in two tranches of U.S.\$150 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 and U.S.\$150,000,000 Further Notes on 8 February 2005.

In addition, in December 2002, the Issuer received a payment of U.S.\$33 million (KZT5,143 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 8 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 "Related Party Transactions".

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

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 June 2005, 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 of Mazars Building, Rivium Promenade 200, 2909 LM Capelle a/d IJssel, P.O. Box 23123, 3001 KC Rotterdam, to conduct an audit of its statutory financial statements. The audit of the Issuer's 2002, 2003 and 2004 financial statements has been completed. The Issuer's statutory financial statements as at and for the years ended 31 December 2004 and 2003 are included elsewhere in this Prospectus. 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 29, 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. The directors of Equity Trust are F. van der Rhee, R.G.A. de Schutter, J.C.W. van Burg and the deputy directors are W.P. Ruoff and W.H. Kamphüys.

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

### **General Information**

The business address of the Issuer is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands and its telephone number is +31 10 2245 333. The business address of Mr. Timchenko is 135 "Zh" Gagarin Ave., Almaty 050060, Kazakhstan. Administrative services are provided to the Issuer by Equity Trust, whose business address is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The business address of the directors of Equity Trust is the same as the business address of Equity Trust.

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



## THE BANK

Established in 1990, the Bank is the largest bank in Kazakhstan, measured by total assets as at 30 June 2005, providing corporate banking, retail banking and other financial services. As at and for the six months ended 30 June 2005, the Bank had net income before minority interest of KZT10,915 million, total assets of KZT789,253 million and shareholders' equity of KZT84,796 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 2005, 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 2005, it had total customer retail deposits of KZT83,895 million, a significant increase from the KZT3,180 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 KZT12,234 million to KZT81,007 million as at 30 June 2005.

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 2005, the Bank had 356,150 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 2005, it operated 333 ATMs and 1,925 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 Kyrgyzstan, 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 2003, the Bank's total gross loan portfolio amounted to KZT302,132 million and as at 30 June 2005 it amounted to KZT588,136 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. The strategy was developed in cooperation with an external consultant. In order to implement this strategy, the Bank intends to focus on the following:

- *Expansion of Banking Services.* The Bank will also focus on expanding its corporate and retail banking services:
  - Corporate banking services. The Bank plans to increase the cross-selling of its non-lending products, for example, investment banking, transaction services and factoring, to corporate clients and to introduce incentives to its employees to encourage this. Corporate clients are now classified on the basis of revenues derived from them and those producing smaller revenues are now handled at the branch level while those producing larger revenues will be served by regional directors or by head office. The Bank also intends to expand its corporate client base and improve the quality of its loan portfolio. In order to diversify its portfolio, the Bank will seek to increase its lending to small- and medium-sized enterprises. 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. To assist its risk assessment of various sectors, the Bank has established a market research group and is also engaged in a process of assessing the pricing of its products by reference to the risks involved in them.
  - Retail banking services. 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. The Bank also plans to target a wider retail market by increasing the accessibility of its services and products through expanding its branch network and focussing on automated channels such as ATMs. The Bank will offer lower service charges at ATMs compared to its branch offices to encourage customers to use such automated channels.
- *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. The Bank further intends to increase the cross-selling of such services.
- *Developing its presence in other CIS countries.* The Bank seeks to develop its geographic presence, principally by expanding its operations in 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 Dzhalaal-Abad 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 developing its operations in other countries within the region will enable it to better serve clients active in those countries and to attract large and medium-sized, corporate clients with regional operations in these countries.

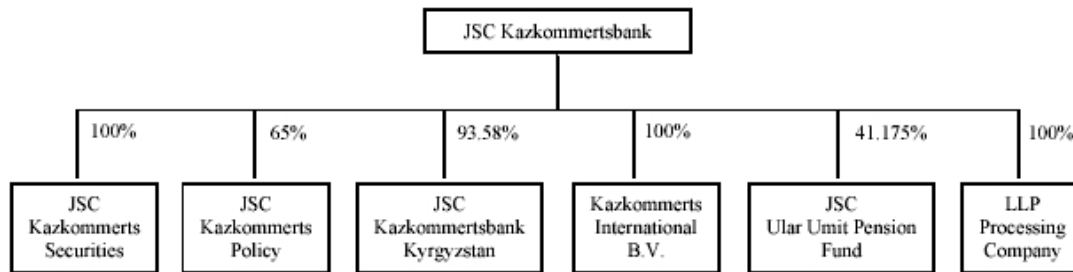
## History

The Bank was incorporated as a joint stock company on 12 July 1990 for an unlimited duration 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. The registered office of the Bank is 135 "Zh" Gagarin Avenue, Almaty 050060, Kazakhstan and its telephone number is +7 3272 585 444.

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 135-"Zh" Gagarin Avenue, Almaty 050060, 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 while the EBRD holds the remaining 35 per cent. In the first six months of 2005, the net income of the company totalled KZT269 million compared to KZT370 million in the first six months of 2004. Its registered office is at 24 Satpayev Street, Almaty 050013, Kazakhstan.

- *JSC Kazkommertsbank Kyrgyzstan.* Kazkommertsbank Kyrgyzstan is a commercial bank with branches in Dzhahalal-Abad and Osh. The Bank currently holds 93.58 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 KZT244 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 at 30 June 2005, its assets and shareholders' equity totalled KZT3,318 million and KZT419.5 million, respectively, compared to KZT2,426 million and KZT364.3 million, respectively, as at 30 June 2004. As at 30 June 2005, the net income of Kazkommertsbank Kyrgyzstan totalled KZT1.04 million compared to KZT56.1 million for the first six months of 2004. Its registered office is at 42 Isanov Street, Bishkek 720017, Kyrgyz Republic.
- *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 KZT681.7 million as at 30 June 2005 compared to KZT253.2 million as at 30 June 2004. The total assets and capital of CB Moskommertsbank as at the end of 2004 equalled KZT39.2 billion and KZT5.0 billion, respectively. As at 30 June 2005, assets amounted to KZT38.3 billion as compared to KZT34.4 billion as at 30 June 2004. Capital amounted to KZT5.7 billion as at 30 June 2005 compared to KZT4.4 billion as at 30 June 2004. Its registered office is at 1 Bolshoy Gnezdnikovskiy Pereulok, Stroenie 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 050008, Kazakhstan.
- *LLP Processing Company.* Processing Company was established as a wholly owned subsidiary in 2004 to provide card and related services. This subsidiary has been consolidated since 31 December 2004. As at 30 June 2005, its assets and shareholders' equity totalled KZT5 million and KZT5 million respectively, demonstrating no change as compared to 31 December 2004 due to insignificant business activity. Its registered office is at 135-zh Gagarin Avenue, Almaty 050060, 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 on the basis of revenues derived by the Bank from them. Corporate clients are classified as small, medium and large by revenues derived from them. Those producing smaller revenues are now handled at the branch level while those producing larger revenues are handled by the regional directors or by head office. 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 KZT85,456 million as at 30 June 2004 to KZT109,641 million as at 30 June 2005 and comprised 18.6 per cent. of the Bank's total gross loan portfolio as at 30 June 2005) and construction (which increased from KZT51,315 million as at 30 June 2004 to KZT98,471 million as at 30 June 2005 and comprised 16.7 per cent. of the Bank's gross loan portfolio as of such date). The Bank also increased its exposure to consumer lending to 13.8 per cent. of its gross loan portfolio in the first six months of 2005 compared to 10.7 per cent. in the first six months of 2004, and transport and communication from 8.1 per cent. to 6.2 per cent. of the loan portfolio for the same periods, 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.

In addition, the Bank provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 30 June 2005, the Bank's exposure, through CB Moskommertsbank and JSC Kazkommertsbank Kyrgyzstan, to Russian and Kyrgyzstan clients as a percentage of its total gross loan portfolio, guarantees and letters of credit was 3.5 per cent. and 0.4 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, the Bank expects to open between 160 and 200 branches over the next five years, primarily 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 2004 and the first half of 2005, 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. In addition, the Bank also considers individuals with monthly salaries above U.S.\$5,000 to be VIP clients. 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 2005, retail deposits accounted for 36 per cent. of the Bank's total customer deposits with deposits by high net worth individuals constituting 50.4 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 2005, 356,150 cards had been issued, representing an increase of more than 80,147 cards as compared to 276,003 cards issued as at 30 June 2004. 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 2005, the Bank operated 333 ATMs in cities throughout Kazakhstan, and it intends to add up to 63 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 currently operates 1,925 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 used. 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 45,000 customers can utilise these services to pay their mobile telephone and utility bills.

The Bank's strategy calls for 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. The Bank has recently entered into an agreement to provide its retail banking services through local post offices, although as yet no system has been put in place.

#### ***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 2005, 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 2005, 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 over-staffing 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. See “Technology”.

### ***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, 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 implementation 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 twice a day. The Bank is in the process of correcting deficiencies in its business continuity planning and access controls.

In cooperation with external consultants, 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 2005, this building had a gross book value of KZT1,060.8 million and a net book value of KZT1,059.7 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 2005, the gross book value of the Bank’s owned premises, including its head office in Almaty, was KZT12.1 billion.

### ***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 2005, there were a total of 35 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 2005, 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 2005, the Bank had 3,410 full-time employees, of whom approximately 2,477 were employed in its branches. The number of full-time employees as at 31 December 2004 was 3,186.

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. See "Results of Operations for the Year ended 31 December 2004 Compared to the Year ended 31 December 2003 – Taxation".



## SELECTED STATISTICAL AND OTHER INFORMATION

### Average Balances

The following table sets out the Bank's average balance sheets based upon 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			
	2005		2004		2004		2003	
	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
		(Unaudited)				(Audited)		
<b>Assets</b>								
Loans to and deposits with other banks, net .....	72,610	2.66	30,564	4.0	24,762	3.9	47,320	3.2
<b>Loans to and deposits with other banks</b> .....	72,905	2.65	31,051	4.0	25,215	3.8	47,628	3.1
Tenge .....	8,070	2.17	7,075	3.4	7,581	2.8	2,822	4.1
Foreign currency.....	64,835	2.71	23,976	4.2	17,634	4.3	44,806	3.1
<b>Provisions</b> .....	(295)	—	(487)	—	(453)	—	(308)	—
Tenge .....	(53)	—	(29)	—	(56)	—	(6)	—
Foreign currency.....	(242)	—	(458)	—	(397)	—	(302)	—
<b>Correspondent account with NBK</b>	4,518	—	3,253	—	2,859	—	3,122	—
Tenge .....	4,448	—	2,627	—	2,850	—	3,059	—
Foreign currency.....	70	—	626	—	9	—	63	—
<b>Marketable securities</b> .....	77,155	5.98	89,842	5.9	85,783	6.2	66,169	5.8
Tenge .....	50,752	3.35	53,104	5.1	53,708	4.7	31,454	5.1
Foreign currency.....	26,403	11.03	36,738	7.0	32,075	8.8	34,715	6.4
<b>Loans to customers, net</b> .....	496,424	13.91	304,076	13.5	359,476	13.5	197,709	15.0
<b>Performing loans</b> .....	511,547	13.50	318,931	12.9	376,197	12.9	205,881	14.4
Tenge .....	127,152	13.90	51,238	14.4	56,519	14.6	43,343	14.9
Foreign currency.....	384,395	13.37	267,693	12.6	319,678	12.6	162,538	14.3
<b>Non-performing loans</b> .....	15,975	—	6,452	—	8,399	—	4,394	—
Tenge .....	4,076	—	2,153	—	2,555	—	1,419	—
Foreign currency.....	11,899	—	4,299	—	5,844	—	2,975	—
<b>Loan loss reserves</b> .....	(31,098)	—	(21,307)	—	(25,120)	—	(12,566)	—
Tenge .....	(8,660)	—	(5,611)	—	(6,019)	—	(3,689)	—
Foreign currency.....	(22,438)	—	(15,696)	—	(19,101)	—	(8,877)	—
<b>Cash</b> .....	11,706	—	8,870	—	9,676	—	8,204	—
Tenge .....	5,861	—	3,896	—	4,670	—	3,579	—
Foreign currency.....	5,845	—	4,974	—	5,006	—	4,625	—
<b>Correspondent accounts with other banks</b> .....	4,577	1.33	4,225	1.3	5,224	1.2	5,882	0.5
Tenge .....	783	0.01	242	0.0	258	0.0	196	0.0
Foreign currency.....	3,794	1.61	3,983	1.4	4,966	1.3	5,686	0.6
<b>Fixed and intangible assets, net</b> ...	8,285	—	6,090	—	6,712	—	5,513	—
Tenge .....	7,451	—	5,910	—	6,163	—	5,367	—
Foreign currency.....	834	—	180	—	549	—	146	—
<b>Investments</b> .....	3,299	—	2,003	—	2,664	—	3,221	—
Tenge .....	2,803	—	2,003	—	2,241	—	3,000	—
Foreign currency.....	496	—	—	—	423	—	221	—
<b>Other assets</b> .....	19,066	—	16,335	—	17,628	—	13,614	—
Tenge .....	7,701	—	5,705	—	6,413	—	4,230	—
Foreign currency.....	11,365	—	10,630	—	11,215	—	9,384	—
<b>Total</b> .....	697,640	10.84	465,258	10.2	514,784	10.68	350,754	10.0
Tenge .....	210,384	9.29	128,313	8.1	136,883	8.03	94,774	8.6
Foreign currency.....	487,256	11.51	336,945	11.1	377,901	11.64	255,980	10.5

	For the six month period ended 30 June				Year ended 31 December			
	2005		2004		2004		2003	
	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate
(KZT millions)	(per cent.) (Unaudited)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.) (Audited)	(KZT millions)	(per cent.)	
<b>Liabilities and shareholders' equity</b>								
<b>Demand deposits</b> .....	66,329	0.41	50,507	0.7	58,070	0.5	43,711	0.7
Tenge .....	42,129	0.52	30,692	0.8	32,448	0.5	23,566	0.7
Foreign currency .....	24,200	0.21	19,815	0.5	25,622	0.6	20,145	0.8
<b>Time deposits</b> .....	144,914	6.25	110,271	6.2	111,339	6.0	106,948	7.0
Tenge .....	57,984	7.90	23,814	9.2	28,502	8.7	18,234	10.5
Foreign currency .....	86,930	5.16	86,457	5.4	82,837	5.1	88,714	6.2
<b>Correspondent accounts of other banks</b> .....	3,355	0.28	945	2.0	1,486	0.8	1,656	1.8
Tenge .....	2,239	0.41	628	0.7	766	0.4	391	1.4
Foreign currency .....	1,116	0.03	317	4.6	720	1.1	1,265	1.9
<b>Short-term interbank borrowings</b> .....	15,486	4.36	16,212	2.8	20,171	2.6	9,021	2.6
Tenge .....	2,311	2.54	1,022	3.6	1,634	2.5	499	4.2
Foreign currency .....	13,175	4.68	15,190	2.8	18,537	2.6	8,522	2.5
<b>Long-term borrowings</b> .....	144,205	4.53	81,023	5.0	93,562	3.8	39,779	4.3
Tenge .....	1,678	6.48	—	—	52	9.7	—	—
Foreign currency .....	142,527	4.50	81,023	5.0	93,562	3.8	39,727	4.3
<b>Other borrowed funds</b> .....	8,957	5.63	3,128	7.5	2,551	7.4	4,238	7.1
Tenge .....	195	1.98	0.0	—	—	254	0.9	—
Foreign Currency .....	8,762	5.71	3,128	7.5	2,551	7.4	3,984	7.5
<b>Debt securities issued</b> .....	219,365	9.81	132,129	8.7	151,999	9.9	86,061	10.0
Tenge .....	7,523	7.23	3,006	7.0	3,505	7.0	—	—
Foreign currency .....	211,842	9.90	129,123	8.7	148,494	9.9	86,061	10.0
<b>Other liabilities:</b> .....	24,211	—	17,690	—	19,226	—	17,794	—
Tenge .....	12,665	—	6,617	—	7,551	—	3,601	—
Foreign currency .....	11,546	—	11,073	—	11,675	—	14,193	—
<b>Total liabilities</b> .....	626,822	6.15	411,905	5.7	458,404	5.7	309,208	6.0
Tenge .....	126,724	4.36	65,779	4.1	74,406	3.9	46,597	4.5
Foreign currency .....	500,098	6.61	346,126	6.0	383,998	6.1	262,611	6.3
<b>Shareholders' equity and reserves</b> .....	65,421	—	49,093	—	51,810	—	38,212	—
Tenge .....	65,001	—	49,093	—	51,810	—	38,212	—
Foreign currency .....	420	—	—	—	—	—	—	—
<b>Minority Interest</b> .....	5,397	—	4,260	—	4,570	—	3,334	—
Tenge .....	—	—	—	—	—	—	—	—
Foreign currency .....	5,397	—	4,260	—	4,570	—	3,334	—
<b>Total</b> .....	697,640	5.53	465,258	5.0	514,784	5.1	350,754	5.3
Tenge .....	191,725	2.88	114,872	2.3	126,216	2.3	84,809	2.5
Foreign currency .....	505,915	6.53	350,386	5.9	388,568	6.0	265,945	6.2
<b>Average Exchange Rate KZT/</b>								
<b>U.S.\$</b> .....	131.19		138.59		136.07		149.54	

## Assets

The total assets of the Bank were KZT789.3 billion as at 30 June 2005, reflecting an increase of 12.1 per cent. compared to 31 December 2004. The following table sets out the major asset groups of the Bank as at the indicated dates:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
	(Unaudited)				(Audited)			
<b>Trading and investment portfolio:</b>								
Tenge .....	32,856	4.2	59,437	11.4	56,227	8.0	29,430	6.8
Foreign currency .....	19,230	2.4	22,265	4.3	19,324	2.7	42,087	9.7
<b>Total .....</b>	<b>52,086</b>	<b>6.6</b>	<b>81,702</b>	<b>15.7</b>	<b>75,551</b>	<b>10.7</b>	<b>71,517</b>	<b>16.5</b>
<b>Cash and correspondent accounts with national (central) banks:</b>								
Tenge .....	12,357	1.6	11,514	2.2	53,298	7.6	22,315	5.1
Foreign currency .....	7,460	0.9	5,795	1.1	12,995	1.8	6,470	1.5
<b>Total .....</b>	<b>19,817</b>	<b>2.5</b>	<b>17,309</b>	<b>3.3</b>	<b>66,293</b>	<b>9.4</b>	<b>28,785</b>	<b>6.6</b>
<b>Loans and advances to banks:</b>								
Tenge .....	6,733	0.9	1,612	0.3	4,175	0.6	1,790	0.4
Foreign currency .....	135,901	17.2	26,463	5.1	38,192	5.4	37,208	8.6
Reserves for loan losses .....	(696)	(0.1)	(374)	(0.1)	(533)	(0.1)	(415)	(0.1)
<b>Total .....</b>	<b>141,938</b>	<b>18.0</b>	<b>27,701</b>	<b>5.3</b>	<b>41,834</b>	<b>5.9</b>	<b>38,583</b>	<b>8.9</b>
<b>Repurchase transactions:</b>								
Tenge .....	3,557	0.4	2,543	0.5	3,446	0.5	587	0.1
Foreign currency .....	6,884	0.9	6,461	1.2	4,956	0.7	2,021	0.5
Reserves for losses .....	—	—	—	—	—	—	—	—
<b>Total .....</b>	<b>10,441</b>	<b>1.3</b>	<b>9,004</b>	<b>1.7</b>	<b>8,402</b>	<b>1.2</b>	<b>2,608</b>	<b>0.6</b>
<b>Loans and advances to customers:</b>								
Tenge .....	181,554	23.0	63,828	12.2	120,822	17.2	63,548	14.6
Foreign currency .....	406,582	51.5	338,081	64.7	403,988	57.4	238,584	55.0
Reserves for loan losses .....	(35,479)	(4.5)	(24,664)	(4.7)	(29,879)	(4.2)	(19,069)	(4.4)
<b>Total .....</b>	<b>552,657</b>	<b>70.0</b>	<b>377,245</b>	<b>72.2</b>	<b>494,931</b>	<b>70.4</b>	<b>283,063</b>	<b>65.2</b>
<b>Other assets .....</b>	<b>12,314</b>	<b>1.6</b>	<b>9,514</b>	<b>1.8</b>	<b>17,046</b>	<b>2.4</b>	<b>9,685</b>	<b>2.2</b>
<b>Total Assets .....</b>	<b>789,253</b>	<b>100.0</b>	<b>522,475</b>	<b>100.0</b>	<b>704,057</b>	<b>100.0</b>	<b>434,241</b>	<b>100.0</b>

As at 30 June 2005, the Bank's assets structure underwent some changes in comparison with the structure as at the end of 2004. The largest component of the Bank's assets remains Loans to customers which, as a percentage of total assets, amounted to 70 per cent. and 70.3 per cent. as at 30 June 2005 and 31 December 2004 respectively. Loans and advances to banks increased from 6 per cent. as at the end of 2004 to 18 per cent. as at 30 June 2005. The trading and investment portfolio, as a percentage of total assets, decreased from 10.7 per cent. to 6.6 per cent. between 31 December 2004 and 30 June 2005. Cash and correspondent accounts with the national banks of Kazakhstan and Kyrgyzstan and the Russian Central Bank fell from 9.4 per cent. to 2.5 per cent. during the same period.

The following table indicates average net interest income, yield, margin and spread for the six months ended 30 June 2005 and 2004 and the years ended 31 December 2004 and 2003.

	For the six month period ended 30 June		Year ended 31 December	
	2005	2004	2004	2003
(U.S.\$ millions, unless otherwise indicated)				
Average interest-earning assets.....	4,960.0	3,094.0	3,493.0	2,121.0
Interest income .....	288.0	172.0	404.0	235.0
Net interest income before provision for loan losses .....	141.0	88.0	211.0	110.0
Yield (per cent.) <sup>(1)(4)</sup> .....	11.6	11.1	11.6	11.1
Margin (per cent.) <sup>(2)(4)</sup> .....	5.7	5.7	6.1	5.2
Spread (per cent.) <sup>(3)(4)</sup> .....	5.2	5.2	5.6	4.6

(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.

(4) Annualised.

### Trading and Investment Portfolio

The size of the Bank's securities portfolio decreased by 31.3 per cent. as at 30 June 2005 with respect to 31 December 2004, and amounted to KZT51.8 billion compared to KZT75.3 billion as at the end of 2004. The Bank's trading portfolio, which makes up 99.9 per cent. of the Bank's securities portfolio, decreased by 30.9 per cent. or by KZT23.1 billion as a result of the sale of NBK notes in an amount of KZT24.7 billion in response to falling tenge interest rates. Increased yields on new issues of Kazakhstan Treasury Bills in excess of the yield on interbank placements led to the Bank increasing the proportion of Treasury Bills in its portfolio. Thus, by 30 June 2005, the Bank's trading portfolio of Treasury Bills of the Ministry of Finance of the Republic of Kazakhstan had increased by 8.1 per cent. to KZT13.9 billion from KZT12.9 billion as at the end of 2004 whilst the Bank's holdings of eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan remained at the same level, at KZT2.3 billion for the period in question. The Bank continued to invest in securities of prime Kazakhstan companies and municipal bonds, which portfolio as at 30 June 2005 was KZT10.2 billion.

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	
	2005	2004	2004	2003
(KZT millions)				
		(Unaudited)	(Audited)	
Securities.....	51,768	81,571	75,333	71,371
Marketable securities.....	51,693	81,431	74,780	71,201
Securities available-for-sale.....	32	64	489	138
Securities held to maturity.....	43	76	64	32
Investments in associated companies .....	318	131	218	146
Total securities and investments with associated companies.....	52,086	81,702	75,551	71,517

The average portfolio of marketable securities decreased by 10.1 per cent. to KZT77.5 billion for the first six months of 2005 from KZT85.8 billion for the year ended 2004, whilst average interest rates decreased insignificantly from 6.2 per cent. in 2004 to 6.0 per cent. in the first half of 2005.

The following table shows the structure of the average marketable securities portfolio and average interest rates for the six months ended 30 June 2005 and 2004 and the years ended 31 December 2004 and 2003:

	For the six month period ended 30 June				Year ended 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(Average interest rate, per cent.)	(KZT millions)	(Average interest rate, per cent.)	(KZT millions)	(Average interest rate, per cent.)	(KZT millions)	(Average interest rate, per cent.)
	(Unaudited)				(Audited)			
NBK notes .....	34,427	3.5	43,112	5.1	39,973	4.5	26,817	5.0
Corporate bonds .....	20,913	10.9	16,814	8.5	17,530	10.9	11,725	9.8
Long-term and medium-term Treasury bills	13,240	4.5	9,470	5.5	10,533	5.5	4,387	6.0
Eurobonds of foreign governments.....	3,403	8.0	7,037	5.8	4,157	6.8	12,498	4.7
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan .....	2,223	3.9	5,862	2.6	5,263	3.5	6,458	3.0
Eurobonds of Kazkommerts International B.V.....	1,554	6.8	5,853	6.8	4,970	7.9	3,559	8.0
Domestic municipal bonds.....	503	10.4	730	9.1	896	12.6	475	8.1
Short-term Treasury bills .....	892	3.4	504	5.2	2,462	4.2	250	5.5
Eurobonds of the Ministry of Finance of the Russian Federation.....	—	—	260	15.4	—	—	—	—
Sub-federal bonds of the Russian Federation.....	—	—	200	23.2	—	—	—	—
<b>Total.....</b>	<b>77,155</b>	<b>6.0</b>	<b>89,842</b>	<b>5.9</b>	<b>85,784</b>	<b>6.2</b>	<b>66,169</b>	<b>5.8</b>

## The Bank's Loan Portfolio

### Loan portfolio monitoring

The following tables set forth information relating to the diversification of the Bank's loan portfolio as at 30 June 2005 and 31 December 2004:

	As at 30 June 2005			
	Total loan indebtedness	Principal amount due	Accrued interest	Percentage of total loan portfolio
		(U.S.\$)	(Unaudited)	(per cent.)
Greater than U.S.\$10 million .....	1,132,009,033	1,108,640,719	23,368,314	26.0
From U.S.\$5 to U.S.\$10 million .....	547,661,149	533,627,077	14,034,072	12.6
From U.S.\$1 to U.S.\$5 million .....	1,020,875,035	986,377,203	34,497,832	23.5
Up to U.S.\$1 million .....	1,647,640,692	1,614,917,902	32,722,790	37.9
<b>Total.....</b>	<b>4,348,185,909</b>	<b>4,243,562,901</b>	<b>104,623,008</b>	<b>100.0</b>

The following table sets forth information relating to the diversification of the Bank's letters of guarantee portfolio, which amounted to KZT25.6 billion and KZT23 billion as at 30 June 2005 and 31 December 2004, respectively:

	As at 30 June 2005		As at 31 December	
	(U.S.\$)	(per cent.)	(U.S.\$)	(per cent.)
Greater than U.S.\$10 million .....	14,505,410	7.7	11,979,067	34.1
From U.S.\$5 to U.S.\$10 million .....	34,172,635	18.0	63,919,248	17.1
From U.S.\$1 to U.S.\$5 million .....	68,741,484	36.3	53,596,888	20.2
Up to U.S.\$1 million .....	72,077,083	38.0	47,210,109	28.6
<b>Total.....</b>	<b>189,496,612</b>	<b>100.0</b>	<b>176,705,312</b>	<b>100.0</b>

### *Loans and advances to banks*

As at 30 June 2005, loans and advances to banks, net of provisions, increased by 3.4 times by KZT100.1 billion to KZT141.9 billion, as compared to KZT41.8 billion as at 31 December 2004. At the same time, loans and advances to banks as a percentage of total assets increased from 6.0 per cent. as at the end of 2004 to 18 per cent. as at 30 June 2005. The majority of loans and advances to banks (95.3 per cent.) were represented by foreign currency 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 (95.1 per cent.) of loans and advances to banks had maturities of less than three months.

The reserves for possible losses on loans and advances to banks increased by 30.6 per cent. to KZT696 million, as compared to KZT533 million as at the end of 2004. Cash and balances with the NBK, the National Bank of Kyrgyzstan and the Central Bank of Russia decreased by 70.1 per cent. from KZT66.3 billion as at 31 December 2004 to KZT19.8 billion as at 30 June 2005 as a result of repayment of NBK's term deposit in the amount of KZT22.3 billion and the decrease of a correspondent account balance with NBK by KZT24.7 billion.

The following table shows a breakdown by currency of correspondent account balances and loans as at 30 June 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June		As at 31 December	
	2005	2004	2004	2003
	(KZT millions)			
	(Unaudited)		(Audited)	
Correspondent accounts .....	9,031	12,696	13,021	3,478
Tenge.....	4	114	189	8
Foreign currency.....	9,027	12,582	12,832	3,470
Loans and advances to bank .....	133,603	15,379	29,346	35,520
Tenge.....	6,729	1,498	3,986	1,782
Foreign currency.....	126,874	13,881	25,360	33,738
Loan Loss reserves.....	(696)	(374)	(533)	(415)
Loans and advances to banks, net .....	141,938	27,701	41,834	38,583

### *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 2005 and 2004 and 31 December 2004 and 2003:

	As at 30 June		As at 31 December	
	2005	2004	2004	2003
	(KZT millions)			
	(Unaudited)		(Audited)	
<b>Loans:</b>				
Loans and advances to customers .....	588,136	401,909	524,810	302,132
Provisions for losses for contingent liabilities.....	(35,479)	(24,664)	(29,879)	(19,069)
Loans and advances to customers, net .....	552,657	377,245	494,931	283,063
<b>Contingent liabilities:</b>				
Letter of guarantee .....	25,631	20,498	22,972	22,769
Letter of Credit.....	48,938	32,637	41,490	23,409
Loan loss reserves.....	(2,062)	(1,390)	(1,530)	(1,426)
Total contingent liabilities, net .....	72,507	51,745	62,932	44,752
Total loans and contingent liabilities, net.....	625,164	428,990	557,863	327,815

During the six month period ended 30 June 2005, the average loan portfolio grew by 38.1 per cent., from KZT359.5 billion to KZT496.4 billion. As at 30 June 2005 the total loan portfolio (including letters of credit and letters of guarantee) had risen by 12.1 per cent. from its level at 31 December 2004 and amounted to KZT627.2 billion as compared to KZT559.4 billion as at the end of 2004.

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 2005 and 2004 and as at 31 December 2004:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
	(Unaudited)				(Audited)			
Working capital finance .....	153,191	26.0	131,404	32.7	147,475	28.1	118,094	39.1
Construction repair .....	119,536	20.3	59,558	14.8	96,729	18.4	36,896	12.2
Fixed asset purchase .....	96,752	16.5	61,482	15.3	90,112	17.2	44,285	14.7
Real estate purchase .....	61,772	10.5	34,148	8.5	55,303	10.5	27,914	9.2
Equity investment in other enterprises .....	22,302	3.8	16,075	4.0	22,578	4.3	21,815	7.2
Trade finance .....	13,997	2.4	19,201	4.8	16,521	3.2	14,253	4.7
Other .....	120,586	20.5	80,228	20.0	96,092	18.3	38,875	12.9
<b>Total .....</b>	<b>588,136</b>	<b>100.0</b>	<b>401,909</b>	<b>100.0</b>	<b>524,810</b>	<b>100.0</b>	<b>302,132</b>	<b>100.0</b>

### *Loan portfolio by sector*

In 2004 the Bank increased its lending to individuals and its lending to companies in the construction, transport and communications, mining and metallurgy and machinery construction sectors. Lending to individuals and the trade, construction, and energy sectors have the largest shares in the Bank's loan portfolio. 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 2005 and 2004 and as at 31 December 2004 and 2003:

	For the six month period ended 30 June				Year ended 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
	(Unaudited)				(Audited)			
Trade .....	109,641	18.6	85,456	21.3	97,326	18.5	55,661	18.4
Construction .....	98,471	16.7	51,315	12.8	90,494	17.2	34,567	11.4
Individuals <sup>(1)</sup> .....	81,007	13.8	42,834	10.7	72,821	13.9	31,791	10.5
Energy .....	37,583	6.4	40,560	10.1	37,007	7.0	47,506	15.7
Transport and communications .....	36,355	6.2	32,560	8.1	31,125	5.9	14,765	4.9
Real estate .....	35,988	6.1	10,200	2.5	27,597	5.3	5,982	2.0
Finance <sup>(2)</sup> .....	32,943	5.6	12,859	3.2	32,975	6.3	2,641	0.9
Agriculture .....	32,401	5.5	39,626	9.9	34,279	6.5	34,469	11.4
Food industry .....	28,693	4.9	26,457	6.6	29,802	5.7	24,187	8.0
Mining/metallurgy .....	20,921	3.6	12,754	3.2	14,042	2.7	10,261	3.4
Hotels and catering .....	16,989	2.9	13,395	3.3	14,517	2.8	14,128	4.7
Machinery Construction .....	12,438	2.1	10,134	2.5	9,206	1.8	4,940	1.6
Medicine .....	2,809	0.5	1,569	0.4	1,677	0.3	2,276	0.8
Culture and arts .....	871	0.1	1,722	0.4	1,632	0.3	2,336	0.8
Other .....	41,026	7.0	20,468	5.1	30,310	5.8	16,622	5.5
<b>Total .....</b>	<b>588,136</b>	<b>100.0</b>	<b>401,909</b>	<b>100.0</b>	<b>524,810</b>	<b>100.0</b>	<b>302,132</b>	<b>100.0</b>

(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 12.1 per cent. between 31 December 2004 and 30 June 2005, its composition underwent some change. Loans to trade companies increased by 12.7 per cent., although their percentage of the Bank's total loan portfolio remained almost unchanged at the level of 18.6 per cent. compared to 18.5 per cent. as at the end of 2004. Loans to construction companies increased by 8.8 per cent., while their percentage of the total loan portfolio fell to 16.7 per cent. compared to 17.2 per cent. as at the end of 2004 due to the development of large scale construction projects in Astana, Almaty and Atyrau. By 30 June 2005, loans to individuals, including consumer and mortgage lending, had increased by 11.2 per cent. in comparison to the end of 2004. These loans, as a percentage of the Bank's loan portfolio, decreased insignificantly from 13.9 per cent. as at 31 December 2004 to 13.8 per cent. as at 30 June 2005. Loans to the transport and communications industries increased by 16.8 per cent., resulting in a 6.2 per cent. share of the loan portfolio.

Loans to the oil and gas sector increased slightly by 1.6 per cent. from KZT37 billion as at 31 December 2004 to KZT37.6 billion as at 30 June 2005, whilst their share in the total loan portfolio decreased slightly to 6.4 per cent. compared to 7.0 per cent. as at the end 2004. 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 49 per cent. during the first six months of 2005, their share in the total loan portfolio remains small (3.6 per cent.).

The oil and gas sector is represented by large Kazakhstani 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.

The total amount lent to companies in the agriculture sector decreased by 5.5 per cent., and as a percentage of the Bank's total loan portfolio, such loans decreased from 6.5 per cent. as at the end of 2004 to 5.5 per cent. as at 30 June 2005, 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 5.7 per cent. of the Bank's total loan portfolio as at the end of 2004 to 4.9 per cent. as at 30 June 2005, while the total amount of loans to this sector decreased by 3.7 per cent. Loans to companies in this sector are principally provided to large conglomerates with potential export capacity.

As at 30 June 2005 the concentration of the Bank's 20 largest borrowers accounted for 28.0 per cent. of the total loan portfolio compared to 24.8 per cent. as at 31 December 2004. The Bank expects to reduce the concentration of its loan portfolio by attracting new medium-and small-sized borrowers.

#### ***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 2005, U.S. dollar-denominated or indexed loans comprised 67.4 per cent. of the Bank's loan portfolio, compared to 75.3 per cent. as at 31 December 2004. Tenge loans grew by 50.3 per cent. in the same period, resulting in their comprising 30.9 per cent. of the Bank's loan portfolio. 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 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.) (Unaudited)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
Tenge.....	181,553	30.9	63,954	15.9	120,822	23.0	63,548	21.1
U.S. dollars.....	396,645	67.4	327,674	81.5	395,397	75.3	229,403	75.9
Euro.....	7,219	1.2	6,814	1.7	6,647	1.3	6,704	2.2
Other.....	2,719	0.5	3,467	0.9	1,944	0.4	2,477	0.8
Total.....	588,136	100.0	401,909	100.0	524,810	100.0	302,132	100.0

### Maturity Profile of Loan Portfolio

The maturity structure of the Bank's loan portfolio as at 30 June 2005 reflects a significant position on loans with a maturity of over one year, as a result of demand for longer-term financing. The Bank's potential exposure 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 2005, the Bank increased its aggregate loans with maturities of one to five years from KZT192.8 billion to KZT228.6 billion. The proportion of these loans within the Bank's total loan portfolio increased from 36.7 per cent. to 38.9 per cent. This increase resulted from a decrease in the percentage of loans with maturities over five years, from 24.8 per cent. as at 31 December 2004 to 23.9 per cent. as at 30 June 2005. These loans grew by 8.1 per cent. from KZT129.9 billion as at the end of 2004 to KZT140.4 billion as at 30 June 2005.

The following table sets forth certain information as to the maturity of the Bank's loan portfolio as at 30 June 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.) (Unaudited)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
Up to one month.....	53,702	9.1	36,120	9.0	41,039	7.8	28,253	9.4
From one to three months.....	35,407	6.0	23,826	5.9	35,827	6.8	20,270	6.7
From three months to one year.....	129,989	22.1	118,450	29.5	125,181	23.9	89,398	29.6
From one to five years.....	228,633	38.9	141,441	35.2	192,832	36.7	124,276	41.1
Over five years.....	140,405	23.9	82,072	20.5	129,931	24.8	39,935	13.2
Total.....	588,136	100.00	401,909	100.0	524,810	100.0	302,132	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 maximum loan/value ratio as a percentage of collateral value based on the type of collateral:

	<b>Loan/Value</b>
	<b>(ratio, per cent.)</b>
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 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.) (Unaudited)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.) (Audited)	(KZT millions)	(share per cent.)
Collateralised.....	538,178	91.5	367,883	91.5	476,881	90.9	289,853	95.9
Uncollateralised.....	49,958	8.5	34,026	8.5	47,929	9.1	12,279	4.1
Total.....	<u>588,136</u>	<u>100.0</u>	<u>401,909</u>	<u>100.0</u>	<u>524,810</u>	<u>100.0</u>	<u>302,132</u>	<u>100.0</u>

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 issued 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.\$750,000, 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.\$22 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, Region Central primarily serves the agricultural industry; Region East primarily services the heavy manufacturing industries; Region West primarily services the oil and gas industries; the Region South primarily specialises in loans to the construction industry; and Region North 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 an adviser to the Chairman of the Management Board, and 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 is divided into specialisms according to industry, prepares advice 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:

<b>Basic category</b>	<b>Good debt service</b>	<b>Unsatisfactory debt service</b>	<b>Bad debt service</b>
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 re-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 10 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, which include loans on which interest has ceased to accrue, amounted to KZT13,759 million, or 2.3 per cent. of the Bank’s loan portfolio as at 30 June 2005, as compared with KZT7,850 million, or 1.5 per cent. as at 31 December 2004. 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 2 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 2 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 table below sets forth certain information relating to the Bank’s provisions as at 30 June 2005, and as at 31 December 2004 and 2003:

	As at 30 June			As at 31 December						
	2005			2004			2003			
	Rate of provisioning (per cent.)	Total exposure (KZT millions) (Unaudited)	Total provisions (KZT millions) (Unaudited)	Provisions /exposure (per cent.)	Total exposure (KZT millions)	Total provisions (KZT millions)	Provisions /exposure (per cent.)	Total exposure (KZT millions) (Audited)	Total provisions (KZT millions)	Reserves/ exposure (per cent.)
Standard.....	2.0	272,750	5,455	2.0	275,753	5,515	2.0	142,094	2,866	2.0
Watch.....	5.0	228,482	11,424	5.0	189,927	9,496	5.0	105,676	5,286	5.0
Sub-standard.....	20.0	56,151	3,632	6.5	36,597	3,056	8.4	27,364	1,764	6.4
Doubtful.....	50.0	9,695	2,934	30.3	3,276	1,035	31.6	10,805	2,627	24.3
Loss.....	100.0	21,058	12,034	57.1	19,257	10,777	56.0	16,193	6,526	40.3
Total.....		588,136	35,479	6.0	524,810	29,879	5.7	302,132	19,069	6.3

The effective level of provisions grew from 5.7 per cent. as at the end of 2004 to 6 per cent. as at 30 June 2005 which the Bank regards as within normal ranges of variation. “Standard” and “Watch” loans increased by 7.6 per cent. and amounted to KZT501.2 billion as at 30 June 2005, as compared with KZT465.7 billion as at 31 December 2004. “Standard” and “Watch” loans decreased from 88.7 per cent. as at the end of 2004 to 85.2 per cent. as at 30 June 2005. At the same time, “Sub-standard” loans increased by 53.4 per cent. while their share of the loan portfolio grew to 9.5 per cent. as at 30 June 2005, as compared to 7 per cent. as at the end of 2004. “Doubtful” and “Loss” loans increased by KZT8.2 billion (36.5 per cent.) to 5.2 per cent. of all loans as at 30 June 2005 compared to 4.3 per cent. as at 31 December 2004. For the six month period ended 30 June 2005, the Bank wrote-off loans in the aggregate amount of KZT0.9 billion, as compared to write-offs in 2004 of KZT0.7 billion.

Previously under the NBK’s regulations, loans were written-off when interest and principal were overdue for over 180 days. Since this instruction of the NBK was revoked early in 2004, the Bank has developed and adopted a new internal write-off procedure. According to the new write-off procedure, a loan is written-off after all possible measures have been taken to have that loan repaid and the collateral has been liquidated. Loans up to U.S.\$5,000 are written-off following a resolution of the Credit Committee of an appropriate branch, while loans over U.S.\$5,000 are considered weekly by the Problem Loans Committee at Head Office.

The following table provides information regarding the Bank’s loan loss reserves for the six month periods ended 30 June 2005 and 2004 and the years ended 31 December 2004 and 2003.

	For the six month period ended 30 June		Year ended 31 December	
	2005	2004	2004	2003
	(U.S.S. thousands, unless otherwise indicated)			
	(Unaudited)		(Audited)	
Loan loss reserves at the beginning of period.....	229,837	132,222	132,222	89,935
Loan loss reserves at the end of period.....	262,300	180,756	229,837	132,222
Charge-offs.....	6,593	544	5,639	15,486
Recoveries.....	1,584	1,547	3,604	11,004
Net charge-offs.....	5,009	(1,003)	2,035	4,482
Exchange rate (KZT per U.S.\$1.00).....	135.26	136.45	130.00	144.22

The following tables indicate the allocation of allowance for loan losses between legal entities and individuals.

	As at 30 June		As at 31 December		
	2005	2004	2004	2003	2002
	(U.S.\$ thousands)				
	(Unaudited)		(Audited)		
Legal entities.....	235,346	170,334	209,569	124,728	87,266
Individuals.....	26,954	10,422	20,268	7,494	2,669
Total.....	262,300	180,756	229,837	132,222	89,935

	As at 30 June		As at 31 December		
	2005	2004	2004	2003	2002
	(per cent.)				
	(Unaudited)		(Audited)		
Legal entities.....	6.8	6.5	6.1	6.7	7.7
Individuals.....	3.8	3.3	3.5	3.2	3.5
Total.....	6.0	6.1	5.7	6.3	7.4

### Funding

The main 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 increased from 30.9 per cent. as at the end of 2004 to 33.4 per cent. as at 30 June 2005, mainly due to the decrease in loans and advances from banks (including repo operations) from 31 per cent. to 25.2 per cent. from period to period.

Debt securities were an important source of funding in the six month period ending 30 June 2005, when the Bank, through the Issuer, issued U.S.\$150 million 7 per cent. notes due 2009 forming a single series with U.S.\$350 million 7 per cent. notes due 2009 issued in November 2004.

During the first six months of 2005, 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, IBRD and the IFC.

The following table sets out the Bank's sources of funds as at 30 June 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.)
	(Unaudited)				(Audited)			
Customer deposits.....	235,395	33.4	178,059	38.1	197,827	30.9	151,589	39.5
Debt securities issued.....	221,359	31.4	148,409	31.8	192,329	30.0	96,516	25.1
Loans and advances from banks.....	168,470	23.9	83,959	18.0	170,331	26.6	76,222	19.9
Subordinated debt.....	27,296	3.9	22,147	4.7	19,448	3.0	8,733	2.3
Promissory notes issued.....	12,761	1.8	14,202	3.0	15,512	2.4	1,717	0.4
Securities sold under agreement to repurchase ...	9,057	1.3	7,418	1.6	28,445	4.4	37,251	9.7
Other borrowed funds.....	13,812	2.0	2,715	0.6	4,464	0.7	3,525	0.9
Dividends payable.....	550	0.1	324	0.1	1	—	1	—
Other liabilities.....	15,757	2.2	9,617	2.1	12,925	2.0	8,404	2.2
Total.....	704,457	100.0	466,850	100.0	641,282	100.0	383,958	100.0

As at 30 June 2005 deposits had increased by 19 per cent. since the end of 2004 mainly due to the growth of time deposits by 47.2 per cent. Demand deposits decreased by 18.9 per cent. compared to the end of 2004. Corporate time deposits, being short-term deposits, increased 2.3 times from KZT38,509 million to KZT90,564 million between 31 December 2004 and 30 June 2005. Corporate demand deposits fell by 25.3 per cent. over the same period, amounting to KZT57,666 million as at 30 June 2005. Retail deposits also decreased slightly in the six months ended 30 June 2005 to KZT83.9 million. The share of time deposits in total customer accounts increased to 69.3 per cent. as at 30 June 2005 from 56.0 per cent. as at 31 December 2004. The share of Tenge-denominated deposits decreased from 56.8 per cent. of total deposits as at the end of 2004 to 42.7 per cent. as at 30 June 2005 as a result of depreciation of the Tenge and more favourable interest rates for foreign-currency deposits.

The following table sets forth a breakdown of time and demand deposits by currency as at 30 June 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.) (Unaudited)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.) (Audited)	(KZT millions)	(share per cent.)
<b>Tenge:</b>								
Demand deposits .....	43,562	18.5	34,162	19.2	59,235	29.9	28,788	19.0
Time deposits .....	56,895	24.2	24,792	13.9	53,135	26.9	20,424	13.5
	100,457	42.7	58,954	33.1	112,370	56.8	49,212	32.5
<b>Foreign currency:</b>								
Demand deposits .....	25,348	10.8	46,550	26.1	25,755	13.0	20,375	13.4
Time deposits .....	106,320	45.2	69,783	39.2	57,712	29.2	78,804	52.0
	131,668	55.9	116,333	65.3	83,467	42.2	99,179	65.4
<b>Total customer accounts</b> .....	232,125	98.6	175,287	98.4	195,837	99.0	148,391	97.9
Accrued interest .....	3,270	1.4	2,772	1.6	1,990	1.0	3,198	2.1
<b>Total with accrued interest</b> .....	235,395	100.0	178,059	100.0	197,827	100.0	151,589	100.0

As at 30 June 2005 the deposits (including interest accrued) of the 20 largest depositors accounted for 38.9 per cent. of total deposits, compared to 30.7 per cent. at the end of 2004. Although the concentration of deposits remains significant, the Bank intends to reduce the general concentration of domestic funding by attracting small- and medium-sized corporations. However, much of the increase in concentration of deposits results from excess liquidity in the state-owned oil and gas sector and the fact that these entities as a matter of practice place this excess liquidity with the local banking sector. The Bank believes that a number of other banks in Kazakhstan receive substantial deposits from these sources so resulting in increased concentrations.

The following table sets forth the structure of the Bank's wholesale funding as at 30 June 2005 and 2004 and as at 31 December 2004 and 2003:

	As at 30 June				As at 31 December			
	2005		2004		2004		2003	
	(KZT millions)	(share per cent.) (Unaudited)	(KZT millions)	(share per cent.)	(KZT millions)	(share per cent.) (Audited)	(KZT millions)	(share per cent.)
<b>Loans and advances from banks:</b>								
Correspondent accounts .....	9,094	5.0	950	1.1	6,582	3.8	6,088	7.6
Loans from banks .....	38,684	21.2	23,818	27.5	40,137	23.0	12,488	15.7
Deposits of banks .....	6,606	3.6	1,897	2.2	10,877	6.2	2	—
Loans from international financial institutions .....	11,107	6.1	16,355	18.9	13,607	7.8	14,370	18.0
Syndicated loans .....	102,979	56.5	40,939	47.2	99,128	56.7	43,274	54.3
<b>Total loans and advances from banks ....</b>	<b>168,470</b>	<b>92.4</b>	<b>83,959</b>	<b>96.9</b>	<b>170,331</b>	<b>97.5</b>	<b>76,222</b>	<b>95.6</b>
<b>Other borrowed funds:</b>								
Due to Ministry of Finance .....	474	0.3	780	0.9	578	0.3	913	1.1
Due to the Fund of Small Business Support .....	320	0.2	1,935	2.2	1,208	0.7	2,612	3.3
Due to other organisations.....	13,018	7.1			2,678	1.5		
<b>Total other borrowed funds .....</b>	<b>13,812</b>	<b>7.6</b>	<b>2,715</b>	<b>3.1</b>	<b>4,464</b>	<b>2.5</b>	<b>3,525</b>	<b>4.4</b>
<b>Total borrowed funds .....</b>	<b>182,282</b>	<b>100.0</b>	<b>86,674</b>	<b>100.0</b>	<b>174,795</b>	<b>100.0</b>	<b>79,747</b>	<b>100.0</b>



## 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 40) 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 70) 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 43) 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 51) 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 business address of the Board of Directors is the registered office of the Bank.

### 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 43) 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. Vozhlennyya* (age 48) has served as a Managing Director since 1998. Ms. Vozhlennyya 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 49) 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 37) 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 32) 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 34) 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 47) 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 38) 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 36) 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 29) 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 29) 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 29) 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 36) 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 44) supervises the Bank's Security Department and has served as a Managing 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.

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

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 2005:

	<b>Principal amount outstanding</b>	
	<i>(U.S.\$)</i>	<i>(KZT thousands)</i>
Nurzhan Subkhanberdin .....	2,950,000	399,017
Alexander Yakushev .....	3,379,362	457,093
Beibit Apsenbetov .....	476,552	64,458
Andrey Timchenko.....	254,192	34,382
Aidar Akhmetov .....	155,262	21,001
Baurzhan Zhumagulov.....	132,803	17,963
ErmeK Shamuratov .....	80,962	10,951
Lyudmila Vozlyublennaya.....	50,901	6,885
Baurzhan Kuvatov.....	25,175	3,405
Nina Zhussupova .....	2,911	394
Erik Balapanov .....	2,058	278
Magzhan Auezov .....	97	13
Total.....	7,510,275	1,015,840

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 8 to 9 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 KZT32.2 million (equivalent to U.S.\$239,263), and the total aggregate compensation paid to members of the Management Board was KZT214.5 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.

#### **Conflict of Interest**

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

## RELATED PARTY TRANSACTIONS

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 2005 and 2004 and as at 31 December 2004 and 2003:

	For the six month period ended 30 June		For the year ended 31 December	
	2005	2004	2004	2003
	<b>(KZT millions)</b>			
Loans and advances .....	1,910	2,147	2,460	2,619
Customer accounts .....	3,250	2,429	3,350	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 2005 and 2004 and as at 31 December 2004 and 2003:

	For the six month period ended 30 June		For the year ended 31 December	
	2005	2004	2004	2003
	<b>(KZT millions)</b>			
Interest income .....	98,983	95,469	177,812	178,210
Interest expense .....	123,954	90,364	209,884	145,829

As at 30 June 2005, letters of credit and guarantees issued for related parties amounted to KZT0.0 and KZT14,879 thousand respectively. As at 31 December 2004, total guarantees issued for related parties amounted to KZT33.9 million compared to KZT27.1 million at the end of 2003. At the end of 2003 all letter of credit transactions with related parties had been completed.

During the first six months of 2005, the volume of the Bank’s purchases and sales of securities with related parties amounted to KZT358 million compared to KZT1,187 million during 2004 and KZT391.9 million in 2003.

As at 30 June 2005, the Bank’s investments in shares of related companies amounted to KZT317,978 thousand. The Bank’s investments in shares of related companies as at 31 December 2004 equalled KZT218 million, compared to KZT146.2 million at the end of 2003.

In 2004 and 2003 dividends on preferred stock were accrued and paid in the amount of KZT209.4 million and KZT324.1 million, respectively. In the first six months of 2005, dividends on preferred stock were accrued and paid in the amount of KZT549.6 million.

## 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 10 October 2005, the Bank's senior management and some former senior managers beneficially owned 54.3 per cent. of the Bank's outstanding (issued and placed) common shares, of which 49.2 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 10 October 2005 (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 5 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 Owner	
	(shares)	(per cent.) <sup>(1)</sup>
<b>Major shareholders:</b>		
CAIC <sup>(2)</sup> .....	184,679,012	49.2
EBRD .....	56,250,000	15.0
<b>Directors and senior managers:<sup>(2)</sup></b>		
Nurzhan Subkhanberdin <sup>(3)</sup> .....	142,943,380	38.1
Nina Zhussupova .....	17,526,894	4.7
Aidar Akhmetov .....	6,062,273	1.6
All directors and executive officers as a group (three persons) <sup>(2)</sup> .....	166,532,597	44.4

(1) Based on outstanding common shares. As at 10 October 2005, there were 375,000,000 common shares outstanding.

(2) CAIC is the entity through which the Bank's directors and some former senior managers beneficially own common shares in the Bank. 59.6 per cent. of the share capital of CAIC is beneficially owned by Mr. Subkhanberdin.

(3) As at 10 October 2005, Mr. Subkhanberdin beneficially owned 6,431,566 (or 1.7 per cent.) of the Bank's common shares directly and the balance indirectly through CAIC or otherwise.

In addition to its common shares, as at 30 June 2005, the Bank had 124,957,760 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 2005, none of the preference shares were held by any of the Bank's directors or senior managers.

### Shareholders' Agreement with 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 which was further replaced by Shareholders' Agreement dated 24 June 2005 (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. In the event that EBRD does exercise its put option and Mr. Subkhanberdin purchases all of EBRD's shares, he would then beneficially own, directly or indirectly, a majority of the Bank's common shares.

## 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 MRS, 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 FMSA 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 10 per cent. or more (whether held independently or jointly with another legal entity) now requires the approval of the FMSA. Furthermore, a foreign entity holding 10 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 2005, there were 34 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 2005 there were 14 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, 62.4 per cent. in 2004 and, as at 1 January 2005, amounted to approximately U.S.\$2.1 billion. During such period, the total assets of such banks increased by 77.7 per cent. and, as at



1 January 2005, amounted to approximately U.S.\$20.7 billion. In 2004, the aggregate liabilities of such banks increased by 79.6 per cent. and amounted to approximately U.S.\$18.6 billion as at 1 January 2005 and their aggregate net income increased 38.6 per cent. The share of the total assets of the second-tier banks in Kazakhstan's GDP as at 31 December 2004 amounted to 50.7 per cent. as compared to 37.7 per cent. at the end of 2003.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Global Notes and the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on the Notes in definitive form. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed or Part A of the relevant Final Terms. Those definitions will be endorsed on the Notes in definitive form. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the “**Issue Date**”), the “**Trust Deed**”) dated 31 October 2005 between Kazkommerts International B.V. (the “**Issuer**”), JSC Kazkommertsbank (the “**Guarantor**”) and The Bank of New York, London Branch (the “**Trustee**”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the “**Agency Agreement**”) dated 31 October 2005 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, The Bank of New York, London Branch as calculation agent (the “**Calculation Agent**”), principal paying agent (the “**Principal Paying Agent**” and a “**Paying Agent**”) and a transfer agent (a “**Transfer Agent**”), The Bank of New York, New York Branch as registrar (the “**Registrar**”), and The Bank of New York, New York Branch as a paying agent and transfer agent (the “**Paying Agent and Transfer Agent**”). Copies of the Trust Deed and the Agency Agreement are available for inspection during usual business hours at the principal office of the Trustee (presently at One Canada Square, 48th Floor, London E14 5AL, United Kingdom) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, “Tranche” means Notes which are identical in all respects.

### 1. Form, Denomination and Title

The Notes are issued in registered form in the Specified Denomination(s) shown in the relevant Final Terms or integral multiples thereof, without interest coupons, provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies, (ii) with respect to (a) Notes which are not admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive and (b) Notes with a maturity of less than 365 days, a lower Specified Denomination may apply as more fully set out in Part A of the relevant Final Terms and (iii) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$100,000 or its equivalent in other currencies.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note, a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the relevant Final Terms.

Title to the Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the “**Register**”). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

In these Conditions, “**Noteholder**” means the person in whose name a Note is registered, “**holder**” shall be read accordingly and capitalised terms have the meanings given to them in the relevant Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

## 2. Transfers of Notes

- (a) **Transfer of Notes:** One or more Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the relevant Note or Notes, together with the form of transfer endorsed on such Note or Notes (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of a Note, a new Note shall be issued to the transferee in respect of the part transferred and a further new Note in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (b) **Exercise of Options or Partial Redemption in Respect of Notes:** In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Notes, a new Note shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Notes of the same holding having different terms, separate Notes shall be issued in respect of those Notes of that holding that have the same terms. New Notes shall only be issued against surrender of the existing Notes to the Registrar or any Transfer Agent. In the case of a transfer of Notes to a person who is already a holder of Notes, a new Note representing the enlarged holding shall only be issued against surrender of the Note representing the existing holding.
- (c) **Delivery of New Notes:** Each new Note to be issued pursuant to Conditions 2(a) or (b) shall be available for delivery within five business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)) and surrender of the Note for exchange. Delivery of the new Note(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Note shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Note to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition (c), “**business day**” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (d) **Transfer Free of Charge:** Transfer of Notes on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (e) **Closed Periods:** No Noteholder may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount or interest amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) or (iii) after any such Note has been called for redemption.

### 3. Guarantee and Status

- (a) **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.
- (b) **Status of the Guarantee:** The Guarantor has, in the Trust Deed, 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 “**Guarantee**”). 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. Covenants

- (a) **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 sole discretion shall consider to be not materially less beneficial to the interests of the Noteholders.
- (b) **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 sole discretion shall consider to be not materially less beneficial to the interests of the Noteholders.
- (c) **Limitations on Certain Transactions:** So long as any Note remains outstanding, 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.
- (d) **Limitation on Payment of Dividends:** So long as any Note remains outstanding, 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 Financial Reporting 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 the payment of (i) any dividends in respect of any preferred shares of the Guarantor, which may be issued by the Guarantor from time to time or (ii) any dividends in respect of any common shares of the Guarantor, which are paid through the issuance of additional common shares.

- (e) **Determination of Material Subsidiaries:** 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.
- (f) **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 the 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 12g3-2(b) thereunder.

## 5. Interest and other Calculations

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest, such interest being payable in arrear on each Interest Payment Date.

If a Fixed Coupon Amount or a Broken Amount is specified in the Final Terms, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the Final Terms.

- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
  - (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount (or, if it is a Partly Paid Note, the amount paid up) from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
  - (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall

be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Final Terms.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified in the Final Terms
- (y) the Designated Maturity is a period specified in the Final Terms and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Final Terms.

For the purposes of this sub-paragraph (A), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (x) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
  - (I) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
  - (II) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

- (y) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph (x)(I) applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph (x)(II) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the principal financial centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe (the “**Principal Financial Centre**”) are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Principal Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Principal Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).
- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the Final Terms and interest will accrue by reference to an Index or Formula as specified in the Final Terms.
- (c) **Zero Coupon Notes:** Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the due date for payment, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the Final Terms.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the Final Terms.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts, Rate Multipliers and Rounding:**
- (i) If any Margin or Rate Multiplier is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries (as applicable) of such currency.
- (h) **Calculations:** The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, it shall determine such rate and calculate the Interest Amounts in respect of each Specified Denomination of the Notes for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, the Guarantor, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.
- (j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee may do so (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee may apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.



**6. Redemption, Purchase and Options**

**(a) Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6 or the relevant Instalment Date (being one of the dates so specified in the Final Terms) is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the Final Terms. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused on presentation of the related Receipt, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below or its maturity is extended pursuant to any Issuer's or Noteholder's option in accordance with Condition 6(d) or 6(e), each Note shall be finally redeemed on the Maturity Date specified in the Final Terms at its Final Redemption Amount (which, unless otherwise provided in the Final Terms, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

**(b) Early Redemption:**

*(i) Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the "Amortised Face Amount" of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (as well after as before judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be a made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date or, if so specified in the Final Terms, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (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 8 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 the date on which agreement is reached to issue of the first Tranche of the Notes 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 8 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 8 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 before the date on which agreement is reached to issue the first Tranche of the Notes 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 the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Guarantor (or the Issuer, as the case may be) 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. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (1) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be) 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 and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (a)(ii) and/or (b)(ii) above in which event it shall be conclusive and binding on Noteholders.
- (d) **Redemption at the Option of the Issuer and Exercise of Issuer's Options:** If Call Option is specified in the Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the Final Terms) redeem, or exercise any Issuer's option (as may be described in the Final Terms) in relation to, all or, if so provided, some of the Notes on any Optional Redemption Date or Option Exercise Date, as the case may be. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed, or the Issuer's option shall be exercised, on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption or a partial exercise of an Issuer's option, the notice to Noteholders shall specify the nominal amount of Notes drawn and the holder(s) of such Notes, to be redeemed or in respect of which such option has been exercised, which shall have been drawn in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements. So long as the Notes are listed on the Official List of the Financial Services Authority and admitted to trading on the Gilt Edged and Fixed Interest Market of the London Stock Exchange plc (the "**London Stock Exchange**") or any other stock exchange and the rules of the relevant stock exchange so require, the Issuer shall, once in each year in which there has been a partial redemption of the Notes, cause to be published in a leading newspaper of general circulation in London or as specified by such other stock exchange, a notice specifying the aggregate nominal amount of Notes outstanding and a list of the Notes drawn for redemption but not surrendered.

- (e) **Redemption at the Option of Noteholders and Exercise of Noteholders' Options:** If Put Option is specified in the Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to (but excluding) the date fixed for redemption.

To exercise such option or any other Noteholders' option that may be set out in the Final Terms (which must be exercised on an Option Exercise Date) the holder must deposit the Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (f) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified in the Final Terms.
- (g) **Purchases:** The Issuer, the Guarantor and any of their subsidiaries may at any time purchase Notes in the open market or otherwise at any price.
- (h) **Cancellation:** All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their subsidiaries may be held, resold or, at the option of the Issuer, surrendered for cancellation by surrendering the Notes to the Registrar and, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

## 7. Payments

### (a) Payments of Principal and Interest:

- (i) Payments of principal (which for the purposes of this Condition 7(a) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Notes shall be made against presentation and surrender of the relevant Notes at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(a) shall include all Instalment Amounts other than final Instalment Amounts) on Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Note shall be made in the relevant currency by cheque drawn on a bank and mailed by uninsured post to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. The holder of such Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of such Notes as a result of a cheque posted in accordance with this

Condition arriving after the due date for payment or being lost in the post. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a bank.

- (b) **Payments subject to Laws:** All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders in respect of such payments.
- (c) **Appointment of Agents:** The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer, the Guarantor and, in certain circumstances, the Trustee and do not assume any obligation or relationship of agency or trust for or with any Noteholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) a Paying Agent and a Transfer Agent having specified offices in such cities as may be required by any stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vi) 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 European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (d) **Calculation Agent and Reference Banks:** The Issuer shall procure that there shall at all times be four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and one or more Calculation Agents if provision is made for them in the Notes and for so long as any such Note is outstanding (as defined in the Trust Deed). If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Issuer shall (with the prior written approval of the Trustee) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, within 7 days of the date upon which any such amount is due to be calculated, the Issuer shall (with the prior written approval of the Trustee) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

Notice of any such change shall promptly be given to the Noteholders.

- (e) **Non-Business Days:** If any date for payment in respect of any Note is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, “**business day**” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as “**Financial Centres**” in the Final Terms and:

- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or
- (ii) (in the case of a payment in euro) which is a TARGET Business Day.

## 8. Taxation

All payments by or on behalf of the Issuer or the Guarantor in respect of the Notes or under the Guarantee shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within 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 pay such 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 had no such withholding or deduction on account of any such Taxes had been required, except that no additional amounts shall be payable with respect to any Note:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with The Netherlands or, in the case of payments by the Guarantor, the Republic of Kazakhstan other than the mere holding of the Note or the receipt of payment thereunder or under the guarantee or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day or
- (c) **Payment to individuals:** 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 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

As used in these Conditions, “**Relevant Date**” in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) “**principal**” shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) “**interest**” shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) “**principal**” and/or “**interest**” shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

## 9. Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

## 10. Events of Default

If any of the following events (each an “**Event of Default**”) occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, subject to it

being indemnified and/or secured to its satisfaction, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together with accrued interest to the date of such notice:

- (a) **Non-payment:** the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, 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
- (b) **Breach of other obligations:** the Issuer or the Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Guarantee or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10) 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
- (c) **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
- (d) **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 sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or
- (e) **Substantial change in business:** the Guarantor makes or threatens to make any substantial change in the principal nature of its business as conducted by it on the date of issue of the first Tranche of the Notes which is (in the sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or
- (f) **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 sole 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

- (g) **Material compliance with applicable laws:** the Issuer or the Guarantor fails to comply in any 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 the Issuer or the Guarantor 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 to ensure 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 and the Trustee certifies that such non compliance is, in the sole opinion of the Trustee, materially prejudicial to the interests of Noteholders; or
- (h) **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 the Issuer's or the Guarantor's 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 Condition 10(h), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders; or
- (i) **Government Intervention:** (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10(i), the Trustee is of the opinion (determined in its sole discretion) that such occurrence is materially prejudicial to the interests of the Noteholders; or
- (j) **Controlling Shareholder:** the Issuer ceases to be a wholly-owned Subsidiary of the Guarantor.

## 11. Meetings of Noteholders, Modification, Waiver and Substitution

- (a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown in the Final Terms, to reduce any such Minimum and/or Maximum, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount,

(vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to take any steps that as specified in the Final Terms may only be taken following approval by an Extraordinary Resolution to which the special quorum provisions apply, (viii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution or any resolution, or (ix) to modify or cancel the Guarantee, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

- (b) **Modification:** The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any of the provisions of the Notes or the Trust Deed that is, in its opinion, of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Notes or the Trust Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- (c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of the Issuer's successor in business or of the Guarantor or its successor in business or any subsidiary of the Guarantor or its successor in business in place of the Issuer or Guarantor, or of any previous substituted company, as principal debtor or Guarantor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.
- (d) **Entitlement of the Trustee:** 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.

## 12. 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 Notes or the Guarantee but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured 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.

## 13. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and to be paid its costs and expenses in priority to the claims of 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 the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or tax jurisdiction.

**14. Replacement of Notes**

If a Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes) and otherwise as the Issuer may require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

**15. Further Issues**

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

**16. Notices**

Notices to the Noteholders shall be sent by first class mail of (if posted overseas) by airmail to them (or, in the case of joint holders, to the first-named in the Register) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. In addition, so long as any Notes are listed on a stock exchange, such notice will be published in a daily newspaper of general circulation in the place or places required by the rules of such stock exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

**17. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that the Notes expressly provide for such Act to apply to any of their terms.

**18. Governing Law, Jurisdiction and Arbitration**

- (a) **Governing law:** The Trust Deed and the Notes are governed by, and shall be construed in accordance with, English Law.
- (b) **Submission to Jurisdiction; Arbitration:** The Issuer has in the Trust Deed (i) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX to accept service of

any process on its behalf in England; (iv) consented to the enforcement of any judgement; (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (vi) agreed that the Trustee may elect by written notice to the Issuer that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration as at present in force and as modified by the Trust Deed.

## 19. Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Agency Agreement**” means the agency agreement dated 31 October 2005 between the Issuer, the Guarantor and the agents named in it relating to the Programme.

“**Business Day**” means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and/or
- (ii) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”) and/or
- (iii) in the case of a currency and/or one or more Business Centres (specified in the Final Terms) a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Contracts**” means the Trust Deed and the Agency Agreement.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “**Calculation Period**”):

- (i) if “**Actual/365**” or “**Actual/Actual - ISDA**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if “**Actual/365 (Fixed)**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365
- (iii) if “**Actual/360**” is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360
- (iv) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the Final Terms, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (a) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month))
- (v) if “**30E/360**” or “**Eurobond Basis**” is specified in the Final Terms, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of a Calculation Period ending on the Maturity Date, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month) and

- (vi) if “**Actual/Actual-ICMA**” is specified in the Final Terms,
- (a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
  - (b) if the Calculation Period is longer than one Determination Period, the sum of:
    - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
    - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

“**Determination Date**” means the date specified as such in the Final Terms or, if none is so specified, the Interest Payment Date or if none, the Interest Commencement Date.

“**Effective Date**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the Final Terms or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates.

“**Euro-zone**” means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

“**Event of Default**” has the meaning assigned to such term in Condition 10.

“**Extraordinary Resolution**” has the meaning assigned to such term in the Trust Deed.

“**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.

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

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

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

**“Interest Accrual Period”** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

**“Interest Amount”** means the amount of interest payable, and in the case of Fixed Rate Notes, means the Fixed Coupon Amount or Broken Amount, as the case may be.

**“Interest Commencement Date”** means the Issue Date or such other date as may be specified in the Final Terms.

**“Interest Determination Date”** means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Final Terms or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two London Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

**“Interest Period”** means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

**“Interest Period Date”** means each Interest Payment Date unless otherwise specified in the Final Terms.

**“ISDA Definitions”** means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Final Terms.

**“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:

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

**“Page”** means such page, section, caption, column or other part of a particular information service (including, but not limited to, Reuters Markets 3000 (“**Reuters**”) and Telerate (“**Telerate**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate.

**“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.

**“Person”** means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity.

**“Programme”** means the U.S.\$1,500,000,000 Debt Issuance Programme for the issuance of notes which the Issuer has authorised (or such other limit as agreed from time to time).

**“Rate of Interest”** means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the Final Terms.

**“Reference Banks”** means the institutions specified as such in the Final Terms or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe).

**“Relevant Financial Centre”** means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the Final Terms or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London.

**“Relevant Rate”** means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date.

**“Relevant Time”** means, with respect to any Interest Determination Date, the local time in the Relevant Financial Centre specified in the Final Terms or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre or, if no such customary local time exists, 11.00 hours in the Relevant Financial Centre and, for the purpose

of this definition, “local time” means, with respect to Europe as a Relevant Financial Centre, Brussels 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 supernatural, international or multilateral or organisation.

“**Representative Amount**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the Final Terms or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time.

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

“**Specified Currency**” means the currency specified as such in the Final Terms or, if none is specified, the currency in which the Notes are denominated.

“**Specified Duration**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the Final Terms or, if none is specified, a period of time equal to the relative Interest Accrual Period, ignoring any adjustment pursuant to Condition 5(b)(ii).

“**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.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

*These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms in relation to such Series.*

## FORM OF FINAL TERMS

Final Terms dated [ ]

### KAZKOMMERTS INTERNATIONAL B.V.

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]

Guaranteed by JSC KAZKOMMERTSBANK

under the

U.S.\$1,500,000,000 Guaranteed Debt Issuance Programme

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 31 October 2005 [and the supplemental Base Prospectus dated [ ]]<sup>1</sup> which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [*address*] [and] [*website*] and copies may be obtained from [*address*].<sup>2</sup>

*The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Base Prospectus dated 31 October 2005 [and the supplemental Base Prospectus dated [ ]]<sup>1</sup>. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Base Prospectus dated 31 October 2005 [and the supplemental Base Prospectus dated [ ]]<sup>1</sup>, which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated 31 October 2005 [and the supplemental Base Prospectus dated [ ]] and are attached hereto. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 31 October 2005 and [*current date*] [and the supplemental Base Prospectuses dated [ ] and [ ]]. [The Base Prospectuses [and the supplemental Base Prospectuses] are available for viewing at [*address*] [and] [*website*] and copies may be obtained from [*address*].<sup>2</sup>

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]*

<sup>1</sup> Only include details of a supplemental Base Prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

<sup>2</sup> Article 14.2 of the Prospectus Directive provides that a Base Prospectus is deemed available to the public when, *inter alia*, made available (i) in printed form free of charge at the offices of the market on which securities are being admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) in an electronic form on the Issuer’s website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplemental Base Prospectuses.

1. (i) Issuer: Kazkommerts International B.V.
- (ii) Guarantor: JSC Kazkommertsbank
2. (i) Series Number: [ ]
- (ii) Tranche Number: [ ]
- (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount of Notes admitted to trading: [ ]
- (i) Series: [ ]
- (ii) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)]
6. Specified Denominations: [ ]
- [Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of S 19 FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).]*
7. (i) Issue Date: [ ]
- (ii) Interest Commencement Date [ ]
8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
9. Interest Basis: [[ ] % Fixed Rate]  
[[specify reference rate] +/- [ ] % Floating Rate]  
[Zero Coupon]  
[Index Linked Interest]  
[Other (specify)]  
(further particulars specified below)
10. Redemption/Payment Basis<sup>3</sup>: [Redemption at par]  
[Index Linked Redemption]  
[Dual Currency]  
[Partly Paid]  
[Instalment]  
[Other (specify)]
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]*
12. Put/Call Options: [Noteholder Put]  
[Issuer Call]  
[(further particulars specified below)]

<sup>3</sup> If the Final Redemption Amount is less than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.



13. (i) Status of the Notes: [Senior/[Dated/Perpetual]/ Subordinated]  
(ii) Status of the Guarantee: [Senior/[Dated/Perpetual]/Subordinated]]  
(iii) [Date [Board] approval for issuance of Notes and Guarantee obtained: [ ] [and [ ], respectively]]
- (N.B Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)]*
14. Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

15. Fixed Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/ monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of “Business Day”]/not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [ ] per [ ] in Nominal Amount
- (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount [ (s)]]*
- (v) Day Count Fraction (Condition 19): [30/360 / Actual/Actual ([ICMA]/ISDA)/ other]  
*(Day count fraction should be Actual/ Actual-ICMA for all fixed rate issues other than those denominated in U.S. dollars, unless requested otherwise)*
- (vi) Determination Dates (Condition 19): [ ] in each year  
*(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual ( [ICMA] ))*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
16. Floating Rate Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Period(s) [ ]
- (ii) Specified Interest Payment Dates: [ ]
- (iii) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]
- (iv) Business Centre(s) (Condition 19): [ ]

- (v) Manner in which the Rate(s) of Interest is/ are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (vi) Interest Period Date(s): [Not Applicable/*specify dates*]
- (vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent): [ ]
- (viii) Screen Rate Determination (Condition 5(b)(iii)(B):
- Relevant Time: [ ]
  - Interest Determination Date(s): [[ ] [TARGET] Business Days in [*specify city*] for [*specify currency*] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]][ ]
  - Primary Source for Floating Rate: [*Specify “Page” or “Reference Banks”*]
  - Reference Banks (if Primary Source is “Reference Banks”): [*Specify four*]
  - Page (if Primary Source is “Page”): [Page]
  - Relevant Financial Centre: [*The financial centre most closely connected to the Benchmark – specify if not London*]
  - Benchmark: [LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
  - Representative Amount: [*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
  - Effective Date: [*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
  - Specified Duration: [*Specify period for quotation if not duration of Interest Accrual Period*]
  - Relevant Screen Page: [ ]
- (ix) ISDA Determination (Condition 5(b)(iii)(A):
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
  - ISDA Definitions (if different from those set out in the Conditions): [ ]
- (x) Margin(s): [+/-][ ] per cent. per annum
- (xi) Minimum Rate of Interest: [ ] per cent. per annum
- (xii) Maximum Rate of Interest: [ ] per cent. per annum
- (xiii) Day Count Fraction (Condition 19): [ ]
- (xiv) Rate Multiplier [ ]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]

17. Zero Coupon Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) [Amortisation/Accrual] Yield: [ ] per cent. per annum
- (ii) Reference Price: [ ]
- (iii) Day Count Fraction (Condition 19): [ ]
- (iv) Any other formula/basis of determining amount payable: [ ]
18. Index-Linked Interest Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Index/Formula: [give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: [ ]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula: [ ]
- (iv) Determination Date(s): [ ]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted: [ ]
- (vi) Interest or calculation period(s): [ ]
- (vii) Specified Interest Payment Dates: [ ]
- (viii) Business Day Convention: [Floating Rate Business Day Convention/  
Following Business Day Convention/  
Modified Following Business Day Convention/  
Preceding Business Day Convention/other (give details)]
- (ix) Business Centre(s): [ ]
- (x) Minimum Rate/Amount of Interest: [ ] per cent. per annum
- (xi) Maximum Rate/Amount of Interest: [ ] per cent. per annum
- (xii) Day Count Fraction (Condition 19): [ ]
19. Dual Currency Note Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [ ]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]
- (v) Day Count Fraction (Condition 19): [ ]

## PROVISIONS RELATING TO REDEMPTION

20. Call Option [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] specified denomination
  - (iii) If redeemable in part:
    - (a) Minimum Redemption Amount: [ ]
    - (b) Maximum Redemption Amount: [ ]
  - (iv) Option Exercise Date(s): [ ]
  - (v) Description of any other Issuer's option: [ ]
  - (vi) Notice period<sup>4</sup>: [ ]
21. Put Option [Applicable/Not Applicable]  
*(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [ ]
  - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [ ] per Note of [ ] specified denomination
  - (iv) Option Exercise Date(s): [ ]
  - (v) Description of any other Noteholder's option: [ ]
  - (vi) Notice period<sup>4</sup>: [ ]
22. Final Redemption Amount of each Note<sup>5</sup> [[ ] per Note of [ ] specified denomination /other/see Appendix]
23. Early Redemption Amount
- (i) Early Redemption Amount(s) of each Note payable on redemption for taxation reasons (Condition 6(c)) or on event of default (Condition 10) and/or the method of calculating the same (if required or if different from that set out in the Conditions): [ ]
  - (ii) Redemption for taxation reasons permitted on days other than Interest Payment Dates (Condition 6(c)): [Yes/No]

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

24. Form of Notes: [specify amount of the Regulation S / Rule 144 A Notes]  
Global Notes exchangeable for Definitive Notes in the limited circumstances specified in the Global Note

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

<sup>5</sup> If the Final Redemption Amount is less than 100% of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

25. Financial Centre(s) (Condition 7) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 15(ii), 16(iv) and 18(ix) relate]
26. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
27. Details relating to Instalment Notes [Not Applicable/give details]
- (i) Instalment Amount(s): [ ]
- (ii) Instalment Date(s): [ ]
- (iii) Minimum Instalment Amount: [ ]
- (iv) Maximum Instalment Amount: [ ]
28. Other final terms: [Not Applicable/give details]
- (When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

#### **DISTRIBUTION**

29. (i) If syndicated, names of Managers: [Not Applicable/give names] *(Include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and entities of the entities agreeing to place the issue without a firm commitment or on a “best efforts” basis if such entities are not the same as the Managers.)*
- (ii) Date of Subscription Agreement [ ]
- (iii) Stabilising Manager(s) (if any): [Not Applicable/give name]
30. If non-syndicated, name of Dealer: [Not Applicable/give name]
31. Additional selling restrictions: [Not Applicable/give details]

#### **[LISTING AND ADMISSION TO TRADING APPLICATION**

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the Issuer’s U.S.\$1,500,000,000 Guaranteed Debt Issuance Programme guaranteed by JSC Kazkommertsbank.

**RESPONSIBILITY**

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms, [[ ] has been extracted from [ ]. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By: .....  
Duly authorised

Signed on behalf of the Guarantor:

By: .....  
Duly authorised

## FINAL TERMS

### PART B – OTHER INFORMATION

#### 1. LISTING

- (i) Listing: London/other (*specify*)/None
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [ ] with effect from [ ].] [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: [ ]

#### 2. RATINGS

- Ratings: The Notes to be issued have been rated:  
[S & P: [ ]]  
[Moody's: [ ]]  
[[Other]: [ ]]
- (The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

#### 3. [NOTIFICATION

The [*include name of competent authority in EEA home Member State*] [has been requested to provide/has provided – include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

#### 4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

*Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:*

*“Save as discussed in [“Subscription and Sale”], so far as the Issuer and the Guarantor are aware, no person involved in the offer of the Notes has an interest material to the offer.”]*

#### [5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: [ ]
- (See [“Use of Proceeds”] wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [(ii) Estimated net proceeds: [ ]
- (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*
- [(iii) Estimated total expenses: [ ] [Include breakdown of expenses.]
- (If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, it is only necessary to include disclosure of net proceeds and total*

*expenses at (ii) and (iii) above where disclosure is included at (i) above.)\**

6. [Fixed Rate Notes only – YIELD

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

7. [Index-Linked or other variable-linked Notes only – PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

*Need to include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]*

8. [Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE

*Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained.]*

9. OPERATIONAL INFORMATION

ISIN Code (Reg S Notes): [ ]

ISIN Code (Rule 144A Notes): [ ]

Common Code (Reg S Notes): [ ]

Common Code (Rule 144A Notes): [ ]

Rule 144A Notes CUSIP number: [ ]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme or DTC and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [ ]



## SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

### The Global Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “—Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Regulation S Global Note, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined and certified to the Principal Paying Agent by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (the “distribution compliance period”), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “Transfer Restrictions”. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “—Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “Transfer Restrictions”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to the Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions”.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “Definitive Notes”). The Notes are not issuable in bearer form.

### Amendments to Conditions

Each Global Note contains provisions that apply to the Notes that they represent, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- **Payments.** Payments of principal and interest in respect of Notes evidenced by a Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

- **Notices.** So long as any Notes are evidenced by a Global Note and such Global Note is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of the Notes provided that for so long as the Notes are listed on the Regulated Market of the London Stock Exchange and the rules of the regulated market of the London Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*).
- **Meetings.** The holder of each Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note may be exchangeable.
- **Trustee's Powers.** In considering the interests of Noteholders while the relevant Global Note is held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note and may consider such interests as if such accountholders were the holders of such Global Note.
- **Cancellation.** Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.
- **Redemption at the Option of the Issuer.** Any Call Option provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.
- **Redemption at the Option of Noteholders.** Any Put Option provided for in the Conditions may be exercised by the holder of the Global Note (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent (except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised) stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Note with the Registrar or any Transfer Agent at its specified office.

## Exchange for Definitive Notes

### *Exchange*

Registration of title to Notes initially represented by a Rule 144A Global Note in a name other than DTC or a successor depository or one of their respective nominees will not be permitted unless such depository notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Rule 144A 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 depository and the Registrar has received a notice from the registered holder of a Rule 144A Global Note requesting an exchange of a specified amount of the Rule 144A Global Note for Definitive Notes.

Registration of title to Notes initially represented by a Regulation S Global Note in a name other than the nominee of the common depository for Euroclear and Clearstream, Luxembourg will only be permitted (i) if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (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 depository) of the relevant Regulation S Global Note requesting an exchange of the Regulation S Global Note for Definitive Notes.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the

delivery of, an equal aggregate amount of duly executed and authenticated Definitive Notes in or substantially in the form set out in the relevant schedule to the Trust Deed.

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

“Exchange Date” means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

### ***Delivery***

In such circumstances, the relevant Global Note shall be exchanged in full for Definitive Notes and the Issuer will, at the cost of the Issuer (failing which the Guarantor) (but against such indemnity as the Registrar or any 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 exchange), cause sufficient Definitive Notes 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 (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A 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 to a QIB. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions”.

### ***Legends***

The holder of a Definitive Note may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Definitive Note bearing the legend referred to under “Transfer Restrictions”, or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes 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 and the Investment Company Act.

### **Book-Entry Procedures for the Global Notes**

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading. See “—Book Entry Ownership — Settlement and Transfer of Notes”.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (“Direct Participants”) or

indirectly (“Indirect Participants” and together with Direct Participants, “Participants”) through organisations which are accountholders therein.

### ***DTC***

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the relevant Rule 144A Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Notes”, DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

### **Book-Entry Ownership**

#### ***Euroclear and Clearstream, Luxembourg***

The Regulation S Global Note representing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

### ***DTC***

The Rule 144A Global Note representing Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

### ***Relationship of Participants with Clearing Systems***

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants’ or accountholders’ accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or

payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

### ***Settlement and Transfer of Notes***

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

No clearing system has knowledge of the actual beneficial owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

### ***Trading Between Euroclear and/or Clearstream, Luxembourg Participants***

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

### ***Trading Between DTC Participants***

Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

### ***Trading Between DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser***

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg account holder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg account holder to DTC by 12:00 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 participant. On the settlement date, the custodian of the Rule 144A Global Note will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and

Clearstream, Luxembourg and evidenced by the Regulation S Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

***Trading Between Euroclear/Clearstream, Luxembourg Seller and DTC Purchaser***

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear 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. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

***Pre-issue Trades Settlement***

It is expected that the delivery of Notes will be made against payment therefor on the closing date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant closing date will be required, by virtue of the fact that the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant closing date should consult their own advisers.

## SUBSCRIPTION AND SALE

### Summary of Dealer Agreement

Subject to the terms and on the conditions contained in the Dealer Agreement dated 31 October 2005 (the “Dealer Agreement”) between the Issuer, the Guarantor, the Permanent Dealers and the Arranger, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and the Guarantor has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### Selling Restrictions

#### *United States*

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

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell Notes (i) as part of their distribution at any time or and (ii) otherwise until 40 days after completion of the distribution compliance period within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of any Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Dealer Agreement provides that the Dealers may directly or through a U.S. broker-dealer affiliate arrange for the offer and re-sale of Notes under the Programme that are designated as Rule 144A eligible under the relevant Final Terms within the United States only to qualified institutional buyers in reliance on Rule 144A.

#### *European Economic Area*

In relation to each member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in

another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;

- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression a “Prospectus Directive” means directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

#### ***Kazakhstan***

Each Dealer has represented, warranted and agreed and each further Dealer will be required to represent, warrant and agree that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell 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***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, in relation to Notes which have a maturity of less than one year, it has not made and will not make an offer of Notes to the public in or from the Netherlands, except that it may make such offer of Notes:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Notes which complies with Article 2 of the Decree on the Supervision of Securities Trade 1995 (*Besluit toezicht effectenverkeer 1995*) as amended from time to time (the “Decree”), provided that the requirements of Chapter II of the Decree, concerning the announcement of the offer and the updating of the prospectus, have been met;
- (b) at any time to individuals or legal entities who or which trade or invest in securities in the conduct of a business or profession, which includes banks, brokers, dealers, insurance companies, pension funds, other institutional investors, and commercial enterprises which regularly, as an ancillary activity, invest in securities (hereinafter “Professional Investors”), provided that in the offer, in the applicable pricing supplement and in any documents or advertisements in which such offer is publicly announced, it is stated that such offer is and will be exclusively made to Professional Investors;
- (c) at any time in any other circumstances where an exemption or dispensation from the requirement to make a prospectus publicly available has been granted pursuant to Article 4 of the Dutch Act on the Supervision of Securities Trade 1995 (*Wet toezicht effectenverkeer 1995*) as amended from time to time.

For the purposes of this provision, the expression an “offer of Notes to the public” means making a sufficiently specific offer, directly or indirectly, to more than one individual or legal entity, concerning the sale or acquisition of securities, or inviting an individual or legal entity to make such offer.



**United Kingdom:**

Each Dealer has represented, warranted and agreed and each further Dealer will be required to represent, warrant and agree that:

- (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

**Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly, each of the Dealers has represented and agreed that it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Notes in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

**General**

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any set of Final Terms and neither the Issuer, the Guarantor, nor any other Dealer shall have responsibility therefor.

## TAXATION

### United States Federal Income Taxation

*The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership, disposition and retirement of Notes by a holder thereof. This summary does not address the U.S. federal income tax consequences of every type of Note which may be issued under the Programme, and the relevant Final Terms will contain additional or modified disclosure concerning the material U.S. federal income tax consequences relevant to such type of Note, as appropriate. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, tax-exempt organizations, dealers or traders in securities or currencies, 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, or certain U.S. expatriates or former U.S. residents. Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price.*

*This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein. Any special U.S. federal income tax considerations relevant to a particular issue of the Notes will be provided in the relevant Final Terms.*

For purposes of this description, a U.S. Holder is a beneficial owner of the Notes who for U.S. federal income tax purposes is (i) a citizen or resident of the United States; (ii) a corporation or partnership organized in or under the laws of the United States or any State thereof, including the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

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 generally will depend on the status of the partner and the activities of the partnership. Such 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.

**You should consult your own tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning or disposing of Shares.**

#### ***Internal Revenue Service Circular 230 Disclosure***

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Notes. This description is limited to the U.S. federal tax issues described herein. It is possible that additional issues may exist that could affect the U.S. federal tax treatment of the Notes, or the matter that is the subject of the description noted herein, and this description does not consider or provide any conclusions with respect to any such additional issues. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

### **U.S. Holders**

#### ***Interest***

Except as set forth below, interest paid on a Note, whether payable in US Dollars or a currency, composite currency or basket of currencies other than US Dollars (a "foreign currency"), including any additional amounts, will be includible in a U.S. Holder's gross income as ordinary

interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes 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, which are treated separately from other types of income in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. U.S. holders should note that recently enacted legislation eliminates the "financial services income" category with respect to taxable years beginning after December 31, 2006. Under the new legislation, for taxable years beginning after December 31, 2006, interest income on a Note generally will constitute "passive category income" or, in the case of certain U.S. holders, "general category income."

#### ***Foreign Currency Denominated Interest***

Any interest paid in a foreign currency will be included in the gross income of a U.S. Holder in an amount equal to the U.S. dollar value of the foreign currency, including the amount of any applicable withholding tax thereon, regardless of whether the foreign currency is converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period or the spot rate on the date of receipt, if that date is within five days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for tax purposes will recognize foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date of payment is received differs from the rate applicable to an accrual of that interest.

Additional rules for Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency are described below under Dual Currency Notes.

#### ***Original Issue Discount***

U.S. Holders of Notes issued with original issue discount ("OID"), including Zero Coupon Notes, will be subject to special tax accounting rules, as described in greater detail below. U.S. Holders of Notes issued with OID (including cash basis taxpayers) should be aware that, as described in greater detail below, they generally must include OID in income for U.S. federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income. However, U.S. Holders of such Notes generally will not be required to include separately in income cash payments received on the Notes, even if denominated as interest, to the extent such payments do not constitute qualified stated interest (as defined below). Notes issued with OID will be referred to as "Original Issue Discount Notes." Notice will be given in the relevant Final Terms when the Issuer determines that a particular Note will be an Original Issue Discount Note.

The following discussion does not address the application of the Treasury Regulations addressing OID to, or address the U.S. federal income tax consequences of, an investment in contingent payment debt instruments. In the event the Issuer issues contingent payment debt instruments the relevant Final Terms will describe the material U.S. federal income tax consequences thereof.

Additional rules applicable to Original Discount Notes that are denominated in or determined by reference to a currency other than the U.S. dollar are described under Foreign Currency Discount Notes below.

For U.S. federal income tax purposes, a Note (including a Zero Coupon Note), other than a Note with a term of one year or less (a "Short-term Note"), will be treated as issued as an Original Issue Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is more than a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity (or, in the case of a Note that provides for payments other than qualified stated interest before maturity, its weighted average maturity)). The "issue price" of each Note in a particular offering will be the first price at which a substantial amount of that particular offering is sold (other than to an underwriter, broker, agent or wholesaler). The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate or, subject to certain conditions, based on one or more interest indices. Interest is payable at a single fixed rate only if the rate appropriately takes into account the length of the interval between payments. Notice

will be given in the relevant Final Terms when we determine that a particular Note will bear interest that is not qualified stated interest. In the case of a Note issued with de minimis OID, the U.S. Holder generally must include such de minimis OID in income as stated principal payments on the Notes are made in proportion to the stated principal amount of the Note. Any amount of de minimis OID that has been included in income will be treated as capital gain.

Certain of the Notes may be redeemed prior to their maturity at our option and/or at the option of the holder. Original Issue Discount Notes containing such features may be subject to rules that differ from the general rules discussed herein. Persons considering the purchase of Original Issue Discount Notes with such features should carefully examine the relevant Final Terms and should consult their own tax advisors with respect to such features since the tax consequences with respect to OID will depend, in part, on the particular terms and features of the Notes.

U.S. Holders of Original Issue Discount Notes with a maturity upon issuance of more than one year must, in general, include OID in income in advance of the receipt of some or all of the related cash payments. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note (“accrued OID”). The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that accrual period. The “accrual period” for an Original Issue Discount Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note’s adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period (determined without regard to the amortization of any acquisition or bond premium, as described below) and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. Under these rules, a U.S. Holder will have to include in income increasingly greater amounts of OID in successive accrual periods.

In the case of an Original Issue Discount Note that is a Floating Rate Note, both the “yield to maturity” and “qualified stated interest” will be determined solely for purposes of calculating the accrual of OID as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index or if the principal amount of the Note is indexed in any manner. Persons considering the purchase of Floating Rate Notes should carefully examine the relevant Final Terms and should consult their own tax advisors regarding the U.S. federal income tax consequences of the holding and disposition of such Notes.

U.S. Holders may elect to treat all interest on any Note as OID and calculate the amount includible in gross income under the constant yield method described above. For the purposes of this election, interest includes stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount and unstated interest, as adjusted by any amortizable bond premium or acquisition premium. U.S. Holders should consult their own tax advisors about this election.

### ***Short-Term Notes***

In the case of Short-term Notes, under the OID regulations, all payments (including all stated interest) will be included in the stated redemption price at maturity and, thus, U.S. Holders generally will be taxable on the discount in lieu of stated interest. The discount will be equal to the excess of the stated redemption price at maturity over the issue price of a Short-term Note, unless the U.S. Holder elects to compute this discount using tax basis instead of issue price. In general, individuals and certain other cash method U.S. Holders of a Short-term Note are not required to include accrued discount in their income currently unless they elect to do so (but may be required to include any

stated interest in income as it is received). U.S. Holders that report income for U.S. federal income tax purposes on the accrual method and certain other U.S. Holders are required to accrue discount on such Short-term Notes (as ordinary income) on a straight-line basis, unless an election is made to accrue the discount according to a constant yield method based on daily compounding. In the case of a U.S. Holder that is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange or retirement of the Short-term Note will generally be ordinary income to the extent of the discount accrued through the date of sale, exchange or retirement. In addition, a U.S. Holder that does not elect to include currently accrued discount in income may be required to defer deductions for a portion of the U.S. Holder's interest expense with respect to any indebtedness incurred or continued to purchase or carry such Notes.

#### ***Foreign Currency Discount Notes***

OID for any accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency will be determined for any accrual period in the foreign currency and then translated into US Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described under Payments of Interest. Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder will recognize foreign currency gain or loss in an amount determined in the same manner as interest income received by a holder on the accrual basis, as described above in “—Foreign Currency Denominated Interest.”

#### ***Notes Purchased at a Premium***

A U.S. Holder that purchases a Note for an amount in excess of the sum of all amounts payable on the Note after the purchase date other than qualified stated interest will be considered to have purchased the Note at a “premium” and will not be required to include any OID, if any, in income. A U.S. Holder generally may elect to amortize the premium over the remaining term of the Note on a constant yield method as an offset to interest when includible in income under the U.S. Holder's regular accounting method. In the case of a Note that is denominated in, or determined by reference to, a foreign currency, bond premium will be computed in units of foreign currency, and amortizable bond premium will reduce interest income in units of the foreign currency. At the time amortized bond premium offsets interest income, exchange gain or loss (taxable as ordinary income or loss) is realized measured by the difference between exchange rates at that time and at the time of the acquisition of the Notes. Any election to amortize bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Special rules limit the amortization of premium in the case of convertible debt. Bond premium on a Note held by a U.S. Holder that does not make such an election will decrease the gain or increase the loss otherwise recognized on disposition of the Note.

#### ***Sale, Exchange or Retirement***

A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with a foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. A U.S. Holder generally will recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement (less any accrued but unpaid interest, which will be taxable as such) and the tax basis of the Note. The amount realized on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of such amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, within the meaning of the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Gain or loss recognized on the sale or retirement of a Note (other than gain or loss that is attributable to OID, or to changes in exchange rates, which will be treated as ordinary income or loss) will be capital gain or loss and will be long-term capital gain or loss if the Note was held for more than one year.

Gain or loss recognized by a U.S. Holder on the sale or retirement of a Note that is attributable to changes in exchange rates will be treated as ordinary income or loss. However, exchange gain or loss is taken into account only to the extent of total gain or loss realized on the transaction. Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source income or loss. Moreover, any loss realized by a U.S. Holder on such sale or retirement may be allocable to foreign source income by reference to the source of interest income on the Notes. Prospective investors should consult their tax advisers as to the foreign tax credit implications of such sale or retirement of Notes.

#### ***Sale, Exchange or Retirement of Foreign Currency***

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time of such sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for US Dollars) will be ordinary income or loss.

#### ***Dual Currency Notes***

U.S. Holders of Notes that are denominated in more than one currency or that have one or more non-currency contingencies and are denominated in either one foreign currency or more than one currency will be subject to special tax accounting rules applicable to “Multi-Currency Debt Securities.” A Holder generally would be required to apply the “noncontingent bond method” in the Multi-Currency Debt Security’s denomination currency, which for this purpose would be the Multi-Currency Debt Security’s predominant currency as determined by the Issuer. A description of the principal U.S. federal income tax consideration relevant to holders of Dual Currency Notes, including specification of the predominant currency, will be set forth, if required, in the relevant Final Terms.

#### ***Index Notes and Notes with Contingent Payments***

The tax consequences to a holder of an Index Linked Redemption Note, Index Linked Interest Note or a Note with contingent payments will depend on factors including the specific index or indices used to determine payments on such Note and the amount and time of any noncontingent payments on such Note. A description of the principal U.S. federal income tax considerations relevant to holders of such Note will be set forth, if required, in the relevant Final Terms.

#### ***Other Notes***

A description of the principal U.S. federal income tax considerations relevant to holders of high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, partly paid Notes and any other type of Note that the Issuer, the Trustee and any Dealer or Dealers may agree to issue under the Programme will be set forth, if required, in the relevant Final Terms.

#### ***Reportable Transaction Reporting***

Under certain U.S. Treasury Regulations, U.S. Holders that participate in “reportable transactions” (as defined in the regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any non-U.S. currency received as interest or as proceeds from the sale or other disposition of the Notes.

#### ***Non-U.S. Holders***

Under U.S. federal income tax law currently in effect, subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” payments of interest (including OID) on a Note to a Non-U.S. Holder generally will not be subject to U.S. federal income tax unless the income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” any gain realized by a Non-U.S. Holder upon the sale, exchange or retirement of a Note generally will not be subject to U.S. federal income tax, unless (i) the 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 realized by an individual Non-U.S. Holder, such Non-U.S.

Holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

### ***U.S. Backup Withholding Tax and Information Reporting***

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain 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 to 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 U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a United States person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, 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% 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 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.

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

### **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 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 31.5 per cent. corporate income tax rate (a corporate income rate of 27 per cent. applies with respect to taxable profits up to €22,689). A proposal is currently pending in the Dutch parliament to change the aforementioned rates to 29.6 per cent. and 25.5 per cent., respectively, as from 1 January 2006.

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.

**European Union Directive on the Taxation of Savings Income**

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a directive on the taxation of savings income in the form of interest payments (the "EU Savings Tax Directive"). Member States are required from 1 July 2005 to provide to the tax authorities of another EU Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other EU Member State; however, Austria, Belgium and Luxembourg will instead apply a withholding tax system for a transitional period in relation to such payments.

## TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale or other transfer of any Note.

### Rule 144A Notes

Each purchaser of a beneficial interest in the Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (i) It is (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 Notes to it is being made in reliance on Rule 144A.
- (ii) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set forth below.
- (iii) The Rule 144A Global Note and any Definitive Notes issued in exchange for an interest in the Rule 144A 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 Dealers 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 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.

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

### Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, the Guarantor or a person acting on behalf of such an affiliate.
- (2) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (4) It acknowledges that the Issuer, the Guarantor, the Trustee, the Registrar, the Dealer(s) and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Guarantor or the Dealer(s). If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

## GENERAL INFORMATION

- (1) The Guarantor and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Kazakhstan and The Netherlands in connection with the Guarantee and any Series of Notes. The establishment of the Programme was authorised by a duly adopted resolution of the Board of Directors of the Issuer on 16 October 2005 and by a decision of the general shareholders' meeting passed on 16 October 2005. No resolution of the Board of Directors or shareholders of the Guarantor is required by the Guarantor in connection with the establishment of the Programme (including giving the Guarantee). Prior to the issue of any Notes under the Programme, a resolution of the Board of Directors of the Issuer and the Board of Directors of the Guarantor will be required to approve the execution of the inter-company deposit agreement between the Issuer and the Guarantor in respect of the Guarantee.
- (2) There has been (i) no significant change in the financial or trading position of the Guarantor and its subsidiaries taken as a whole since 30 June 2005 or the Issuer and its subsidiary taken as a whole since 31 December 2004 and (ii) no material adverse change in the prospects of the Guarantor and its subsidiaries taken as a whole or the Issuer and its subsidiary taken as a whole since 31 December 2004.
- (3) Neither the Issuer nor the Guarantor is involved or has been involved during the previous 12 months in any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer and the Guarantor are aware) which may have, or have had in the recent past, significant effect on the financial position or profitability of the Issuer and its subsidiary taken as a whole and/or of the Guarantor and its subsidiaries taken as a whole.
- (4) Neither the Issuer nor the Guarantor have entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Notes.
- (5) TOO Deloitte & Touche of 81 Abylai Khan Ave, 4th Floor, 480091 Almaty, Kazakhstan, has audited, and rendered unqualified audit reports on, the consolidated financial statements of the Guarantor for the years ended 31 December 2004 and 2003.
- (6) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge at the specified offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
  - the annual report and consolidated audited annual financial statements of the Guarantor for the years ended 31 December 2004, 2003 and 2002;
  - the latest annual report and consolidated audited annual financial statements of the Guarantor prepared in accordance with IFRS (published annually);
  - the latest interim consolidated unaudited financial statements of the Guarantor prepared in accordance with IFRS;
  - the annual report and audited annual financial statements of the Issuer for the years ended 31 December 2004 and 2003;
  - the latest annual reports and audited annual financial statements of the Issuer (published annually); and
  - the constitutional documents of the Issuer and the Guarantor.

and copies of the following documents will be available for inspection at the specified offices of the Trustee and the Principal Paying Agent during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
- each set of Final Terms for Notes that are listed on the Regulated Market; and
- the Agency Agreement.

Each set of Final Terms for Notes that are listed on the Official List and admitted for trading on the Regulated Market will also be published through the London Stock Exchange's Regulatory News Service.

- (7) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms. In addition, application may be made to have Rule 144A Notes designated as eligible for trading on PORTAL.
- (8) This Base Prospectus shall be published through the London Stock Exchange plc's Regulatory News Service.

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### **Financial Statements of Kazkommerts International B.V for the years ended 31 December 2003 and 2002**

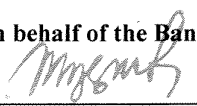
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# JSC KAZKOMMERTSBANK

## CONSOLIDATED INTERIM PROFIT AND LOSS ACCOUNT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005 (in Kazakhstani tenge and in thousands, except per share amounts)

	Notes	30 June 2005 (unaudited)	30 June 2004 (unaudited)
Interest income	4, 17	37,828,746	23,815,031
Interest expense	4, 17	(19,285,926)	(11,659,737)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		18,542,820	12,155,294
Provision for loan losses		(6,182,590)	(5,364,898)
NET INTEREST INCOME		12,360,230	6,790,396
Net gain/(loss) on operations with trading securities		170,674	(224,932)
Net gain on foreign exchange operations		822,237	964,305
Income from services and commission received		5,557,196	4,610,689
Expense on services and commission paid		(509,159)	(742,548)
Net gain on investments in securities		-	9,137
Dividends received		9,907	14,327
Other income	5	844,762	495,818
NET NON-INTEREST INCOME		6,895,617	5,126,796
OPERATING INCOME		19,255,847	11,917,192
OPERATING EXPENSE		(6,146,123)	(4,402,012)
OPERATING PROFIT		13,109,724	7,515,180
(Provision for)/recovery of losses on other transactions		(881,069)	124,475
Profit/(loss) from participation in associated companies		99,814	(15,534)
PROFIT BEFORE TAXATION		12,328,469	7,624,121
Income tax expense	6	(1,413,142)	(1,962,387)
NET PROFIT		10,915,327	5,661,734
Attributable to:			
Equity holders of the parent		10,139,384	5,264,404
Minority interest		775,943	397,330
NET PROFIT		10,915,327	5,661,734
<b>Earnings per share</b>			
Basic and diluted (in KZT)	7	25.57	13.18

Signed on behalf of the Bank:

  
N. A. Zhusupova  
Chairperson

  
P. A. Cheusov  
Chief Accountant

12 August 2005  
Almaty, Republic of Kazakhstan

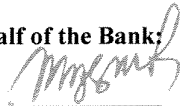
The notes on F-pages 8-24 form an integral part of these condensed consolidated interim financial statements.

# JSC KAZKOMMERTSBANK

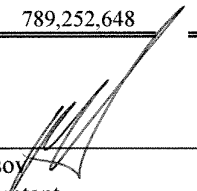
## CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE 2005 (in Kazakhstani tenge and in thousands)

	Notes	30 June 2005 (unaudited)	31 December 2004
<b>ASSETS:</b>			
Cash and balances with national (central) banks		19,816,497	66,292,818
Loans and advances to banks, less allowance for loan losses		141,937,979	41,833,562
Trading securities	8	51,692,501	74,779,727
Securities purchased under repurchase agreements less allowance for losses		10,440,834	8,402,463
Derivative financial instruments		370,939	19,844
Loans to customers, less allowance for loan losses	9, 16	552,656,982	494,930,550
Investments in securities			
- securities available-for-sale	10	32,463	488,668
- securities held-to-maturity	10	43,225	64,294
Investments in associates	11	317,978	217,964
Fixed assets, less accumulated depreciation		7,761,875	7,001,056
Intangible assets, less accumulated amortization		483,487	385,474
Other assets, less allowance for losses	12	3,697,888	9,640,143
<b>TOTAL ASSETS</b>		<b>789,252,648</b>	<b>704,056,563</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks		168,470,425	170,331,348
Securities sold under repurchase agreements		9,057,176	28,444,727
Derivative financial instruments		204,422	31,354
Customer accounts	16	235,394,542	197,827,313
Debt securities issued	13	234,119,576	207,840,717
Other borrowed funds		13,812,149	4,463,967
Dividends payable		549,609	403
Other liabilities	14	15,553,227	12,894,287
		677,161,126	621,834,116
Subordinated loan		27,295,557	19,447,698
<b>Total liabilities</b>		<b>704,456,683</b>	<b>641,281,814</b>
<b>EQUITY:</b>			
Share capital		4,999,555	4,197,179
Share premium		22,342,091	11,752,396
Fixed assets revaluation reserve		1,539,317	1,313,280
Retained earnings		49,636,993	40,043,825
Minority interest		6,278,009	5,468,069
<b>Total equity</b>		<b>84,795,965</b>	<b>62,774,749</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>789,252,648</b>	<b>704,056,563</b>

Signed on behalf of the Bank:

  
N. A. Zhusupova  
Chairperson

12 August 2005  
Almaty, Republic of Kazakhstan

  
P. A. Cheusov  
Chief Accountant

The notes on F-pages 8-24 form an integral part of these condensed consolidated interim financial statements.



## JSC KAZKOMMERTSBANK

### CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005 (in Kazakhstani tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Investments revaluation reserve	Retained earnings	Minority interest	Total
<b>Balance at 31 December 2003</b>	<b>4,018,930</b>	<b>9,453,411</b>	<b>569,783</b>	<b>-</b>	<b>31,536,768</b>	<b>4,704,625</b>	<b>50,283,517</b>
Fixed assets revaluation (less deferred income tax of KZT 71,877 thousand)	-	-	180,064	-	-	-	180,064
Amortisation of fixed assets revaluation	-	-	(47,992)	-	47,992	-	-
Sale of Treasury Stock repurchased	92	699	-	-	-	-	791
Dividends payable	-	-	-	-	(323,673)	-	(323,673)
Foreign exchange difference resulting from translation of investments using average rate	-	-	-	-	-	(308,301)	(308,301)
Change in minority interest of OJSC Kazkommerts Kyrgyzstan	-	-	-	-	-	58,883	58,883
Minority interest in the net profit of the Bank	-	-	-	-	-	397,330	397,330
Net profit for the period	-	-	-	-	5,264,404	-	5,264,404
<b>Balance at 30 June 2004 (unaudited)</b>	<b>4,019,022</b>	<b>9,454,110</b>	<b>701,855</b>	<b>-</b>	<b>36,525,491</b>	<b>4,852,537</b>	<b>55,553,015</b>
Increase of share capital	178,160	2,298,302	-	-	-	-	2,476,462
Fixed assets revaluation (less deferred income tax of KZT 261,897 thousand)	-	-	684,993	-	-	-	684,993
Amortisation of fixed assets revaluation	-	-	(73,568)	-	73,568	-	-
Sale of Treasury Stock repurchased	(3)	(16)	-	-	-	-	(19)
Reversal of excessively accrued dividends payable	-	-	-	-	33,303	-	33,303
Foreign exchange difference resulting from translation of investments using average rate	-	-	-	(13,432)	-	(52,883)	(66,315)
Minority interest in the net profit of the Bank	-	-	-	-	-	668,415	668,415
Net profit for the period	-	-	-	-	3,424,895	-	3,424,895
<b>Balance at 31 December 2004</b>	<b>4,197,179</b>	<b>11,752,396</b>	<b>1,313,280</b>	<b>(13,432)</b>	<b>40,057,257</b>	<b>5,468,069</b>	<b>62,774,749</b>

# JSC KAZKOMMERTSBANK

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (CONTINUED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005 (in Kazakhstani tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Investments revaluation reserve	Retained earnings	Minority interest	Total
Increase of share capital	801,092	10,589,695	-	-	-	-	11,390,787
Fixed assets revaluation (less deferred income tax of KZT 97,019 thousand)	-	-	226,037	-	-	-	226,037
Amortisation of fixed assets revaluation	-	-	(12,362)	-	12,362	-	-
Sale of Treasury Stock repurchased	1,284	-	-	-	-	-	1,284
Dividends payable	-	-	-	-	(549,206)	-	(549,206)
Foreign exchange difference resulting from translation of investments using average rate	-	-	-	2,990	-	33,997	36,987
Minority interest in the net profit of the Bank	-	-	-	-	-	775,943	775,943
Net profit for the period	-	-	-	-	10,139,384	-	10,139,384
<b>Balance at 30 June 2005 (unaudited)</b>	<b><u>4,999,555</u></b>	<b><u>22,342,091</u></b>	<b><u>1,526,955</u></b>	<b><u>(10,442)</u></b>	<b><u>49,659,797</u></b>	<b><u>6,278,009</u></b>	<b><u>84,795,965</u></b>

Signed on behalf of the Bank:

N. A. Zhusupova  
Chairperson

P. A. Cheusov  
Chief Accountant

12 August 2005  
Almaty, Republic of Kazakhstan

The notes on F-pages 8-24 form an integral part of these condensed consolidated interim financial statements.

**JSC KAZKOMMERTSBANK****CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005  
(in Kazakhstani tenge and in thousands)**

	<b>30 June 2005 (unaudited)</b>	<b>30 June 2004 (unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation and minority interest	12,328,469	7,624,121
Adjustments for:		
Provision for loan losses	6,182,590	5,364,898
Provision/(recovery of) for losses on other transactions	881,069	(124,475)
Unrealized gain and amortization of discount on securities	(777,949)	(196,555)
Amortization of discount/(premium) on issued securities	119,768	(44,939)
Depreciation and amortisation of fixed and intangible assets	259,092	627,652
Decrease in interest accruals	(115,228)	192,186
Foreign exchange difference on recalculation of investments at average rate	(7,643)	-
(Income)/expenses from associates	(100,014)	15,534
Net change in recovery value of derivative financial instruments (net)	(178,027)	(1,881)
Cash flows from operating activities before changes in operating assets and liabilities	18,592,127	13,456,541
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Minimum reserve deposit with the Central Bank of the Russian Federation	252,127	(56,011)
Loans and advances to banks	(1,079,271)	4,780,171
Precious metals	-	300,158
Trading securities	23,843,580	(10,164,583)
Securities available-for-sale	449,025	82,677
Securities held-to-maturity	21,069	(42,309)
Securities purchased under repurchase agreements	(2,040,075)	(6,375,848)
Loans and advances to clients	(61,103,789)	(98,850,343)
Dividends received	(9,907)	14,327
Other assets	5,602,969	292,772
Increase/(decrease) in operating liabilities:		
Loans and advances from banks	(2,053,021)	7,612,662
Customer accounts	36,287,296	26,896,488
Other borrowed funds	9,225,381	(793,718)
Securities sold under repurchase agreements	(19,378,521)	(29,802,022)
Other liabilities	1,759,594	(424,586)
Cash inflow/(outflow) from operating activities before taxation	10,368,584	(93,073,624)
Income tax paid	(1,011,675)	(413,239)
Net cash inflow/(outflow) from operating activities	9,356,909	(93,486,863)

# JSC KAZKOMMERTSBANK

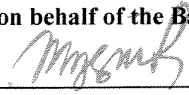
## CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (CONTINUED) FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005 (in Kazakhstani tenge and in thousands)

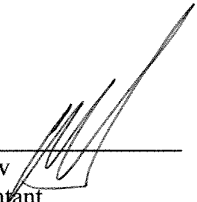
	30 June 2005 (unaudited)	30 June 2004 (unaudited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets (net)	(695,755)	(516,285)
Purchase of intangible assets (net)	(185,499)	(53,120)
Net cash outflow from investing activities	<u>(881,254)</u>	<u>(569,405)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from debt securities issued	25,397,647	63,544,749
Subordinated loan	7,682,129	13,155,859
Issue of ordinary share capital	801,092	-
Share premium	10,589,695	-
Sale of shares repurchased	1,284	791
Net cash inflow from financing activities	<u>44,471,847</u>	<u>76,701,399</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	52,947,502	(17,354,869)
<b>CASH AND CASH EQUIVALENTS, at the beginning of the period</b>	81,857,910	47,322,122
<b>CASH AND CASH EQUIVALENTS, at the end of the period</b>	<u>134,805,412</u>	<u>29,967,253</u>

Interest paid and received by the Bank in cash during the six-month period ended 30 June 2005 amounted to KZT 10,528,039 thousand and KZT 22,923,586 thousand, respectively.

Interest paid and received by the Bank in cash during the six-month period ended 30 June 2004 amounted to KZT 10,873,006 thousand and KZT 23,220,486 thousand, respectively.

Signed on behalf of the Bank:

  
\_\_\_\_\_  
N. A. Zhusupova  
Chairperson

  
\_\_\_\_\_  
P. A. Cheusov  
Chief Accountant

12 August 2005  
Almaty, Republic of Kazakhstan

The notes on F-pages 8-24 form an integral part of these condensed consolidated interim financial statements.

# JSC KAZKOMMERTSBANK

## SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR SIX-MONTH PERIOD ENDED 30 JUNE 2005

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

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### 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
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.	Netherlands	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	93.58%	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 (“MKB”), a commercial bank operating in the Russian Federation, MKB is included in the condensed consolidated interim financial statements of the Bank since the Bank has the ability to, and has exercised, effective control over its operations. There is a trust management agreement between the shareholders and the Bank on the purchase of no less than 60.04% of MKB shares by the Bank. Preliminary consent from Moscow State Territorial Department of Bank of Russia on trust management has been received.

## **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 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 2004.

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 International Financial Reporting Standards (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 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 account 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 collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that 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 period 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.

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 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 the 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/premiums are recognized in the interest income over the period to maturity.

**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	1-5%
Furniture and equipment	8-33%
Intangible assets	15-33%

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 obligations** – The Bank does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

**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:

	<b>30 June 2005</b>	<b>31 December 2004</b>	<b>30 June 2004</b>
KZT/US Dollar	135.26	130.00	136.45
KZT/Euro	163.00	177.10	165.66
KZT/Gold (1 ounce)	58,946.31	56,628.00	53,852.55
KZT /Russian Rouble	4.72	4.67	4.70
KZT /Kyrgyz som	3.30	3.12	3.20

**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

	<b>30 June 2005 (unaudited)</b>	<b>30 June 2004 (unaudited)</b>
<b>Interest income</b>		
Interest on loans to customers	34,527,905	20,520,901
Interest on debt securities	2,025,829	2,453,757
Interest on loans and advances to banks	995,452	646,413
Interest on reverse REPO operations	279,560	193,960
<b>Total interest income</b>	<b><u>37,828,746</u></b>	<b><u>23,815,031</u></b>
<b>Interest expense</b>		
Interest on debt securities	10,760,630	5,719,362
Interest on customer accounts	4,666,153	3,579,627
Interest on loans and advances from banks	3,514,032	1,409,860
Other interest expenses	284,464	777,686
Interest on REPO operations	60,647	173,202
<b>Total interest expense</b>	<b><u>19,285,926</u></b>	<b><u>11,659,737</u></b>
<b>Net interest income before provision for loan losses</b>	<b><u>18,542,820</u></b>	<b><u>12,155,294</u></b>

#### 5. OTHER INCOME

	<b>30 June 2005 (unaudited)</b>	<b>30 June 2004 (unaudited)</b>
Insurance premiums of Kazkommerts Policy	736,422	364,161
Other income	108,340	131,657
<b>Total other income</b>	<b><u>844,762</u></b>	<b><u>495,818</u></b>

#### 6. INCOME TAXES

Tax effect of temporary differences as of 30 June 2005 and 31 December 2004 comprise:

	<b>30 June 2005 (unaudited)</b>	<b>31 December 2004</b>
Deferred assets:		
Investments in associates	9,032	-
Provisions under guarantees and letters of credit	-	28,255
Other assets	186,046	151,486
<b>Total deferred assets :</b>	<b><u>195,078</u></b>	<b><u>179,741</u></b>
Deferred liabilities:		
Loans to banks and customers	5,977,396	6,213,631
Provisions under guarantees and letters of credit	283,342	-
Investments in associates	-	21,293
Fixed and intangible assets	646,012	692,053
Other assets	2,865	228,357
<b>Total deferred liabilities:</b>	<b><u>6,909,615</u></b>	<b><u>7,155,334</u></b>
<b>Net deferred tax liabilities (see Note 14)</b>	<b><u>6,714,537</u></b>	<b><u>6,975,593</u></b>

Relationships between tax expenses and accounting profit for the six months ended 30 June 2005 and 30 June 2004 are presented below:

	<b>30 June 2005 (unaudited)</b>	<b>30 June 2004 (unaudited)</b>
Profit before taxation	<u>12,328,469</u>	<u>7,624,121</u>
Tax at the statutory tax rates	3,698,541	2,287,236
Tax effect of permanent differences	<u>(2,285,399)</u>	<u>(324,849)</u>
<b>Income tax expense</b>	<b><u>1,413,142</u></b>	<b><u>1,962,387</u></b>

	<b>30 June 2005 (unaudited)</b>	<b>30 June 2004 (unaudited)</b>
Current income tax expense	1,770,947	572,306
Deferred tax (benefit)/expense	<u>(357,805)</u>	<u>1,390,081</u>
<b>Income tax expense</b>	<b><u>1,413,142</u></b>	<b><u>1,962,387</u></b>

## 7. EARNINGS PER SHARE

	<b>30 June 2005 (unaudited)</b>	<b>30 June 2004 (unaudited)</b>
<b>Income:</b>		
Net income for the period	10,139,384	5,264,404
<b>Less:</b>		
Dividends on preference stock	<u>(549,206)</u>	<u>(323,673)</u>
<b>Income less dividends on preference shares</b>	9,590,178	4,940,731
<b>Weighted average number of common stock for basic and diluted earnings per share (pieces)</b>	<u>375,000,000</u>	<u>374,926,091</u>
<b>Earnings per share – basic and diluted (KZT)</b>	<b><u>25.57</u></b>	<b><u>13.18</u></b>

## 8. TRADING SECURITIES

	<b>30 June 2005 (unaudited)</b>		<b>31 December 2004</b>	
<b>Debt securities:</b>				
Short-term NBRK notes	2.2-3.95%	16,414,637	1.5-7.12%	41,146,420
State treasury bills of the Republic of Kazakhstan	2.7-8%	13,947,508	3.22-8.35%	12,905,516
Bonds of Freddie MAC	5.25-12.36%	2,568,890	5.25-12.36%	1,558,647
Kaztransoil bonds	8.5%	2,453,966	8.5%	2,401,938
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125%	2,271,570	11.125%	2,255,373
Bonds of Almaty Merchant Bank	8.5-9%	1,843,366	8.5-9%	1,666,851
Karazhanbasmunai bonds	8-9.1%	1,288,383	8-9.7%	1,319,854
Bonds of Development Bank of Kazakhstan	7.125-8.5%	1,149,351	7.125-8.5%	924,941
Avtovaz bonds	9.7-10.78%	975,098	11.28%	776,914
Bonds of PIK Group companies	13%	946,878	-	-
Fannie MAE bonds	5%	652,984	5%	259,921
Kazakhaltyn bonds	9.10%	591,640	-	-
Bonds of Kazakh mortgage company	7.29-12.25%	588,304	8.09-12.25%	1,365,487
CenterTelecom Bonds	12.35-13.8%	509,694	-	-
UTK Bonds	12.3%	481,360	12.3%	452,718
Line Handling Bonds	11.59%	467,699	-	-
Bonds of Halyk Bank	8.125%	435,084	8.125%	410,332
Bonds of Rosselhozbank	9%	286,349	-	-
Atyrau region's administration bonds	8.5-8.6%	281,880	8.5-8.6%	276,122
Bonds of Nurbank	9%	274,199	-	-
Bonds of Federal Farm Credit Bank	3.375%	271,112	3.375%	259,066
Bonds of Bank TuranAlem	8-9.1%	270,098	8%	157,940
Astana municipality bonds	8.5%	266,623	8.5%	296,304
Bonds of Novosibirsk region	13.3%	264,413	13.3-13.5%	283,381
Debt securities of Yaroslavl region	12.5%	218,465	12.5%	289,662
Bonds of federal loan of the Ministry of Finance of Russian Federation	10-11%	206,946	-	-
KAZTRANSCOM Bonds	8%	185,217	8%	185,357
Kazakhstan kagazy bonds	9.2%	131,360	-	-
Astana finance bonds	9.4%	120,793	-	-
Himfarm bonds	10.0%	120,584	-	-
KAZATOMPROM bonds	8.5%	89,004	8.5%	85,052
Bashkirenergo bonds	10.69%	84,134	-	-
Volga bonds	12%	76,218	-	-
Adaman finance bonds	14.1%	71,246	-	-
Bonds of Mangistau REK	13.0%	66,002	13%	66,525
SMARTS Bonds	10%	63,914	-	-
MIA	10%	50,693	-	-
Eurobonds of TuranAlem Finance B.V.	7.875%	50,637	7.875%	50,423
Kaztransoil Eurobonds	8.5%	30,334	8.5%	22,498
TMK Bonds	10.3%	4,882	-	-
Corporate bonds of the Russian Federation emitters	-	-	7.4-16%	2,454,288
Eurobonds of the Ministry of Finance of the Russian Federation	-	-	12.75%	481,177
Bonds of Rusalfin	-	-	9.6%	475,471
Bonds of Izhauto	-	-	12.5%	430,442
Bonds of Mig-Finance	-	-	16%	394,249
Bonds of SUEK	-	-	11.5%	392,345
Bonds of Nidan-Foods	-	-	17%	256,182
Almaty Kus bonds	-	-	10%	2,558
		<b>51,071,515</b>		<b>74,303,954</b>

	Ownership share	30 June 2005 (unaudited)	Ownership share	31 December 2004
<b>Shares:</b>				
Kazakhtelecom GDN	0.54%	620,986	0.54%	419,641
Moscow Shipbuilding and Shipyard	-	-	2.7%	56,132
		<u>620,986</u>		<u>475,773</u>
<b>Total trading securities</b>		<b><u>51,692,501</u></b>		<b><u>74,779,727</u></b>

## 9. LOANS TO CUSTOMERS

	30 June 2005 (unaudited)	31 December 2004
Originated loans	573,984,318	513,294,251
Accrued interest income on loans to customers	14,151,308	11,515,151
	<u>588,135,626</u>	<u>524,809,402</u>
Less allowance for loan losses	(35,478,644)	(29,878,852)
<b>Total loans and advances to customers, net</b>	<b><u>552,656,982</u></b>	<b><u>494,930,550</u></b>
	<b>30 June 2005 (unaudited)</b>	<b>31 December 2004</b>
Loans collateralized by accounts receivable	77,756,811	119,097,427
Loans collateralized by real estate	157,745,677	112,347,494
Loans collateralized by combined collateral	79,795,533	75,461,244
Loans collateralized by equipment	54,084,922	42,344,709
Loans collateralized by guarantees of enterprises	98,124,652	32,205,260
Loans collateralized by shares of companies	40,646,646	26,091,707
Loans collateralized by cash or Kazakhstani Government guarantees	7,817,497	25,942,668
Loans collateralized by guarantees of financial institutions	8,438,128	22,305,528
Loans collateralized by trade reserves	13,767,562	21,084,412
Unsecured loans	49,958,198	47,928,953
	<u>588,135,626</u>	<u>524,809,402</u>
Less allowance for loan losses	(35,478,644)	(29,878,852)
<b>Total loans and advances to customers, net</b>	<b><u>552,656,982</u></b>	<b><u>494,930,550</u></b>

	<b>30 June 2005 (unaudited)</b>	<b>31 December 2004</b>
<b>Analysis of loans by industry:</b>		
Trade	109,641,215	97,325,798
Construction	98,471,074	90,493,676
Individuals	81,006,752	72,820,907
Energy	37,583,084	37,006,654
Agriculture	32,400,859	34,278,548
Finance sector	32,942,522	32,975,228
Transport and communication	36,354,555	31,125,368
Food	28,692,913	29,801,626
Real estate	35,987,886	27,596,947
Hotel business	16,989,039	14,517,252
Mining and metallurgy	20,920,966	14,042,224
Machinery construction	12,437,987	9,206,278
Culture and art	870,881	1,632,453
Other	43,835,893	31,986,443
	<u>588,135,626</u>	<u>524,809,402</u>
Less allowance for loan losses	(35,478,644)	(29,878,852)
<b>Total loans to customers, net</b>	<b><u>552,656,982</u></b>	<b><u>494,930,550</u></b>

## 10. INVESTMENT SECURITIES

### *Securities available-for-sale*

	<b>Interest to nominal</b>	<b>30 June 2005 (unaudited)</b>	<b>Interest to nominal</b>	<b>31 December 2004</b>
<b>Debt securities</b>				
Astana Finance	-	9%	-	126,343
Kazakhaltyn	-	9.7%	-	123,214
Himfarm	-	10%	-	119,301
		<u>-</u>		<u>368,858</u>
	<b>Share, %</b>		<b>Share, %</b>	
<b>Shares available for sale:</b>				
Kazakhtelecom, including:				
- ordinary shares	0.14%	6,258	0.14%	90,232
- preference shares	0.19%	6,387	0.19%	5,909
Aktubinsk chrome plant	3.07%	15,355	3.07%	21,497
AktobeMunaiGaz	0.004%	4,463	0.004%	2,172
		<u>32,463</u>		<u>119,810</u>
<b>Total securities available-for-sale</b>		<b><u>32,463</u></b>		<b><u>488,668</u></b>



### *Securities held-to-maturity*

Securities held-to-maturity are represented as follows:

	<b>Interest to nominal</b>	<b>30 June 2005 (unaudited)</b>	<b>Interest to nominal</b>	<b>31 December 2004</b>
Bonds of the Ministry of Finance of the Kyrgyz Republic	7.93-8.152%	43,225	5.91-8.1%	64,294
<b>Total securities held-to-maturity</b>		<b>43,225</b>		<b>64,294</b>

### **11. INVESTMENTS IN ASSOCIATES**

The following enterprise was recorded in the financial statements using the equity method:

	<b>30 June 2005 (unaudited)</b>		<b>31 December 2004</b>	
	<b>% held</b>	<b>Amount</b>	<b>% held</b>	<b>Amount</b>
UlarUmit Pension fund	41.18%	313,728	41.18%	213,914
First Credit Bureau LLP	14.29%	4,250	14.29%	4,050
		<b>317,978</b>		<b>217,964</b>

### **12. OTHER ASSETS**

	<b>30 June 2005 (unaudited)</b>	<b>31 December 2004</b>
Prepayments and other debtors	1,782,096	7,295,992
Prepaid expenses	266,525	1,598,780
Insurance debtors	1,186,694	456,442
Tax settlements	542,267	399,644
	<b>3,777,582</b>	<b>9,750,858</b>
Less allowance for losses on other assets	(79,694)	(110,715)
<b>Total other assets, net</b>	<b>3,697,888</b>	<b>9,640,143</b>

### 13. DEBT SECURITIES ISSUED

	<b>30 June 2005 (unaudited)</b>	<b>31 December 2004</b>
Eurobonds of Kazkommerts International B.V. due in April 2013 (interest rate 8.625%):		
Tranche A, issued in April 2003 at price 97.548%	47,341,000	45,500,000
Tranche B, issued in April 2003 and placed in May 2003 at price 99.00%	20,289,000	19,500,000
In May 2007 (interest rate 10.125%):		
Tranche A, issued in May 2002 at price 99.043%	20,289,000	19,500,000
Tranche B, issued in November 2002 and placed in December 2002 at price 107.00%	6,763,000	6,500,000
In April 2014 (interest rate 7.875%)	54,104,000	52,000,000
In November 2009 (interest rate 7%)	47,341,000	45,500,000
In August 2005 (interest rate 5.06%)	20,289,000	-
	<u>216,416,000</u>	<u>188,500,000</u>
<b>Including/(less):</b>		
Discount on debt securities issued	(349,714)	(1,796,329)
Accrued interest on debt securities issued	3,333,570	2,984,523
Eurobonds repurchased by the Bank	(2,270,010)	(1,437,914)
Total issued Eurobonds of Kazkommerts International B.V.	<u>217,129,846</u>	<u>188,250,280</u>
Issued bonds of Kazkommertsbank	3,966,135	3,949,454
Accrued interest expenses on issued bonds of JSC Kazkommertsbank	570,300	129,060
Issued promissory notes	12,453,295	15,511,923
<b>Total debt securities issued</b>	<u><u>234,119,576</u></u>	<u><u>207,840,717</u></u>

Eurobonds were issued by the 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;
- on Eurobonds with maturity in November 2009 – 3 May and 3 November,
- on Eurobonds with maturity in August 2005 – 25 August.

### 14. OTHER LIABILITIES

	<b>30 June 2005 (unaudited)</b>	<b>31 December 2004</b>
Deferred tax liabilities (see Note 6)	6,714,537	6,975,593
Other creditors	2,441,191	1,739,729
Insurance reserves	1,872,378	1,556,524
Allowance for losses on guarantees and letters of credit	2,062,301	1,530,192
Other tax liabilities	1,773,363	974,877
Accounts payable on re-insurers	689,457	117,372
	<u><u>15,553,227</u></u>	<u><u>12,894,287</u></u>

## 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 2,062,301 thousand and KZT 1,530,192 thousand as of 30 June 2005 and 31 December 2004, respectively.

As of 30 June 2005 and 31 December 2004, the nominal or contract amounts and risk-weighted amounts comprised:

	30 June 2005 (unaudited)		31 December 2004	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	25,631,312	25,631,312	22,971,691	22,971,691
Letters of credit and other transaction-related contingent obligations	48,938,067	9,787,612	41,490,308	6,941,465
Commitments on credits and unused credit lines	17,620,675	-	14,322,098	-
<b>Total contingent liabilities and credit commitments</b>	<b>92,190,054</b>	<b>35,418,924</b>	<b>78,784,097</b>	<b>29,913,156</b>
	<b>Amount Payable</b>	<b>Risk Weighted Amount</b>	<b>Amount Payable</b>	<b>Risk Weighted Amount</b>
<b>Derivative financial instruments</b>				
Foreign currency forwards	24,432,415	287,973	7,244,892	134,858
Foreign currency swaps	-	-	5,135,200	-
Forwards with securities	1,387,074	1,387,074	1,372,963	1,372,963
<b>Total derivative financial instruments</b>	<b>25,819,489</b>	<b>1,675,047</b>	<b>13,753,055</b>	<b>1,507,821</b>

**Capital commitments** – The Bank had no material commitments for capital expenditures outstanding as of 30 June 2005 and 31 December 2004.

**Rental commitments** – No material rental commitments were outstanding as of 30 June 2005 and 31 December 2004.

**Fiduciary activities** – The Bank renders depositary services. As of 30 June 2005 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** – The Management of the Bank believes that all required tax accruals are made, and accordingly accrual of any additional provisions in the financial statements in addition to previously accrued liabilities and deferred tax expenses in the respective periods is not required.

The Bank's management believes that it has paid all taxes due in full and 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 2005, 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 International Accounting Standards 24 “Related Parties Disclosures”, 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:

	<b>30 June 2005 (unaudited)</b>		<b>31 December 2004</b>	
	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>
Loans to customers	1,910,179	573,984,318	2,459,806	513,294,251
Accrued interest on loans to customers	198,833	14,151,308	157,488	11,515,151
Allowances for loan losses	(86,200)	(35,478,644)	(84,065)	(29,878,852)
Customer accounts	3,249,608	232,060,972	3,350,365	195,837,454
Accrued deposit interest	162,747	3,333,570	51,090	1,989,859
Allowances for guarantees and letters of credit	298	2,062,301	2,514	1,530,192
Guarantees given	14,879	25,631,312	33,854	22,971,691

Included in the profit and loss account for the years ended 30 June 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	<b>30 June 2005 (unaudited)</b>		<b>30 June 2004 (unaudited)</b>	
	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>
Interest income	98,983	37,828,746	95,469	23,815,031
Interest expense	123,954	(19,285,926)	(90,364)	(11,659,737)

## 17. SUBSEQUENT EVENTS

On 19 July, 2005 the Board of Directors of Kazkommertsbank resolved to acquire 80.01% of all issued shares of JSC Accumulating Pension Fund ABN AMRO CaspiyMunaiGas and 100% of all issued shares of JSC «Organization that performs investment management on pension assets «ABN AMRO Asset Management».

On 5 August, 2005 the shareholders of Kazkommertsbank JSC approved the acquisition.

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Kazkommertsbank:

We have audited the accompanying consolidated balance sheets of JSC Kazkommertsbank and its consolidated subsidiaries (the "Bank") as of 31 December 2004 and 2003, and the related consolidated profit and loss accounts, statements of cash flows and changes in equity ("the financial statements") for each of the three years ended 31 December 2004, 2003 and 2002. The 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 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

*Deloitte & Touche*

11 February 2005

# JOINT STOCK COMPANY KAZKOMMERTSBANK

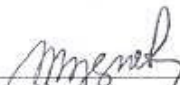
## CONSOLIDATED PROFIT AND LOSS ACCOUNTS

FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002


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

	Notes	2004	2003	2002
Interest income	4, 34	55,002,564	35,106,301	24,500,940
Interest expenses	4, 34	(26,247,764)	(18,623,916)	(11,257,899)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES				
	4	28,754,800	16,482,385	13,243,041
Provision for loan losses	5	(11,221,588)	(5,887,610)	(7,341,589)
NET INTEREST INCOME		17,533,212	10,594,775	5,901,452
Net gain/(loss) on trading securities	6	22,153	(316,992)	935,993
Net gain on foreign exchange operations	7	1,556,859	1,600,977	1,207,409
Fee and commission income	8	10,389,992	8,399,779	5,791,790
Fee and commission expense	8	(1,951,386)	(1,334,332)	(1,126,385)
Net gain/(loss) on investment securities	9	19,448	(47,397)	3,916,126
Dividends received		15,052	382,449	446,719
Other income	10	1,962,836	1,239,355	433,141
NET NON-INTEREST INCOME		12,014,954	9,923,839	11,604,793
OPERATING INCOME		29,548,166	20,518,614	17,506,245
OPERATING EXPENSES	11	(9,511,039)	(8,969,071)	(7,955,983)
OPERATING PROFIT		20,037,127	11,549,543	9,550,262
Provision for losses on other transactions	5	(721,566)	(270,312)	(1,327,071)
(Expenses)/income from associates	22	12,545	(20,249)	33,869
PROFIT BEFORE TAXATION AND MINORITY INTEREST		19,328,106	11,258,982	8,257,060
Income tax expense	12	(9,573,062)	(2,091,667)	(276,067)
NET PROFIT BEFORE MINORITY INTEREST		9,755,044	9,167,315	7,980,993
Minority interest	13	(1,065,745)	(406,554)	(2,230)
NET PROFIT		8,689,299	8,760,761	7,978,763
<b>Earnings per share</b>				
Basic and diluted (in tenge)	14	24.26	25.89	25.94

On behalf of the Board:

  
 Zhusupova N.A.  
 Chairperson

11 February 2005  
 Almaty

  
 Cheusov P.A.  
 Chief Accountant

11 February 2005  
 Almaty

The notes on F-pages 31-71 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on F-page 25.

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003 (in Kazakhstani tenge and in thousands)

	Notes	2004	2003
<b>ASSETS:</b>			
Cash and balances with national (central) banks	15	66,292,818	28,484,613
Precious metals		-	300,158
Loans and advances to banks, less allowance for loan losses	16	41,833,562	38,582,824
Trading securities	17	74,779,727	71,200,859
Securities purchased under agreement to resell, less allowance for losses	18	8,402,463	2,608,318
Derivative financial instruments	19	19,844	15,399
Loans to customers, net	20	494,930,550	283,062,443
Investment securities:			
- securities available for sale	21	488,668	137,554
- securities held-to-maturity	21	64,294	32,372
Investments in associates and other entities	22	217,964	146,206
Fixed assets, less accumulated depreciation	23	7,001,056	5,867,947
Intangible assets, less accumulated amortization	24	385,474	436,051
Other assets, less allowance for losses	25	9,640,143	3,366,413
<b>TOTAL ASSETS</b>		<b>704,056,563</b>	<b>434,241,157</b>
<b>LIABILITIES AND SHAREHOLDER EQUITY</b>			
<b>LIABILITIES:</b>			
Loans and advances from banks	26	170,331,348	76,221,919
Securities sold under agreements to repurchase		28,444,727	37,250,675
Derivative financial instruments	19	31,354	801
Customer accounts	27	197,827,313	151,589,416
Debt securities issued	28	207,840,717	98,233,366
Other borrowed funds	29	4,463,967	3,525,473
Dividends payable		403	404
Other liabilities	30	12,894,287	8,402,672
		621,834,116	375,224,726
Subordinated debt	31	19,447,698	8,732,914
Total liabilities		641,281,814	383,957,640
Minority interest	13	5,468,069	4,704,625
<b>FINANCIAL COMMITMENTS AND CONTINGENCIES</b>	33		
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	32	4,197,179	4,018,930
Share premium		11,752,396	9,453,411
Fixed assets revaluation reserve		1,313,280	569,783
Retained earnings		40,043,825	31,536,768
Total shareholders' equity		57,306,680	45,578,892
<b>TOTAL LIABILITIES AND SHAREHOLDER EQUITY</b>		<b>704,056,563</b>	<b>434,241,157</b>

On behalf of the Board:

Zhusupova N.A.  
Chairperson

11 February 2005  
Almaty

Cheusov P.A.  
Chief Accountant

11 February 2005  
Almaty

The notes on F-pages 31-71 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on F-page 25.



# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in Kazakhstani tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Investments revaluation reserve	Retained earnings	Total
<b>31 December 2001</b>	<b>3,497,691</b>	<b>5,464,687</b>	<b>8,125</b>	<b>-</b>	<b>15,452,525</b>	<b>24,423,028</b>
Share capital increase of:						
- preference shares	1,731	8,273	-	-	-	10,004
Sale of repurchased shares	266	353	-	-	-	619
Amortization of fixed assets revaluation reserve	-	-	(1,253)	-	1,253	-
Dividends declared on preference shares	-	-	-	-	(346,626)	(346,626)
Net profit for the year	-	-	-	-	7,978,763	7,978,763
<b>31 December 2002</b>	<b>3,499,688</b>	<b>5,473,313</b>	<b>6,872</b>	<b>-</b>	<b>23,085,915</b>	<b>32,065,788</b>
Amortization 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
<b>31 December 2003</b>	<b>4,018,930</b>	<b>9,453,411</b>	<b>569,783</b>	<b>-</b>	<b>31,536,768</b>	<b>45,578,892</b>
Amortization of fixed assets revaluation reserve	-	-	(121,560)	-	121,560	-
Fixed assets revaluation (less deferred income tax of KZT 333,774 thousand)	-	-	865,057	-	-	865,057
Share capital increase of:						
- preference shares	178,160	2,298,302	-	-	-	2,476,462
Sale of repurchased shares	89	683	-	-	-	772
Dividends declared on preference shares	-	-	-	-	(290,370)	(290,370)
Foreign exchange difference arising from average rate of investments	-	-	-	(13,432)	-	(13,432)
Net profit for the year	-	-	-	-	8,689,299	8,689,299
<b>31 December 2004</b>	<b>4,197,179</b>	<b>11,752,396</b>	<b>1,313,280</b>	<b>(13,432)</b>	<b>40,057,257</b>	<b>57,306,680</b>

On behalf of the Board:

Zhusupova N.A.  
Chairperson

11 February 2005  
Almaty

Cheusov P.A.  
Chief Accountant

11 February 2005  
Almaty

The notes on F-pages 31-71 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on F-page 25.

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in Kazakhstani tenge)

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING</b>			
<b>ACTIVITIES:</b>			
Profit before income tax and minority interest	19,328,106	11,258,982	8,257,060
Adjustments for:			
Provision for loan losses	11,221,588	5,887,610	7,341,589
Provision for losses on other transactions	721,566	270,312	1,327,071
Unrealised gain and amortisation of discounts on trading securities and securities available-for-sale	(2,344,287)	(171,831)	(4,317,810)
Amortization of discount/premium on issued securities	1,147,180	(1,467,824)	185,746
Depreciation and amortisation	1,302,066	978,832	625,058
Decrease in net interest accruals	326,255	377,057	1,465,157
Foreign exchange difference on recalculation of investments at average rate	(19,904)	-	-
Expenses/(income) from associates	(12,545)	20,249	(33,869)
Net change in recovery value of derivative financial instruments (net)	26,108	(9,801)	249,036
Cash flows from operating activities before changes in operating assets and liabilities	<u>31,696,133</u>	<u>17,143,586</u>	<u>15,099,038</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation	(661,224)	(121,865)	-
Loans and advances to banks	(6,012,734)	(12,151,488)	5,409,000
Precious metals	300,158	(300,158)	-
Trading securities	(1,372,000)	(49,174,659)	(6,764,553)
Securities available-for-sale	(351,286)	9,857,668	(744,352)
Securities held-to-maturity	(31,922)	(15,305)	125,726
Securities purchased under repurchase agreements	(5,794,145)	(228,935)	(2,313,035)
Loans to clients	(222,075,053)	(112,945,369)	(35,627,095)
Dividends received	15,052	382,449	380,121
Other assets	(6,404,405)	(487,380)	(2,879,510)
Increase/(decrease) in operating liabilities			
Loans and advances from banks and repurchase agreements	84,723,107	58,144,477	10,065,523
Customer accounts	47,446,196	9,438,227	29,436,987
Other borrowed funds	965,464	(1,025,302)	(674,626)
Other liabilities	(113,501)	958,337	(714,835)
Cash (outflow)/inflow from operating activities before taxation	<u>(77,670,160)</u>	<u>(80,525,717)</u>	<u>10,798,389</u>
Income tax paid	<u>(5,876,190)</u>	<u>(471,059)</u>	<u>(722,962)</u>
Net cash (outflow)/inflow from operating activities	<u>(83,546,350)</u>	<u>(80,996,776)</u>	<u>10,075,427</u>

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in Kazakhstani tenge)

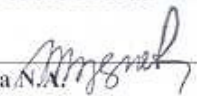
	Notes	2004	2003	2002
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of fixed assets (net)		(1,410,740)	(2,612,818)	(1,587,635)
Sale/(purchase) of intangible assets (net)		(102,329)	81,839	(196,711)
Sale/(purchase) of investments in associates		(59,213)	119,462	(55,800)
Acquisition of investments in subsidiaries		-	-	(249,840)
Consolidation effect of Moskommertsbank		-	434,042	-
Net cash outflow from investing activities		<u>(1,572,282)</u>	<u>(1,977,475)</u>	<u>(2,089,986)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Issue of ordinary share capital		-	519,212	-
Issue of preferred share capital		178,160	-	1,731
Proceeds from debt securities issued		106,978,538	68,226,334	29,614,150
Subordinated debt		10,488,618	2,667,928	1,773,864
Sale of repurchased shares		89	30	266
Share premium		2,298,985	3,980,098	8,626
Dividends paid		(290,371)	(324,141)	(347,473)
Net cash inflow from financing activities		<u>119,654,019</u>	<u>75,069,461</u>	<u>31,051,164</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		34,535,387	(7,904,790)	39,036,605
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>				
	15	47,322,122	55,226,912	16,190,307
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>				
	15	<u>81,857,509</u>	<u>47,322,122</u>	<u>55,226,912</u>

Interest paid and received by the Bank in cash during the year ended 31 December 2004 amounted to KZT 25,219,979 thousand and KZT 54,226,899 thousand, respectively.


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.

On behalf of the Board:

  
Zhusupova N.A.  
Chairperson

11 February 2005  
Almaty

  
Cheusov P.A.  
Chief Accountant

11 February 2005  
Almaty

The notes on F-pages 31-71 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on F-page 25.

# JOINT STOCK COMPANY KAZKOMMERTSBANK

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002 (in *Kazakhstani tenge*)

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### 1. ORGANIZATION

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 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).

The number of employees of the Bank at 31 December 2004 and 2003 was 3,186 and 3,044, 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		Type of operation
		2004	2003	
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
Processing Company LLP	Republic of Kazakhstan	100%	-	Payment and other cards operations
Kazkommerts International B.V.	Netherlands	100%	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	93.58%	73.97%	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 December 2004 100% of ordinary shares of OJSC Kazkommerts Invest were classified as securities available-for-sale and were sold in December 2004.

In December 2004 the Bank acquired 39,217 shares of OJSC Kazkommertsbank Kyrgyzstan for the amount of KZT 67,943 thousand that increased its share to 93.58%.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (“MKB”), a commercial bank in the Russian Federation, MKB was included in 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.

## **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 2004 to record their fair value and amounted to KZT 1,095,696 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, and 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 the 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 Kazakhstani tenge (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 2004 and 2003 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 collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized 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 of the loan given to the legal entities 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. The accrual process is continued for loans given to physical persons for the full overdue period until the appropriate board of the Bank decides about to postpone the interest accrual. 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.

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 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/premiums are recognized in the interest income/expense 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 an independent valuer. 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	1 – 5%
Furniture and equipment	8 – 33%
Intangible assets	15 – 33%

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 the 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 or interest become overdue by more than 30 days. Interest income also includes interest income earned on investment and trading 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 year-end used by the Bank in the preparation of the financial statements are as follows:

	<b>31 December 2004</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
KZT/US Dollar	130.00	144.22	155.85
KZT/Euro	177.10	180.23	162.46
KZT/Gold (1ounce)	56,628.00	60,031.58	53,417.88
KZT/Kyrgyz Som	3.12	3.26	3.37
KZT/RUR	4.67	4.93	4.89

**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

	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Interest income</b>			
Interest on loans to customers	48,630,057	29,749,318	23,044,439
Interest on debt securities	4,884,924	3,774,899	1,110,697
Interest on loans and advances to banks	1,028,572	1,526,766	345,804
Interest on reverse repurchase transactions	459,011	55,318	-
Total interest income	<u>55,002,564</u>	<u>35,106,301</u>	<u>24,500,940</u>
<b>Interest expense</b>			
Interest on debt securities issued	14,994,640	8,577,577	2,083,414
Interest on customer accounts	6,970,456	7,773,268	6,880,159
Interest on loans and advances from banks	4,075,752	1,911,084	1,939,714
Other interest expenses	206,916	361,987	354,612
Total interest expense	<u>26,247,764</u>	<u>18,623,916</u>	<u>11,257,899</u>
<b>Net interest income before provision for loan losses</b>	<u><b>28,754,800</b></u>	<u><b>16,482,385</b></u>	<u><b>13,243,041</b></u>

## 5. ALLOWANCE FOR LOSSES, IMPAIRMENT, AND OTHER PROVISIONS

The movements in allowance for losses on interest earning assets, were as follows:

	<b>Loans and advances to banks</b>	<b>Loans to customers</b>	<b>Securities under repurchase agreements</b>	<b>Total</b>
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	<u>170,158</u>	<u>14,016,382</u>	<u>46,260</u>	<u>14,232,800</u>
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	<u>414,586</u>	<u>19,069,078</u>	<u>-</u>	<u>19,483,664</u>
Provision/(Recovery)	119,010	11,102,578	-	11,221,588
Write-off of assets	-	(733,040)	-	(733,040)
Recoveries of assets previously written off	-	468,562	-	468,562
Foreign exchange difference	(569)	(28,326)	-	(28,895)
31 December 2004	<u>533,027</u>	<u>29,878,852</u>	<u>-</u>	<u>30,411,879</u>

The movements in allowances for losses on other transactions were as follows:

	<b>Insurance reserves</b>	<b>Accounts receivable</b>	<b>Guarantees and other commitments</b>	<b>Total</b>
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	<u>420,504</u>	<u>53,085</u>	<u>1,790,207</u>	<u>2,263,796</u>
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	<u>1,056,744</u>	<u>30,520</u>	<u>1,426,290</u>	<u>2,513,554</u>
Provision	499,780	115,623	106,163	721,566
Write-offs	-	(38,910)	-	(38,910)
Recoveries	-	5,687	-	5,687
Foreign exchange difference	-	(2,205)	(2,261)	(4,466)
31 December 2003	<u>1,556,524</u>	<u>110,715</u>	<u>1,530,192</u>	<u>3,197,431</u>

## 6. NET GAIN/(LOSS) ON TRADING SECURITIES

Net gain/(loss) on trading securities comprise:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Debt securities	(44,925)	(26,814)	885,357
Equity securities	67,078	(290,178)	50,636
<b>Total net gain/(loss) on trading securities</b>	<u>22,153</u>	<u>(316,992)</u>	<u>935,993</u>

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Dealing, net	2,600,766	1,419,322	640,405
Unrealised translation differences, net	(1,043,907)	181,655	567,004
<b>Total net gain on foreign exchange operations</b>	<u>1,556,859</u>	<u>1,600,977</u>	<u>1,207,409</u>

## 8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2004	2003	2002
<b>Fee and commission income:</b>			
Cash operations	2,786,351	2,094,290	1,634,263
Settlements	1,990,530	1,614,231	1,269,487
Documentary operations	1,599,603	1,614,916	1,215,418
Foreign exchange and securities operations	1,236,596	1,149,461	732,067
Credit cards operations	892,583	627,323	407,121
Commission for the loan issuance	795,856	605,881	110,428
Encashment operations	136,200	112,115	79,431
Insurance operations	64,286	123,532	127,382
Commission for consulting	3,939	10,930	2,923
Other	884,048	447,100	213,270
<b>Total fee and commission income</b>	<b>10,389,992</b>	<b>8,399,779</b>	<b>5,791,790</b>
<b>Fee and commission expense:</b>			
Commission from loans	895,464	395,761	489,254
Bank cards services	356,498	303,630	228,832
Insurance operations	269,407	132,652	55,626
Letters of credit and guarantees	161,095	290,217	167,130
Foreign currency and securities operations	82,406	62,214	46,375
Correspondent bank services	80,065	65,565	56,870
Services of processing centre of the NBRK	63,397	39,830	49,801
Other	43,054	44,463	32,497
<b>Total fee and commission expense</b>	<b>1,951,386</b>	<b>1,334,332</b>	<b>1,126,385</b>

## 9. NET GAIN/(LOSS) ON INVESTMENT SECURITIES

Net gain/(loss) on investment securities include results from operations with available-for-sale securities and comprise:

	2004	2003	2002
Unrealized gain from revaluation of securities available-for-sale	11,454	40,784	3,916,126
Net gain/(loss) on derecognition of securities available-for-sale	7,994	(88,181)	-
<b>Total net gain/(loss) on investment securities</b>	<b>19,448</b>	<b>(47,397)</b>	<b>3,916,126</b>

## 10. OTHER INCOME

	2004	2003	2002
Insurance premiums of Kazkommerts Policy	1,479,307	1,048,665	335,214
Profit on sale of fixed assets and fixed assets received free of charge	98,866	22,281	12,192
Income from recovery of expenses paid	67,891	74,358	609
Fines and penalties received	40,279	4,565	649
Sale of low-value inventory and blanks	62	1,234	7,180
Other income	276,431	88,252	77,297
<b>Total other income</b>	<b>1,962,836</b>	<b>1,239,355</b>	<b>433,141</b>

## 11. OPERATING EXPENSES

	2004	2003	2002
Staff costs	3,782,316	4,201,486	4,209,693
Depreciation and amortization	1,302,066	978,832	625,058
Fixed assets maintenance (buildings, intangibles, etc.)	542,605	442,558	242,499
Advertising costs	417,038	379,117	311,911
Lease	375,367	206,609	159,584
Communications	333,759	261,981	220,203
Taxes, other than income tax	333,038	253,133	139,282
Value added tax	332,100	230,709	233,676
Security	320,830	145,681	102,290
Insurance of individual deposits	285,143	310,419	352,755
Business trip expenses	252,618	269,753	252,806
Vehicles maintenance	161,837	140,502	109,885
Training	136,381	85,055	68,093
Legal services	90,478	27,821	25,888
Charity and sponsorship expenses	88,827	136,755	157,740
Cash collection expenses	82,070	70,589	65,921
Stationery	78,725	60,116	52,411
Professional services	51,010	97,431	96,221
Entertainment expenses	50,517	47,475	35,054
Mail and courier expenses	41,746	32,764	30,157
Membership fee	25	203,357	12,904
Custom duties for import of foreign currency	-	20,433	89,420
Other expenses	452,543	366,495	362,532
	<u>9,511,039</u>	<u>8,969,071</u>	<u>7,955,983</u>

## 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 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2004 and 2003 comprise:

	2004	2003
Deferred assets:		
Provisions under guarantees and letters of credit	28,255	-
Other assets	151,486	398,466
<b>Total deferred assets</b>	<u>179,741</u>	<u>398,466</u>

Deferred liabilities:		
Loans to banks and customers	6,213,631	3,005,134
Provisions under guarantees and letters of credit	-	92,916
Investments in associates	21,293	71
Fixed and intangible assets	692,053	245,292
<b>Total deferred liabilities</b>	<u>228,357</u>	<u>-</u>
	<b>7,155,334</b>	<b>3,343,413</b>
<b>Net deferred liabilities</b>	<u><b>6,975,593</b></u>	<u><b>2,944,947</b></u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2004, 2003 and 2002 are explained as follows:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Profit before income tax and minority interest	<u>19,328,106</u>	<u>11,258,982</u>	<u>8,257,060</u>
Tax at the statutory tax rate	5,655,186	3,357,404	2,477,118
Tax effect of permanent differences	(90,644)	(1,265,737)	(2,201,051)
Tax impositions resulted from tax inspection	<u>4,008,520</u>		
Income tax expense	<u><b>9,573,062</b></u>	<u><b>2,091,667</b></u>	<u><b>276,067</b></u>
Current income tax expense	5,876,190	590,045	477,990
Deferred income tax expense	<u>3,696,872</u>	<u>1,501,622</u>	<u>(201,923)</u>
Income tax expense	<u><b>9,573,062</b></u>	<u><b>2,091,667</b></u>	<u><b>276,067</b></u>

Included in current income tax expense is an amount of 4,008,520 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 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.

<b>Deferred income tax</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
At the beginning of the period	2,944,947	1,214,408	1,416,331
Decrease in fixed assets revaluation reserve	333,774	228,917	-
Increase /(decrease) in deferred income tax for the period	<u>3,696,872</u>	<u>1,501,622</u>	<u>(201,923)</u>
At the end of the period	<u><b>6,975,593</b></u>	<u><b>2,944,947</b></u>	<u><b>1,214,408</b></u>

### 13. MINORITY INTEREST

The movement in minority interest during 2004 and 2003 comprises:

<b>31 December 2002</b>	<b>81,240</b>
Consolidation effect of MKB	4,220,116
Foreign exchange effect	(3,285)
Minority interest in the net profit of the Bank for the year	406,554
<b>31 December 2003</b>	<b>4,704,625</b>
Change on the minority interest of OJSC Kazkommertsbank Kyrgyzstan	(58,883)
Minority interest in the net profit of the Bank for the year	1,065,745
Foreign exchange effect	(243,418)
<b>31 December 2004</b>	<b>5,468,069</b>

### 14. EARNINGS PER SHARE

	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Income:</b>			
Net income for the year	8,689,299	8,760,761	7,978,763
<b>Less:</b>			
Dividends on preference stock	(290,370)	(324,141)	(346,626)
Income less dividends on preference shares	8,398,929	8,436,620	7,632,137
<b>Weighted average number of common stock</b> for basic and diluted earnings per share (pieces)	346,141,258	325,817,299	294,182,278
<b>Earnings per share</b> – basic and diluted (KZT)	<u>24.26</u>	<u>25.89</u>	<u>25.94</u>

### 15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

The balance with the Central Bank of the Russian Federation as of 31 December 2004 included amounts of KZT 783,089 thousand represented by reserve 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:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Cash on hand	11,218,153	10,352,004	10,135,899
Balances with national (central) banks	55,074,665	18,132,609	9,258,872
Loans and advances to banks in OECD countries (included in Note 16)	16,357,415	18,975,185	35,877,083
	82,650,233	47,459,798	55,271,854
Less minimum reserve deposit with the Central Bank of the Russian Federation	(783,089)	(121,865)	-
Less accrued interest income on balances with NBRK and OECD countries	(9,635)	(15,811)	(44,942)
<b>Total cash and cash equivalents</b>	<u><b>81,857,509</b></u>	<u><b>47,322,122</b></u>	<u><b>55,226,912</b></u>



## 16. LOANS AND ADVANCES TO BANKS

	2004	2003
Loans and advances to banks	29,248,305	35,385,911
Correspondent accounts with other banks	13,020,544	3,477,327
Accrued interest income on loans and advances to banks	97,740	134,172
	<u>42,366,589</u>	<u>38,997,410</u>
Less allowance for loan losses	(533,027)	(414,586)
<b>Total loans and advances to banks, net</b>	<u><u>41,833,562</u></u>	<u><u>38,582,824</u></u>

Movements in allowances for loan losses and advances to banks for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

## 17. TRADING SECURITIES

Debt securities:		2004		2003
Short-term NBRK notes	1.5-7.12%	41,146,420	1.96-5.11%	22,700,525
Government treasury bills	3.22-8.35%	12,905,516	5.8-9.99%	6,061,421
Corporate bonds of the issuers of the Russian Federation	7.4-16%	2,454,288	-	-
Kaztransoil bonds	8.5%	2,401,938	8.5-9%	2,649,512
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125%	2,255,373	11.125-13.625%	6,399,117
AMB Bank bonds	8.5-9%	1,666,851	-	-
Freddie MAC bonds	5.25-12.36%	1,558,647	9.28-15.29%	3,909,001
Bonds of Kazakhstani Mortgage Company	8.09-12.25%	1,365,487	8-8.6%	767,742
Karazhanbasmunai bonds	8-9.7%	1,319,854	-	-
Bonds of Development Bank of Kazakhstan	7.125-8.5%	924,941	7.125-7.375%	1,017,559
Avtovaz bonds	11.28%	776,914	15.25%	151,400
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	481,177	12.75%	360,521
Rusalfin bonds	9.6%	475,471	-	-
UTK bonds	12.3%	452,718	-	-
IzhAvto bonds	12.5%	430,442	-	-
Halyk Bank bonds	8.125%	410,332	-	-
Mig-Finance bonds	16%	394,249	-	-
SUEK bonds	11.5%	392,345	-	-
Astana municipality bonds	8.5%	296,304	8-8.5%	352,098
Debt securities of Yaroslav Region	12.5%	289,662	13.76%	168,345
Novosibirsk region bonds	13.3-13.5%	283,381	-	-
Atyrau region's administration bonds	8.5-8.6%	276,122	8.5-8.6%	468,790
Fannie MAE bonds	5%	259,921	2.0%	3,605,301
Federal Farm Credit Bank bonds	3.375%	259,066	-	-
Nidan Foods bonds, 1st issue.	17%	256,182	17.0%	248,911
KAZTRANSCOM bonds	8%	185,357	8.0%	157,996
Bank TuranAlem bonds	8%	157,940	-	-
KAZATOMPROM bonds	8.5%	85,052	8.5%	95,544
Mangistau REK bonds	13%	66,525	-	-
Eurobonds of TuranAlem Finance B.V.	7.875%	50,423	7.875-11.5%	1,951,242
Kaztransoil bonds	8.5%	22,498	8.5%	20,094
Almaty Kus bonds	10%	2,558	10.0%	9,886
VITA bonds	-	-	8.6-14%	66,863
Federal Home Loan Bank bonds	-	-	2.18%	3,579,163
Bonds of PetroKazakhstan Oil Products	-	-	10.0%	1,744,830
US Treasury bills	-	-	3.63%	1,392,056
Kazakhtelecom bonds	-	-	10.0%	428,638
Dalsvyaz bonds	-	-	14.5%	317,536
East Kazakhstan regional administration bonds	-	-	5.97-6.3%	149,307
The Netherlands state bonds	-	-	3.75%	3,676,560
State bonds of the Federal Republic of Germany	-	-	4.5%-5.25%	7,731,347
Nevinnomisski Azot bonds	-	-	18.0%	69,351
Caspian Bank bonds	-	-	9.5%	3,008
		<u><u>74,303,954</u></u>		<u><u>70,253,664</u></u>

	<b>Ownership share</b>	<b>2004</b>	<b>Ownership share</b>	<b>2003</b>
<b>Shares:</b>				
Kazakhtelecom GDR	0.54%	419,641	0.54%	219,209
Moscow Shipyard	2.7%	56,132	-	-
Kazakhmys	-	-	0.11%	83,649
Ust-Kamenogorsk Titanium and Magnesium Plant	-	-	1.07%	56,474
Gazprom	-	-	0.82%	543,508
Mosenergo	-	-	0.03%	44,355
		<u>475,773</u>		<u>947,195</u>
<b>Total trading securities</b>		<b><u>74,779,727</u></b>		<b><u>71,200,859</u></b>

As of 31 December 2004 and 2003 included in trading securities is accrued interest income on debt securities amounting to KZT 636,043 thousand and KZT 773,634 thousand, respectively.

As of 31 December 2004 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, NBRK Notes, securities of the Government of the USA and corporate bonds pledged under repurchase agreements with other banks amounting to KZT 28,444,727 thousand. All the agreements have maturity within 3 months.

As of 31 December 2003 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, NBRK Notes, securities of the Government of the USA, Germany, 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 2004 and 2003 the Bank purchased securities amounting to KZT 8,402,463 thousand and KZT 2,608,318 thousand under agreements to resell them within 3 months. The securities under agreements to resell have an interest rate of 6-10% per annum.

	<b>2004</b>	<b>2003</b>
Bonds of the Russian Federation institutions	3,627,819	1,043,008
Corporate bonds of the Republic of Kazakhstan	2,972,160	-
Shares of the Russian Federation institutions	1,328,387	945,128
Corporate shares of the Republic of Kazakhstan	276,899	-
Notes of the National Bank of the Republic of Kazakhstan	178,832	100,000
State mid-term obligations of the Ministry of Finance of the Republic of Kazakhstan	18,366	487,548
Government treasury bills of the Ministry of Finance of the Kyrgyz Republic	-	32,634
	<u>8,402,463</u>	<u>2,608,318</u>
Less allowance for losses of repurchase agreements	-	-
<b>Total securities purchased under agreement to resell, net</b>	<b><u>8,402,463</u></b>	<b><u>2,608,318</u></b>

Movements in allowances for loan losses under repurchase agreements for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

	Amount payable	2004 Net fair value		Amount payable	2003 Net fair value	
		Asset	Liability		Asset	Liability
<i>Foreign currency contracts</i>						
Forwards	7,244,892	17,220	(192)	4,407,171	15,399	-
Swaps	5,135,200	233	(3,283)	216,330	-	(801)
<i>Securities contracts</i>						
Forwards	1,372,963	2,391	(27,879)	12,569,911	-	-
		<u>19,844</u>	<u>(31,354)</u>		<u>15,399</u>	<u>(801)</u>

## 20. LOANS TO CUSTOMERS

	2004	2003
Originated loans	513,294,251	291,512,002
Accrued interest income on loans to customers	11,515,151	10,619,519
	<u>524,809,402</u>	<u>302,131,521</u>
Less allowance for loan losses	(29,878,852)	(19,069,078)
<b>Total loans to customers, net</b>	<b><u>494,930,550</u></b>	<b><u>283,062,443</u></b>
	<b>2004</b>	<b>2003</b>
Loans collateralized by accounts receivable	119,097,427	32,617,124
Loans collateralized by real estate	112,347,494	59,298,681
Loans collateralized by combined collateral	75,461,244	92,859,951
Loans collateralized by equipment	42,344,709	10,959,952
Loans collateralized by guarantees of enterprises	32,205,260	40,758,423
Loans collateralized by shares of other companies	26,091,707	13,444,865
Loans collateralized by cash or Kazakhstani Government guarantees	25,942,668	8,536,912
Loans collateralized by guarantees of financial institutions	22,305,528	4,341,365
Loans collateralized by inventories	21,084,412	27,035,014
Unsecured loans	47,928,953	12,279,234
	<u>524,809,402</u>	<u>302,131,521</u>
Less allowance for loan losses	(29,878,852)	(19,069,078)
<b>Total loans to customers, net</b>	<b><u>494,930,550</u></b>	<b><u>283,062,443</u></b>

Movements in allowances for loan losses for the years ended 31 December 2004 and 2003 are disclosed in Note 5.

	<b>2004</b>	<b>2003</b>
<b>Analysis by industry:</b>		
Trade	97,325,798	55,661,465
Construction	90,493,676	34,566,516
Individuals	72,820,907	31,790,749
Energy	37,006,654	47,506,445
Agriculture	34,278,548	34,468,555
Finance sector	32,975,228	2,640,527
Transport and communication	31,125,368	14,764,673
Food	29,801,626	24,187,221
Real estate	27,596,947	5,981,736
Hotel business	14,517,252	14,128,249
Mining and metallurgy	14,042,224	10,261,097
Machinery construction	9,206,278	4,940,297
Culture and art	1,632,453	2,335,968
Other	31,986,443	18,898,023
	<u>524,809,402</u>	<u>302,131,521</u>
Less allowance for loan losses	<u>(29,878,852)</u>	<u>(19,069,078)</u>
<b>Total loans to customers, net</b>	<b><u>494,930,550</u></b>	<b><u>283,062,443</u></b>

As of 31 December 2004 and 2003 included in loans to customers are non-accrual loans which amounted to KZT 7,849,748 thousand and KZT 2,452,768 thousand, respectively. As of 31 December 2004 and 2003 the total amount of interest on these loans non-recognized as income amounted to KZT 349,276 thousand and KZT 145,822 thousand, respectively.

As of 31 December 2004 and 2003 the Bank's loans to the clients, which individually exceeded ten per cent of the Bank's equity, are represented by the following enterprises and institutions:

	<b>2004</b>	<b>2003</b>
Djeilan Holding	12,849,544	10,330,813
Kuat Corporation OJSC Holding	12,349,864	-
Holding OJSC Unimilk	11,476,911	-
Mayberry Financial Services S.A.	9,888,402	-
Holding TKF Agroinvest Trading LLP	8,977,128	-
Food Contract Corporation	-	9,127,803
CNPC Aktobemunaigaz Holding	-	8,292,792
Alibi Holding	-	7,852,305
BIPEK Auto Holding	-	6,771,643
Tolkynneftegas Holding	-	6,206,352
	<u>55,541,849</u>	<u>48,581,708</u>

## 21. INVESTMENT SECURITIES

### Securities available-for-sale

	Interest to nominal	2004	Interest to nominal	2003
<b>Debt securities</b>				
Astana Finance	9%	126,343	-	-
Kazakhaltyn	9.7%	123,214	-	-
Khimpharm	10%	119,301	-	-
Almaty Merchant Bank	-	-	8.6%	2,860
		<u>368,858</u>		<u>2,860</u>
<b>Equity securities</b>				
	Share, %		Share, %	
Kazakhtelecom, including:				
- ordinary shares	0.14%	90,232	0.04%	15,164
- preference shares	0.19%	5,909	0.01%	2,149
Aktubinsk chrome plant	3.07%	21,497	3.07%	22,805
Aktobemunaigaz	0.004%	2,172	0.004%	2,172
Bank CenterCredit	-	-	1.9%	86,000
Aluminium of Kazakhstan	-	-	16.7%	6,404
		<u>119,810</u>		<u>134,694</u>
<b>Total securities available-for-sale</b>		<u><b>488,668</b></u>		<u><b>137,554</b></u>

### Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	Interest to nominal (margin)	2004	Interest to nominal (margin)	2003
Bonds of the Ministry of Finance of the Kyrgyz Republic	5.91-8.1%	64,294	11%	32,372
	-	<u>-</u>	-	<u>-</u>
<b>Total securities held-to-maturity</b>		<u><b>64,294</b></u>		<u><b>32,372</b></u>

## 22. INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES

The following enterprises were recorded in the financial statements using the equity method:

	2004		2003	
	% Held	Amount	% Held	Amount
UlarUmit Pension fund	41.18%	213,914	33.18%	146,206
First Credit Bureau LLP	-	4,050	-	-
		<u>                    </u>	-	<u>                    </u>
		<u><b>217,964</b></u>		<u><b>146,206</b></u>

In 2004 Kazkommertsbank purchased shares of UlarUmit Pension Fund additionally to the existing shares and for the year ended 31 December 2004 the Bank's share in the equity of the UlarUmit Pension Fund increased by 8%.

The percentage held of the above associates and other companies represents both direct and indirect ownership of the Bank.

The movement of investments to associates and other companies are accounted for in the financial statements using the equity method:

<b>31 December 2001</b>	<b>1,773,954</b>
Purchase cost	72,841
Reclassification of securities	(1,150,756)
Share of net income	33,869
Dividends from associates	<u>(443,991)</u>
<b>31 December 2002</b>	<b>285,917</b>
Purchase cost	19,080
Investments sale	(138,542)
Share of net loss	<u>(20,249)</u>
<b>31 December 2003</b>	<b>146,206</b>
Purchase cost	59,213
Investments sale	-
Share of net income	<u>12,545</u>
<b>31 December 2004</b>	<u><b>217,964</b></u>

## 23. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and equipment	Other	Total
<b>At cost</b>				
31 December 2003	2,402,620	5,665,025	324,368	8,392,013
Additions	70,253	1,102,417	209,013	1,381,683
Revaluation	1,220,038	408	-	1,220,446
Disposals	(133,627)	(232,086)	(2,824)	(368,537)
Foreign exchange difference	-	4,158	(17,879)	(13,721)
31 December 2004	<u>3,559,284</u>	<u>6,539,922</u>	<u>512,678</u>	<u>10,611,884</u>
<b>Accumulated depreciation</b>				
31 December 2003	196,249	2,261,383	66,434	2,524,066
Depreciation expense	48,054	1,012,410	78,835	1,139,299
Revaluation	124,750	-	-	124,750
Disposals	(14,243)	(152,839)	(1,273)	(168,355)
Foreign exchange difference	(2)	(5,888)	(3,042)	(8,932)
31 December 2004	<u>354,808</u>	<u>3,115,066</u>	<u>140,954</u>	<u>3,610,828</u>
<b>Net book value</b>				
31 December 2004	<u>3,204,476</u>	<u>3,424,856</u>	<u>371,724</u>	<u>7,001,056</u>
31 December 2003	<u>2,206,371</u>	<u>3,403,642</u>	<u>257,934</u>	<u>5,867,947</u>

The Bank's office building in Almaty was revalued based on the appraisal of an independent valuer.

## 24. INTANGIBLE ASSETS

	2004	2003
<b>At cost</b>		
1 January	797,734	879,734
Additions	102,329	118,710
Consolidation effect of MKB	-	842
Disposals	(16,768)	(201,552)
Foreign exchange difference	14,326	-
31 December	<u>897,621</u>	<u>797,734</u>
<b>Accumulated amortization</b>		
1 January	361,683	271,157
Amortization	162,767	90,687
Consolidation effect of MKB	-	250
Disposals	(15,368)	(411)
Foreign exchange difference	3,065	-
31 December	<u>512,147</u>	<u>361,683</u>
<b>Net book value</b>		
31 December	<u>385,474</u>	<u>436,051</u>

Intangible assets include software, patents and licenses.

## 25. OTHER ASSETS

	2004	2003
Prepayments and other debtors	7,295,992	1,856,938
Prepaid expenses	1,598,780	686,972
Insurance debtors	456,442	792,492
Tax settlements	399,644	60,531
	<u>9,750,858</u>	<u>3,396,933</u>
Less allowance for losses on other assets	(110,715)	(30,520)
<b>Total other assets, net</b>	<b><u>9,640,143</u></b>	<b><u>3,366,413</u></b>

## 26. LOANS AND ADVANCES FROM BANKS

	2004	2003
Correspondent accounts of other banks	6,582,160	6,087,644
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks (Deutsche Bank AG London)		
<i>Tranche A due on 19.12.2005 (\$500 mln ), coupon rate 4.54%</i>	65,000,000	27,401,800
<i>Tranche B due on 19.12.2005 (110 mln. ), coupon rate 4.32%</i>	14,300,000	15,864,200
Syndicated loans from banks (ING Amsterdam) 4.02%	-	6,489,900
Syndicated loans from banks (Citi Bank Int. PLC London, due in 20.08.2005, \$150 mln. Coupon rate - 3.64%)	19,500,000	-
EBRD loan (due in 2005, coupon rate 2.84%-4.33% per annum, \$40 mln and \$2.5 mln)	8,130,802	-
EBRD loan (due in 2006, coupon rate 4.27%-6.24% per annum, \$6 mln and \$35 mln)	5,330,046	7,757,044
Loans from NBRK	85,516	358,098
Loans from other banks and financial institutions	39,757,577	12,047,117
Deposits of banks	10,850,632	1,875
Accrued interest expense	794,615	214,241
<b>Total loans and advances from banks</b>	<b><u>170,331,348</u></b>	<b><u>76,221,919</u></b>

Loans from NBRK include advances received under the program of gold mining enterprises support and development in the amount of KZT 85,516 thousand and KZT 300,410 thousand, respectively, as of 31 December 2004 and 2003, also include advances received under the EBRD's program of industry and construction development in the amount of KZT 57,688 thousand.

## 27. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2004	2003
Time deposits	110,847,104	99,227,367
Repayable on demand	84,990,350	49,163,891
Accrued interest expense on customer accounts	1,989,859	3,198,158
<b>Total customer accounts</b>	<b><u>197,827,313</u></b>	<b><u>151,589,416</u></b>



## 28. DEBT SECURITIES ISSUED

	2004	2003
Eurobonds of Kazkommerts International B.V. due		
In April 2013 (coupon rate 8.625%)		
Tranche A issued in April 2003 at price of 97.548%	45,500,000	50,477,000
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	19,500,000	21,633,000
In May 2007 (coupon rate 10.125%):		
Tranche A issued in May 2002 at price of 99.043%	19,500,000	21,633,000
Tranche B issued in November 2002 and allocated in December 2002 at price of 107.00%	6,500,000	7,211,000
In April 2014 (coupon rate 7.875%)	52,000,000	-
In November 2009 (coupon rate 7%)	45,500,000	-
	<u>188,500,000</u>	<u>100,954,000</u>
Including/(less):		
Discount on debt securities issued	(1,796,329)	(1,282,078)
Amounts of accrued interest on debt securities issued	2,984,523	1,631,951
Eurobonds repurchased by the Bank	<u>(1,437,914)</u>	<u>(4,787,527)</u>
Total issued Eurobonds of Kazkommerts International B.V.	188,250,280	96,516,346
Issued bonds of JSC Kazkommertsbank	3,949,454	-
Accrued interest expense of issued bonds of JSC Kazkommertsbank	129,060	-
Issued promissory notes	15,511,923	1,717,020
<b>Total debt securities issued</b>	<b><u>207,840,717</u></b>	<b><u>98,233,366</u></b>

Eurobonds were issued by Kazkommerts International B.V., a subsidiary of Kazkommertsbank, and guaranteed by Kazkommertsbank. For Eurobonds with a maturity of May 2007 interest is paid semi-annually on 8 May and 8 November, for those having a maturity of April 2013, interest is paid on 16 April and 16 October, with a maturity of April 2014 the interest is paid on 7 April and 7 October and for Eurobonds with a maturity in November 2009 the interest is paid on 3 May and 3 November.

## 29. OTHER BORROWED FUNDS

	Interest rate	2004	Interest rate	2003
DEG-Deutsche Investitions MBH	4.99%	1,687,010	-	-
Funding by the Small Business Support Fund	7.3-8.05%	1,179,286	8.34%	2,546,170
Funding of the purchase of the agricultural equipment	3.22-7.76%	977,452	-	-
Funding by the Ministry of Finance of the Republic of Kazakhstan	0.5-5.78%	577,281	4.92%	909,395
Accrued interest expenses		<u>42,938</u>		<u>69,908</u>
<b>Total other borrowed funds</b>		<b><u>4,463,967</u></b>		<b><u>3,525,473</u></b>

Funding from the Small Business Development Fund is provided by EBRD, ADB and is presented as follows:

	<b>2004</b>	<b>2003</b>
EBRD funds	1,118,000	2,321,942
ADB funds	61,286	224,228
	<u><b>1,179,286</b></u>	<u><b>2,546,170</b></u>

Funding from the Ministry of Finance of the Republic of Kazakhstan is provided under the Agriculture Industry Development Programme by funds of the International Bank for Reconstruction and Development (IBRD), and Kreditanstalt fur Wiederaufbau (“KFW”) and regional departments, and represented as follows:

	<b>2004</b>	<b>2003</b>
IBRD and KFW	523,821	764,330
Regional departments	53,460	145,065
	<u><b>577,281</b></u>	<u><b>909,395</b></u>

Funding from the international financial institutions Atlantik Forfaiting AG and Export Development, Canada is provided for the purchase of the agricultural equipment and represented as follows:

	<b>2004</b>	<b>2003</b>
Export Development, Canada	510,973	-
Atlantik Forfaiting AG	466,479	-
	<u><b>977,452</b></u>	<u><b>-</b></u>

### **30. OTHER LIABILITIES**

	<b>2004</b>	<b>2003</b>
Deferred tax liabilities	6,975,593	2,944,947
Other creditors	1,739,729	2,182,226
Insurance reserves	1,556,524	1,056,744
Allowance for losses on guarantees and letters of credit	1,530,192	1,426,290
Taxes payable	974,877	313,833
Accounts payable on re-insurers	117,372	478,632
	<u><b>12,894,287</b></u>	<u><b>8,402,672</b></u>

### 31. SUBORDINATED DEBT

	<b>Maturity date</b>	<b>Interest rate (%)</b>	<b>2004</b>	<b>2003</b>
Subordinated debt of Citigroup GMD AG & CO	2014	8.19 %	13,000,000	-
Indexed subordinated bonds	2009	8 %	3,548,695	3,979,575
International subordinated bonds	2007	11 %	2,571,292	2,844,149
Subordinated bonds	2007	5.5 %	48,880	54,226
Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft	2008	9.31-9.94 %	-	1,802,300
Accrued interest expenses			278,831	52,664
			<b>19,447,698</b>	<b>8,732,914</b>

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 3,548,695 thousand as of 31 December 2004.

Subordinated bonds were issued in 2002 in US dollars.

Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft received in 2004 in Euro was reclassified as a loan in USD.

Subordinated debt Citigroup GMD AG & CO was received in 2004 in USD and represents a USD 100,000 thousand equivalent as of 31 December 2004.

The subordinated bonds denominated in USD were issued in April 2002 in accordance with a Decision of the Shareholders' Meeting.

### 32. SHAREHOLDERS' EQUITY

As of 31 December 2004 Kazkommertsbank's share capital comprised the following:

	<b>Authorized share capital</b>	<b>Non-issued and unpaid share capital</b>	<b>Elimination amount</b>	<b>Repurchased share capital</b>	<b>Total share capital</b>
Ordinary shares	3,750,000	(288,587)	(26)	-	3,461,387
Preference shares	1,250,000	(512,505)	-	(1,703)	735,792
	<b>5,000,000</b>	<b>(801,092)</b>	<b>(26)</b>	<b>(1,703)</b>	<b>4,197,179</b>

As of 31 December 2003 Kazkommertsbank's share capital comprised the following:

	<b>Authorized share capital</b>	<b>Non-issued and unpaid share capital</b>	<b>Elimination amount</b>	<b>Repurchased share capital</b>	<b>Total share capital</b>
Ordinary shares	3,750,000	(288,587)	(115)	-	3,461,298
Preference shares	1,250,000	(692,368)	-	-	557,632
	<b>5,000,000</b>	<b>(980,955)</b>	<b>(115)</b>	<b>-</b>	<b>4,018,930</b>

**Ordinary shares:** 375,000,000 shares were authorized, 346,138,644 and 346,129,915 shares were issued and partially paid, with par value of KZT 10 at 31 December 2004 and 2003, respectively.

**Preference shares:** 125,000,000 shares were authorized and registered, 73,579,231 and 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 2004 and 2003, respectively.

### 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 1,530,192 thousand and KZT 1,426,290 thousand as of 31 December 2004 and 2003, respectively.

As of 31 December 2004 and 2003, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2004		31 December 2003	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	22,971,691	22,971,691	22,769,317	22,769,317
Letters of credit and other transaction related contingent obligations	41,490,308	6,941,465	23,408,923	4,681,785
Commitments on credits and unused credit lines	14,322,098	-	15,866,353	-
<b>Total contingent liabilities and credit commitments</b>	<b>78,784,097</b>	<b>29,913,156</b>	<b>62,044,593</b>	<b>27,451,102</b>
	<b>Amount payable</b>	<b>Risk Weighted Amount</b>	<b>Amount payable</b>	<b>Risk Weighted Amount</b>
<b>Derivative financial instruments</b>				
Foreign currency forwards	7,244,892	134,858	4,407,171	14,204
Foreign currency swaps	5,135,200	-	216,330	-
Forwards with securities	1,372,963	1,372,963	12,569,911	-
<b>Total derivative financial instruments</b>	<b>13,753,055</b>	<b>1,507,821</b>	<b>17,193,412</b>	<b>14,204</b>

**Capital commitments** – The Bank had no material commitments for capital expenditures outstanding as of 31 December 2004 and 2003.

**Rental commitments** – No material rental commitments were outstanding as of 31 December 2004 and 2003.

**Fiduciary activities** – The Bank renders depositary services. As of 31 December 2004 the Bank had the following securities of clients at nominal account of the securities holder:

- dealing operations of 63,668,088 securities,
- custodian operations of 535,951,836 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** - Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the 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 1999, 2000, 2001 and 2002, resulted in an additional tax assessment of KZT 4,009 million.

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 31 December 2004 and 2003, 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:

	2004		2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers	2,459,806	513,294,251	2,619,017	291,512,002
Accrued interest on loans to customers	157,488	11,515,151	150,067	10,619,519
Allowance for loans	(84,065)	(29,878,852)	(70,647)	(19,069,078)
Customer accounts	3,349,767	195,837,454	2,395,219	148,391,258
Accrued deposit interest	51,090	1,989,859	60,678	3,198,158
Allowance for guarantees and letters of credit	2,514	1,530,192	632	1,426,290
Letters of credit	-	41,490,309	-	23,408,923
Guarantees given	33,854	22,971,691	27,057	22,769,317

Transactions turnover on trading securities of the Bank with related parties in 2004 and 2003 amounted to KZT 1,187,213 thousand and KZT 391,909 thousand, respectively.

Included in the profit and loss account for the years ended 31 December 2004, 2003 and 2002 are the following amounts which arose due to transactions with related parties:

	2004		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	177,812	55,002,564	178,210	35,106,301	275,541	24,500,940
Interest expense	(209,884)	(26,247,764)	(145,829)	(18,623,916)	(99,341)	(11,257,899)

In 2004 and 2003, dividends on preference shares were accrued and paid in the amount of KZT 290,370 thousand and KZT 324,141 thousand, respectively.

### 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 2004 and 2003 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 2004 and 2003, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

**Trading securities** – As of 31 December 2004 and 2003 trading securities are stated at fair value amounting to KZT 74,143,684 thousand and KZT 70,427,225 thousand, respectively, plus accrued interest income totalling KZT 636,043 thousand and KZT 773,634 thousand, respectively. The fair value of trading securities was determined with reference to an active market.

**Derivative financial instruments** – As of 31 December 2004 and 2003 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 2004 and 2003, the carrying amount of securities purchased under repurchase agreements is a reasonable estimate of the fair value.

**Loans and advances to customers** – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

**Securities available-for-sale** – As of 31 December 2004 and 2003 securities available-for-sale are stated at fair value amounting to KZT 481,488 thousand and KZT 137,431 thousand, respectively, plus accrued coupon income totalling KZT 7,180 thousand and KZT 123 thousand, respectively. 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.

**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 2004 and 2003 was KZT 64,294 thousand and KZT 32,372 thousand, respectively. 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 2004 and 2003 the carrying amount is a reasonable estimate of their fair value.

**Customer accounts** – As of 31 December 2004 and 2003 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 2004 the carrying value of securities sold under agreement to repurchase 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 2004 and 2003 the carrying amount of other borrowed funds is a reasonable estimate of the fair value.

**Subordinated loan** – As of 31 December 2004 and 2003 the carrying amount of the long-term subordinated loan 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:

<b>Estimate</b>	<b>Description of position</b>
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 and advances 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:

<b>Capital amounts and ratios</b>	<b>Actual Amount in KZT thousand</b>	<b>For Capital Adequacy purposes in KZT thousand</b>	<b>Ratio For Capital Adequacy purposes</b>	<b>Minimum Required Ratio</b>
As of 31 December 2004				
Total capital	57,306,680	87,186,112	15.02 %	8 %
Tier 1 capital	61,461,469	61,461,469	10.59 %	4 %
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 %



### **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.

Effective interest rates by types of financial assets and liabilities are presented in the following tables:

For 2004

	<b>KZT</b>	<b>USD</b>	<b>EUR</b>	<b>Roubles</b>	<b>Other currency</b>
<b>ASSETS</b>					
Time deposits with NBRK	2.28	0.50	-	-	-
Loans and advances to banks, net	0.70	2.79	3.74	1.65	2.23
Trading securities	3.62	5.79	-	12.10	-
Securities purchased under agreement to resell	4.11	6.01	-	9.63	-
Investment securities	7.18	-	-	-	7.22
Loans and advances to customers, net	<u>13.16</u>	<u>12.28</u>	<u>8.19</u>	<u>15.74</u>	<u>23.25</u>
<b>LIABILITIES</b>					
Loans and advances from banks	0.29	4.02	3.60	5.37	0.04
Securities sold under agreements to repurchase	4.92	-	-	9.91	-
Customer accounts	3.87	4.00	4.83	0.27	0.41
Debt securities issued	7.21	9.23	-	11.66	-
Subordinated debt	-	7.97	-	-	-
Other borrowed funds	1.78	5.75	5.00	-	-

For 2003

	<b>KZT</b>	<b>USD</b>	<b>EUR</b>	<b>Roubles</b>	<b>Other currency</b>
<b>ASSETS</b>					
Time deposits with NBRK	3.25	-	-	-	-
Loans and advances to banks, net	1.67	2.96	2.17	1.15	0.58
Trading securities	5.64	5.23	4.21	9.47	-
Securities purchased under agreement to resell	3.87	-	-	9.70	5.55
Investment securities	-	8.60	-	-	11.00
Loans and advances to customers, net	<u>14.82</u>	<u>12.26</u>	<u>12.46</u>	<u>15.73</u>	<u>14.21</u>
<b>LIABILITIES</b>					
Loans and advances from banks	1.05	2.90	3.57	6.35	1.99
Securities sold under agreements to repurchase	5.12	1.53	1.77	-	-
Customer accounts	4.36	5.53	3.39	0.21	2.66
Debt securities issued	-	9.28	-	11.76	-
Subordinated debt	-	9.22	9.94	-	-
Other borrowed funds	4.67	8.15	5.00	-	-

The analysis of interest rate and liquidity risk on balance sheet transaction is presented in the following table:

	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 month to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Allowance for losses</b>	<b>2004 Total</b>
<b>ASSETS</b>							
Time deposits with NBRK	26,250,000	-	-	-	-	-	26,250,000
Loans and advances to banks, net	27,375,798	7,928,051	6,965,000	-	-	(533,027)	41,735,822
Trading securities	5,031,729	19,028,118	50,083,837	-	-	-	74,143,684
Securities purchased under agreement to resell	8,271,319	28,000	86,000	-	-	-	8,385,319
Investment securities	23,697	7,999	399,737	114,349	-	-	545,782
Loans to customers, net	35,323,580	34,429,717	123,290,134	190,567,982	129,682,838	(29,878,852)	483,415,399
<b>Total interest bearing assets</b>	<b>102,276,123</b>	<b>61,421,885</b>	<b>180,824,708</b>	<b>190,682,331</b>	<b>129,682,838</b>	<b>(30,411,879)</b>	<b>634,476,006</b>
Cash and balances with national (central) banks	40,033,584	-	-	-	-	-	40,033,584
Precious metals							
Derivative financial instruments	9,453	10,391	-	-	-	-	19,844
Investments in associates	-	-	-	-	217,964	-	217,964
Fixed assets, net	-	-	-	-	7,001,056	-	7,001,056
Intangible assets, net	-	-	-	-	385,474	-	385,474
Interest accrued on interest bearing assets	5,922,461	1,554,581	2,292,812	2,264,188	248,450	-	12,282,492
Other assets, net	561,666	6,818,924	1,328,392	986,368	55,508	(110,715)	9,640,143
<b>TOTAL ASSETS</b>	<b>148,803,287</b>	<b>69,805,781</b>	<b>184,445,912</b>	<b>193,932,887</b>	<b>137,591,290</b>	<b>(30,522,594)</b>	<b>704,056,563</b>
<b>LIABILITIES</b>							
Loans and advances from banks	30,911,708	5,665,624	117,951,732	15,007,669	-	-	169,536,733
Securities sold under agreements to repurchase	28,435,433	-	-	-	-	-	28,435,433
Customer accounts	106,694,795	18,442,733	39,888,071	29,788,268	1,023,587	-	195,837,454
Debt securities issued	2,540,560	856,844	4,165,262	82,133,024	115,031,444	-	204,727,134
Other borrowed funds	-	390,000	734,498	3,158,803	137,728	-	4,421,029
Subordinated loan	-	-	-	6,168,867	13,000,000	-	19,168,867
<b>Total interest bearing liabilities</b>	<b>168,582,496</b>	<b>25,355,201</b>	<b>162,739,563</b>	<b>136,256,631</b>	<b>129,192,759</b>	<b>-</b>	<b>622,126,650</b>
Derivative financial instruments	31,274	-	80	-	-	-	31,354
Other liabilities	1,347,700	247,103	1,076,063	7,136,705	-	3,086,716	12,894,287
Interest accrued on interest bearing liabilities	638,970	767,470	4,397,568	425,112	-	-	6,229,120
Dividends payable	-	374	29	-	-	-	403
<b>TOTAL LIABILITIES</b>	<b>170,600,440</b>	<b>26,370,148</b>	<b>168,213,303</b>	<b>143,818,448</b>	<b>129,192,759</b>	<b>3,086,716</b>	<b>641,281,814</b>
Interest sensitivity gap	(66,306,373)	36,066,684	18,085,145	54,425,700	490,079		
Cumulative interest sensitivity gap	(66,306,373)	(30,239,689)	(12,154,544)	42,271,156	42,761,235		
Cumulative interest sensitivity gap as a percentage of total assets	(9.42 %)	(4.30 %)	(1.73 %)	6.0 %	6.07 %		

### 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 2004 is presented in the table below.

<b>OFF BALANCE SHEET LIABILITIES</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 month to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Allowance for losses</b>	<b>2004 Total</b>
Accounts payable on forwards and securities operations	(5,637,192)	(7,855,863)	(260,000)	-	-	-	(13,753,055)
Accounts receivable on forwards and securities operations	<u>5,634,150</u>	<u>7,847,475</u>	<u>259,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,741,545</u>
Liquidity gap	<u>(3,042)</u>	<u>8,388</u>	<u>(80)</u>	<u>-</u>	<u>-</u>		
Cumulative liquidity gap	<u>(3,042)</u>	<u>(11,430)</u>	<u>(11,510)</u>	<u>(11,510)</u>	<u>(11,510)</u>		

	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
<b>ASSETS</b>							
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, net	23,672,832	18,849,182	86,946,870	122,369,177	39,673,941	(19,069,078)	272,442,924
<b>Total interest bearing assets</b>	<b>80,341,245</b>	<b>42,523,129</b>	<b>106,091,864</b>	<b>131,525,139</b>	<b>43,095,836</b>	<b>(19,483,664)</b>	<b>384,093,549</b>
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	-	11,535,015
Other assets, net	541,237	318,948	2,022,971	504,162	9,615	(30,520)	3,366,413
<b>TOTAL ASSETS</b>	<b>114,358,743</b>	<b>44,413,970</b>	<b>111,203,665</b>	<b>133,940,586</b>	<b>49,838,377</b>	<b>(19,514,184)</b>	<b>434,241,157</b>
<b>LIABILITIES</b>							
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 loan	-	-	-	4,702,161	3,978,089	-	8,680,250
<b>Total interest bearing liabilities</b>	<b>111,186,113</b>	<b>20,999,602</b>	<b>93,338,201</b>	<b>71,026,967</b>	<b>73,801,546</b>	<b>-</b>	<b>370,352,429</b>
Derivative financial instruments	801	-	-	-	-	-	801
Other 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
<b>TOTAL LIABILITIES</b>	<b>113,145,284</b>	<b>21,967,147</b>	<b>97,846,778</b>	<b>74,713,851</b>	<b>73,801,546</b>	<b>2,483,034</b>	<b>383,957,640</b>
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.

<b>OFF BALANCE SHEET LIABILITIES</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 month to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Allowance for losses</b>	<b>Total</b>
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		

### 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:

	<b>KZT</b>	<b>USD</b>	<b>EUR</b>	<b>RUR</b>	<b>Other currency</b>	<b>Allowance for losses</b>	<b>2004 Total</b>
		USD 1 = KZT 130.00	EUR 1 = KZT 177.10	RUR 1=KZT 4.67			
<b>ASSETS</b>							
Cash and balances with national (central) banks	30,288,553	6,328,217	1,252,516	2,040,715	123,583	-	40,033,584
Precious metals							
Loans and advances to banks, net	4,172,996	36,451,645	619,703	468,791	555,714	(533,027)	41,735,822
Time deposits in NBRK	23,000,000	3,250,000	-	-	-	-	26,250,000
Trading securities	55,243,667	12,320,881	-	6,579,136	6,579,136	-	74,143,684
Securities purchased under agreement to resell	3,432,905	149,814	-	4,802,600	4,802,600	-	8,385,319
Securities available for sale	481,488	-	-	-	-	-	481,488
Securities held to maturity	-	-	-	-	64,294	-	64,294
Loans and advances to customers, net	117,015,381	387,950,190	6,409,300	1,686,869	232,511	(29,878,852)	483,415,399
Derivative financial instruments	17,453	2,391	-	-	-	-	19,844
Investments into associates	217,964	-	-	-	-	-	217,964
Fixed assets, net	6,816,665	-	-	93,825	90,566	-	7,001,056
Intangible assets, net	364,361	-	-	17,302	3,811	-	385,474
Interest accrued on interest bearing assets	4,114,473	7,738,575	237,925	189,210	191,519	-	12,282,492
Other assets, net	1,708,022	7,974,974	32,743	29,715	5,404	(110,715)	9,640,143
<b>TOTAL ASSETS</b>	<b>246,873,928</b>	<b>462,166,687</b>	<b>8,552,187</b>	<b>15,908,163</b>	<b>1,078,192</b>	<b>(30,522,594)</b>	<b>704,056,563</b>
<b>LIABILITIES</b>							
Loans and advances from banks	4,298,593	159,265,413	4,092,136	1,676,833	203,758	-	169,536,733
Securities sold under agreements to repurchase	26,123,951	-	-	2,311,482	-	-	28,435,433
Customer accounts	112,369,981	74,345,242	6,089,198	2,647,060	385,973	-	195,837,454
Debt securities issued	3,949,454	199,115,329	-	1,662,351	-	-	204,727,134
Subordinated loan		19,168,867	-	-	-	-	19,168,867
Other borrowed funds	188,460	3,872,385	360,184	-	-	-	4,421,029
Derivative financial instruments	3,474	27,880	-	-	-	-	31,354
Dividends payable	374	-	-	-	29	-	403
Interest accrued on interest bearing liabilities	935,771	5,162,271	118,607	12,338	133	-	6,229,120
Other liabilities	8,696,039	731,847	102,921	249,200	27,564	3,086,716	12,894,287
<b>TOTAL LIABILITIES</b>	<b>156,566,097</b>	<b>461,689,234</b>	<b>10,763,046</b>	<b>8,559,264</b>	<b>617,457</b>	<b>3,086,716</b>	<b>641,281,814</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>90,307,831</b>	<b>477,453</b>	<b>(2,210,859)</b>	<b>7,348,899</b>	<b>460,735</b>		

## 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 2004:

<b>OFF-BALANCE LIABILITIES</b>	<b>KZT</b>	<b>USD</b>	<b>EUR</b>	<b>RUR</b>	<b>Other currency</b>	<b>Allowance for losses</b>	<b>Total</b>
Accounts payable on forwards and securities operations	(6,937,547)	(6,759,376)	-	(56,132)	-	-	(13,753,055)
Accounts receivable on forwards and securities operations	<u>2,339,820</u>	<u>8,302,475</u>	<u>3,099,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,741,545</u>
<b>OPEN OFF-BALANCE POSITION</b>	<b><u>(4,597,727)</u></b>	<b><u>1,543,099</u></b>	<b><u>3,099,250</u></b>	<b><u>(56,132)</u></b>	<b><u>-</u></b>		
<b>TOTAL OPEN POSITION</b>	<b><u>85,710,104</u></b>	<b><u>2,020,552</u></b>	<b><u>888,391</u></b>	<b><u>7,292,767</u></b>	<b><u>460,735</u></b>		



	KZT	USD	EUR	RUR	Other currency	Allowance for losses	2003 Total
		USD1= KZT 144.22	EUR1 = KZT 180.23	RUR1=KZT 4.93			
<b>ASSETS</b>							
Cash and balances with national (central) banks	22,310,905	4,533,995	800,584	759,026	75,909	-	28,480,419
Precious metals	-	-	-	-	300,158	-	300,158
Loans and advances to banks, net	1,786,062	34,219,406	1,963,138	603,605	291,027	(414,586)	38,448,652
Trading securities	29,020,756	28,698,320	11,179,126	1,528,246	777	-	70,427,225
Securities purchased under agreement to resell	585,200	-	-	1,987,145	32,600	-	2,604,945
Investment securities	134,694	2,737	-	-	32,372	-	169,803
Loans and advances to customers, net	58,616,965	223,933,230	6,492,375	1,836,145	633,287	(19,069,078)	272,442,924
Derivative financial instruments	15,399	-	-	-	-	-	15,399
Investments in associates	146,206	-	-	-	-	-	146,206
Fixed assets, net	5,718,297	-	-	92,857	56,793	-	5,867,947
Intangible assets, net	419,320	-	-	296	16,435	-	436,051
Interest accrued on interest bearing assets	5,067,997	5,981,428	442,368	40,330	2,892	-	11,535,015
Other assets, net	1,506,612	1,846,310	18,959	10,014	15,038	(30,520)	3,366,413
<b>TOTAL ASSETS</b>	<b>125,328,413</b>	<b>299,215,426</b>	<b>20,896,550</b>	<b>6,857,664</b>	<b>1,457,288</b>	<b>(19,514,184)</b>	<b>434,241,157</b>
<b>LIABILITIES</b>							
Loans and advances from banks	1,711,996	72,331,640	1,913,930	42,510	7,602	-	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	1,135,379	158,197	-	148,391,258
Debt securities issued	-	95,831,580	-	769,835	-	-	96,601,415
Subordinated loan	-	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	8	968	-	5,201,334
Other liabilities	4,745,183	1,143,509	19,720	7,919	3,307	2,483,034	8,402,672
<b>TOTAL LIABILITIES</b>	<b>63,003,960</b>	<b>296,479,339</b>	<b>19,865,552</b>	<b>1,955,651</b>	<b>170,104</b>	<b>2,483,034</b>	<b>383,957,640</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>62,324,453</b>	<b>2,736,087</b>	<b>1,030,998</b>	<b>4,902,013</b>	<b>1,287,184</b>		

## 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 2003:

OFF-BALANCE LIABILITIES	KZT	USD	EUR	RUR	Other currency	Allowance for losses	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
<b>OPEN OFF-BALANCE POSITION</b>	<b>244,815</b>	<b>(3,150,485)</b>	<b>2,072,645</b>	<b>847,623</b>	<b>-</b>		
<b>TOTAL OPEN POSITION</b>	<b>62,569,268</b>	<b>(414,398)</b>	<b>3,103,643</b>	<b>5,749,636</b>	<b>1,287,184</b>		

## 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 maximum 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:

	Kazakhstan	CIS	OECD countries	Other non-OECD countries	Allowance for losses	2004 Total
<b>ASSETS</b>						
Cash and balances with national (central) banks	59,790,480	2,380,453	4,121,885	-	-	66,292,818
Precious metals	-	-	-	-	-	-
Loans and advances to banks, net	1,836,355	18,825,677	16,459,503	5,245,054	(533,027)	41,833,562
Trading securities	65,908,709	6,742,961	2,128,057	-	-	74,779,727
Securities purchased under agreement to resell	3,446,257	4,806,047	-	150,159	-	8,402,463
Derivative financial instruments	353	16,491	-	3,000	-	19,844
Loans to customers, net	399,225,110	78,106,468	9,537,802	37,940,022	(29,878,852)	494,930,550
Securities held to maturity	-	64,294	-	-	-	64,294
Securities available for sale	488,668	-	-	-	-	488,668
Investments in associates	217,964	-	-	-	-	217,964
Fixed assets, net	6,816,666	184,390	-	-	-	7,001,056
Intangible assets, net	364,362	21,112	-	-	-	385,474
Other assets, net	1,992,260	5,897,349	1,860,195	1,054	(110,715)	9,640,143
<b>TOTAL ASSETS</b>	<b>540,087,184</b>	<b>117,045,242</b>	<b>34,107,442</b>	<b>43,339,289</b>	<b>(30,522,594)</b>	<b>704,056,563</b>
<b>LIABILITIES</b>						
Loans and advances from banks	20,521,383	12,976,177	132,438,012	4,395,776	-	170,331,348
Securities sold under agreements to repurchase	26,131,013	2,313,714	-	-	-	28,444,727
Derivative financial instruments	28,059	-	3,295	-	-	31,354
Customer accounts	179,274,861	6,242,074	4,496,155	7,814,223	-	197,827,313
Debt securities issued	4,078,514	15,233,806	188,250,280	278,117	-	207,840,717
Other borrowed funds	1,783,025	2,728	2,678,214	-	-	4,463,967
Other liabilities	7,788,442	297,620	1,673,798	47,711	3,086,716	12,894,287
Subordinated loan	3,251,772	-	15,837,988	357,938	-	19,447,698
Dividends payable	374	29	-	-	-	403
<b>TOTAL LIABILITIES</b>	<b>242,857,443</b>	<b>37,066,148</b>	<b>345,377,742</b>	<b>12,893,765</b>	<b>3,086,716</b>	<b>641,281,814</b>
<b>OPEN BALANCE SHEET POSITION</b>						
	<b>297,229,741</b>	<b>79,979,094</b>	<b>(311,270,300)</b>	<b>30,445,524</b>		

	<b>Kazakhstan</b>	<b>CIS</b>	<b>OECD countries</b>	<b>Other non- OECD countries</b>	<b>Allowance for losses</b>	<b>2003 Total</b>
<b>ASSETS</b>						
Cash and balances with the National Bank of the Republic of Kazakhstan	27,372,888	1,111,725	-	-	-	28,484,613
Precious metals	-	-	300,158	-	-	300,158
Loans and advances to banks, less allowance for loan losses	564,138	15,895,068	18,975,185	3,563,019	(414,586)	38,582,824
Trading securities	43,548,181	1,903,927	25,748,751	-	-	71,200,859
Investment securities	137,554	32,372	-	-	-	169,926
Securities purchased under agreement to resell	587,010	2,020,770	538	-	-	2,608,318
Loans to customers, less allowance for loan losses	245,647,791	27,890,871	9,057,608	19,535,251	(19,069,078)	283,062,443
Derivative financial instruments	9,509	5,890	-	-	-	15,399
Investments in 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
Other assets, net	2,312,212	58,716	996,797	29,208	(30,520)	3,366,413
<b>TOTAL ASSETS</b>	<b>326,463,106</b>	<b>49,085,720</b>	<b>55,079,037</b>	<b>23,127,478</b>	<b>(19,514,184)</b>	<b>434,241,157</b>
<b>LIABILITIES</b>						
Loans and advances from banks	17,818,730	10,771,617	47,533,427	98,145	-	76,221,919
Loans from financial institutions	-	-	-	-	-	-
Repurchase operations with securities	6,833,086	-	30,417,589	-	-	37,250,675
Derivative financial instruments	801	-	-	-	-	801
Debt securities issued	-	1,717,020	96,516,346	-	-	98,233,366
Subordinated debt	3,654,999	-	4,683,221	394,694	-	8,732,914
Customer accounts	139,488,173	2,887,620	7,970,186	1,243,437	-	151,589,416
Other borrowed funds	3,522,159	3,314	-	-	-	3,525,473
Other liabilities	5,359,521	316,104	100,815	143,198	2,483,034	8,402,672
Dividends payable	374	30	-	-	-	404
<b>TOTAL LIABILITIES</b>	<b>176,677,843</b>	<b>15,695,705</b>	<b>187,221,584</b>	<b>1,879,474</b>	<b>2,483,034</b>	<b>383,957,640</b>
<b>OPEN BALANCE SHEET POSITION</b>						
	<b>149,785,263</b>	<b>33,390,015</b>	<b>(132,142,547)</b>	<b>21,248,004</b>		

HH/AH4308

## AUDITORS' REPORT

### INTRODUCTION

We have audited the annual accounts of Kazkommerts International B.V., Rotterdam, The Netherlands for the year 2004 with capital and reserves as at 31 December 2004 of USD 4,325,622 and the profit for the period 2004 of USD 1,505,556. 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 2004 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, 14 September 2005

MAZARS PAARDEKOOPEL HOFFMAN



G.A.P.M. Kannekens RA

## Kazkommerts International B.V.

### Balance Sheet (after appropriation of results and expressed in USD)

	<u>Notes</u>	<u>31 December 2004</u>	<u>31 December 2003</u>
<b>FIXED ASSETS</b>			
Financial fixed assets			
Investment	3	0	0
Loans to shareholder	4	1,448,132,159	807,339,207
		<u>1,448,132,159</u>	<u>807,339,207</u>
<b>CURRENT ASSETS</b>			
Loan to shareholder	4	760,000,000	190,000,000
Bonds of Russian Federation		3,697,110	3,650,551
Current account group companies		105,708	154,266
Interest receivable		26,173,825	11,987,470
VAT receivable		2,777	4,555
Cash at banks	5	3,914,410	80,032,202
		<u>793,893,830</u>	<u>285,829,044</u>
<b>CURRENT LIABILITIES</b>			
Loan from third parties	6	760,000,000	235,000,000
Current account shareholder		3,087,582	94,809
Current account third parties		0	33,000,000
Interest payable to third parties		25,722,456	14,565,344
Corporation tax		722,470	600,846
Accrued expenses		35,700	13,839
		<u>789,568,208</u>	<u>283,274,838</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>4,325,622</u>	<u>2,554,206</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,452,457,781</u>	<u>809,893,413</u>
Less: LONG-TERM DEBT			
Loan from third parties	6	1,448,132,159	807,339,207
		<u>4,325,622</u>	<u>2,554,206</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	7	24,579	22,644
Currency translation reserve		(1,951)	0
Legal reserve		206	190
Share premium		497,000	0
Proposed dividend 2003		0	231,140
Retained earnings		3,805,788	2,300,232
		<u>4,325,622</u>	<u>2,554,206</u>

Kazkommerts International B.V.

**Profit and loss account**

(expressed in USD)

	<u>year ended</u> <u>31 December</u> <u>2004</u>	<u>year ended</u> <u>31 December</u> <u>2003</u>
<b>FINANCIAL INCOME/(CHARGES)</b>		
Gross income on loans to group companies		
to group companies	113,125,859	58,655,863
withholding tax	(6,781,687)	(2,598,796)
Net interest income on loans		
to group companies	106,344,172	56,057,067
Interest expenses on loans		
from third parties	(104,509,244)	(55,258,374)
Net interest income on loans	1,834,928	798,693
Interest expenses on loan group company	0	(9,667)
Interest income Bonds	236,559	300,620
Result investment	(50)	0
Result on bonds transactions	0	269,237
Unrealised result on securities	65,000	1,200,000
Amortized premium on issued bonds	792,952	793,905
Amortized premium on provided bonds	(792,952)	(793,905)
Income on options	0	22,167
Bank interest	2,334	23,834
Bank charges	(85,727)	(3,032)
Ruling shortage/surplus	147,723	67,314
Exchange result	32,130	(95,112)
Total financial income/(charges)	<u>2,232,897</u>	<u>2,574,054</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Administrative expenses	50,679	37,551
Audit fees	29,626	17,762
Legal fees	(3,774)	0
Capital tax	2,726	0
General expenses	103,233	62,190
	<u>182,490</u>	<u>117,503</u>
<b>PROFIT BEFORE TAXATION</b>	<u>2,050,407</u>	<u>2,456,551</u>
<b>CORPORATION TAX</b>	544,851	733,339
<b>NET PROFIT FOR THE YEAR</b>	<u><u>1,505,556</u></u>	<u><u>1,723,212</u></u>

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**Kazkommerts International B.V.**

**Notes to the accounts as at 31 December 2004**

**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**

As per 1 January 2004 the Company has changed its reporting currency to USD (i.y. EUR) which is the functional currency of the company. All assets and liabilities expressed in currencies other than USD have been translated at the rates of exchange prevailing at the balance sheet date. All transactions in foreign currencies have been translated into USD 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 valued at market value. The unrealised result because of market values and amounts to USD 1,265,000.

**(d) Investment**

Investments are valued at Net Asset Value.

**(e) Other assets and liabilities**

Unless otherwise indicated assets and liabilities are stated at face value.

**(f) Revenue recognition**

Expenses and income are accounted for under the accrual basis.

**(g) Corporation tax**

Taxation is incurred and provided for in accordance with generally accepted ruling practice.

**3. Investment**

The company holds a 100% interest in Kazkommerts International Ltd, Cayman Islands. This company will be liquidated during 2005 and there are no assets and liabilities in the company.



**Kazkommerts International B.V.**

**Notes to the accounts as at 31 December 2004**

**4. 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 loan 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 7.352%. 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.

This amount has been partially amortized leading to a deferred bond issue premium of USD 1,867,841 (i.y. USD 2,660,792.95).

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 610,000,000. The repayment date of the loan is 17 December 2005 and 19 December 2005 for Tranche A, USD 500 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 + 1.121% + withholding tax compensation and commission of 1.004%. The borrower shall pay to the Company interest from time to time.

4. a dollar term deposit facility to the amount of USD 150,000,000. . The repayment date of the loan is 28 August 2005. The loan bears deposit interest at a nominal rate of LIBOR + 1.425% + withholding tax compensation. The borrower shall pay to the Company interest from time to time.

5. a dollar term deposit facility to the amount of USD 400,000,000. The repayment date of the loan is 7 April 2014. The loan bears deposit interest at a nominal rate of 8.89% (8% + withholding tax compensation). The borrower shall pay to the Company interest from time to time.

6. a dollar term deposit facility to the amount of USD 350,000,000. The repayment date of the loan is 3 November 2009. The loan bears deposit interest at a nominal rate of 7.84% (7.125% + withholding tax compensation). The borrower shall pay to the Company interest from time to time.

## Kazkommerts International B.V.

### Notes to the accounts as at 31 December 2004

#### 4. Loan to shareholder/Deferred premium on loans provided (Cont'd)

In 2004 tax authorities in Kazakhstan disputed the split of the fee on the outstanding loans in commission and interest. Between JSC Kazkommertsbank and Kazkommerts International B.V. a new agreement was made to change the split of the fee, starting 1 January 2004. Because the new agreement can be changed if JSC Kazkommerts wins the appeal with the juridical authorities, the changes are not carried through in these annual accounts. If the changes have to be made in the future, this will only effect the division between gross income on loans and withholding tax in the P&L for an amount of approximately \$ 3,400,000. It will not have any effect on the net profit for the year.

#### 5. 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.

#### 6. Issued Bonds/Deferred interest income on bonds

This refers 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 610m with interest percentages of LIBOR + 1.5% (Tranche A, USD 500 million) and LIBOR + 2% (Tranche B, USD 110 million). The repayment date of the loan is 17 December 2005 and 19 December 2005 for Tranche A and Tranche B accordingly.

4 Bonds were issued in the amount of USD 150 million with an interest percentage of LIBOR + 1.3%. The repayment date of the bonds is 28 August 2005

5. Bonds were issued in the amount of USD 400 million with an interest percentage of 7.875%. The repayment date of the bonds is 7 April 2014.

6. Bonds were issued in the amount of USD 350 million with an interest percentage of 7%. The repayment date of the bonds is 3 November 2009

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 2004

#### 7. 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:

	<u>31 December</u> <u>2004</u>	<u>31 December</u> <u>2003</u>
Issued share capital	24,579	22,644
Currency translation reserve	(1,951)	0
Legal (non-distributable) reserve	206	190
	<u>22,834</u>	<u>22,834</u>
Share premium	497,000	0
Proposed dividend	<u>0</u>	<u>231,140</u>
Retained earnings/(Accumulated deficit):		
-position as at the beginning of the year	2,300,232	808,160
-dividend	0	(231,140)
-profit/(loss) for the year	<u>1,505,556</u>	<u>1,723,212</u>
-position as at the end of the year	<u>3,805,788</u>	<u>2,300,232</u>
Total capital and reserves	<u><u>4,325,622</u></u>	<u><u>2,554,206</u></u>

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.

**Kazkommerts International B.V.**

**Notes to the accounts as at 31 December 2004**

**8. Directors**

The Company has two directors and no supervisory directors. Neither remuneration nor any other benefits were paid to the present directors during the year under review or the previous year.

**The Management**

\_\_\_\_\_  
A. Timchenko

  
\_\_\_\_\_  
Equity Trust Co. N.V.

Rotterdam, 14 September 2005

**Kazkommerts International B.V.**

**Supplementary information to the Accounts as at 31 December 2004**

**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 profit earned by the Company during the year under review will be carried forward as reflected in the accounts.

**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.

HH/AH1806

## 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

**Kazkommerts International B.V.**

**Balance Sheet**

*(after appropriation of results and expressed in Euros)*

	<b>Notes</b>	<b>31 December 2003</b>	<b>31 December 2002</b>
		<u>                    </u>	<u>                    </u>
<b>FIXED ASSETS</b>			
Financial fixed assets			
Loans to shareholder	3	641.764.076	187.168.242
<b>CURRENT ASSETS</b>			
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
		<u>226.731.475</u>	<u>176.712.379</u>
<b>CURRENT LIABILITIES</b>			
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
		<u>224.701.105</u>	<u>176.051.812</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>2.030.370</u>	<u>660.567</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>643.794.446</u>	<u>187.828.809</u>
<b>Less: LONG-TERM DEBT</b>			
Loans from third parties	5	641.764.076	187.168.242
		<u>2.030.370</u>	<u>660.567</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	6	18.000	18.000
Legal reserve		151	151
Proposed dividend 2003		183.736	0
Retained earnings		1.828.483	642.416
		<u>1.828.483</u>	<u>642.416</u>



**Kazkommerts International B.V.**

**Profit and loss account**  
*(expressed in Euros)*

	year ended 31 December 2003	year ended 31 December 2002
	<u>2003</u>	<u>2002</u>
<b>FINANCIAL INCOME/(CHARGES)</b>		
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	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)	<u>                    </u>	<u>                    </u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Administrative expenses	48.938	28.159
Legal fees	0	4.787
General expenses	55.023	7.531
	<u>                    </u>	<u>                    </u>
<b>PROFIT BEFORE TAXATION</b>	<b>2.018.626</b>	<b>276.000</b>
<b>CORPORATION TAX</b>	<b>648.823</b>	<b>77.145</b>
<b>NET PROFIT FOR THE YEAR</b>	<b><u>1.369.803</u></b>	<b><u>198.855</u></b>





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.

**Kazkommerts International B.V.**

**Notes to the accounts as at 31 December 2003**

**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:

	<u>31 December 2003</u>	<u>31 December 2002</u>
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	<u>1.828.483</u>	<u>642.416</u>
Total capital and reserves	<u>2.030.370</u>	<u>660.567</u>

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,

A. Timchenko  


Rotterdam, June 2004

  
Equity Trust Co. N.V.

## **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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**ISSUER**

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