BankTuranAlem

TuranAlem Finance BV

(incorporated with limited liability in The Netherlands)

U.S.$225,000,000
7.875% Notes due 2010

Guaranteed by

OJSC Bank TuranAlem

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

Issue Price: 98.685%

The U.S.$225,000,000 7.875% Notes due 2010 (the "Notes") are issued by TuranAlem Finance BV (the "Issuer") and are guaranteed by OJSC Bank TuranAlem (the "Bank" or the "Guarantor"). Interest on the Notes will accrue from 2 June 2003 and will be payable semi-annually in arrear on 2 December and 2 June of each year, commencing on 2 December 2003. The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes pursuant to a deed of guarantee (the "Guarantee") to be dated on or about the Closing Date (as defined below). The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 2 June 2003 (the "Trust Deed") between the Guarantor and J.P. Morgan Corporate Trustee Services Limited as trustee for the holders of the Notes (the "Trustee").

The Notes will be offered and sold in an offering in the United States to "qualified institutional buyers" (as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A and in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "Subscription and Sale" and "Form of Notes and Transfer Restrictions". Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has also been made for the Notes to be designated as eligible for trading on The PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). After their issue, the Guarantor may, at its sole discretion, also apply for the Notes to be listed on the Kazakhstan Stock Exchange ("KASE").

See "Investment Considerations" starting on page 16 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

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

The Notes, on issue, will be assigned a Baa3 (stable) rating by Moody's Investors Service Limited ("Moody's") and a BB- (stable) rating by Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. ("Standard & Poor's"). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

Notes offered otherwise than in reliance on Regulation S may be offered by the Managers (as defined in "Subscription and Sale") through their agents in the United States.

Joint-Lead Managers

ABN AMRO **Merrill Lynch International**

Co-Manager

RZB – Austria
Raiffeisen Zentralbank Österreich AG

The date of this Offering Circular is 30 May 2003.

The Issuer and the Bank, having made all reasonable inquiries, confirm that this Offering Circular contains all information with regard to the Issuer, the Bank and the Notes which is material in the context of the issue and offering of the Notes, that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions, expectations and intentions of the Issuer and the Bank expressed herein are true and honestly held and that there is no other fact or matter omitted from this Offering Circular (i) which was or is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Bank and of an investment in the Notes or (ii) the omission of which made or makes any statement herein misleading in any material respect or (iii) in the context of the issue and offering of the Notes was or is material for disclosure herein. Save as provided below, the Issuer and the Bank accept responsibility for the information contained in this Offering Circular. The information contained in Annex A to this Offering Circular — "The Republic of Kazakhstan" has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to such information provided therein. Accordingly, the Issuer and the Bank only accept responsibility for accurately reproducing such extracts as they appear in Annex A. They accept no further or other responsibility in respect of such information.

In making an investment decision, investors must rely on their own examination of the Issuer, the Bank, Kazakhstan, the Notes, the Guarantee and the terms of the offering, including the merits and risks involved. See "Investment Considerations". The Notes and the Guarantee have not been recommended by any U.S. federal or state securities commission or regulatory authority. In addition, no U.S. federal or state securities commission or regulatory authority has confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Neither the Managers nor any of their respective directors, affiliates, advisers or agents have, nor have Issuer's or Bank's counsel, made an independent verification of the information contained in this Offering Circular in connection with the issue or offering of the Notes and no representation or warranty, expressed or implied, is made by the Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Offering Circular is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Managers or any of their respective directors, affiliates, advisers or agents in any respect. Furthermore, none of the Managers makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes or the Guarantee, the performance and observance by the Issuer or the Bank of their respective obligations in respect of the Notes and the Guarantee or the recoverability of any sums due or to become due from the Issuer or the Bank under the Notes or the Guarantee.

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

The Issuer has not authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulation 1995 (the "Regulations"). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations. Further, this communication is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons together being referred to as "relevant persons"). This communication must not be acted on or relied on by *persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.*

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

IN CONNECTION WITH THIS ISSUE, MERRILL LYNCH INTERNATIONAL (OR ANY PERSON ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON MERRILL LYNCH INTERNATIONAL (OR ANY AGENT OF MERRILL LYNCH INTERNATIONAL) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "Unrestricted Global Note") in registered form, without interest coupons attached, which will be registered in the name of Chase Nominees Limited, as nominee for, and shall be deposited on or about 2 June 2003 (the "Closing Date") with JPMorgan Chase Bank, as common depositary (the "Common Depositary") for, and in respect of interests held through, Euroclear Bank S.A./N.V., as operator of the Euroclear System (the "Euroclear Operator") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "Restricted Global Note" and together with the Unrestricted Global Note, the "Global Notes") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). The Notes will be issued in denominations of U.S.$10,000 or any greater amount which is an integral multiple of U.S.$1,000. See "Terms and Conditions of the Notes". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "Form of Notes and Transfer Restrictions". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, the Euroclear Operator and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

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 ''estimates'', ''believes'', ''expects'', ''may'', ''are expected to'', ''intends'', ''will'', ''will continue'', ''should'', ''would be'', ''seeks'', ''approximately'', or ''anticipates'', or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include, but are not limited to, anticipated growth of the Bank's corporate 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, statements relating to a possible sale of an equity interest in the Bank and estimates and financial targets for increasing and diversifying the composition of the loan portfolio. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions; the demand for the Bank's services; competitive factors in the industries in which the Bank competes; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); results of litigation or arbitration; interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders and the timing, impact and other uncertainties of future actions. See ''Investment Considerations''.

MARKET SHARE AND INDUSTRY DATA

It is difficult to obtain precise industry and market information in the Kazakh banking industry. Generally, information as to the market and competitive position data included in this Offering Circular have been obtained from the National Bank of Kazakhstan, the National Statistics Agency, published financial information and from surveys or studies conducted by third-party sources that are believed to be reliable. However, no assurance can be given as to the accuracy and completeness of such information and such market and position data has not been independently verified but the Issuer and Guarantor accept responsibility for the correct reproduction of this information.

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AVAILABLE INFORMATION

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

ENFORCEMENT OF FOREIGN JUDGMENTS

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

The Notes and the Trust Deed are governed by the laws of England and the Issuer and the Guarantor have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder, to arbitration in London, England. See "Terms and Conditions of the Notes — Conditions 17 and 20". Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. However, each of Kazakhstan and England are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "Convention") although there has recently been some doubt as to whether the courts of Kazakhstan would enforce an arbitral award under the Convention. In February 2002, the Constitutional Council of the Republic passed a decree on the interpretation of Kazakhstan's Constitution which stated that the conclusion by parties to a commercial contract in which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic. Accordingly, English arbitration awards should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

In addition, the Issuer is incorporated under the laws of The Netherlands. Members of its board of directors are residents of The Netherlands and Kazakhstan. Additionally, all or some of the managers may be residents of countries outside the United States. A substantial portion of the assets of the Issuer and of such persons are or may be located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon the Issuer or such persons, or to enforce in United States courts or in courts in jurisdictions located outside the United States, judgments obtained against the Issuer or such persons in United States courts, or to enforce in United States courts judgments obtained against the Issuer or such persons in courts in jurisdictions located outside the

United States, in each case, in any action, including actions predicated solely upon the civil liability provisions of United States securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States, rights predicated upon the United States securities laws. Legal counsel in The Netherlands, Nauta Dutilh, has advised that the United States and The Netherlands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, would not be directly enforceable in The Netherlands. However, if the party in whose favour such final judgment is rendered brings a new suit in a competent court in The Netherlands such party may submit to such court the final judgment which has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, such court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in The Netherlands.

PRESENTATION OF CERTAIN INFORMATION

The Bank is required to maintain its books of account in Tenge in accordance with relevant laws in Kazakhstan and with the regulations (collectively, the "NBK Regulations") of the National Bank of Kazakhstan (the "NBK") (collectively, "Kazakh Accounting Standards" or "KAS"). For the purposes of the financial analysis and management discussions herein, the term "the Bank" shall mean, unless otherwise specified, OJSC Bank TuranAlem and its principal subsidiaries LLP TuranAlem Securities, OJSC BTA Leasing, LLP Pawnshop Altyn Orda, TuranAlem Finance B.V., OJSC Insurance Company KBS Garant, CJSC Kazakhstan Pension Fund, LLP Kazco Construction Industrial Ltd, LLP Samal Properties, CJSC Dynasty Life Insurance Company, CJSC Kurmet Pension Fund, OJSC Insurance Company BTA, LLP Real Estate Commerce, LLP Force Technology and BTA Ipoteka (indirectly owned through LLP TuranAlem Securities) whose accounts are consolidated with the Bank's accounts. Although the Bank does not own any shares in LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Real Estate Commerce and LLP Force Technology, they are treated, in accordance with International Financial Reporting Standards, formerly referred to as the International Accounting Standards, ("IFRS" or more commonly referred to as "IAS"), as subsidiaries because the Bank controls their operations and accordingly, the financial statements of the Bank include their results. Banking operations account for more than 95% of the total income of the Bank, its subsidiaries and its principal affiliates. The Bank's consolidated financial statements as at and for the years ended 31 December 2000, 2001 and 2002 were prepared in accordance with IAS and were audited by Ernst & Young Kazakhstan ("Ernst & Young"). Ernst & Young is also the statutory auditor of the Bank. The Issuer's financial statements as at and for the years ended 31 December 2001 and 2002 were prepared in accordance with EU directives as implemented in Part 9, Book 2 of the Dutch Civil Code and were audited by Mazars Paardekooper Hoffman, Rotterdam, The Netherlands. See the financial statements included herein and "Management's Discussion and Analysis of Results of Operations and Financial Condition".

In this Offering Circular, references to "Tenge" or "KZT" are to Kazakh Tenge, the lawful currency of Kazakhstan; references to "U.S. Dollars" or "U.S.$" are to United States dollars, the lawful currency of the United States; references to "euros" or "€" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union and as further amended by the Treaty of Amsterdam; references to "GBP" are to Pounds Sterling, the lawful currency of the United Kingdom; references to "CHF" are to Swiss francs, the lawful currency of Switzerland; and references to "Yen" or "¥" are to Japanese yen, the lawful currency of Japan. References to "Kazakhstan", the "Republic" or the "State" are to the Republic of Kazakhstan, references to the "Government" are to the government of the Republic of Kazakhstan and the references to the "CIS" are to the Commonwealth of Independent States. References to "CPS" are to the convertible preference shares issued by the Bank.

Solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate, in each case calculated in accordance with the official exchange rates for U.S. Dollars published by the KASE. On 31 December 2002, the official U.S. Dollar rate published by the KASE was KZT 155.85:U.S.$1.00 and the average exchange rate for the year ended 31 December 2002 was KZT 153.43:U.S.$1.00. For further details of applicable exchange rates, see "Annex A — The Republic of Kazakhstan — Exchange Rates" and the consolidated financial statements included herein.

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

Certain amounts which appear in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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

SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere in this Offering Circular.

The Issuer

The Issuer is a wholly owned subsidiary of the Bank and was incorporated on 22 May 2001 under the laws of The Netherlands for the purpose of, amongst other things, raising funds for the Bank.

The Bank

The Bank was formed in 1997 following the restructuring and merger of two state-owned banks, JSC Alem Bank Kazakhstan ("Alem Bank") established in 1991 and JSC Turan Bank ("Turan Bank") established in 1925. Following a recapitalisation by the Government in 1997, the Bank was fully privatised at a competitive auction in March 1998 and sold to a group of domestic companies.

As at 31 December 2002, the Bank was the second largest bank in Kazakhstan in terms of total assets (KZT 224,958 million) and the third largest bank in Kazakhstan, including Development Bank of Kazakhstan ("DBK"), in terms of shareholders' equity (KZT 19,138 million), in each case calculated in accordance with KAS. The Bank's head office is in Almaty. As at 31 December 2002, the Bank had 235 branches throughout Kazakhstan and a representative office in each of Moscow, Russia and Kiev, Ukraine. Not all of the Bank's branches provide the full range of its banking services. The Bank has 10 subsidiaries: LLP TuranAlem Securities, OJSC BTA Leasing, LLP Pawnshop Altyn Orda, CJSC Kazakhstan Pension Fund, OJSC Insurance Company KBS Garant, TuranAlem Finance B.V., CJSC Dynasty Life Insurance Company, CJSC Kurmet Pension Fund, OJSC Insurance Company BTA and BTA Ipoteka (indirectly owned through LLP TuranAlem Securities) and four affiliates which in accordance with IAS are treated as subsidiaries: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Real Estate Commerce and LLP Force Technology.

Credit Ratings

Currently, the Bank is rated by two rating agencies: Moody's and Standard & Poor's, which have issued the following credit ratings:

Moody's		**Standard & Poor's**	
Long-term foreign currency deposits	Bal	Senior long-term debt	BB-
Senior debt	Baa3	Short-term	B
Financial strength	D-	Outlook	Stable
Outlook	Stable		

The Notes, on issue, will be assigned a Baa3 (stable) rating by Moody's and a BB- (stable) rating by Standard & Poor's. A security credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Bank's Business

The Bank is one of the leading commercial banks in Kazakhstan servicing private commercial enterprises, state-owned enterprises and individual customers. Its primary business consists of corporate banking, trade finance, retail banking, currency and securities trading and debit and credit card services.

As at 31 December 2002, the Bank was the second largest bank in Kazakhstan in terms of the size of its loan portfolio with a wide range of corporate customers, including many of the country's leading industrial companies. As at 31 December 2002, the Bank had approximately 34,400 corporate accounts representing a 20% market share of Kazakhstan's corporate lending, mostly in trade finance and short-term credits and it is expanding into services such as payroll management and corporate cards.

The Bank is the third largest bank in Kazakhstan in terms of the number of its deposits. As at 31 December 2002, the Bank had approximately 587,000 individual customer accounts, representing a 21% share of the market for term and demand deposits for individuals. The Bank issues VISA and Europay International debit and credit cards. As at 31 December 2002, the Bank had over 276,000 credit and debit cards in issue representing approximately 19% of the market for these cards. The Bank is also an authorised agent for the distribution of American Express cards.

The Bank provides international trade services to many of Kazakhstan's leading exporters, such as Hurricane Kumkol Munai, Aktobemunaigas, Kazakhmys, Ispat-Karmet and Kazatomprom. The Bank is a leading provider of foreign exchange services and an active trader in the inter-bank OTC and official currency markets on behalf of customers. The Bank maintains correspondent banking relationships with many of the world's leading banks.

Business Strategy

The Bank's strategy centres on positioning itself to exploit the opportunities presented by Kazakhstan's expanding private sector. The growing demand for financing from corporates and a banking sector greatly strengthened by the NBK's stabilisation programme, has resulted in increased public confidence in the banking sector resulting in increased retail deposits held by the banks in Kazakhstan. The Bank plans to expand further its operations and increase its profitability through:

- increasing its corporate and retail market shares through specific loan and retail service programmes;
- increasing fee and commission income;
- increasing revenue derived from the operations of subsidiaries;
- entering new markets;
- improving its credit risk management programme;
- enhancing managerial efficiencies; and
- expanding its funding base.

Other Strategic Considerations

The Bank's management and current shareholders have expressed an interest in selling at least a 55% equity interest in the Bank by 31 December 2006 to an OECD based bank with total assets greater than U.S.$60 billion and with a financial strength of not less than D+ (or its equivalent) as measured by any of Moody's, Standard & Poor's or Fitch IBCA. See "Investment Considerations — Change of Control and CPS" and "Management and Share Ownership — Principal Shareholders — The Bank's CPS".

Summary Terms and Conditions

Issue:	U.S.$225,000,000 principal amount of 7.875% Notes due 2010.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 7.875% per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 2 December and 2 June of each year, commencing on 2 December 2003.
Maturity Date:	2 June 2010.
Status:	The Notes constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Issuer. The Notes rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See "Terms and Conditions of the Notes — Condition 3". The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Guarantor which rank and will rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Guarantor, save only for such obligations as may be preferrred by mandatory provisions of applicable law.
Guarantee:	The Bank will, on or prior to the Closing Date, enter into the Guarantee under which the Bank will guarantee on an unconditional basis due payment of all sums payable by the Issuer under the Notes.
Negative Pledge:	Each of the Issuer and the Bank agree that it will not create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than in the case of the Bank, a Permitted Security Interest, as defined in Condition 4) upon or with respect to any of their respective undertakings, assets or revenues to secure any Financial Indebtedness (as defined in Condition 4) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Financial Indebtedness or are otherwise given the benefit of such security interest. See "Terms and Conditions of the Notes — Condition 4".
Certain Covenants:	The Issuer and the Guarantor will agree to certain covenants, including, without limitation, covenants with respect to limitation on merger and consolidation and limitation on transfer of interest in the Issuer by the Guarantor. See "Terms and Conditions of the Notes — Condition 5".
Taxation:	All payments under the Notes will be made free of any Dutch withholding taxes. See "Taxation — The Netherlands Taxation". Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15% to 20% 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 may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by The Netherlands or Kazakhstan upon or as a result of such payment will not be less than the amount provided for in such Note to be then due and payable. See "Terms and Conditions of the Notes — Condition 9".
Governing Law:	The Notes, the Guarantee and the Trust Deed will be governed by, and construed in accordance with, the laws of England.
Listing:	Application has been made to list the Notes on the Luxembourg Stock Exchange. After issue, the Bank may, at its sole discretion, also apply for the Notes to be listed on the KASE. Neither the Issuer nor the Bank can give any assurance that such listing will be obtained.
Selling Restrictions:	Neither the Notes nor the Guarantee has been or will be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in the United Kingdom, Kazakhstan and The Netherlands.
Use of Proceeds:	The net proceeds to the Issuer from the sale of the Notes is expected to be approximately U.S.$220,741,250. The net proceeds will be lent by the Issuer to the Bank and used by the Bank for its general corporate purposes. See "Use of Proceeds".
Investment Considerations:	For a discussion of certain investment considerations relating to the Issuer, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "Investment Considerations".

Summary Financial Information

The summary information set out below has been extracted from, should be read in conjunction with, and is qualified in its entirety by, the Bank's financial statements, including the notes thereto, contained elsewhere in this Offering Circular. See "Index to Financial Statements" and "Management's Discussion and Analysis of Results of Operations and Financial Condition".

The Bank's consolidated financial statements contained in this Offering Circular were prepared in accordance with IAS. The Bank's financial statements as at and for the years ended 31 December 2000, 2001 and 2002 were audited by Ernst & Young. Ernst & Young's report is included in this Offering Circular.

	Year ended 31 December			
	2000	*2001*	*2002*	*2002*
		(KZT millions)		*(U.S.$ millions (unaudited))*(1)
INCOME STATEMENT DATA				
Interest income	8,947	15,645	22,368	145.8
Interest expense	(3,416)	(6,671)	(10,527)	(68.6)
Net interest income before provision for losses	5,531	8,974	11,841	77.2
Provision for losses	(2,987)	(5,838)	(7,430)	(48.4)
Net interest income after provision for losses	2,544	3,136	4,411	28.8
Non-interest income	4,194	5,651	10,400	67.8
Non-interest expenses	(5,823)	(7,195)	(9,781)	(63.8)
Income before income taxes	915	1,592	5,030	32.8
Income tax expense	—	—	—	—
Income before minority interest	915	1,592	5,030	32.8
Minority interest	(18)	(1)	(132)	(0.9)
Net income	897	1,591	4,898	31.9

(1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts and see "Annex A — The Republic of Kazakhstan — "Exchange Rates" for historical exchange rate data.

	As at 31 December			
	2000	2001	2002	2002
		(KZT millions)		(U.S.$ millions (unaudited))[1]
BALANCE SHEET DATA				
Assets				
Cash, cash equivalents, obligatory reserves and due from other banks	9,455	22,054	34,108	218.9
Securities	8,172	17,831	51,715	331.8
Commercial loans and advances, net	55,247	110,489	127,395	817.4
Premises and equipment, net	4,999	5,441	6,523	41.9
Other assets	1,332	1,473	5,507	35.3
Total assets	79,205	157,288	225,248	1,445.3
Liabilities and shareholders' equity				
Due to other banks, the NBK and the Government	19,240	44,156	58,653	376.3
Amount owed to customers	46,933	81,008	105,757	678.6
Debt securities issued	—	13,310	31,286	200.7
Other liabilities	3,484	3,163	8,787	56.4
Total liabilities	69,657	141,637	204,483	1,312
Minority interest	613	809	1,010	6.5
Total shareholders' equity	8,935	14,842	19,755	126.8
Total liabilities and shareholders' equity	79,205	157,288	225,248	1,445.3

(1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts and see "Annex A — The Republic of Kazakhstan — Exchange Rates" for historical exchange rate data.

Summary Financial Ratios and Economic Data[1]

	Year ended 31 December		
	2000	2001	2002
Profitability Ratios			
Return on common shareholders' equity	12.8%	15.8%	33.4%
Return on average shareholders' equity	12.8%	13.4%	28.3%
Return on average assets	1.4%	1.3%	2.6%
Net interest margin	10.8%	8.6%	6.9%
Net interest spread	8.9%	7.0%	5.5%
Non-interest expense/net interest income before provisions for losses plus non-interest income	59.9%	49.2%	44.0%
Non-interest expense as a percentage of net interest income before provisions for losses	105.3%	80.2%	82.6%
Non-interest expense as a percentage of average total assets	9.3%	6.1%	5.1%
Loan Portfolio Quality			
Classified loans/gross loans	6.4%	14.6%	14.3%
Non-performing loans/gross loans	0.7%	0.4%	1.8%
Allowance for loan losses/gross loans	5.1%	5.6%	7.5%
Allowance for loan losses/classified loans	80.1%	38.7%	52.8%
Allowance for loan losses/non-performing loans	740.0%	1,316.0%	431.0%
Balance Sheet Ratios and Capital Adequacy			
Customer deposits as a percentage of total assets	59.3%	51.5%	47.0%
Net loans as a percentage of total assets	69.8%	70.2%	56.6%
Total shareholders' equity as a percentage of total assets	11.3%	9.4%	8.8%
Liquid assets as a percentage of total assets	22.3%	25.4%	38.1%
Risk weighted capital adequacy ratio[2]	12.3%	14.0%	15.9%
Economic Data			
Period end exchange rate (KZT/U.S.$)	144.50	150.20	155.85
Average exchange rate for period (KZT/U.S.$)	142.13	146.72	153.43
Inflation rate (CPI)	9.8%	6.4%	6.6%
GDP growth (real)	9.8%	13.5%	9.5%

(1) For the definitions of certain ratios, see "Selected Financial Information — Selected Financial Ratios and Economic Data".
(2) Calculated in accordance with BIS standards.

INVESTMENT CONSIDERATIONS

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

General

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

Considerations Relating to the Republic of Kazakhstan

Political and Regional Considerations

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

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

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper, ferro-alloys, iron ore, alumina, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, the Kyrgyz Republic and Belarus, joined by Tajikistan in 1999, signed a customs union which, among other things, provides for the removal of trade tariffs between these nations, and 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 the military action taken by the United States and an international coalition in Afghanistan, in response to the September 2001 terrorist attacks in the United States, and in Iraq, in response to alleged breaches by Iraq of various United Nations Security Council resolutions and the effect such military action may have on the world economy and political stability of other countries. In particular, countries in Central Asia, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil, oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects.

Macroeconomic Considerations and Exchange Rate Polices

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

The Government began implementing market-based economic reforms 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 11 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. According to figures compiled by the NSA, although gross domestic product ("GDP") fell in 1998 by 1.9% in the aftermath of the Asian and Russian financial crises, it began to rebound in 1999 following the adoption of a floating exchange rate policy in April 1999 and increased by 2.7% in real terms over the course of the full year. Whilst GDP has continued to grow in real terms following the floatation of the Tenge in 1999, increasing by 9.8% in 2000, by 13.2% in 2001 and by 9.5% in 2002, there can be no assurance that the GDP will continue to grow and any fall in GDP in subsequent years could adversely effect Kazakhstan's economy.

The Tenge is convertible for current account transactions, although it is not fully convertible currency outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and, in April 1999, allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 64.9% against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.9% in the year ended 31 December 1998. Following the adoption of a floating exchange rate policy in 1999, the Tenge has continued to depreciate in value against the U.S. Dollar, although at a much lower rate, depreciating by 5.2% in 2000, by 3.8% in 2001 and by 3.3% in 2002. The Tenge has appreciated in value against the U.S. Dollar during 2003 to KZT 151.33 : U.S.$1.00 as at 12 May 2002 compared to KZT 155.85 : U.S.$1.00 as at 31 December 2002. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

Implementation of Further Market-Based Economic Reforms

The need of substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain major enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain large oil and gas producers, mining companies and the national telecommunications company. However, there remains a need for substantial investment in many sectors of the Kazakhstan economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the amount of non-cash transactions in the economy and the size of the informal sector adversely affect the implementation of reforms and restrict the efficient collection of taxes. The Government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration and by 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.

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including revised tax codes, laws relating to investments, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Moreover, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments making it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business and prospects.

A new tax law came into effect as of 1 January 2002 and, as a result, the principal taxes now include a corporate income tax of 30%, a personal income tax of between 5% and 30%, a value added tax on goods and services of 16% and various property and other taxes. Payments from Kazakhstani sources to non-residents not represented in Kazakhstan are subject to withholding tax at rates of between 15% and 20% on dividends, interest and other types of income, unless reduced by an applicable double taxation treaty. However, Kazakhstan's tax system is still in a transitional phase and no assurance can be given that new taxes and duties or new tax rates will not be introduced during the tenor of the Notes.

Less Developed Securities Market

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

Investment Considerations Relating to the Bank

Loan Portfolio Growth

The Bank's gross loan portfolio, excluding accrued interest receivable, has increased rapidly in recent years growing by 94% in 2000 to KZT 56,711 million, by 102% in 2001 to KZT 114,753 million and by a further 17% in 2002 to KZT 134,820 million. Classified loans, being loans classified by the Bank as unsatisfactory, doubtful or loss in accordance with IAS, as a percentage of gross loans, have risen from 6.4% in 2000 to 14.6% in 2001 and decreased to 14.3% in 2002. See "Asset and Liability Management — Lending Policies and Procedures". Non-performing loans, being loans with past due payments exceeding 30 days and on which interest ceased to accrue, as a percentage of gross loans, fell from 0.7% in 2000 to 0.4% in 2001 and increased to 1.8% in 2002. The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels and continued improvement in 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 qualified personnel and to train new personnel, not only to monitor asset quality but also to ensure access to appropriately flexible funding sources which do not impose inappropriate constraints on the Bank's future funding strategy. 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 of Lending

As at 31 December 2002, the Bank's 10 major borrowers accounted for 17% of gross commercial loans and advances, compared to 21% as at 31 December 2001 and 14% as at 31 December 2000. Whilst this reflects, in part, the increase in quality of a number of corporate credits in Kazakhstan, the Bank will require continued emphasis on credit quality and the further development of financial and management controls to monitor this credit exposure, the failure to achieve which could have a material adverse effect on the Bank's results of operations and financial condition.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakh economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it.

Competition

The Bank, in common with other Kazakh banks, is subject to competition from both domestic and foreign banks. As at 31 December 2002, there were a total of 38 banks, excluding the NBK, licensed to operate in Kazakhstan, of which 17 were banks with foreign ownership, including subsidiaries of foreign banks. Although the Bank believes that it is well positioned to compete in the Kazakh banking sector due to its relatively large capitalisation and asset base, relatively low cost deposit base and diversified client base, it faces competition from a number of existing and prospective participants in the Kazakh banking sector. In particular, DBK, established in 2001, has an equity base larger than any commercial domestic bank in Kazakhstan. Whilst DBK is not licensed to accept deposits or provide corporate settlement services, the Bank expects that DBK may become an important competitor in the corporate lending sector. The Bank does not classify DBK as a commercial bank for purposes of calculating market share data or rankings in the banking sector. See "The Bank" and "The Banking Sector in Kazakhstan".

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and capital adequacy of banks operating in Kazakhstan in conformity with the recommendations of the NBK's Board of Directors. In addition, an institutional development plan was prepared for leading Kazakh banks, including the Bank. According to the plan, banks are required to prepare their accounts in accordance with IAS and to apply the Basle Committee accords within a period determined by the NBK on a case-by-case basis. They may also join a bank-funded deposit insurance fund, which was established in December 1999, and are required to be audited annually by a public accountancy firm approved by the NBK, which is likely to be one of the leading international firms. See "The Banking Sector in Kazakhstan". Notwithstanding the NBK Regulations, regulatory standards applicable to banks in Kazakhstan, and the oversight and enforcement thereof by the regulators, may differ from those applicable to banking operations in more highly developed regulatory regimes. See

"Investment Considerations Relating to the Republic of Kazakhstan — Underdevelopment and Evolution of Legislative and Regulatory Framework". There can be no assurance that the Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Reform of the International Capital Adequacy Framework

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

Change of Control and CPS

The Bank's management and current shareholders have expressed an interest in selling, by 31 December 2006, an equity interest of at least 55% in the Bank to an OECD based bank with total assets greater than U.S.$60 billion and with a financial strength of not less than D+ (or its equivalent) as measured by any of Moody's, Standard & Poor's or Fitch IBCA. See "Management and Share Ownership — Principal Shareholders — The Bank's CPS". The Bank has been in negotiations with RZB to increase its current 9.5% equity interest in the Bank. The Bank has declined an initial offer from RZB and the parties are at present unable to agree on terms. There can be no assurance that the Bank, its shareholders and RZB will, ultimately, agree terms. However, the Bank is of the opinion that in such event it will be able to negotiate with another suitable strategic partner for the Bank (in compliance with the CPS agreements) and reach agreement with it to acquire a 55% interest in the Bank by 31 December 2006. In the event that this does not occur, the Bank may be obliged to redeem the CPS at cost if the CPS agreements are not extended. However, the Bank is of the opinion that the CPS will in due course be converted into common shares and that if they are not converted there would be no material adverse effect on the Bank's financial position or place it in violation of regulatory capital requirements.

Investment Considerations Relating to the Notes

Emerging Market Risks

The markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. For example, in the last quarter of 1997, certain markets in South East Asia experienced significant financial turmoil that had a ripple effect on other emerging markets. Moreover, 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 there can be no assurance that events will not occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998 or that any such volatility will not adversely affect the liquidity of the market for or price of the Notes.

Central Asia and Regional Risks

On 11 September 2001, terrorist attacks were conducted against multiple targets in the United States, causing large loss of life and extensive damage. These events, and their aftermath together with the ensuing conflict in Afghanistan and more recently the conflict in Iraq in response to alleged violation by Iraq of various United Nations Security Council resolutions, have had a significant effect on international financial markets generally and may in the future have further such effects both internationally and, specifically, in the Central Asian region.

Credit Rating

Outstanding eurobonds of the Republic of Kazakhstan are rated Baa3 by Moody's and BB+ by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank has received a senior debt rating of "Baa3" (outlook stable) from Moody's and "BB-" (outlook stable) from Standard & Poor's. Any change in the credit rating of either the Bank or the Republic of Kazakhstan could affect the trading price of the Notes.

Absence of Trading Market for the Notes

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

THE ISSUER

History

The Issuer is a Dutch company whose statutory seat is in Rotterdam and it was incorporated on 22 May 2001. Its number in the commercial register is 24321412. The Issuer was established for the purpose of, among other things, raising funds for the Bank, as set out in Article 2 of its Articles of Association. The Issuer is a direct, wholly-owned subsidiary of the Bank.

Capitalisation and Business

The authorised share capital of the Issuer is €90,000 divided into shares with a par value of €100 each. As of the date of this Offering Circular, the Issuer's total capitalisation is €18,000 consisting of 180 shares that have been issued and fully paid at par and which are owned by the Bank. There has been no material adverse change in the capitalisation, financial position or prospects of the Issuer since the date of its incorporation, other than as described below.

The Issuer was incorporated for the purpose of, among other things, raising funds on the international capital markets and lending such funds to the Bank or its subsidiaries. See "Use of Proceeds". The Issuer has no employees or subsidiaries.

In June 2001, the Issuer issued U.S.$100 million 11.5 per cent. Notes due 2004 (the "2004 Notes"). In May 2002, the Issuer issued U.S.$100 million 10 per cent. Notes due 2007. In June 2002, in order to achieve certain tax efficiencies, the Bank, as permitted under the terms and conditions of the 2004 Notes, assumed the obligations of the Issuer as principal debtor thereunder.

As at the date of this Offering Circular, the Issuer had no other outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities.

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

Financial Statements

The Issuer publishes unconsolidated financial statements, in accordance with Dutch law. To comply with an NBK requirement (which came into effect in June 2000) that the accounts of overseas subsidiaries of Kazakh banks must be independently audited, the Issuer has engaged Mazars Paardekooper Hoffman, Rotterdam, The Netherlands, to conduct an audit of its 2001 and 2002 statutory financial statements. Copies of the Issuer's audited statutory financial statements for the years ended 31 December 2001 and 2002 and the auditors' reports relating thereto, are available for inspection, and copies thereof may be obtained upon request, on any business day during usual business hours at the registered office of the Issuer and at the specified offices of the Principal Paying Agent and of the Paying Agent in Luxembourg from time to time. The Issuer does not produce interim financial statements.

Management

The Issuer currently has two directors, Ms Zhamilya Sarsembayeva, age 32, who is Head of the Representative Office of Bank TuranAlem in Moscow (Russia), and Equity Trust Co. N.V., a company limited by shares incorporated in The Netherlands, which serves as managing director of the Issuer.

General Information

The business address of the Issuer is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The business address of Ms Sarsembayeva is Str. 1, D62 Prospect Minor 129110, Moscow, Russia. Administrative services are provided to the Issuer by Equity Trust Co. N.V., whose business address is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands.

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

THE BANK

History

General

The Bank was incorporated on 15 January 1997 as a closed joint stock company as a result of the restructuring and merger of two state-owned banks, Alem Bank and Turan Bank, pursuant to a decision of the Government and the NBK. The Bank received a banking licence from the NBK on 5 March 1997. Having been recapitalised by the Government, the Bank was fully privatised at a competitive auction in March 1998 and reorganised from a closed joint stock company to an open joint stock company on 17 December 1998. On 4 June 2001, the NBK issued to the Bank its current banking licence (No. N242).

The Bank is registered with the Ministry of Justice under certificate number N3903-1900-AO. The registered office and the head office of the Bank are at 97 Zholdasbekov Street, "Samal-2" microdistrict, Almaty 480099, Kazakhstan. The Bank's telephone number is +7 3272 505 101 and its fax number is +7 3272 500 224.

Alem Bank was founded in 1991 as the joint stock commercial Vnesheconombank (Bank for Foreign Economic Activity) of the Kazakh Soviet Republic ("Kazvnesheconombank") to replace the Kazakh branch of Vnesheconombank of the Union of Soviet Socialist Republics (the "USSR"). Following Kazakhstan's independence and the break-up of the USSR, Kazvnesheconombank acted as the agent of the Government in raising finance under its sovereign guarantee. Alem Bank was considered one of the leading financial institutions in Kazakhstan and was one of the first banks in the country to undertake international transactions. Alem Bank was the first Kazakh bank to participate in international interbank payment systems such as SWIFT and REUTERS and the first to join both the VISA International and MasterCard networks.

Turan Bank was founded in 1925 as the Kazakh branch of Promstroibank (the industrial sector bank) of the USSR. Turan Bank provided financing and banking services to a large part of Kazakhstan's industrial sector and its customers included many of Kazakhstan's leading industrial enterprises. Major projects and enterprises for which Turan Bank provided financing and banking services included Turksib (the Turkestan-Siberia railway), the Balkhash copper smelting complex, the Shymkent zinc plant, the Pavlodar oil refinery, the Kapchagai power plant and a number of other large projects.

Incorporation of the Bank and Recapitalisation

During the period of economic decline following the collapse of the USSR, a number of large industrial enterprises were unable to repay bank debts. As a result, by the end of 1996 Alem Bank and Turan Bank had a combined negative net equity position. Given the importance of these banks to the national economy, the Government, which then owned 100% of the equity of both banks through the Ministry of Finance (the "MOF"), merged the two banks and incorporated the Bank as their successor on 15 January 1997. Upon incorporation, the Bank became the sole legal successor to both predecessor banks and inherited all their assets and liabilities, staff, technological infrastructure and customer banking relationships.

Following the merger, the Government initiated a U.S.$152 million financial restructuring programme, providing for a capital injection of approximately U.S.$90 million, and the purchase by the Rehabilitation Bank of certain non-performing loans inherited by the Bank in the principal amount of approximately U.S.$62 million. As a result of these measures, the Bank's financial position and operating results improved.

Privatisation

Following a resolution of the Cabinet of Ministers of the Government in January 1998, the MOF carried out a closed auction whereby a number of private sector local companies offered to purchase all of the Bank's shares for U.S.$72 million. Following privatisation, the Bank increased its share capital and expanded its shareholder base. During 2001, the Bank issued CPS in the amount of KZT 4,267 million, which constitute 25.1% of the Bank's issued share capital as at 31 December 2002. The CPS are currently held by a number of multinational financial organisations, namely: DEG Deutsche Investitions and Entwicklungsgesellschaft MBH ("DEG"), European Bank for Reconstruction and Development ("EBRD"), International Finance Corporation ("IFC") and Nederlandse Financierings Maatschappij

Voor Ontwikkelingslanden N.V. ("FMO"), and one commercial bank, RZB. See "Management and Share Ownership — Principal Shareholders".

A new law on Joint Stock Companies in Kazakhstan has come into force on 16 May 2003. The new law requires the Bank to amend its charter. However, management believes that there would be no effect on the operations of the Bank arising from such amendment.

Overview of Business

Under the terms of the Bank's licences, the Bank is currently authorised to offer products and services such as retail and corporate deposit taking, promissory notes, bills of exchange, transactions settlements, custody, issuance of payment cards, foreign currency exchange transactions, issuance of bank guarantees and securities, forfaiting, correspondent banking, cash and transfer operations, lending, trust operations, collateral operations, cash collection, transactions with precious metals, leasing, factoring, broker-dealer transactions, clearing operations, safe keeping operations and promissory note and bill of exchange operations. The Bank does not participate in any of the state programmes such as effecting the payment of pensions.

Since the Bank's privatisation in 1998, it has become the second largest bank in the country in terms of assets and third largest bank (including DBK) in terms of shareholders' equity. Currently, the Bank has a market share of approximately 20% in the corporate lending market, approximately 20% of deposits from the corporate sector and approximately 21% of individual deposits.

The Bank believes that its competitive position in the market is strengthened by its professional management, transparent and consistent business practices, its strong branch network and infrastructure, its large and diverse customer base and an up-to-date IT system.

The Bank has been able to achieve substantial growth over the last two years and has adequately maintained its risk weighted capital adequacy through the issuance of convertible preferred shares and generation of net income. The Bank's risk weighted capital adequacy ratio (Tier 1 + Tier 2 capital divided by total risk weighted assets) has risen over the last two years and stood at 15.9% as at 31 December 2002.

Strategy

As the Kazakh economy grows and the private sector expands, the Bank expects there will be continued strong demand for financing from private sector companies. At the same time, the banking sector is expanding significantly as a result of the NBK's efforts in developing and stabilising the banking system and developing public confidence in banks. The Bank is a member of the deposit-insurance programme, which has been a major factor in increasing public confidence in the banking sector and increasing the level of retail deposits.

The Bank's strategy focuses on increasing its corporate and retail market share. The Bank also expects this expansion of business to become a significant contributor to increasing its fee and commission income which has grown significantly over the past several years. The Bank is also focused on increasing revenue derived from its subsidiaries, namely in the capital markets and insurance industry sectors. The Bank also intends to make investments in neighbouring countries in order to expand its base of operations.

Certain components of this strategy are discussed below.

Expanding Corporate Banking

As the Kazakh economy grows and the demand for private sector corporate finance increases, the Bank will develop further its corporate banking services, while maintaining the overall quality of its corporate loan portfolio. The Bank's objectives are to:

- increase its trade finance lending to major customers in support of their import and export activities. The rapid and continuing expansion of economic growth has led to significant increases in trade activity. To maintain its status as the market leader in trade finance, the Bank has increased and intends to increase further its established trade finance facilities and plans to establish new facilities with other foreign correspondent banks.

- expand and enhance its project finance loan programmes. The Bank aims to become heavily involved in the financing of the oil and gas related infrastructure projects that are needed in western Kazakhstan, especially in the Caspian Sea region. The Bank is developing a plan to combine its local expertise with that of international lenders to enable it to capitalise on this opportunity.
- increase its construction loans. Kazakhstan is undergoing a significant infrastructure development programme to improve and develop further its highway and road transportation system. The Bank is well positioned to capitalise on this segment of the market and is developing a specific loan funding campaign to do so.
- introduce and expand new services to existing and new customers, such as payroll services, salary payment programmes and cash and asset management services for large corporations.

The planned increase in the Bank's trade finance documentary business will result in increased fee and commission income that will allow it to provide further pricing flexibilities. The Bank believes that its market share and pricing flexibility provides it with a significant competitive advantage.

Expansion of Retail Services

The Bank has experienced significant growth in its retail deposit base over the past several years. Retail banking in Kazakhstan still represents a relatively low percentage of the country's gross domestic product. One of the Bank's main strategies is to increase its retail market share. In this regard, the Bank's objectives are to:

- expand and develop further its existing high net-worth individual marketing programme. The Bank in the past has targeted high net-worth individuals and now also intends to focus on the growing middle class segment of the market. The Bank intends to expand its existing account relationship officer programme and to develop cross-selling initiatives that will enable it to bundle together its product offerings, including new deposit products, insurance products, credit and debit card services, consumer loans, mortgages and pension fund services. The Bank believes the mortgage, automobile and personal lending markets will be high growth areas.
- expand and improve further its significant retail branch network. The Bank is modernising and expanding its facilities on an ongoing basis to enhance its reputation and to make such facilities more attractive to its customers.
- increase the number of ATMs through cooperation with other local banks and by placing ATMs at low-cost, attractive and convenient retail locations, such as supermarkets.
- offer on-line internet banking.

The Bank has placed and continues to place significant emphasis on its credit and debit card service business. Alem Bank, one of its predecessor banks, was the first bank in Kazakhstan to introduce such services. The credit and debit card business is a growing and promising area in retail banking in Kazakhstan. The Bank has opened its own card processing centre and has to date issued approximately 275,000 debit cards and 1,000 credit cards, including 201,000 international VISA cards, 50,000 EUROPAY cards and 25,00 Smart Alem cards. As part of the development of this market, the Bank plans to increase the issuance of VISA credit cards and MasterCard credit cards in 2003 to over 300,000 cards. The Bank has also arranged for all of its cardholders to have access to the CIRRUS and Maestro global payment systems.

Subsidiary Operations

Kazakhstan's capital markets are evolving and developing. As the economy and the financing needs of its customers grow, the Bank anticipates an expansion of the local capital markets. Accordingly, the Bank is committed to developing further the business and human resource capabilities of LLP TuranAlem Securities. During 2002, LLP TuranAlem Securities' had the highest market share (30.4%) of aggregate trade volumes of non-government securities on the KASE. LLP TuranAlem Securities has also acted as an adviser for a number of corporate and municipal securities issues. To meet the needs of this anticipated growth, the Bank is planning to develop a corporate consulting group to assist companies in optimising their capital structures. The Bank believes that the success of this planned programme will allow it to capture a significant share of the anticipated growth in corporate and municipal securities offerings.

Currently, the Bank has three insurance subsidiaries offering the most extensive range of insurance products in the market. During 2002, the Bank increased its shareholding in certain of these subsidiaries and now has controlling interests in all three entities. Accordingly, the Bank is considering various restructuring plans that will improve its efficiency and enable its insurance companies to offer a portfolio of insurance services to its customers. The Bank believes the insurance sector will be a high growth area and is positioning itself to capitalise on this opportunity.

The Bank believes that the private pension fund market in Kazakhstan will provide strong revenue growth and become a reliable source of deposits as the sector continues to grow. Currently, the Bank owns two active participants in this market. Domestic private pension funds and asset management companies were initially created in 1998. Since that time, approximately U.S.$2 billion has been invested in and is currently managed by private pension funds. While not currently profitable, the Bank anticipates that the likely growth in the volume of pension funds will generate additional fees which will enable these operations to become profitable. At the same time, the Bank intends to undertake a thorough organisational review in order to maximise efficiencies and to reduce the costs of each of its pension fund operations.

New Markets

The Bank believes that opportunities exist to expand its operations into neighboring countries that have high growth potential. Currently, the Bank has a representative office in each of Moscow and Kiev. The Bank is in discussions with Slavinvest Bank, a small Moscow-based Russian bank, to acquire a 10% interest in such bank, together with an option to acquire a controlling interest at a later date. The Bank is also exploring other opportunities and intends to make additional investments if the potential for reward exceeds the risk.

Improved Managerial Efficiency

The Bank has entered into a twinning programme with RZB the holder of 162,122 CPS, representing 9.5% of the Bank's issued share capital as at 31 December 2002. The formal programme commenced in the second quarter of 2003. The Bank anticipates deriving significant benefits from this programme and is confident that improved businesses processes will lead to better customer service and lower costs.

Improving Funding Base

The Bank expects to continue to improve its funding base through increasing its share of domestic deposits through its extensive branch and retail unit network, borrowing from, international banks and development organisations and accessing the international capital markets. See "Asset and Liability Management — Foreign Currency Borrowings".

Domestic deposits are an important and attractive source of low cost funding for the Bank. Management believes that as the Kazakh banking system develops most of the remaining private funding sources in Kazakhstan outside of the banking system will gradually migrate towards the banking system. As indicated above, the Bank's strategy is to ensure that it utilises effectively its competitive advantages in the retail banking market. The Bank also believes that its international credit ratings will enhance its reputation in the domestic market and assist it in maintaining its strong market share in providing retail banking services.

Competition

As at 31 December 2002, there were 38 banks operating in Kazakhstan, excluding the NBK. Of these, two banks were state-owned and 17 were banks under foreign ownership, including subsidiaries of foreign banks. In 2002, the number of commercial banks fell from 44 to 38. The decline is primarily attributable to the effect of stricter requirements set by the NBK as to capital adequacy, provisioning, maximum single-counterparty exposure, accounting and information disclosure. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank, Kazkommertsbank and Halyk Savings Bank, banks under foreign ownership, such as ABN AMRO Bank Kazakhstan and

Citibank Kazakhstan, and smaller local banks. Although the Bank believes that it is well positioned to compete in the Kazakh banking sector, being the second largest bank (in terms of assets) in Kazakhstan, and having a relatively low cost deposit base and diversified client base, it faces competition from a number of existing participants in the banking sector in Kazakhstan.

Kazkommertsbank was established in July 1990 and is the largest bank in Kazakhstan in terms of assets and second largest bank (including DBK) in terms of shareholders' equity with a focus on the corporate and retail banking sector. As at 31 December 2002, Kazkommertsbank had a total of 92 branches in Kazakhstan, interests in a Kyrgyzstan bank and a Moscow bank and a representative office in London. Kazkommertsbank is a holding company incorporating a number of banks, joint ventures and investment companies and holds a number of substantial investments in industrial companies.

The extensive branch network of Halyk Savings Bank makes it one of the Bank's major competitors in respect of retail banking. As at 31 December 2002, Halyk Savings Bank was the third largest bank in Kazakhstan in terms of total assets and is also a leading participant in the primary domestic securities market. In November 2001, the Government sold its remaining 33.33% stake in Halyk Savings Bank to domestic investors.

In 2001, the Government established DBK to facilitate industrial projects in Kazakhstan and to provide longer term financing for projects within Kazakhstan. DBK was established with a charter fund of KZT 30 billion and is the largest bank in Kazakhstan in terms of shareholders' equity. Inside the commercial banking 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 DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Offering Circular.

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

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

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

The following table sets out certain financial information (prepared in accordance with KAS) as at 31 December 2002 relating to the Bank and the largest local and foreign banks which the Bank considers will be its major competitors in the Kazakh banking sector:

	Assets	*Shareholders' Equity*
	(KZT millions)	
Kazkommertsbank	281,571	25,717
Bank TuranAlem	224,958	19,138
Halyk Savings Bank	193,878	16,785
Citibank Kazakhstan	54,531	5,416
ABN AMRO Bank Kazakhstan	33,478	5,557

Source: Published financial statements.

USE OF PROCEEDS

The net proceeds to the Issuer from the sale of the Notes are expected to be approximately U.S.$220,741,250. Such net proceeds will be lent by the Issuer to the Bank and used to fund the Bank's loan portfolio and for other general corporate purposes, including liquidity management.

CAPITALISATION

The Issuer

The following table sets out the capitalisation of the Issuer as at 31 December 2002 and as adjusted to reflect the issue and sale of the Notes, before deducting commissions and expenses:

	Actual		*As adjusted*(1)	
	(U.S.$(2) millions)	*(KZT millions)*	*(U.S.$(2) millions)*	*(KZT millions)*
Senior long-term liabilities(3)	100.00(4)	15,585	325.00	50,651
Total shareholders' equity	0.25	39	0.25	39
Total shareholders' equity and long-term liabilities	100.25	15,624	325.25	50,690

(1) Adjusted to reflect the proceeds from the issuance of the Notes.
(2) See "Presentation of Certain Information" for the method of calculation and presentation of U.S. Dollar amounts.
(3) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated and comprise U.S. Dollar medium-term notes amounting to KZT 15,585 million.
(4) As at 31 December 2002, a syndicated loan facility in the amount of U.S.$73.5 million was classified as a long-term liability. This syndicated loan facility was repaid in full in March 2003.

Except for such change as arises from the issuance of the Notes and as noted above, there has been no material change to the capitalisation of the Issuer since 31 December 2002.

The Bank

The following table sets out the consolidated capitalisation of the Bank as at 31 December 2002 and as adjusted to reflect the issue and sale of the Notes, before deducting commissions and expenses:

	Actual		*As adjusted*(1)	
	(U.S.$(2) millions)	*(KZT millions)*	*(U.S.$(2) millions)*	*(KZT millions)*
Senior long-term liabilities(3)	384	59,861	609	94,931
Subordinated long-term liabilities	47	7,268	47	7,268
Shareholders' equity				
Share capital(4)	102	15,924	102	15,924
Retained earnings(5)	24	3,831	24	3,831
Total shareholders' equity	126	19,755	126	19,755
Total shareholders' equity and long-term liabilities	557	86,884	908	141,709

(1) Adjusted to reflect the proceeds from the issuance of the Notes.
(2) See "Presentation of Certain Information" for the method of calculation and presentation of U.S. Dollar amounts.
(3) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated i.e., excluding a subordinated loan from DEG amounting to KZT 708 million and U.S. Dollar long-term subordinated Kazakh notes amounting to KZT 6,560 million.
(4) Share capital less shares held in treasury.
(5) This includes premises and equipment revaluation reserve of KZT 854 million.

Except for such change as arises from the issuance of the Notes and the Guarantee, the repayment in full of the U.S.$73.5 million syndicated loan facility in March 2003, the repayment in full of the U.S.$25 million EBRD loan facility in April 2003, the entering into of a U.S.$50 million 90-day liquidity facility with two OECD-based financial institutions dated 22 May 2003, and the entering into of U.S.$30 million and U.S.$10 million loan facilities with EBRD each dated 27 February 2003 and as noted above, there has been no material change to the capitalisation of the Bank since 31 December 2002.

SELECTED FINANCIAL INFORMATION

The selected information set out below has been extracted from, should be read in conjunction with, and is qualified in its entirety by, the Bank's consolidated financial statements, including the notes thereto, contained elsewhere in this Offering Circular. See ''Index to Financial Statements'' and ''Management's Discussion and Analysis of Results of Operations and Financial Condition''.

The Bank's consolidated financial statements contained in this Offering Circular were prepared in accordance with IAS. The Bank's consolidated financial statements for the years as at and for the years ended 31 December 2000, 2001 and 2002 were audited by Ernst & Young. Ernst & Young's report on the financial statements they audited is included in this Offering Circular.

The following table sets out certain information extracted from the Bank's income statement for the periods indicated.

	Year ended 31 December			
	2000	2001	2002	2002
	(KZT millions)			(U.S.$ millions[1] (unaudited))
INCOME STATEMENT DATA				
Interest income				
Loans	7,763	14,004	19,178	125.0
Securities	1,081	1,422	2,818	18.4
Deposits with other banks	103	219	372	2.4
Total interest income	8,947	15,645	22,368	145.8
Interest expense	(3,416)	(6,671)	(10,527)	(68.6)
Net interest income before provision for losses	5,531	8,974	11,841	77.2
Provision for losses	(2,987)	(5,838)	(7,430)	(48.4)
Net interest income after provision for losses	2,544	3,136	4,411	28.8
Non-interest income				
Fee and commission income	1,988	3,161	4,294	28.0
Gains less losses from trading securities	(439)	123	2,745	17.9
Gains less losses from foreign currencies	2,336	1,678	1,583	10.3
Underwriting income	—	39	613	4.0
Other operating income	309	650	1,165	7.6
Total non-interest income	4,194	5,651	10,400	67.8
Non-interest expenses				
Payroll and other staff costs	(1,550)	(1,953)	(2,534)	(16.5)
General and administrative expenses	(1,075)	(1,108)	(1,901)	(12.4)
Occupancy and equipment	(578)	(1,427)	(1,432)	(9.3)
Insurance	(110)	(49)	(1,079)	(7.0)
Taxes other than income taxes	(710)	(902)	(1,304)	(8.5)
Legal and other professional fees	(106)	(192)	(392)	(2.6)
Advertising	(206)	(345)	(453)	(3.0)
Fee and commission expense	(309)	(284)	(169)	(1.1)
Custom duties	(1,085)	(616)	(253)	(1.7)
Deposit insurance	(94)	(267)	(262)	(1.7)
Loss on disposal of premises and equipment	—	(52)	(2)	(0.01)
Total non-interest expenses	(5,823)	(7,195)	(9,781)	(63.8)
Income before income taxes	915	1,592	5,030	32.8
Income tax expense	—	—	—	—
Income before minority interest	915	1,592	5,030	32.8
Minority interest	(18)	(1)	(132)	(0.9)
Net income	897	1,591	4,898	31.9

(1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts and see "Annex A — The Republic of Kazakhstan — "Exchange Rates" for historical exchange rate data.

The following table sets out certain information extracted from the Bank's balance sheet as at the dates indicated.

	Year ended 31 December			
	2000	*2001*	*2002*	*2002*
		(KZT millions)		*(U.S.$ millions (unaudited))*[(1)]
BALANCE SHEET DATA				
Assets				
Cash and cash equivalents	7,005	17,220	20,557	132.0
Obligatory reserves	2,450	4,684	2,731	17.5
Due from other banks	—	150	10,820	69.4
Trading securities	8,172	17,831	32,081	205.8
Held-to-maturity securities	—	—	19,634	126.0
Commercial loans and advances, net	55,247	110,489	127,395	817.4
Premises and equipment, net	4,999	5,441	6,523	41.9
Other assets	1,332	1,473	5,507	35.3
Total assets	79,205	157,288	225,248	1,445.3
Liabilities and shareholders' equity				
Amounts owed to the Government and the NBK	766	2,433	2,675	17.2
Due to other banks and financial institutions ..	18,474	41,723	55,978	359.1
Amounts owed to customers	46,933	81,008	105,757	678.6
Debt securities issued	—	13,310	31,286	200.7
Accrued interest payable	1,049	1,455	1,811	11.6
Other liabilities	2,435	1,708	6,976	44.8
Total liabilities	69,657	141,637	204,483	1,312.0
Minority interest	613	809	1,010	6.5
Shareholders' equity				
Share capital				
Common shares	11,931	11,931	11,931	76.6
Preferred shares	—	4,160	4,160	26.7
	11,931	16,091	16,091	103.3
Treasury shares	(218)	(21)	(167)	(1.1)
Premises and equipment revaluation reserve ..	190	190	854	5.5
Retained earnings (accumulated deficit)	(2,968)	(1,418)	2,977	19.1
Total shareholders' equity	8,935	14,842	19,755	126.8
Total liabilities and shareholders' equity	79,205	157,288	225,248	1,445.3

(1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts and see "Annex A — The Republic of Kazakhstan — "Exchange Rates" for historical exchange rate data.

The following table set out certain financial ratios and economic data extracted from the Bank's consolidated financial statements for the periods indicated.

Selected Financial Ratios and Economic Data

	Year ended 31 December		
	2000	*2001*	*2002*
Profitability Ratios[(1)]			
Return on common shareholders' equity	12.8%	15.8%	33.4%
Return on average shareholders' equity	12.8%	13.4%	28.3%
Return on average assets[(2)]	1.4%	1.3%	2.6%
Net interest margin[(3)]	10.8%	8.6%	6.9%
Net interest spread[(4)]	8.9%	7.0%	5.5%
Non-interest expense/net interest income before provisions for losses plus non-interest income	59.9%	49.2%	44.0%
Non-interest expense as a percentage of net interest income before provisions for losses	105.3%	80.2%	82.6%
Non-interest expense as a percentage of average total assets	9.3%	6.1%	5.1%
Loan Portfolio Quality[(9)]			
Classified loans/gross loans[(5)]	6.4%	14.6%	14.3%
Non-performing loans/gross loans[(6)]	0.7%	0.4%	1.8%
Allowance for loan losses/gross loans	5.1%	5.6%	7.5%
Allowance for loan losses/classified loans[(5)]	80.1%	38.7%	52.8%
Allowance for loan losses/non-performing loans[(6)]	740.0%	1,316.0%	431.0%
Balance Sheet Ratios and Capital Adequacy			
Customer deposits as a percentage of total assets	59.3%	51.5%	47.0%
Net loans as a percentage of total assets	69.8%	70.2%	56.6%
Total shareholders' equity as a percentage of total assets	11.3%	9.4%	8.8%
Liquid assets as a percentage of total assets[(7)]	22.3%	25.4%	38.1%
Risk weighted capital adequacy ratio[(8)]	12.3%	14.01%	15.9%
Economic Data			
Period end exchange rate (KZT/U.S.$)	144.50	150.20	155.85
Average exchange rate for period (KZT/U.S.$)	142.13	146.72	153.43
Inflation rate (CPI)	9.8%	6.4%	6.6%
GDP growth (real)	9.6%	13.2%	9.5%

(1) Based on average balances for each year calculated by adding the opening and closing balances and dividing by two.

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

(3) Net interest margin comprises net interest income before provisions for losses as a percentage of average earning assets.

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

(5) Classified loans comprise loans that are classified as "unsatisfactory", "doubtful" (whether or not they are non-performing) or "loss".

(6) Non-performing loans comprise loans where past due payments exceed 30 days and where interest has ceased to accrue.

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

(8) Calculated in accordance with BIS standards.

(9) Calculated using gross loan balances excluding accrued interest.

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

The following discussion should be read in conjunction with the Bank's consolidated financial statements as at and for the years ended 31 December 2000, 2001 and 2002, including the notes thereto, which have been prepared in accordance with IAS, and which appear elsewhere in this Offering Circular.

This discussion includes forward-looking statements based on assumptions about the Bank's future business. The Bank's actual results could differ materially from those contained in the forward looking-statements.

Introduction

The Bank's consolidated financial statements as at and for the years ended 31 December 2000, 2001 and 2002 were audited by Ernst & Young, whose report thereon is included in this Offering Circular. These financial statements are consolidated and include the financial statements of the Bank, its subsidiaries and certain affiliates as set out in ''Presentation of Certain Information''.

Recent Developments

On 2 December 2002, the Bank increased its share of the share capital of OJSC Insurance Company BTA, an insurance company incorporated in Kazakhstan, from 40% to 66%. On 22 July 2002, the Bank increased its share of the share capital of Kurmet Pension Fund, a pension fund incorporated in Kazakhstan, from 24% to 66%. As a result of the increases, the results of these companies were consolidated into the Bank's financial statements with effect from the respective dates of such increases in ownership.

Critical Accounting Policies and Estimates

The Bank's accounting policies are integral to understanding the results of operations and financial condition presented in the consolidated financial statements and notes thereto. The Bank's significant accounting policies are described in Note 3 to the consolidated financial statements appearing on page F-8 of this Offering Circular. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, management evaluates its estimates and judgements, including those related to allowance for losses, investments, income taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

The Bank's significant accounting policies include:

Allowance for Losses. The Bank establishes an allowance for losses if there is objective evidence that the Bank will not be able to collect all amounts due on a loan. The allowance is based on the Bank's assessment of the credit portfolio, previous loss experience, known and inherent risks in the credit portfolio, the estimated value of collateral, adverse situations that may affect the borrower's ability to repay and economic conditions. In addition, a pooled allowance is made for potential impairment against portfolios of loans and advances based on estimated and historical defaults rates. The allowance also includes estimates covering probable losses on guarantees. If actual loan losses are higher or market conditions are less favourable than those projected by management, additional allowances may be required.

Impairment and Uncollectability Of Financial Assets. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, such as held to maturity securities, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised in the consolidated statement of income. A financial asset is considered to be impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets measured at fair value is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Management performed its annual impairment testing, and determined no impairment existed. To the extent that the estimates and assumptions used in determining the impairment value vary from actual to future results, it may not be indicative of future impairment values required to be recognised.

Preferred Shares. The Bank classifies preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur as equity. Under NBK rules for regulatory capital no such qualification exists, and CPS are classified as equity notwithstanding the occurrence of such event. The holders of the CPS issued by the Bank in 2001 have the right to convert all or any part of their shares into common shares of the Bank. The Bank is obligated to offer to redeem the CPS in the event (1) a person makes an offer to purchase 30% or more of the Bank's common share capital and the tender offer price for each CPS is less than the original purchase price or (2) the Bank fails to sell 55% of the Bank's issued common shares to an OECD based bank meeting certain criteria by 31 December 2006. The Bank's management believes that the likelihood of either event is remote and accordingly, the CPS are accounted for as equity.

Reserves for Insurance Losses. The Bank provides a reserve for insurance losses and loss adjustment expenses that is included in other liabilities. The reserve is based on an estimate of the amount payable on claims reported awaiting settlement. A reserve is also established for incurred but unreported losses. This reserve is established based on the expected loss ratio for each insured category multiplied by the earned premiums less losses actually reported. Due to the absence of any significant prior experience, the reserve estimates are regularly reviewed and updated. Any adjustments to the reserves for insurance losses are reflected in current income for the period.

Financial Instruments. On 1 January 2001, the Bank adopted IAS 39 "Financial Instruments: Recognition and Measurement". This has not resulted in any major changes in its accounting policies as the then existing policy of the Bank for the measurement of assets and liabilities in use prior to 1 January 2001 approximated the methods of classification, recognition and measurement of financial instruments set out in IAS 39.

However, as no readily available market exists for a large portion of the Bank's financial instruments, the Bank's management is required to make judgements to determine the fair value of such instruments, based on current economic conditions and specific risks attributable to the instrument.

Because of the nature of the judgements made by management, the actual realisation of the fair value of the Bank's financial instruments could differ from the estimates and assumptions relied upon. Accordingly, the estimates presented in the Bank's financial statements are not necessarily indicative of the amounts the Bank could realise in a market exchange from its sale of its full holding of a particular instrument.

Results of Operations for the Years ended 31 December 2000, 2001 and 2002

Summary

For 2002, the Bank reported an increase in net income of 208% to KZT 4,898 million, or KZT 2,796 per diluted share compared to a net income of KZT 1,591 million or KZT 1,215 per diluted share for 2001. For 2000, the Bank reported a net income of KZT 897 million or KZT 870 per diluted share. The increases in reported net income over the past three years reflect the Bank's growth in earning assets, as well as the indirect benefit of Kazakhstans's continuing economic improvement and GDP growth.

In 2002, return on average common shareholders' equity was 33.4% compared with 15.8% in 2001 and 12.8% in 2000.

Interest Income, Interest Expense, Net Interest Income and Provisions for Losses

The following table sets out the principal components of the Bank's net interest income and average interest earning assets for the periods indicated:

	Year ended 31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Interest income			
Interest on loans to customers	7,763	14,004	19,178
Interest on trading securities	1,081	1,422	2,818
Interest on deposits with other banks	103	219	372
Total interest income	8,947	15,645	22,368
Interest expense	(3,416)	(6,671)	(10,527)
Net interest income before provision for losses	5,531	8,974	11,841
Provision for losses	(2,987)	(5,838)	(7,430)
Net interest income after provision for losses	2,544	3,136	4,411

Interest Income

Interest income increased 43% in 2002 to KZT 22,368 million from KZT 15,645 million in 2001, reflecting the increase in average earning assets during the year which was partially offset by a decline in average annual yields. Average earning assets increased by 64.8% in 2002 to KZT 171,913 million from KZT 104,336 million in 2001. The average interest yield on earning assets decreased to 13.0% in 2002 from 15.0% in 2001, which in turn represented a decrease from 17.4% in 2000. Interest income in 2001 increased by 74.9% from KZT 8,947 million in 2000. The increase in interest income in 2001 over 2000 was the result of average earning assets increasing by 103.5% to KZT 104,336 million from KZT 51,283 million, partially offset by a decrease in average yields.

Interest income on loans to customers increased by 36.9% in 2002 to KZT 19,178 million from KZT 14,004 million in 2001. Average annual loan balances increased by 45.6% to KZT 124,787 million in 2002 from KZT 85,732 million in 2001. The increase in the loan portfolio was largely due to the Bank's continued growth resulting from the favourable business environment in Kazakhstan. The average yield earned on loans in 2002 decreased to 15.4% from 16.3% in 2001. The decrease in average yield was largely attributable to a higher level of non-performing loans in 2002 and a slight decrease in interest rates charged on loans.

Interest income on loans to customers increased by 80.4% in 2001 to KZT 14,004 million from KZT 7,763 million in 2000. Average annual loan balances increased by 99.4% to KZT 85,732 million in 2001 from KZT 42,986 million in 2000. The increase in the loan portfolio was largely due to the improved economic conditions in Kazakhstan, as well as an increase in customer deposits which facilitated funding of such increase of the loan portfolio. Management estimates that the weighted average annual interest rates charged on average loans decreased to 16.3% in 2001 from 18.1% in 2000. The decrease largely resulted from a shift in the loan portfolio to higher average balances of loans denominated in foreign currency which earned lower interest rates than loans denominated in Tenge.

Interest income on the Bank's securities portfolio rose 98.2% to KZT 2,818 million in 2002 from KZT 1,422 million earned in 2001, which in turn represented an increase of 31.5% from KZT 1,081 million in 2000, resulting from the growth in the Bank's securities portfolio. The increase in the securities portfolio balance relates to the Bank's asset and liability policy to increase its liquidity position. The average annual securities portfolio of the Bank amounted to KZT 34,773 million in 2002, compared to KZT 13,002 million in 2001 and KZT 4,802 million in 2000. Average interest rates earned on the portfolio for 2000, 2001 and 2002 were 22.5%, 10.9% and 8.1%, respectively.

Interest earned on bank deposits increased by 69.9% to KZT 372 million in 2002 from KZT 219 million in 2001. The increase in 2002 is attributable to higher average balances maintained with banks during the year, offset by a slight decline in average rates to 3.0% from 3.9% between 2002 and 2001. In 2001, interest earned on bank deposits increased by 112.6% to KZT 219 million from KZT 103 million in 2000. The increase was attributable to higher balances maintained during 2001.

Interest Expense

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

	Year ended 31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Interest on the Government and NBK balances	80	77	150
Interest on loans and advances from banks	1,133	1,740	2,386
Interest on customer accounts	2,203	3,701	5,274
Interest on debt issued	—	1,153	2,717
Total	3,416	6,671	10,527

Interest expense increased 57.8% in 2002 to KZT 10,527 million from KZT 6,671 million in 2001, which in turn represented a 95.3% increase from KZT 3,416 million in 2000. Interest expense has increased over the past several years due to the growth in the Bank's deposit base, increased bank borrowings and the issuance of debt in 2001 and 2002, offset by a slight reduction in average rates paid on customer accounts and a more significant reduction on rates paid on bank borrowings.

Average annual interest bearing customer deposits balances, both corporate and retail, increased by 48.2% in 2002 to KZT 66,193 million from KZT 44,669 million in 2001. Average annual interest bearing customer deposit balances increased by 73.3% in 2001 from KZT 25,780 million in 2000. The increase in deposits including interest bearing deposits for both years is attributable to the improved economy and the general growth in customer confidence in the banking services provided. The average interest rates paid on interest bearing customer balances for 2000, 2001 and 2002 were 8.5%, 8.3% and 8.0%, respectively. Customer deposits in foreign currencies are substantially denominated in U.S. Dollars. Average foreign deposit customer balances for 2000, 2001 and 2002 accounted for 48.5%, 58.2% and 58.5%, respectively, of the total average balances of customer accounts for each year.

The following table sets out certain information on customer deposits in Tenge and foreign currency as at the dates indicated:

	As at 31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Amounts owed to customers:			
Corporate deposits	28,474	44,859	52,771
Individual deposits	18,459	36,149	52,986
	46,933	81,008	105,757
Currency:			
Foreign currency deposits (primarily U.S.$)	21,539	52,978	56,282
Tenge deposits	25,394	28,030	49,475
	46,933	81,008	105,757

Interest expense on debt securities issued increased by 135.6% in 2002 to KZT 2,717 million from KZT 1,153 million. The primary reason for the increase was due to larger balances of debt outstanding during 2002 compared to 2001. No debt securities were outstanding during 2000.

Net Interest Income before Provision for Losses

Net interest income before provision for losses increased 31.9% in 2002 to KZT 11,841 million from KZT 8,974 million for the year ended 31 December 2001, which in turn represented a 62.2% increase from KZT 5,531 million for the year ended 31 December 2000. The Bank's net interest margin, defined as net interest income before provision for losses as a percentage of average interest earning assets, was 6.9% for the year ended 31 December 2002, compared to 8.6% in 2001 and 10.8% in 2000. The decreases in 2001 and 2002 are primarily attributable to a decrease in the average interest rate earned on earning assets, offset by a slight decrease in interest rates paid on interest bearing liabilities.

Provision for Losses

The Bank's provision for loan losses in 2002 increased 27.3% to KZT 7,430 million from KZT 5,838 million in 2001, which in turn represented an increase of 95% from KZT 2,987 million in 2000. The increase in both years was primarily attributable to the growth in the Bank's loan portfolio and higher levels of classified loans. The Bank's gross loan portfolio increased by 17% in 2002 and by 102% in 2001. In 2002, the Bank's net charge-offs were KZT 3,615 million (representing gross charge-offs of KZT 3,886 less KZT 271 million in recoveries) compared to KZT 2,039 million in 2001 (representing gross charge-offs of KZT 2,997 million less KZT 958 million in recoveries) and KZT 2,353 million 2000 (representing gross charge-offs of KZT 3,371 million less KZT 1,018 million in recoveries). The allowance for losses as a percentage of total loans increased to 7.5% as at 31 December 2002, compared to 5.6% as at 31 December 2001 and 5.1% as at 31 December 2000, respectively. See "Asset and Liability Management — Lending Policies and Procedures".

Non-interest income

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

	Year ended 31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Fee and commissions	1,988	3,161	4,294
Securities gains, net	(439)	123	2,745
Foreign exchange gains, net	2,336	1,678	1,583
Underwriting income	—	39	613
Other income	309	650	1,165
Total	4,194	5,651	10,400

Fees and Commissions

Fee and commission income in 2002 increased by 35.8%, to KZT 4,294 million from KZT 3,161 million in 2001, which in turn represented an increase of 59% from KZT 1,988 million in 2000. The increases in 2002 and 2001 are principally attributable to the growth in documentary fees related to trade financing activities and fees and commissions earned on credit and debit card transactions.

Gains and Losses From Trading Securities

In 2002, the net gain on trading securities increased to KZT 2,745 million from KZT 123 million in 2001. Net realised gains on trading securities increased to KZT 1,552 million in 2002 from KZT 287 million in 2001, reflecting favourable conditions in the Kazakh securities trading environment and the decrease in current yields giving rise to an increase in value of securities owned as at the beginning of the year. In 2002, the Bank had unrealised gains on trading securities of KZT 1,193 million, compared to an unrealised loss of KZT 164 million in 2001. In 2000, the Bank had unrealised loss of KZT 439 million.

Gains and Losses from Foreign Currencies

Gains and losses arising from the translation of foreign currency-denominated assets and liabilities are reported in the income statement as gains less losses from foreign currencies. Net gains from foreign currencies decreased by 5.7% in 2002 to KZT 1,583 million from KZT 1,678 million in 2001, which in turn represented a decrease of 28% from KZT 2,336 million in 2000. The decrease in gains from foreign currency transactions in 2002 as compared to 2001 reflects the continued relative stability of the Tenge exchange rate during 2001 and 2002 and an increase in competitive pressures which resulted in lower trading margins.

Underwriting Income

The Bank reported net underwriting income of KZT 613 million compared to KZT 39 million in 2001. The growth in underwriting income reflects the Bank's stronger presence in the local insurance market. The Bank did not report any significant amount of underwriting income in 2000.

Other Income

Other income increased by 79.2% in 2002 to KZT 1,165 million from KZT 650 million in 2001, which in turn represented an increase of 110.4% from KZT 309 million earned in 2000. The significant growth in other income is attributable to increases in rental income and income earned on customer accounts.

Non-interest Expense

Non-interest expenses increased by 36% in 2002 to KZT 9,781 million, from KZT 7,195 million in 2001. Non-interest expenses rose 24% in 2001, from KZT 5,823 million in 2000. The following table shows the composition of non-interest expenses for the periods as indicated:

	Year ended 31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Payroll and other staff costs	1,550	1,953	2,534
General and administrative expenses	1,075	1,108	1,901
Occupancy and equipment	578	1,427	1,432
Taxes other than income taxes	710	902	1,304
Legal and professional fees	106	192	392
Advertising	206	345	453
Fee and commission expense	309	284	169
Customs duties	1,085	616	253
Insurance	110	49	1,079
Deposit insurance	94	267	262
Loss on disposal of premises and equipment	—	52	2
Total operating expenses	5,823	7,195	9,781

The increase in non-operating expenses in 2002 was mainly due to a significant increase in insurance expense, an increase in payroll and other staff costs and higher general and administrative expenses. The increase in 2001 was mainly due to occupancy and equipment expenses and the increase in payroll and other staff costs.

Payroll and Other Staff Costs

Payroll and other staff costs in 2002 increased by 29.7% to KZT 2,534 million from KZT 1,953 million in 2001, which in turn represented an increase of 26% over 2000. Each of the increases were primarily due to growth in personnel resulting from expansion and growth of the Bank's business operations in response to the favourable economic conditions in Kazakhstan.

General and Administrative Expenses

General and administrative expenses increased in 2002 by 71.6% to KZT 1,901 million from KZT 1,108 million in 2001, reflecting the expansion of the Bank's subsidiary operations, increases in the Bank's business travel expenses and an increase in other costs associated with the Bank's growth. General and administrative expenses remained relatively constant in 2001 as compared to 2000.

Occupancy and Equipment

Occupancy and equipment expenses remained relatively constant in 2002, increasing by only 0.35% to KZT 1,432 million from KZT 1,427 million in 2001. Between 2001 and 2000, the Bank's occupancy costs increased by 146.9% from KZT 578 million as a result of the move to the Bank's new headquarter premises.

Insurance

Insurance costs, increased to KZT 1,079 million in 2002 from KZT 49 million in 2001. The significant increase in 2002 Insurance expense is primarily due to significantly higher building insurance, the adoption of employee medical and life insurance programmes, the consolidation of an insurance subsidiary as opposed to the equity method treatment in prior years, a general increase in insurance costs, and certain expense amounts recognised in 2002 that should have been recorded in 2001. The Bank incurred insurance costs of KZT 110 million in 2000. The decrease in 2001 compared to 2000 is largely due to expenses that were recorded in 2002, the effect of which was not material either in 2002 or 2001.

Taxes Other than Income Taxes

Taxes other than income taxes increased to KZT 1,304 million in 2002 from KZT 902 million in 2001 and KZT 710 million in 2000. The increases in 2002 and 2001 were mainly attributable to the increase in withholding taxes paid related to foreign debt service, increases in social taxes paid on employee salaries and increases related to value added tax payments due to the expansion of the Bank's overall business operations.

Legal and Professional Fees

Legal and professional fees increased by 104.2% in 2002 to KZT 392 million from KZT 192 million in 2001. The increase in 2002 resulted from higher auditing fees due to the increase in audited subsidiaries and an increase in security costs which has been included in this expense category. Legal and professional fees increased by 81.1% in 2001 to KZT 192 million from KZT 106 million in 2000 primarily as a result of legal fees incurred in connection with the Bank's first debt offering.

Custom Duties

Custom duties declined by 58.9% to KZT 253 million in 2002 from KZT 616 million in 2001. In 2001, custom duties decreased from KZT 1,085 million in 2000. The decline in 2002 reflects the decline in duty paid on the import of cash for the full year. The decrease in 2001 reflected the reduction of the 1% duty on the import of cash from abroad for part of that year.

Taxation

Kazakhstani tax regulations do not allow the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual unconsolidated tax returns. As a result of a significant tax loss carry forward and certain tax regulations, namely the tax-exempt status of interest income on government securities, the Bank did not incur a tax liability for 2000, 2001 or 2002. As at 31 December 2002, the Bank did not have any significant remaining tax loss carry forward to offset future taxation. The current statutory corporate income tax rate is 30%. Due to the exempt status of interest on government securities, management believes that the effective tax rate on any future taxable income would be significantly less than the statutory rate. Moreover, while the operations of the Bank and its subsidiaries are expanding, management does not believe that any significant current income tax liability would be incurred in the near term that would be material to the operating results of the Bank and its subsidiaries.

Financial Condition

Total Assets

At 31 December 2002, the Bank had total assets of KZT 225,248 million as compared to total assets of KZT 157,288 million at 31 December 2001 and KZT 79,205 million at 31 December 2000. The increase of KZT 67,960 million in 2002 is primarily attributable to a growth in net loans of KZT 16,906 million, an increase in trading and held-for-sale securities of KZT 33,884 million and an increase in cash balances (comprising cash and cash equivalents, obligatory reserves and due from other banks) of

KZT 12,054 million. The increase in 2001 of KZT 78,083 million was primarily due to an increase in net loan portfolio of KZT 55,242 million, an increase in cash balances of KZT 12,599 million and an increase in trading securities of KZT 9,659 million.

Other assets increased by 273.9% to KZT 5,507 million as at 31 December 2002 from KZT 1,473 million as at 31 December 2001. The change in other assets between 2001 and 2000 was insignificant. The increase in 2002 primarily relates to the growth of the Bank's insurance operations.

The significant growth in the Bank's assets is primarily attributable to the real growth in the Kazakh economy.

Total Liabilities

The Bank's total liabilities at 31 December 2002 increased to KZT 204,483 million from KZT 141,637 million at 31 December 2001 and KZT 69,657 million at 31 December 2000. The increase in 2002 from 2001 of KZT 62,846 million primarily reflects the growth in customer deposits of KZT 24,749 million, an increase in foreign currency and domestic bank borrowings of KZT 14,255 million and an increase of KZT 17,976 million in debt securities issued. The increase in total liabilities in 2001 from 2000 of KZT 71,980 million primarily consisted of increases in customer deposits of KZT 34,075 million, an increase in bank borrowings of KZT 23,249 million and an increase of KZT 13,310 in debt securities issued.

Other liabilities increased by 308.4% to KZT 6,976 million as at 31 December 2002 from KZT 1,708 million as at 31 December 2001. The increase in other liabilities between 2002 and 2001 was primarily attributable to the growth in the Bank's insurance operations and to higher levels of payables at year end 2002. Between 31 December 2001 and 2000, other liabilities decreased as a result of lower levels of payable balances.

Equity

Total shareholders' equity amounted to KZT 19,755 million at 31 December 2002 (8.8% of total assets), compared to KZT 14,842 million at 31 December 2001 (9.4% of total assets) and KZT 8,935 million at 31 December 2000 (11% of total assets). The following table sets out the Bank's consolidated statements of changes in shareholders' equity periods indicated:

	Share Capital-Common Shares	*Share Capital-Preferred Shares*	*Treasury Shares*	*Premises and Equipment Revaluation Reserve*	*Retained Earning (Accumulated Deficit)*	*Total*
As at 31 December 2000 ..	11,931	—	(218)	190	(2,968)	8,935
Issuance of preferred shares	—	4,160	—	—	—	4,160
Sale of treasury shares ..	—	—	197	—	—	197
Net income	—	—	—	—	1,591	1,591
Dividends on preferred shares	—	—	—	—	(41)	(41)
As at 31 December 2001 ..	11,931	4,160	(21)	190	(1,418)	14,842
Purchase of treasury shares	—	—	(2,248)	—	—	(2,248)
Sale of treasury shares ..	—	—	2,102	—	—	2,102
Net income	—	—	—	—	4,898	4,898
Revaluation of fixed assets	—	—	—	669	—	669
Other	—	—	—	(5)	5	—
Dividends on preferred shares	—	—	—	—	(508)	(508)
As at 31 December 2002 ..	11,931	4,160	(167)	854	2,977	19,755

For a description of the terms of CPS issued in 2001, see ''Management and Share Ownership — Principal Shareholders''.

Off-Balance Sheet Arrangements

The Bank enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include guarantees, letters of credit, forward contracts and option contracts, involve varying degrees of credit risk and are not reflected in the balance sheet of the Bank. As at 31 December 2002, the Bank had issued loan commitments of KZT 11,155 million, guarantees totalling KZT 21,825 million, commercial letters of credit totalling KZT 26,507 million and open forward contracts totalling KZT 334 million. The Bank's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

As at 31 December 2002, the provisions for losses for contingent liabilities were KZT 244 million, compared to KZT 49 million as at 31 December 2001. The following table sets out the commitments and contingent liabilities of the Bank by maturity as at 31 December 2002:

	Up to 1 month	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*3 to 5 years*	*Total*
			(KZT millions)			
Guarantees	1,118	2,768	12,941	4,509	489	21,825
Letters of credit ..	3,448	8,084	14,203	713	59	26,507
Forward contracts ..	31	—	303	—	—	334

The Bank did not have any other significant commitments as at 31 December 2001 and 2002.

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.

Capital Adequacy

The following table gives certain information regarding the Bank's tier I and tier II capital and its risk weighted capital adequacy ratio as at the dates indicated based on IAS:

	31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Tier I capital	8,935	10,682	15,595
Tier II capital	994	9,445	13,573
Tier I and tier II capital	9,929	20,127	29,168
Total risk weighted assets	79,553	142,614	182,869
Risk weighted capital adequacy ratio	12.28%	14.01%	15.92%

Using ratios established by the Bank for International Settlements ("BIS") to monitor capital adequacy, the Bank had a Tier 1 capital ratio of 8.53% at 31 December 2002, compared to 7.49% at 31 December 2001, and a risk weighted capital adequacy ratio (comprising Tier 1 + Tier 2 capital divided by total risk weighted assets) of 15.9% at 31 December 2002, compared to 14.0% at 31 December 2001. The Bank's CPS constitute Tier 2 capital.

ASSET AND LIABILITY MANAGEMENT

Introduction

The Bank monitors its interest rate and exchange rate exposure and the maturities of its financial instruments in order to minimise the effect of changes in them on the Bank's profitability and liquidity. The Bank has a relatively liquid asset base including substantial Tenge and U.S. Dollar demand deposits and short-term assets, mostly commercial loans and advances and securities. The majority of the loans in the Bank's loan portfolio have a short-term maturity. Accordingly, the interest rate risk is relatively low and adjusting the profile of the portfolio is relatively straight forward for the Bank despite the size of the portfolio. As at 31 December 2002, approximately 76% of loans were denominated in foreign currencies or indexed to the U.S. Dollar.

As at 31 December 2002, the Bank's deposit base consisted of 49.9% from corporate deposits and 50.1% from retail deposits and has relatively low sensitivity to interest rate changes. The Bank believes that its strong presence in the corporate banking market gives it a competitive advantage over other banks in Kazakhstan and as a result it has generally managed to maintain a relatively high share of the market for corporate deposits and current account balances during the last few years.

Asset and Liability Management Committee

The overall asset and liability position of the Bank is monitored by the Bank's Asset and Liability Management Committee ("ALCO"), which reports to the Management Board. ALCO is chaired by a Deputy Chairman and comprises one other Deputy Chairman, the Finance Director, the Head of the Treasury Department, the Head of the Retail Business Department, the Head of the Risk Management Department, the Head of the Financial Institutions Department, the Head of the Corporate Department, the Head of the Analytical Centre and the Head of the International Department. ALCO meets on a weekly basis to review the Bank's asset and liability position by reference to the following criteria, based on information provided by the Treasury Department:

- size and maturity of the loan portfolio;
- size and maturity of the investment portfolio;
- size and maturity of both demand and time deposits;
- the Bank's net foreign currency position;
- operational ratios in terms of the regulations established by the NBK; and
- exchange rates and other economic data.

Based on its review of this information, ALCO determines short-term policies for the Bank's transactions for the forthcoming week with an aim of increasing interest and non-interest revenues for the Bank while maintaining adequate liquidity, compliance with prudential norms and regulations and minimising the impact of financial market risks so as to maintain the Bank's attractiveness to depositors. These policies are reviewed and approved by the Bank's senior management which has overall responsibility for ensuring that the asset and liability maturity profiles are prudent considering prevailing market conditions, consistent with the Bank's strategy and comply with all of the NBK's requirements and limitations.

Maturities

The following table summarises the Bank's banking assets and liabilities by maturity as at 31 December 2002 and contains information regarding interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the periodic repricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income while an increase in interest rates would have a negative effect on interest income.

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
			(KZT millions)			
Monetary assets						
Cash and cash equivalents ..	20,557	—	—	—	—	20,557
Obligatory reserves	—	—	—	—	2,731	2,731
Trading securities(1)	32,081	—	—	—	—	32,081
Held-to-maturity securities ..	—	—	—	—	19,634	19,634
Due from other banks	—	—	10,714	91	15	10,820
Commercial loans and advances, gross(2)	26,496	13,416	20,388	23,785	53,829	137,914
Other monetary assets	1,964	169	13	156	3,205	5,507
Total assets	81,098	13,585	31,115	24,032	79,414	229,244
Monetary liabilities						
Amounts owed to government and the NBK	165	21	374	725	1,390	2,675
Due to other banks and financial institutions	15,208	1,904	8,885	6,757	23,224	55,978
Amounts owed to customers ..	51,393	17,040	8,553	17,642	11,129	105,757
Debt securities issued	—	—	—	—	31,286	31,286
Accrued interest payable.. ..	1,811	—	—	—	—	1,811
Other liabilities	6,421	434	1	20	100	6,976
Total liabilities	74,998	19,399	17,813	25,144	67,129	204,483
Net position	6,100	(5,814)	13,302	(1,112)	12,285	24,761
Cumulative gap	6,100	286	13,588	12,476	24,761	—

(1) In this table securities are listed as maturing within less than one month based on the contractual maturities due to the relatively liquid market. Realising such assets on demand is dependent upon prevailing financial market conditions.

(2) The maturity amount is based on the contractual maturity date. The actual maturity may differ as the maturities may be extended or rolled over to update interest rates and facilitate longer-term financing for the borrowers. Gross loans include accrued interest receivable of KZT 3,094 million.

Treasury Operations

The Treasury Department is responsible for the efficient management of the Bank's funds on a daily basis by using the foreign exchange and money markets to reduce foreign currency exposure and funding costs and maximise investment returns. The Bank is one of the leading traders of government debt securities such as Treasury bonds, NBK notes and eurobonds of the Republic of Kazakstan. The Treasury Department also operates foreign exchange and currency swap transactions.

Funding and Liquidity

The Bank's principal sources of funding include domestic customer deposits, amounts due from other banks and financial institutions and debt securities issued. See "Selected Statistical and Other Information — The Bank's Funding Sources".

In 2002, the Bank increased domestic deposits as the primary source of its funding, and in particular leveraged its large personal customer base to increase individual demand and time deposits. Total demand and term deposits increased to KZT 39,736 million and KZT 58,987 million, respectively, in 2002, from KZT 27,010 million and KZT 41,187 million in 2001.

Liquidity is managed centrally on a daily basis by the Treasury Department according to the real-time requirements and forecasts for all of the Bank's divisions and branches in Kazakhstan. The Head of the Treasury Department is also responsible for assessing the credit of its counterparties as part of the Bank's liquidity management process.

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

	31 December		
	2000	*2001*	*2002*
		(%)	
Net loans/assets	69.8	70.2	56.6
Net loans/deposits	117.7	136.4	120.5
Net loans/shareholders' equity	618.3	744.4	644.9
Liquid assets[(1)]/total assets	22.3	25.4	38.1
Liquid assets/total amounts owed to customers	37.6	49.2	81.2

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

Foreign Currency Borrowings

The Bank has entered into a number of financings with foreign banks and other financial institutions. These financings are typically trade related and include short-term import/export financings and medium-term financings insured or guaranted by foreign export credit agencies. These financings are borrowed by the Bank and then on-lent by the Bank to its customers. The Bank, therefore, is in effect acting as its customers' guarantor. These loans amounted to KZT 40,593 million at 31 December 2002. However, other financings have been entered into by the Bank for its own account. These include (1) a small and medium-size enterprise loan facility dated 27 February 2003 with EBRD for an amount equal to U.S.$10 million due 2006, under which U.S.$5 million has been drawn down; (2) an unsecured loan facility dated 27 February 2003 with EBRD for an amount equal to U.S.$30 million due 2007 which is fully drawn; (3) a loan facility with EBRD dated 3 July 2002, as amended in November 2002 for an amount equal to U.S.$50 million, under which U.S.$25 million was drawn down and which was repaid in full on 30 April 2003, and U.S.$25 million remained undrawn until the expiry of the availability period in January 2003; and (4) two issues of U.S.$100,000,000 eurobonds issued by TuranAlem Finance B.V. due in 2004 and 2007, respectively. The Bank assumed the obligations of TuranAlem Finance B.V. under and pursuant to the terms and conditions of the eurobonds due 2004 as principal debtor and is the guarantor of the eurobonds due 2007.

As at 31 December 2002, the Bank had two credit lines, through the Government of the Republic of Kazakhstan: the first funded by EBRD (U.S.$37.7 million) and Asian Development Bank ("ADB") (U.S.$0.24 million), and the second funded by Kreditanstalt für Wiederaufbau ("KfW") (€1.2 million) and the Entrepreneurship Development Fund (U.S.$16 million) to finance small and medium-size importers.

Under various financing documents, the Bank is obliged to maintain particular financial ratios, with which the Bank's auditors are required to report on compliance. In the past, there have been occasions on which the Bank has not met some of these ratios. However, the relevant lenders were informed of this and have not taken any action in this regard. While the auditors are still completing the reporting process for the year ended 31 December 2002, the Bank believes it is in substantial compliance with the applicable ratios.

The Bank also participates in the Governmental Programme for State Support of Small Scale Business Development funded by EBRD and ADB. Under such programme, EBRD and ADB provide funds to the Small Scale Business Development Fund (a "quasi-governmental" financial institution) which in its turn disburses funds to various Kazakh banks for on-lending to small size businesses. The Bank grants loans to small size businesses on the basis of its analysis of their creditworthiness under terms and conditions comparable to similar credit facilities. In addition, EBRD has made a non-recourse loan to Samal Properties, one of the Bank's affiliated companies, for U.S.$9,800,000 which is secured by a mortgage over the Bank's headquarters in Almaty.

The following tables present certain information as to the currency and tenor of the Bank's principal foreign currency borrowings outstanding as at 31 December 2002:

U.S. Dollars

	Final Maturity Date						
	2003	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*
	(U.S.$ thousands except €, CHF and £ thousands)						
Lender							
American Express Bank Ltd ..	28,533	—	—	—	—	—	—
European Bank for Reconstruction and Development	27,000(1)	—	—	—	—	—	—
Mashreqbank PSC	12,963	—	—	—	—	—	—
Syndicated loan..	73,500(2)	—	—	—	—	—	—
Non-Resident Banks	62,190(3)	—	—	—	—	—	—
Other	200	8,779	16,511	7,838	3,779	7,280	8,139
Total	204,386	8,779	16,511	7,838	3,779	7,280	8,139
Euros	4,814	222	4,247	4,116	10,449	585	
Swiss Francs	726		3,703				
G.B. Pound Sterling	238						

(1) The Bank repaid in full an advance of U.S.$25 million on 30 April 2003 under a loan agreement with EBRD dated 3 July 2002, as amended in November 2002.

(2) This unsecured syndicated loan facility with several OECD-based financial institutions was extended at maturity in September 2002, increased to U.S.$73.5 million in aggregate principal amount and repaid in full in March 2003.

(3) The Bank put in place a U.S.$50 million 90-day liquidity facility on 22 May 2003, provided by two OECD-based financial institutions for the purpose of meeting trade financing requirements of the Bank's customers. It is anticipated that the liquidity facility will be replaced by an unsecured syndicated trade finance facility for approximately U.S.$150 million comprising a 364-day and an 18-month term loan. The facility will be extended for the purpose of repaying the liquidity facility and financing specific trade transactions of certain of the Bank's customers.

Foreign Currency Management

Management believes that since the Bank's inception, it has maintained a conservative position with a net long foreign currency position. At weekly meetings, ALCO monitors the open foreign currency position in relation to prevailing market conditions and outlook and advises on the Bank's position and implements the Bank's strategy accordingly.

Regulation and monitoring of the net foreign currency positions of banks is carried out by the NBK. According to the current NBK Regulations, the ratio of a bank's net open foreign currency position relative to its risk weighted capital must not exceed 50%. The NBK defines the net open foreign currency position as the difference between the Tenge equivalent of all foreign currency assets and all foreign currency liabilities. Foreign currency assets include all foreign currency claim accounts and the total value of its forward currency purchases. Foreign currency liabilities include all foreign currency liability accounts and the total value of its forward foreign currency sales. The Bank furnishes to the NBK on a weekly basis a report on net and currency position maintenance.

As at 31 December 2002, the Bank's foreign currency position was substantially extended, principally due to the increase in the aggregate amount of securities denominated in foreign currencies since 2001.

The following table shows the net long foreign currency position of the Bank as at the dates indicated.

	31 December		
	2000	*2001*	*2002*
Net long position (U.S.$ millions)	10	24	73
Net position as a percentage of risk weighted capital	14%	18%	39%
Net position as a percentage of foreign currency liabilities ..	4%	3%	8%

As at 31 December 2002, the Bank was a party to a number of deliverable U.S. Dollar – Tenge forward contracts in an aggregate amount equal to KZT 334 million, all of which mature in 2003.

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

	31 December					
		2001			*2002*	
	KZT	*Freely convertible currencies*	*Total*	*KZT*	*Freely convertible currencies*	*Total*
			(millions)			
Monetary assets						
Cash and cash equivalents ..	475	16,745	17,220	5,053	15,504	20,557
Obligatory reserves	4,684	—	4,684	2,731	—	2,731
Due from other banks ..	—	150	150	9,830	990	10,820
Trading securities	13,519	4,312	17,831	12,925	19,156	32,081
Held-to-maturity securities ..	—	—	—	—	19,634	19,634
Commercial loans and advances, gross	25,189	92,004	117,193	35,936	101,978	137,914
Other assets	932	541	1,473	4,980	527	5,507
	44,799	113,752	158,551	71,455	157,789	229,244
Monetary liabilities						
Amounts owed to the Government and the NBK	770	1,663	2,433	969	1,706	2,675
Due to other banks and financial institutions ..	814	40,909	41,723	2,165	53,813	55,978
Amounts owed to customers	28,030	52,978	81,008	49,475	56,282	105,757
Debt securities issued	—	13,310	13,310	—	31,286	31,286
Accrued interest payable ..	116	1,339	1,455	625	1,186	1,811
Other liabilities	1,708	—	1,708	4,797	2,179	6,976
	31,438	110,199	141,637	58,031	146,452	204,483
Net position	13,361	3,553	16,914	13,424	11,337	24,761

Lending Policies and Procedures

General

The NBK has strict guidelines in relation to the credit approval process of banks, the terms, credit levels and interest rates. NBK Regulations limit the exposure to any single borrower or group of borrowers to 10% of a bank's equity for related parties and to 25% of a bank's equity for non-related parties. The Bank's own credit approval process is based on the NBK Regulations and its own internal procedures are established by the Board of Directors and Management Board.

All applications for credit by corporate and retail customers must be submitted to the Bank on its standard forms. Depending on the type of borrower and industry sector, the application is reviewed by one of the Bank's seven corporate business departments, the Project Finance Department or the Small/

Medium-Sized Enterprise ("SME") Department, as appropriate, each responsible for a certain industry sector. The relevant reviewing department undertakes a thorough analysis of the credit applicant, including carrying out feasibility studies, financial analysis, financial standing, reputation and experience of the potential borrower and then prepares a credit dossier for each applicant, based upon the results of such analysis. Information is obtained from various external sources including the state taxation authorities where appropriate. The Bank's Security Department also carries out a confidential investigation and appraisal of the applicant by obtaining references from other banks and information from criminal records and the Interior Ministry. The Bank's Problem Debts Department obtains information from the NBK's list of previous defaulting borrowers. If the loan is collateralised, the Bank's Security Appraisal Group makes an independent assessment of the collateral being offered, including valuation, legality and enforceability. The Bank also employs independent legal advisers, from time to time, to review the loan agreements and other legal documentation involved in the lending process.

All corporate customers of the Bank are required to have an internal credit rating assigned by the Bank's Risk Management Department. See "Asset and Liability Management — Provisioning Policy". The Risk Management Department is responsible for the assessment on a systematic basis of all on and off-balance sheet credit risks in excess of U.S.$300,000 and in excess of U.S.$25,000 for financings with a maturity in excess of one year. All risk assessments of borrowers are submitted to the appropriate credit committees and the Management Board of the Bank, where necessary, to ensure appropriate lending decisions are taken.

Depending on the amount sought in the credit application, a credit dossier is examined by the appropriate credit decision making body of the Bank for a final decision on the approval of the application as follows:

- Local branch management is authorised to take decisions within lending limits established for each branch up to U.S.$300,000 (or the equivalent) depending on its size and underwriting capabilities, as assessed by senior management;
- the Bank's Small Credit Committee takes decisions as to the discretion given to branches to provide loans, amending loan agreement conditions, including extending the maturity, for any credit risk in the range of U.S.$150,000 to U.S.$300,000 (or the equivalent);
- the Bank's Large Credit Committee takes decisions on providing loans, amending loan agreement conditions, including extending the maturity, for any credit risk in excess of U.S.$300,000 (or the equivalent); and
- the Management Board of the Bank takes decisions on all large credits in excess of U.S.$1,000,000 (or the equivalent), on all credits to related parties where the aggregate exposure would exceed U.S.$1,000,000 (or the equivalent) and for other loans less than U.S.$1,000,000 (or the equivalent) relating to start-up entities and project financing loans representing a phased development programme. Applications are only considered by the Management Board following approval of such applications by the Large Credit Committee.

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

Maturity Limit

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

Nature of the Loan	*Maximum Maturity*[1]
Financing of working capital	Up to 18 months
Consumer credit to individuals	Up to 5 years
Loans to employees	Up to 5 years
Investments	Up to 7 years
Interbank deposit	Up to 1 year
Leasing	Up to 5 years

(1) The Board of Directors may adjust these guidelines on a case by case basis.

Collateralisation

The Bank seeks to reduce substantially its credit risk by requiring collateral from borrowers. Collateral on loans extended by the Bank includes but is not limited to real estate, machinery and motor vehicles, industrial equipment, industrial goods, food-stock and other commercial goods, as well as cash deposits, securities and personal third party and corporate guarantees. The Bank estimates the net realisable value of the collateral provided and regularly monitors the quality of the collateral taken as security. In certain cases, additional collateral may be sought from the borrower. The following table sets out the loan amount as a percentage of collateral value based on the type of collateral:

Collateral Categories	*Loan/Collateral Value*
Cash	100%
Guarantees from financial institutions	100%
Government debt securities	100%
Real estate	30-50%
Commodities	30-50%
Fixed assets	30-50%
Equity securities	Not fixed

Portfolio Supervision

The Bank's Risk Management Department, which is independent of the loan granting department, is responsible for classifying the loan portfolio in accordance with the requirements established by the NBK. Using this classification, the Risk Management Department evaluates the quality of the loan portfolio and the allowance for loss requirements in relation to it. An evaluation of off-balance sheet assets and contingent liabilities is also carried out by the Risk Management Department on a systematic basis. The Risk Management Department categorises loans and off-balance sheet exposure by reference to the borrower's debt service record, the strength of its financial statements and any other information provided, its financial performance, the purpose of the loan, the quality and quantity of security provided, as follows:

- Pass loan — interest and principal are repaid in full in a timely fashion, not overdue. Customer is capable of repaying principal and interest on time, has provided adequate and liquid collateral and is financially efficient. In the NBK's terminology this is referred to as a "standard" loan.
- Watch loan — payment of principal and/or interest is up to 30 days overdue, or interest or principal payments have been extended by the Bank. Customer's financial position is stable and there is a low expectation of default. In the NBK's terminology this is referred to as a "sub-standard" loan.
- Unsatisfactory loan — payment of principal and/or interest is between 30 and 60 days overdue and/or interest or principal payments have been extended at least twice by the Bank. Some negative risk factors exist which might affect the ability of the customer to repay.

- Doubtful loan — payment of principal and/or interest is between 60 and 90 days overdue and the Bank has extended interest or principal payments. A number of serious risk factors exist that might affect the ability of the customer to repay.
- Loss — payment of principal and/or interest is more than 90 days overdue. Very low financial efficiency, repayment is unlikely. Customer was declared bankrupt and/or treatment was applied for a period of one year.

Total classified loans comprise unsatisfactory loans, doubtful loans and loss loans.

Senior Management pays strict attention to the timeliness of debt repayments and the classified loan and contingent liabilities' reports of the Risk Management Department. Immediate action is taken by the appropriate departments, which have responsibility for supervising and monitoring loan repayment if any principal or accrued interest repayment problems arise. Any deterioration in the quality of the assets and contingent liabilities of the entire loan portfolio is brought to the attention of the Bank's Management Board. The Bank's determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria, including changes to the borrower's turnover in accounts held by the Bank; changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose; applications to change credit terms; failure of the borrower to fulfil terms under its loan agreement; and refusal of a borrower to co-operate in supplying documentation. The Bank believes that it has a good record in enforcing its security and attempts to resolve security enforcement without resort to court action or arbitration where possible. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any pledged collateral either in reliance on its legal rights or with the co-operation of the borrower. If necessary, the Bank will seek to obtain repayment or sequestration of a debtor's property or funds held in accounts with other banks in a court of law.

Provisioning Policy

The loan classifications described above are used to determine the level of provisioning required by the NBK. Calculation of loan provisions is carried out on a monthly basis.

The Bank may make specific provisions for possible loan losses on a case-by-case basis and actual provisions established take into account the value of any collateral or third party guarantees. For this reason the actual provision levels may differ from the normal provisioning rate. The Bank considers a loan to be non-performing when either interest or principal payments are past their due date by 30 days. At such time, the accrual of interest is suspended. The Bank fully provisions a loan if interest and principal have not been paid for more than 90 days or if management is of the opinion that the loan is uncollectable because the Bank has been unable to collect the loan or to enforce its security. The Bank charges off loans that are past their due date by 180 days or more. Once a loan has been fully provisioned by the Bank, the Security Department and Security Appraisal Group of the Bank continues to monitor the loan and its collateral for five years.

The Bank's provisioning policy under IAS differs from its provisioning policy under KAS where provisions are created for potential losses on loans and advances based principally on the borrower's debt service record and there is also a general provision of 2% of the amount of each such exposure. Under KAS, no general provision is created for loans where payment delays have not been experienced, however, a pooled provision is made in relation to exposures where there is no specific provision, the amount of it being based upon management's estimate of likely losses. Accordingly, under KAS, the creation of a provision is event-oriented, it relies on a lack of timeliness in interest or principal payments.

The following table sets out certain information relating to the Bank's gross loans and credit risk classifications and allowance for losses as at the dates indicated in accordance with IAS:

	31 December					
	2001			*2002*		
Risk Category	*Gross Loans*	*Total Allowance*	*Percentage Reserved*	*Gross Loans*	*Total Allowance*	*Percentage Reserved*
	(KZT millions)					
Pass	62,863	1,167	1.9%	60,806	1,278	2.1%
Watch	35,170	1,759	5.0%	54,742	2,735	5.0%
	98,033			115,548		
Unsatisfactory	14,075	2,347	16.7%	11,082	899	8.1%
Doubtful	1,172	484	41.3%	3,136	1,331	42.4%
Loss	1,473	717	48.7%	5,054	3,923	77.6%
Total classified	16,720			19,272		
Gross loans/allowance	114,753	6,474	5.6%	134,820	10,166	7.5%
Accrued interest	2,440			3,094		
	117,193			137,914		

Between 2002 and 2001 gross loans, net of interest, increased by 17% to KZT 134,820 million. Total classified loans increased by 15.3% to KZT 19,272 million. A negative trend developed as loans classified as doubtful increased by 167.6% to KZT 3,136 in 2002 from KZT 1,172 million in 2001 and loans classified as loss increased by 243.1% to KZT 5,054 million in 2002 from KZT 1,473 million in 2001.

The increase in classifications for doubtful and loss loans is primarily attributable to seven borrowers who began to experience difficulties in the latter part of 2002. While there can be no assurances that these borrowers will not continue to experience difficulties, management is actively working with such borrowers in an attempt to mitigage future possible losses to the Bank. In view of these difficulties, the Bank increased the allowance for losses for doubtful and loss loans to KZT 5,254 million as at 31 December 2002 from KZT 1,201 million in 2001.

BUSINESS

General

The Bank is a leading commercial bank in Kazakhstan. Its primary business consists of corporate banking, trade finance, retail banking, currency and securities trading and credit and debit card services. The Bank has a wide range of corporate customers, including many of the country's leading industrial companies. As at 31 December 2002, the Bank had over 34,400 corporate accounts, making it Kazakhstan's second largest bank in terms of the size of its loan portfolio and over 587,000 individual customer accounts, making it Kazakhstan's second largest bank in terms of loan portfolio and the third largest bank in terms of the size of individuals' deposits.

Structure of the Bank

The Bank's head office is in Almaty and, as at 31 December 2002, the Bank had 235 branches, a representative office in each of Moscow, Russia and Kiev, Ukraine. Although most branches only provide cash settlement services for individual customers, some branches provide a broad range of banking services. Acceptance operations, trust operations, clearing operations, mortgage operations, issuance of payment cards, guarantee operations, issuance of own securities, factoring and forfaiting operations and transactions with precious metals are conducted by the head office.

The Bank has 17 principal business departments; Corporate (consisting of seven credit departments), Treasury, International Relations, Retail Business, Project Finance, SME, Problem Loan, Financial Institutions, Group of Regional Managers, Security Appraisal Group and Custody Services Section. The Bank also has various departments providing support services. Through these 17 business departments, the Bank delivers corporate banking, retail banking, capital markets, international banking and pension fund services.

Corporate Banking

The largest of the Bank's business departments is the Corporate Business Department consisting of seven credit departments which provides commercial banking products and services to large and medium size companies. The Bank has increased its share of the corporate lending market since it was privatised in 1998 and as at 31 December 2002, the Bank was the second largest corporate lender in Kazakhstan. The Bank has a wide range of corporate customers, including many of the country's leading industrial companies. As at 31 December 2002, the Bank had approximately 34,400 corporate accounts. Lending to corporate clients represented approximately 55% of the Bank's total assets as at 31 December 2002.

A major part of the Corporate Business Department's business is the provision of trade finance and short-term credit facilities, mostly in Tenge or U.S. Dollars, including letters of credit, guarantees and working capital. Since long-term funding is limited in Kazakhstan, many of these corporate loan facilities have maturities of less than 12 months. As at 31 December 2002 the Bank had a share of approximately 20% of the market in corporate lending in the country and is expanding into services such as payroll management, corporate cards and foreign exchange. Kazakhstan Electricity Grid Operating Company and Kazakhstan Railways Company are two leading Kazakh corporates to which the Bank provides payroll management services.

Retail Banking

The retail banking market is an increasingly important source of business for the Bank and management believes the Bank is well placed to take advantage of its large individual customer and depositor base. The Bank has benefited from its strong corporate banking relationships by extending retail banking services to the management and employees of its major corporate customers. The Bank has a strong position in retail banking. As at 31 December 2002, the Bank held approximately 21% of retail deposits through approximately 587,000 individual accounts.

The Bank offers a wide range of retail banking products and services including current accounts, time deposits, debit and credit card, currency exchange and ATM services. The Bank has the third largest number of retail customers in Kazakhstan after Halyk Savings Bank, which historically dominated the retail banking market as Kazakhstan's state-owned "savings" bank. In 1999, the Bank increased its penetration of the retail banking market and expanded its branch network in areas with a high potential for retail banking business, particularly in eastern Kazakhstan and in the Caspian Sea regions in the western part of the country. Through its subsidiary, LLP Pawnshop Altyn Orda, the Bank provides a wide range of products and services such as secured short-term loans, consumer loans and safe deposits.

The Bank sees the debit and credit card business as one of the biggest growth areas in the retail banking market. The Bank is expanding its debit and credit card business, with agreements in place to offer MasterCard and CIRRUS services in addition to existing VISA services. The Bank has opened its own card processing centre and has in issue approximately 275,000 debit cards and 1,000 credit cards, including approximately 201,000 international VISA cards, 50,000 EUROPAY cards and 25,000 Smart Alem cards. This debit card business generated KZT 327 million fee income in 2002, and it is estimated that the number of cards will increase to 300,000 by the end of 2003.

The Bank also considers the relatively new retail mortgage market as a potential area for strong growth and believes that it is well positioned to establish a significant market share as the mortgage market grows. Outstanding mortgage loans grew in 2002 to KZT 1,425 million from KZT 396 million in 2001.

Capital Markets

Since Kazakhstan began its privatisation programme in 1992, the country put in place considerable legal and technical infrastructure to support the capital markets. The Bank is committed to maintaining its position in capital markets. During 2002, LLP TuranAlem Securities, the Bank's wholly-owned subsidiary, handled approximately 30% of trades on the KASE.

LLP TuranAlem Securities' primary activities are the sales, investment banking, trading and underwriting of government, municipal and corporate securities in Kazakhstan. Kazakhstan's capital markets activities are gradually increasing as the economy recovers and the private sector develops.

LLP TuranAlem Securities' trading partners include certain major domestic financial institutions such as Halyk Savings Bank, Kazkommertsbank, Almaty Merchant Bank, ABN AMRO Bank Kazakhstan, Citibank Kazakhstan as well as major international banks such as ING Bank, Morgan Stanley, Deutsche Bank, Standard Bank and RZB.

International Banking

The Bank provides services for customers engaged in international trading. Many of Kazakhstan's leading exporters are customers of the Bank, including Hurricane Kumkol Munai, Aktobemunaigas, Kazakhmys, Ispat-Karmet and Kazatomprom. The Bank is a leading provider of foreign exchange services and is active in inter-bank OTC trading and official currency markets on behalf of its customers. The Bank maintains correspondent banking relationships with many international leading banks, including ING Bank N.V., Deutsche Bank AG, Dresdner Bank AG, ABN AMRO Bank N.V., Union Bank of Switzerland, Bank of Montreal, The Bank of New York, JPMorgan Chase, Citibank, N.A., Akbank, Sumitomo Mitsui Banking Corporation and American Express Bank. The Bank currently maintains a representative office outside Kazakhstan in each of Moscow (Russia) and Kiev (Ukraine) and one wholly-owned overseas subsidiary — TuranAlem Finance B.V. — in The Netherlands.

Pension Fund Services

The provision of pension fund services is a growing business in Kazakhstan and is a result of government reform in this area in 1998. See "Annex A — The Republic of Kazakhstan — The Kazakhstan Economy". There are currently eight asset management companies, 15 private pension funds and one state-run pension fund in Kazakhstan. The Bank is committed to becoming a leading provider of pension fund services and has an equity share in two pension funds, CJSC Kurmet Pension Fund in 1998 (the Bank owns 66% of the share capital of CJSC Kurmet Pension Fund) and CJSC Kazakhstan Pension Fund in 1999 (the Bank owns 50.4% of the share capital of CJSC Kazakhstan Pension Fund).

Insurance

The insurance market is developing rapidly in Kazakhstan due to improvements in legislative measures, expanded regulatory supervision and the general economic development in Kazakhstan for the past few years. There are approximately 30 insurance companies operaing in Kazakhstan. The total capital of insurance companies has been estimated at approximately KZT 6 billion as at 31 December

2002. The Bank has controlling interest in three insurance providers and believes that it is well positioned to capitalise on the anticipated growth in the next five years. Total insurance industry gross revenues have been estimated at approximately KZT 4 billion for 2002 and it is expected to grow in excess of 15% per year over the next five years. The Bank offers a broad range of insurance products and is focused on furthering its penetration of the market over the next few years.

Branch Operations and Technology

The Bank operates an integrated banking system and has a unified payment system, which allows on-line communication between the head office of the Bank and its branches through a real-time wide area network. Individual branches maintain their own independent databases and data is transmitted electronically to the head office where consolidated accounts are prepared. The Bank considers the upgrading of its information technology systems as an important aspect of the Bank's further development.

The Bank's Subsidiaries and Affiliates

The Bank has 10 subsidiaries: LLP TuranAlem Securities, OJSC BTA Leasing, LLP Pawnshop Altyn Orda, CJSC Kazakhstan Pension Fund, TuranAlem Finance B.V., OJSC Insurance Company KBS Garant, CJSC Dynasty Life Insurance Company, CJSC Kurmet Pension Fund, OJSC Insurance Company BTA, and OJSC BTA Ipoteka (indirectly owned through LLP TuranAlem Securities), and four affiliates: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Real Estate Commerce and LLP Force Technology, that are treated as subsidiaries in accordance with IAS. The following table sets out certain information relating to the Bank's subsidiaries and affiliates as at 1 February 2003:

Company Name	*Date of Investment*	*Investment At Cost*	*Bank's Share-holding*	*Net Income*[(2)]
		(KZT millions)	*(%)*	*(KZT millions)*
LLP TuranAlem Securities	14 October 1997	28.8	100.0	418
OJSC BTA Leasing	14 September 2000	297.2	100.0	33
LLP Pawnshop Altyn Orda	23 February 2001	7.2	100.0	3
CJSC Kazakhstan Pension Fund	6 July 1999	126.0	50.4	(12)
TuranAlem Finance B.V.	21 May 2001	3.0	100.0	3
OJSC Insurance Company KBS Garant..	4 April 2001	62.7	58.8	(549)
LLP Kazco Construction Industrial Ltd[(1)]	—	—	—	(329)
LLP Samal Properties[(1)]	—	—	—	—
OJSC Insurance Company BTA	3 September 1998	132.0	66.0	501
CJSC Kurmet Pension Fund	18 August 1998	118.8	66.0	(11)
CJSC Dynasty Life Insurance Company	30 March 2001	62.1	66.0	40
LLP Real Estate Commerce[(1)]	—	—	—	(54)
LLP Force Technology[(1)]	—	—	—	(160)
OJSC BTA Ipoteka	29 November 2000	40.0	100	—[(3)]

(1) Although the Bank does not own any shares in LLP Kazco Construction Ltd, LLP Samal Properties, LLP Real Estate Commerce and LLP Force Technology, they are treated, in accordance with IAS, as subsidiaries because the Bank controls their operations.

(2) Amounts reported for subsidiaries where the Bank's interest is less than 100% are net of minority interests.

(3) Amount included in LLP TuranAlem Securities' net income.

LLP TuranAlem Securities

LLP TuranAlem Securities was established in December 1997 as a limited liability partnership and is based in Almaty. LLP TuranAlem Securities provides brokerage services in the securities market. See "Business — Structure of the Bank — Capital Markets".

OJSC BTA Leasing

OJSC BTA Leasing was established in August 2000 as an open joint stock company and is based in Almaty. OJSC BTA Leasing provides leasing services to its clients for equipment and the servicing of equipment.

LLP Pawnshop Altyn Orda

LLP Pawnshop Altyn Orda was established as a limited liability partnership in May 2001. The Bank contributed share capital to LLP Pawnshop Altyn Orda on 23 February 2001. LLP Pawnshop Altyn Orda provides a wide range of products and services such as secured short term loans, consumer loans and safe deposits. See "Business — Structure of the Bank — Retail Banking".

CJSC Kazakhstan Pension Fund

CJSC Kazakhstan Pension Fund was established in June 1999 as a closed joint stock company and is based in Almaty. The Bank holds 50.4% of CJSC Kazakhstan Pension Fund's share capital. CJSC Kazakhstan Pension Fund is a non-state pension fund, established to attract pension contributions and effecting pension payments. See "Business — Banking Services — Pension Fund Services". It has a 2.7% share of the pensions market in Kazakhstan.

TuranAlem Finance B.V.

TuranAlem Finance B.V. was incorporated on 22 May 2001 in The Netherlands as a limited liability company. TuranAlem Finance B.V. issued eurobond debt securities guaranteed by the Bank in the amounts of U.S.$100,000,000 in each of 2001 and 2002 which are due in 2004 and 2007, respectively, although its obligations under the eurobonds due in 2004 have since been assumed by the Bank as principal debtor.

OJSC Insurance Company KBS Garant

OJSC Insurance Company KBS Garant was established in January 1999 as an open joint stock company. The Bank holds 58.8% of OJSC Insurance Company KBS Garant's share capital. OJSC Insurance Company KBS Garant provides a range of property and personal accident insurance products and is based in Almaty. It has a 6% share of the insurance market in Kazakhstan.

OJSC Insurance Company BTA

OJSC Insurance Company BTA was established in September 1998 as an open joint stock company and is based in Almaty. The Bank holds 66% of OJSC Insurance Company BTA's share capital. OJSC Insurance Company BTA provides a range of property and casualty insurance products. It has a 19% share of the insurance market in Kazakhstan.

CJSC Kurmet Pension Fund

CJSC Kurmet Pension Fund was established in September 1998 as a closed joint stock company and is based in Almaty. The Bank holds 66% of CJSC Kurmet Pension Fund's share capital. CJSC Kurmet Pension Fund is also a non-state pension fund. See "The Bank's Business — Banking Services — Pension Fund Services". It has a 4.1% share of the pensions market in Kazakhstan.

CJSC Dynasty Life Insurance Company

CJSC Dynasty Life Insurance Company was established in July 1999 as a closed joint stock company and is based in Almaty. The Bank holds 66% of CJSC Dynasty Life Insurance Company's share capital. OJSC Insurance Company BTA is also a major shareholder of CJSC Dynasty Life Insurance Company. CJSC Dynasty Life Insurance Company provides life insurance services and is the sole insurance company in Kazakhstan which is licensed by the NBK to provide these services.

OJSC BTA Ipoteka

OJSC BTA Ipoteka was established in November 2000 as an open joint stock company and is based in Almaty. The Bank holds indirectly, through LLP TuranAlem Securities, 100% of OJSC BTA Ipoteka's share capital. OJSC BTA Ipoteka provides a wide range of services, including the purchase, maintenance and construction of real estate. It has a 32% share of the mortgage market in Kazakhstan.

Although the Bank does not own any shares in LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Real Estate Commerce and LLP Force Technology, they are treated, in accordance with IAS, as subsidiaries because the Bank controls their operations.

LLP Kazco Construction Industrial Ltd and LLP Samal Properties

LLP Samal Properties owns and manages Samal Towers, the Bank's headquarters in Almaty. LLP Samal Properties is 62% owned by LLP Kazco Construction Industrial Ltd, a company owned by a nominee for the Bank, and 38% owned by Alara International Inc., which is owned by the contractors originally engaged by Alem Bank to construct the building. LLP Samal Properties acquired the building from the Bank as part of a financial settlement reached in 1999 with the contractors. The purchase was financed in part with a loan to LLP Samal Properties from the EBRD which is secured on the building itself and in part through a long-term deferral of the payment of the balance of the purchase price.

LLP Force Technology

LLP Force Technology was established in July 2002 as a limited liability partnership and is based in Almaty. LLP Force Technology provides information services and leasing of computer equipment.

LLP Real Estate Commerce

LLP Real Estate Commerce was established in July 2002 as a limited liability partnership and is based in Almay. LLP Real Estate Commerce provides leasing services for real property, registration of documents, purchase and sale of real property, maintenance of buildings and constructions, house-building, designing and the modernisation of multi-level buildings.

Legal Proceedings

The Bank was involved in a number of disputes relating to trade finance which have arisen in connection with projects undertaken by its predecessor, Turan Bank. Although the aggregate amounts involved in these disputes were substantial, the Government issued a resolution in December 2000 in which it was confirmed that any amounts payable by the Bank in relation to these disputes would be reimbursed to it by the Ministry of Finance out of the State budget. Indeed, there has already been a partial settlement of one of the disputes and the payment to the claimant in question was made directly to it by the Ministry of Finance.

In the past, claims have also been made in relation to certain Kazakh residents' foreign currency accounts held at the Kazakh branch of the Vnesheconombank (Bank for Foreign Economic Activity) of the USSR. In connection with the dissolution of the Soviet Union, in December 1991 all of these accounts were frozen and the credit balances on them were subsequently applied by the Soviet authorities towards the repayment of foreign debts incurred during the Soviet era. The Bank is not the legal successor to the Kazakh branch of Vnesheconombank and does not regard itself as having any liability to the holders of those accounts.

In addition to the above, the Bank is party to other legal proceedings in which claims have been advanced against it. None of these other proceedings, either individually or in the aggregate, is expected to have a material adverse effect on the Bank's financial condition taking into account any provisions made by it.

Employees

As at 31 December 2002, the Bank had 3,624 full-time employees, of which 2,493 were employed at the Bank's branches outside Almaty. As at 31 December 2001, the Bank had 3,298 full time employees. Currently, there are no labour unions in the Bank. The Bank has never experienced industrial action or other work stoppages resulting from labour disputes. The average age of the Bank's employees is 31 years and 73.1% of the employees in professional positions hold university degrees. A number of key staff have been trained at the Bank's main correspondent banks including ING, WestLB, HSBC, Société Générale, Deutsche Bank, Dresdner Bank and Raiffeisenbank Austria.

SELECTED STATISTICAL AND OTHER INFORMATION

The information included in this section is derived from the financial statements of the Bank, which were prepared in accordance with IAS, and has not been independently reviewed or verified.

Average Balances

The following table sets out certain information as to average balances based upon the average between the balances as at 1 January and 31 December in each year for the years indicated:

	2000	*2001*	*2002*
		Average Balance	
		(KZT millions)	
Average Assets			
Cash and equivalents	7,525	12,113	18,889
Obligatory reserves	2,306	3,567	3,708
Due from other banks	—	75	5,485
Trading securities	4,802	13,002	24,956
Held-to-maturity securities	—	—	9,817
Gross loans	42,986	85,732	124,787
Allowance for losses	(2,588)	(4,805)	(8,612)
Accrued interest	1,015	1,941	2,767
Premises and equipment	4,305	5,220	5,982
Other assets	2,213	1,403	3,490
Total average assets	62,564	118, 248	191,269
Average liabilities and shareholders' equity			
Amounts owed to the Government and the NBK	733	1,600	2,554
Due to other banks and financial institutions	13,749	30,099	48,851
Amounts owed to customers	37,579	63,971	93,382
Debt securities issued	—	6,655	22,298
Accrued interest payable	757	1,252	1,633
Other liabilities	2,134	2,072	4,342
Total average liabilities	54,952	105,649	173,060
Minority interest	604	711	910
Average shareholders' equity	7,008	11,888	17,299
Average liabilities and shareholders' equity	62,564	118, 248	191,269

The table below (derived from the Bank's management accounts) shows the Bank's consolidated average balances and interest rates for the periods indicated. In such tables, the average balances for interest-earning assets and interest bearing liabilities represent the average of the opening and closing balances for the year.

	Year ended 31 December								
	2000			*2001*			*2002*		
	Average Balance	*Interest*	*Yield /Rate*	*Average Balance*	*Interest*	*Yield /Rate*	*Average Balance*	*Interest*	*Yield /Rate*
	(KZT millions, except percentages)								
Assets									
Interest-earning deposits KZT ..	192	12	6.3%	247	18	7.3%	1,667	74	4.4%
Foreign Currency	3,395	91	2.7%	5,355	201	3.8%	10,686	298	2.8%
Securities									
KZT	2,198	665	30.3%	8,680	1,028	11.8%	13,222	1,407	10.6%
Foreign Currency	2,604	416	16.0%	4,322	394	9.1%	21,551	1,411	6.6%
Loans:									
KZT	19,861	4,709	23.7%	24,133	5,968	24.7%	27,796	5,235	18.8%
Foreign Currency	23,125	3,054	13.2%	61,599	8,036	13.1%	96,991	13,943	14.4%
Total interest-earning assets: ..	51,375	8,947	17.4%	104,336	15,645	15.0%	171,913	22,368	13.0%
Cash and non-interest deposits ..	6,244			10,153			15,729		
Accrued interest	1,015			1,941			2,767		
Provision for losses	(2,588)			(4,805)			(8,612)		
Fixed assets	4,305			5,220			5,982		
Other assets	2,213			1,403			3,490		
Total average assets	62,564			118,248			191,269		
Liabilities and Shareholders' Equity									
Due to Government and NBK									
KZT	660	75	11.4%	727	63	8.7%	870	78	9.0%
Foreign currency	73	5	6.8%	873	14	1.6%	1,684	72	4.3%
Due to other banks									
KZT	1,462	11	0.8%	1,639	5	0.3%	1,490	241	16.2%
Foreign currency	12,287	1,122	9.1%	28,460	1,735	6.1%	47,361	2,145	4.5%
Due to customers									
KZT	10,197	1,089	5.6%	11,784	1,940	16.5%	19,771	2,465	12.5%
Foreign currency	15,583	1,114	7.1%	32,885	1,761	5.4%	46,421	2,809	6.1%
Debt securities issued, foreign currency	—	—	—	6,655	1,153	17.3%	22,298	2,717	12.2%
Total interest-bearing liabilities ..	40,262	3,416	8.5%	83,023	6,671	8.0%	139,895	10,527	7.5%
Non-interest bearing customer accounts	11,799			19,302			27,190		
Other liabilities	2,891			3,324			5,975		
Minority interest	604			711			910		
Shareholders equity	7,008			11,888			17,299		
Total average liabilities and shareholders	62,564			118,248			191,269		
Net interest spread(1)			8.9%			7.0%			5.5%
Net interest income		5,531			8,974			11,841	
Net interest margin(1)			10.8%			8.6%			6.9%

(1) See "Selected Financial Information — Selected Financial Restated Economic Data" for definitions.

Analysis of Changes in Net Interest Income

The following table (derived from the Bank's management accounts) provides a comparative analysis of changes in net interest income and expense by references to changes in average volume and rates for the periods indicated. Changes in net interest income are attributed to either changes in average balances (volume change) or change in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume multiplied by the previous rate, while rate change is change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

	Year ended 31 December					
	2001/2000			*2002/2001*		
	Increase/(decrease) due to changes in			*Increase/(decrease) due to changes in*		
	Volume	*Rate*	*Net Change*	*Volume*	*Rate*	*Net Change*
	(KZT millions)					
Interest Income						
Interest-earning deposits KZT ..	5	1	6	98	(42)	56
Foreign Currency	79	31	110	159	(62)	97
Securities:						
KZT	1,710	(1,347)	363	443	(64)	379
Foreign Currency	149	(171)	(22)	1,484	(467)	1,017
Loans:						
KZT	1,207	52	1,259	(243)	(490)	(733)
Foreign Currency	5,044	(62)	4,982	5,361	546	5,907
Total interest income	8,194	(1,496)	6,698	7.302	(579)	6,723
Interest Expense						
Due Government and the NBK						
KZT	(7)	(5)	(12)	14	1	15
Foreign Currency	53	(44)	9	22	36	58
Due to other banks						
KZT	(3)	(3)	(6)	(6)	242	236
Foreign Currency	1,197	(584)	613	797	(387)	410
Due to customers						
KZT	552	299	851	936	(411)	525
Foreign Currency	1,014	(367)	647	927	121	1,048
Debt securities						
Foreign Currency	1,153	—	1,153	2,446	(882)	1,564
Total interest expense	3,959	(704)	3,255	5,136	(1,280)	3,856
Net change in net interest income	4,235	(792)	3,443	2,160	707	2,867

Assets

The total assets of the Bank calculated in accordance with IAS were KZT 235,767 million, excluding the allowance for losses, as at 31 December 2002, reflecting an increase of 43.8% compared to the position at the 2001 financial year-end. The following table sets out the major asset groups of the Bank as at the dates indicated:

	31 December 2000			*2001*			*2002*		
	KZT	*Foreign currency*	*Total*	*KZT*	*Foreign currency*	*Total*	*KZT*	*Foreign currency*	*Total*
					(KZT millions)				
Cash and cash equivalents	2,804	4,201	7,005	475	16,745	17,220	5,053	15,504	20,557
Obligatory reserves	2,450	—	2,450	4,684	—	4,684	2,731	—	2,731
Due from other banks	—	—	—	—	150	150	9,830	990	10,820
Trading securities	3,657	4,515	8,172	13,519	4,312	17,831	12,925	19,156	32,081
Held-to-maturity securities	—	—	—	—	—	—	—	19,634	19,634
Loans to clients	27,141	31,011	58,152	25,189	92,004	117,193	35,936	101,978	137,914
Fixed assets	4,999	—	4,999	5,441	—	5,441	6,523	—	6,523
Other assets	509	823	1,332	932	541	1,473	4,980	527	5,507
Total assets	41,560	40,550	82,110	50,240	113,752	163,992	77,978	157,789	235,767

The above table excludes the effect of allowances for losses of KZT 2,905 million as at 31 December 2000, KZT 6,704 million as at 31 December 2001 and KZT 10,519 million as at 31 December 2002. The change in composition of the Bank's assets in 2002 compared with 2001 relates primarily to a decrease in the percentage of loans to total assets to 58.5% from 71.5% as at 31 December 2001 and an increase in the percentage of trading and held-to-maturity securities to 21.9% as at 31 December 2002 from 10.9% as at 31 December 2001.

Liabilities

For a brief discussion of the total liabilities of the Bank calculated in accordance with IAS, see "Asset and Liability Management — Foreign Currency Borrowings".

Trading Portfolio

Securities purchased with the intention of recognising short-term profits are classified as trading securities. After initial recognition, securities which are classified as held for trading are measured at estimated fair value. Changes in the estimated fair value are included in the accompanying consolidated statements of income within gains less losses from securities. In determining estimated fair value, trading securities are value at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter. The average return on the trading portfolio was 10.4% in 2002, compared to 10.9% in 2001. The following table sets out certain information relating to the Bank's trading portfolio as at the dates indicated:

	Fair Value as at 31 December 2000	*2001*	*2002*
		(KZT millions)	
Treasury bills of the Ministry of Finance[1]	3,716	6,921	9,842
Sovereign bonds of the Republic of Kazakhstan[2]	2,834	9,728	9,516
Bonds of international financial institutions[3]	—	—	8,536
Corporate bonds	1,307	1,182	1,114
Municipal bonds	315	—	45
NBK notes	—	—	3,028
Total	8,172	17,831	32,081

(1) Includes securities pledged under repurchase agreements with other banks whose estimated fair value amounted to KZT 1,384 million at 31 December 2002.

(2) Includes securities pledged under repurchase agreements with other banks whose estimated fair value was KZT 5,542 million at 31 December 2002.

(3) Includes securities of the International Bank of Reconstruction and Development ("IBRD"), Council of Europe Development Bank ("CEDB"), ADB and Inter-American Development Bank ("IADB"). Also includes securities pledged under repurchase agreements with other banks whose estimated fair value amounted to KZT 5,938 million at 31 December 2002.

The Bank has no material investments other than its investments in subsidiaries and affiliates described in "Business — Subsidiaries and Affiliates".

Held-to-Maturity Securities

Investment securities with fixed maturities are classified as held-to-maturity where management has both the intent and the ability to hold such securities to maturity. Held-to-maturity securities are carried at amortised cost using the effective yield method, less any allowance for impairment. As at 31 December 2002, the Bank held KZT 19,634 millions of bonds of certain international financial organisations. Prior to 2002, the Bank did not classified any securities as being held to maturity.

Included in bonds of international financial organisations are securities of IBRD, CEDB, ADB and IADB that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

The Bank's Loan Portfolio

Loans to customers represent the largest part of the Bank's assets. Lending to corporate clients represented approximately 55.4% of the Bank's total assets as at 31 December 2002 compared to 70.5% in 2001 and 70.6% in 2000. Loans to individual customers are relatively rare (primarily loans for automobile purchase) and the developing mortgage lending market in Kazakhstan. Loans to and deposits with other banks also represent a small percentage of the Bank's total assets (4.8% as at 31 December 2002 and 0.1% as at 31 December 2001). Management believes the Bank's customer base includes many of the country's leading industrial companies and trading corporations as well as a number of medium and small size enterprises. The Bank's gross loan portfolio as at 31 December 2000 was KZT 56,711 million, increased to KZT 114,753 million as at 31 December 2001 and increased to KZT 134,820 million as at 31 December 2002. See also "Management's Discussion and Analysis of Results of Operations and Financial Condition — Financial Condition — Total Assets". The average balance of the Bank's gross loan portfolio was KZT 42,986 million in 2000, KZT 85,732 million in 2001 and KZT 124,787 million in 2002.

The following table sets out certain information relating to the composition of the Bank's loan portfolio, classified loans, the amount of its contingent liability exposure and loss allowances as at the dates indicated (prepared in accordance with IAS):

	31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Gross loans	56,711	114,753	134,820
Accrued interest receivable	1,441	2,440	3,094
Total	58,152	117,193	137,914
Classified loans(1)	3,620	16,720	19,272
Non-performing loans(2)	392	492	2,361
Contingent liabilities			
Financial guarantees(3)	5,579	12,278	21,825
Commercial letters of credit	8,312	15,730	26,507
Total contingent liabilities	13,891	28,008	48,332
Allowance for losses			
Loan loss allowance	2,900	6,474	10,166
Allowance for off-balance sheet items	5	49	244
Other allowance	—	181	109
Total allowance	2,905	6,704	10,519
Shareholders' equity	8,935	14,842	19,755
Classified loans/gross loans	6.4%	14.6%	14.3%
Non-performing loans/gross loans	0.7%	0.4%	1.8%
Loan allowance/classified loans	80.1%	38.7%	52.8%
Loan allowance/non-performing loans	740%	1,316%	431%
Loan allowance/gross loans	5.1%	5.6%	7.5%

(1) Classified loans comprise loans that are classified as "unsatisfactory", "doubtful" (whether or not they are non-performing) or "loss".

(2) Non-performing loans comprise loans where past due payments exceed 30 days and where interest has ceased to accrue.

(3) Does not include the guarantees given by the Bank in favour of TuranAlem Finance B.V. in respect of the eurobonds issued in 2001 and 2002 by TuranAlem Finance B.V.

The Bank provides financing for various purposes, although the majority of loans are for working capital purposes, with a maturity of twelve months or less. However, as demand for longer-term financing from existing customers and other high quality corporate credits increases, the Bank expects the maturity profile to increase.

The following table sets out certain information relating to the Bank's loan portfolio by purpose as at 31 December 2002:

	Amount	*Share,*
	(KZT millions)	*%*
Working capital finance	106,508	79.0
Fixed asset purchase (excluding real estate)	4,045	3.0
Construction and repair	1,348	1.0
Consumer loans	8,089	6.0
Other	14,830	11.0
Total	134,820	100.0

The following table sets out certain information relating to the Bank's commercial loan portfolio by reference to the type of borrower as at the dates indicated:

	31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Corporate business	42,568	95,465	99,100
SME	11,909	16,354	24,113
Individuals (including mortgages)	2,234	5,934	11,607
Total	56,711	114,753	134,820

Collateralisation of Loan Portfolio

The Bank estimates that it holds collateral with a value in excess of the principal amount of its loan portfolio. However, historically the Bank has not in practice been able to realise the full value of the collateral on its loans. The following table sets out certain information relating to the collateralisation of the Bank's loan portfolio as at the dates indicated. For a description of the Bank's collateralisation policy, see "Asset and Liability Management — Lending Policies and Procedures — Collateralisation."

	31 December			
	2001		*2002*	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*
Collateralised	112,014	97.6	134,127	99.5
Uncollateralised	2,739	2.4	693	0.5
Total loans	114,753	100.0	134,820	100.0

Composition by Sector

The Bank aims to have a diversified loan portfolio structure. The majority of the Bank's loans are for the purpose of financing the working capital and trade needs of its customers. As at 31 December 2002, the interest rates charged to borrowers ranged from 11% to 25% on Tenge loans and 9% to 22% on U.S. Dollar loans. The following table sets out the composition of the Bank's loan portfolio (excluding advances) by economic sector as at the dates indicated:

	31 December					
	2000		*2001*		*2002*	
	(KZT millions)	*Share (%)*	*(KZT millions)*	*Share (%)*	*(KZT millions)*	*Share (%)*
Wholesale trading	21,511	37	30,600	26	27,583	20
Industrial production	12,522	22	19,878	17	25,753	19
Agriculture and food processing	10,054	17	23,329	20	26,208	19
Oil and gas	518	1	8,396	7	7,677	6
Transport	719	1	9,024	8	10,400	8
Retail trading	2,961	5	2,553	2	6,303	5
Media and education	2,708	5	3,882	3	5,517	4
Construction	1,121	2	3,177	3	8,495	6
Other	4,597	8	13,914	12	16,884	12
Accrued interest receivable	1,441	2	2,440	2	3,094	2
Total	58,152	100	117,193	100	137,914	100

Composition by Maturity

The Bank predominantly lends on a short-term basis in order to reduce its exposure to default and interest rate risk. For medium-size corporations, the lending terms are on average less than six months and for large size corporations up to or over one year.

The following table sets out certain information relating to the maturity profile of the Bank's loan portfolio, including accrued interest receivable as at the dates indicated:

	31 December					
	2000		*2001*		*2002*	
	(KZT millions)	*Share (%)*	*(KZT millions)*	*Share (%)*	*(KZT millions)*	*Share (%)*
Up to 1 month ..	10,154	17.5	20,005	17	26,496	19.2
Between 1 and 3 months	6,552	11.3	20,716	18.0	13,416	9.7
Between 3 and 6 months	9,453	16.3	14,425	12.3	20,388	14.8
Between 6 months and 1 year	16,351	28.1	26,050	22.2	23,785	17.3
Over 1 year	15,642	26.8	35,997	30.5	53,829	39.0
Total	58,152	100.0	117,193	100	137,914	100.0

Composition by Currency

The following table sets out certain information relating to the Bank's loan portfolio (including advances) by currency as at the dates indicated:

	31 December		
	2000	*2001*	*2002*
		(%)	
U.S.$	53	79	74
KZT	36	10	24
KZT loans indexed to the U.S.$	11	11	2

Composition by Borrower Type

The Bank inherited a large corporate customer base, including many of the country's leading industrial companies in a broad range of industries. Historically, a significant percentage of the Bank's predecessors' loans were extended to State owned-companies, but since the Bank's establishment in January 1997, this concentration has been significantly reduced. Loans to private companies and individuals increased from 57% as at the time of the Bank's establishment to 99% as at 31 December 2002.

The increase in loans to private companies reflects the privatisation of a number of State owned enterprises by the Government in recent years and also reflects a deliberate policy of the Bank. The Bank has identified sectors including energy, food processing and distribution, trading and services and transportation and utilities as key target areas in which it intends to expand its lending business. As at 31 December 2002 the Bank's loan portfolio, including accrued interest received comprised KZT 136,509 million to private companies and individuals (99%) and KZT 1,405 million to State-owned companies (1%). As at 31 December 2001 the Bank's loan portfolio, including accrued interest received comprised KZT 115,153 million to private companies and individuals (98.3%) and KZT 2,040 million to State-owned companies (1.7%). No single borrower accounted for more than approximately 5% of the total loan portfolio and the Bank's 10 largest customers accounted for 17% of the total commercial loans outstanding at 31 December 2002.

Credit Exposure Other Than Loans

As at 31 December 2002, the aggregate amount of credit risks, i.e. credits and financial instruments with off-balance sheet risk amounted to KZT 59,487 million (including commitments to extend credit of KZT 11,155 million, financial guarantees of KZT 21,825 million, commercial letters of credit of KZT 26,507 million and open forward contracts of KZT 334 million). As at 31 December 2001, total off-balance sheet commitments amount to approximately KZT 31,325 million. As at 31 December 2002 and 2001 the Bank had established allowance for losses of KZT 244 million and KZT 49 million, respectively. See also "Management's Discussion and Analysis of Financial Condition and Results of operations — Off-Balance Sheet Arrangements and Contractual Commitments".

The Bank's Funding Sources

Customer deposits represent the largest part of the Bank's funding source which the Bank believes is relatively insensitive to short-term fluctuations in interest rates, and is more dependent on the Bank's ability to provide a good level of customer service and a range of banking products and services. As at 31 December 2002, the Bank's total deposits amounted to KZT 105,757 million (U.S.$678.6 million), approximately 20.1% of the total deposits in the banking system. 49.9% of the deposits are from corporate customers and 50.1% are from individuals where the Bank has a market share of 20.6%.

The Bank has a large number of corporate customers, including many of the country's leading industrial companies and trading corporations as well as a number of medium and smaller sized enterprises, which provides the Bank with a diversified and stable funding base. The following table sets out certain information relating to the Bank's sources of funding as at the dates indicated:

	31 December					
	2000		*2001*		*2002*	
	(KZT millions)	*Share (%)*	*(KZT millions)*	*Share (%)*	*(KZT millions)*	*Share (%)*
Deposits	46,933	67.4	81,008	57.2	105,757	51.7
Terms	24,535	35.2	41,187	29.1	58,987	28.9
Demand	20,993	30.2	27,010	191.1	39,736	19.4
Other	1,405	2.0	12,811	9.0	7,034	3.4
Bank borrowings ..	19,240	27.6	44,156	31.2	58,653	28.7
Debt securities issued	—	—	13,310	9.4	31,286	15.3
Other liabilities ..	3,484	5.0	3,163	2.2	8,787	4.3
Total	69,657	100.0	141,637	100.0	204,483	100.0

The Bank's deposits consist of customer current accounts and term deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For term deposits, different interest rates are paid on the various types of account offered by the Bank. As at 31 December 2002, rates on Tenge based term accounts offered by the Bank to corporate customers ranged between 1% and 13.5%, while the interest rates paid on U.S. Dollar accounts ranged between 1% and 11%. The following table sets out certain information relating to the amounts owed to customers in Tenge and foreign currency as a percentage of the total amount owed to customers as at the dates indicated:

	31 December		
	2000	*2001*	*2002*
		(%)	
Amounts owed to customers			
Tenge accounts	54	35	47
Foreign currency	46	65	53

Since 1999, the Bank has further diversified its funding base through foreign currency borrowings. See "Asset and Liability Management — Foreign Currency Borrowings".

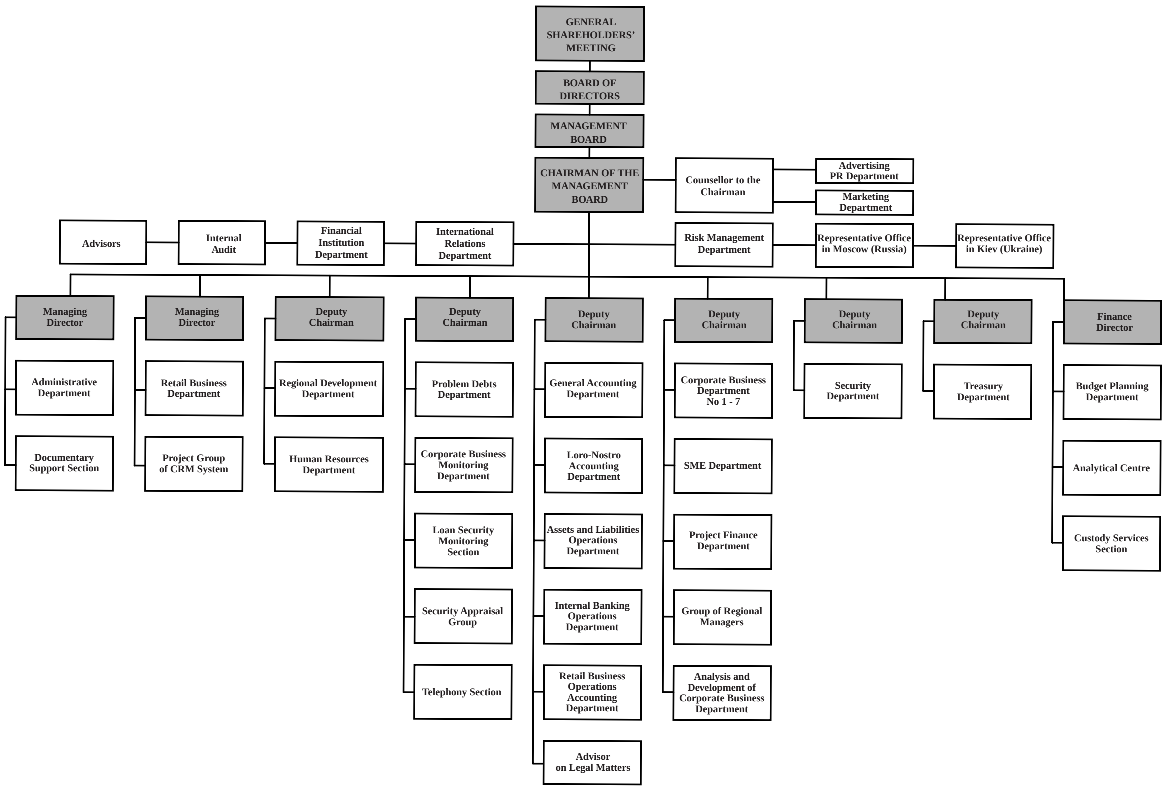
The following table sets out certain information relating to balances due to other banks and financial institutions as at the dates indicated:

	31 December		
	2000	*2001*	*2002*
		(KZT millions)	
Interest-bearing placement from an OECD-based bank	—	4,055	—
Interest-bearing placement from a non-OECD-based bank	—	—	78
Interest-bearing placements from Kazakh banks	966	2,028	856
Correspondence loro accounts	31	559	694
	997	6,642	1,628
Pass-through loans	2,500	3,100	8,658
Loans from Kazakh banks and financial institutions	942	2,103	2,302
Loans from non-Kazakh banks and financial institutions	6,810	17,341	29,672
Loan from IFC	2,168	1,510	1,306
Loan from FMO	722	300	249
Loan from DEG	—	588	708
Loans from a syndicate of banks	4,335	10,139	11,455
	18,474	41,723	55,978

MANAGEMENT AND SHARE OWNERSHIP

Organisation Chart

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



Management

The Bank's current charter was adopted in 1998 and provides that the Bank must have a Board of Directors and a Management Board, which is the executive body of the Bank. The shareholders elect 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 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 activities is vested in the Management Board. In accordance with Kazakh legislation, the members of the Board of Directors and the Chairman and Deputy Chairmen of the Management Board are appointed only with the consent of the NBK. The NBK does not have a representative on the Board of Directors or the Management Board. The General Shareholders' Meeting represents the highest corporate governing authority of the Bank. The Law of Kazakhstan on Joint Stock Companies vests in the General Shareholders' Meeting the final approval of certain major corporate decisions, including the authorisation of the issue of the Guarantee.

Currently, the Bank does not have an Audit Committee. The previous Audit Committee was dissolved on 29 April 2002 by the General Shareholders' Meeting as it was of limited use and its functions had been assumed by certain other departments of the Bank. However, having received advice from Ernst & Young, the Bank anticipates establishing an Audit Committee by 31 December 2003.

Board of Directors

The Board of Directors is not directly involved in management and has no authority to act on its own behalf or to perform any executive functions. The Board of Directors supervises the Management Board's activities to protect shareholders' interests. The powers of the Board of Directors include the following:

- defining the investment, credit and other policies of the Bank;
- establishing lending and interest rate limits;
- nominating the Chairman and members of the Management Board;
- taking decisions on major deals (involving 25% or more of the net book value of the Bank's assets or 25% or more of the Bank's securities) in accordance with Kazakhstan joint stock company legislation;
- calling general and extraordinary general meetings of shareholders; and
- approving the Bank's budget.

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

Name	*Position*
Ualiev. S	Chairman of the Board of Directors, President of Ardager Company
Mazhibayev K	Chairman of the Supervisory Board of Resmi Group Ltd
Kononenko O	Chairman of the Management Board of Temirbank
Aksambiyev T	President of BATA Company
Tatishev Y	Chairman of the Management Board of the Bank
Abzhanov D	Deputy Director of Kazakhstan Legal Group Ltd
Iliyav A	Manager of the Network Bank Management of RZB
Tesseyman N	Director of EBRD Representative Office, Moscow, Russia

All members of the Board of Directors were elected in January 2002.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank. Under Kazakh law, the Management Board is vested with executive powers whilst still reporting to the General Shareholders' Meeting, while the Board of Directors exercises a supervisory role. The Management Board's responsibilities include the following:

- making executive business decisions;
- implementing the business strategy;
- appointing senior management and branch representatives of the Bank;
- approving loans between U.S.$1 million and U.S.$5 million;
- proposing dividends; and
- dealing with all other matters not reserved to the Board of Directors or the General Meeting of Shareholders.

The core of the Bank's senior management have come from Kazkommertsbank and other leading Kazakh banks, such as the former Alem Bank, Exim Bank of Kazakhstan, Halyk Savings Bank and Temirbank. The name, age and certain other information about each of the current members of the Management Board is set out below:

Yerzhan Tatishev (36), Chairman, was educated at the Moscow Institute of Applied Biotechnology, from which he graduated in 1991. In 1997, he graduated from the Kazakh State Academy of Management with a degree in Finance and Credit. He entered the banking sector as Kazakhstan was in the process of becoming an independent country. From 1993 to the end of 1996, he was Deputy Chairman of Kazkommertsbank. In January 1997, he became the Bank's Chairman, at the invitation of the Government.

Anatoly Pogorelov (51), Deputy Chairman, graduated from Karaganda Polytechnics Institute in 1974 and worked in the information technology industry until Kazakhstan's independence in 1991. From

1991 until 1993 he was General Director of Plus Micro, a firm specialising in computer technology, before entering the banking sector as Head of the Technical Department at Alem Bank. He became Director of the Information Technology Department at Kazkommertsbank in 1994 and moved to the Bank in 1997.

Niyazbek Gabdullin (48), Deputy Chairman, graduated from Karaganda State University in 1981 and worked as a lawyer until 1994. From 1994 to 1997, he was Head of the Legal Department at Kazkommertsbank. He has held in his current position at the Bank since early 1997.

Arsen Saparov (34), Deputy Chairman, was educated at the Kazakh State Academy of Management. His entire working career has been spent in the banking sector. From 1992 to 1994, he was employed by Alem Bank as Head of the Project Finance division. He worked at Exim Bank of Kazakhstan from 1994 to 1995, before joining Kazkommertsbank as Head of the Credit Department, a position he held until 1997. He has held his current position at the Bank since February 1997.

Akhmaral Ablyazova (50), Deputy Chairwoman, graduated from Almaty Institute of National Economy in 1974 and worked for many years as an accountant. In 1992, she became Deputy Chief Accountant at Bank InterInvest, a position she held for two years before joining Zhilstroibank as Deputy Chief Accountant and Deputy Director of the Accounting Department. She was later Chief Accountant at Exim Bank of Kazakhstan before joining Kazkommertsbank in 1995 as Chief Accountant and Director of the Accounting Department where she remained until 1997. In February 1997, she became the Bank's Chief Accountant and, in June 1998, a Deputy Chairman.

Saduakas Mameshtegi (33), Deputy Chairman, graduated from Moscow State Technical University in 1993. In 1994 he joined KB Elistbank as an economist. In 1995, he joined Astana Bank in Moscow as Head of the Securities Department. He joined the Bank in 1997 assigned to the Treasury Department, and became a Deputy Chairman in 1999.

Azat Battakov (44), Managing Director, graduated from Karaganda State University in 1981. His managerial experience began in 1991 as the Senior Lawyer at Kazakhintorg. In 1994, he joined Kazkommertsbank as Deputy Director of the Legal Department. In 1997 he became the Bank's Chairman's Advisor and, in September 1999, was appointed Managing Director.

Abilakim Zhumakhmetov (43), Deputy Chairman, graduated from Karaganda Cooperative Institute, Accounting Department in 1981 and graduated from Moscow Cooperative Institute, Accounting Department in 1984. In 1993, Mr. Zhumakhmetov took his candidate degree in economics and in 1994 he went into banking. From 1995 till 1998, he was Head of Kazkommertsbank's Kyzylorda branch office. From 1998 to 2000 he held a position as Head of the Bank's Kyzylorda branch office and has held his current position since August 2000.

Bolat Baimirov (35), Managing Director, graduated from Moscow Physics and Technical Institute, Applied Mathematics and Physics Department in 1990 and started to work as a teacher at Kazakh Polytechnics Institute in 1990. In 1996, he entered the banking sector in Kazakhstan as Head of the Liabilities Department at Turanbank. Since 1997, he has been the Director of the Plastic Cards Department at the Bank. He has held in his current position at the Bank since September 2000.

Yerik Sultankulov (37), Finance Director, graduated from Kazakh State University named after Al-Farabi, Journalist Department, in 1993 and Kazakh State Management Academy, Management and Marketing Department, in 2000. From 1991 to 1993 he worked as Deputy Director and then became General Director of a Soviet-Canadian joint venture. In 1995 he was appointed Deputy Head of Leninsk Regional Administration and in the same year he moved to LLP Alem Sauda as General Director. From 1996 to 1998 he worked at Altor JV as Vice President for Finance. From 1998 to 2000 he held the position of Deputy Director and then as Director of CJSC State Cumulative Pension Fund. He has held his current position at the Bank since December 2000.

Counsellor to the Management

William J. Minarovich (58), Counsellor to the Chairman, graduated from St. Johns University in New York City. From 1968 to 2000, he practised as a certified public accountant and he was a partner with KPMG and Arthur Andersen. From 2000 to 2002, he was chief financial officer for Nelson Resources, a publicly traded company listed on the Toronto Stock Exchange with oil and gas interests in Kazakhstan. He joined the Bank in March 2003 as a Counsellor to the Chairman of the Management Board and Chief Financial Risk Officer.

Committees

Following privatisation in 1998, the Bank embarked on a reorganisation of its activities to upgrade the efficiency of its operations. The revised structure has been in place since April 1998 and has allowed the Bank to become much more competitive and client-focused. To help adopt, implement and operate this structure, several committees were created across the Bank's departments.

The Small Credit Committee is responsible for the implementation of the Bank's credit policy in respect of small and medium businesses and for authorising the terms and conditions of credit facilities and/or guarantees extended by the Bank in amounts ranging from U.S.$150,000 to U.S.$300,000 (or equivalent). The current members of the Small Credit Committee are:

Name	*Position*
Saparov A	Head of Committee and Deputy Chairman of the Management Board
Zhumakhmetov A	Deputy Head of Committee and Deputy Chairman of the Management Board
Isina S	Head of Small and Medium Size Business Department
Sagdieva S	Head of Corporate Business Department No. 4
Yugai V	Senior Credit Analyst of Risk Management Department
Taranova J	Representative of Kazakhstan Legal Group Ltd, which provides legal services to the Bank

The Large Credit Committee is responsible for the implementation of the credit policy of the Bank in respect of large corporate customers of the Bank and for authorising the terms and conditions of the credit facilities and/or guarantees extended by the Bank in amounts ranging from U.S.$300,000 (or equivalent) and above and for the submission for review and approval of the Management Board of the terms and conditions of credit facilities and/or guarantees in excess of U.S.$1,000,000. The current members of the Large Credit Committee are:

Name	*Position*
Pogorelov A	Head of Committee and Deputy Chairman of the Management Board
Saparov A	Deputy Head of Committee and Deputy Chairman of the Management Board
Zhumakhmetov A	Deputy Chairman of the Management Board
Samidinov S	Senior Banker, Project Finance Department
Sundetov D	Representative of Kazakhstan Legal Group Ltd, which provides legal services to the Bank
Tleukulova G	Head of Credit Risk Management Department
Abzhanov M	Head of Economic and Internal Security Department
Batpenov K	Head of Collateral Expertise Department
Yusupova S	Deputy Head of Assets and Liabilities Accounting Department

The Tariff Committee reports to the Management Board and is responsible for conducting the Bank's internal policy aimed at improving interest rates and tariff rates in connection with banking transactions. Members of the Tariff Committee are appointed by the Management Board. The current members of the Tariff Committee are:

Name	*Position*
Zhumakhmetov A	Deputy Chairman of the Management Board
Ablyazova A	Deputy Chairman of the Management Board
Sagdieva S	Head of Corporate Business Department No. 4
Kuatbekov M	Head of Corporate Business Department No. 5
Lebaeva S	Head of International Relations Department
Beysembinov N	Head of Regional Development Department
Bakbergenov N	Head of Marketing Department
Muhametzhanov N	Head of Dealing Section
Lisak B	Senior Specialist of Regional Development Department

Management Remuneration

In accordance with the Bank's charter, the remuneration of the Chairman is determined by the Board of Directors and the compensation of the Management Board and other senior management is determined by the Board of Directors and amounted in aggregate to KZT 882 million in 2002.

The following table sets out certain information relating to the principal amounts of loans outstanding to members of the Management Board as at 31 December 2002:

Name	*Principal amount outstanding*	
	(U.S.$ thousands)	*(KZT thousands)*
Saparov A	40.6	6,327
Gabdullin N	80.9	12,603
Zhumakhmetov A	135.3	21,091
Mameshtegi S	114.4	17,832
Total	371.2	57,853

There are no other outstanding loans or guarantees granted by the Bank to any member of the Board of Directors and Management Board or to any parties related to them. The Bank's senior and middle management currently hold in aggregate 345,412 common shares which represents 20.16% of the total amount of the Bank's issued share capital.

Principal Shareholders

The Bank's Common Shares

Following the MOF's privatisation of the Bank in 1998, a number of private sector local companies offered to purchase all of the Bank's shares for U.S.$72 million. In recent years, the Bank has increased its share capital and expanded its shareholder base.

The following table sets out certain information as to the registered holders of common shares and CPS as at 31 December 2002:

	Number of shares	*Percentage Shareholding*
DEG	73,500	4.3
IFC	73,500	4.3
FMO	44,100	2.6
CJSC DAB ABN AMRO Bank Kazakhstan (nominee holder)	235,622	13.8
The Bank of New York (nominee holder)	328,261	19.3
Other corporates(1)	486,583	28.6
Other individuals(2)	461,791	27.1
Total(3)	1,703,357	100.00

(1) No single corporate owns more than a 5% shareholding, other than LLP Makhta-Aral 2 which owns 6.76%.
(2) No single individual owns more than a 5% shareholding, other than Mr Tatishev, the current Chairman of the Bank, who owns 20.12%.
(3) The total number of shares includes 10,388 treasury shares held by the Bank.

The Bank's CPS

During 2001, the Bank issued CPS in the aggregate principal amount of KZT 4,267 million, which constituted 24.9% of the Bank's issued share capital. IFC acted as the placement advisor. DEG, IFC and FMO converted portions of their then outstanding loans to the Bank into CPS and EBRD and RZB paid the nominal value for the CPS.

The following table sets out certain information as to the registered holders of CPS as at 31 December 2002:

	Number of CPS	*Shareholding*
		(%)
DEG	73,500	4.3
EBRD	73,500	4.3
IFC	73,500	4.3
FMO	44,100	2.6
RZB	162,122	9.5
Total	426,722	25.1

All CPS have a nominal value of KZT 10,000 each, indexed to the U.S. Dollar as at 29 November 2001, resulting in an indexed value of U.S.$67.32 (the ''Indexed Nominal Value'') and are non-voting preference shares. A fixed cumulative dividend of 10.25% per annum of the Indexed Nominal Value. CPS shareholders are entitled to have two representatives on the Board of the Directors of the Bank as long as any of the CPS is outstanding.

The CPS shareholders have the right to request the Bank to convert all or any part of their CPS into the Bank's common shares on a one-for-one basis if such request is made prior to 1 May 2006. Such conversion shall be completed by the end of the calendar year of the relevant request. After 31 December 2006, if 55% of the Bank's then issued common shares are not held by an OECD-based bank with total assets greater than U.S.$60 billion and with a financial strength rating of not less than D+ (or the equivalent) from Moody's, Standard & Poor's or Fitch IBCA (the ''Strategic Investment Event''), each CPS shareholder will be entitled to redeem all or any portion of its CPS at the Indexed Nominal Value. Irrespective of the occurrence or non-occurrence of the Strategic Investment Event, the Bank will have a right to repurchase all the CPS from CPS shareholders within a 6-month period after 31 December 2006 at the Indexed Nominal Value per each CPS. Further, the Bank will be obliged to redeem the CPS at the Indexed Nominal Value per each CPS, if (i) any person makes a tender offer in accordance with Article 29 of the current Law of Kazakhstan On Joint Stock Companies to purchase 30% or more of the Bank's voting shares (the ''Tender Offer'') and the respective Tender Offer price for each CPS is less than the Indexed Nominal Value or (ii) any government or governmental authority condemns, nationalises, seizes or expropriates all or any substantial part of the property or other assets of the Bank or of its share capital, or assumes custody or control of such property or other assets or of the business or operations of the Bank or of its share capital, or acquires majority ownership of the Bank, or takes any action for the dissolution or liquidation of the Bank or any action that would prevent the Bank or its officers from carrying on its business or operations.

Transactions with Related Parties

Loans and advances to shareholders and related parties, including employees, amounted to KZT 143 million and KZT 2,344 million as at 31 December 2002 and 2001, respectively. As at 31 December 2002 and 2001, an allowance for losses of KZT Nil; and KZT 2 million, respectively, had been established against loans to shareholders and related parties. As at 31 December 2002, the annual interest rates charged by the Bank on loans to shareholders and related parties were 16% per annum for KZT denominated loans (2001:19% to 21%) and from 9% to 21% per annum for Euro and U.S.$ denominated loans (2001: 8% to 11.5%).

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. At the end of 1999, the annualised rate of consumer price inflation was 17.8%. This trend continues a significant overall decrease in year-end inflation over the last four years. During that time inflation fell from 2,165% at 31 December 1993 to 1.9% at 31 December 1998, mainly as a result of co-ordinated policies by the Government and the NBK. The Government and the NBK have also undertaken structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system. The devaluation of the Tenge following its flotation in April 1999, has, however, caused inflation to rise. At the end of 2000, the annualised rate of consumer price inflation was 9.8%. At the end of 2001, the annualised rate of consumer price inflation was 6.4%. At the end of 2002, the annualised rate of consumer price inflation was 6.6%.

The National Bank of Kazakhstan

The NBK is the central bank of Kazakhstan. The relevant legislation, adopted in 1995, established the current legal framework of Kazakhstan's banking system. The NBK is an independent institution, but is subordinate to the President. The President has the power, *inter alia*, 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 (Tenge); and to request information from the NBK. Grigori Marchenko was appointed Governor of the NBK in October 1999, replacing Kadyrzhan Damitov.

The principal task of the NBK is to ensure the external and internal stability of the national currency. The NBK is also empowered to develop and conduct monetary policy; to organise banking settlements and the foreign exchange system with a view to the integration of Kazakhstan into the international economy; to ensure stability of the monetary, financial and banking systems and to protect the interests of commercial bank depositors.

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.

Banking

Structure of the Banking System of Kazakhstan

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the NBK.

Banking Reform and Supervision

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 IAS and personnel training programmes.

To strengthen the banking industry, promote stability and move towards 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 focuses on ensuring financial solvency, protection of depositors and maintaining a stable monetary system. The objectives of the reforms introduced in 1996 were to bring supervisory practices closer to international standards and to allow for a more transparent view of banks' levels of capitalisation and exposure to financial risks. The department has now adopted guidelines for bank inspections and analysis of periodic reports submitted by commercial banks to the NBK.

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 banking legislation were adopted to enable banks to diversify their activities in the financial services sector (e.g., 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 31 September 2002, 22 banks, including six subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance cover is presently limited to Tenge, U.S. Dollar and euro personal time deposits up to KZT 400,000 plus statutory interest for Tenge accounts and KZT 360,000 for U.S. dollar and euro accounts.

In March 2001, new legislation was introduced in relation to the holding of shares in a Kazakh bank. A shareholding of 10% or more (whether held independently or jointly with another legal entity) now requires the approval of the NBK. Further, a foreign entity holding 10% or more of a Kazakh bank must have a credit rating at least as good as that of the Republic of Kazakhstan.

Commercial Banks

As at 31 December 2002, there were 38 banks in Kazakhstan, down from 184 in mid-1994. This decrease was largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks. However, in October 1996, Kramds Bank, the fifth largest bank in Kazakhstan in terms of assets, was liquidated by a decision of the NBK due to violation of prudential regulations, liabilities in excess of assets and an inability to meet its obligations. In November 2001 the Government divested its remaining 33% stake in Halyk Savings Bank, by means of privatisation through a public auction. A consortium consisting of OJSC Mangistaumanaygaz and a number of limited liability partnerships won the auction. Mangistaumunaygaz extracts, transports, refines and sells oil, gas and oil products. In December 2001 the consortium, led by Mangistaumunaygaz, sold its share in Halyk Savings Bank to a group of companies, including Almaty Merchant Bank, for the same price which it had acquired the share.

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 Committee), current liquidity ratios, maximum credit exposure to single borrowers, maximum credit exposure to single borrowers for bank insiders and maximum investments in fixed and other non-financial assets and contingent obligations and the limits on foreign exchange positions. Additionally, the NBK has adopted regulations on problem asset classification and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and loan loss reserves.

As at 31 December 2002, one commercial bank failed to comply with all prudential regulatory requirements, compared with six as at 31 December 2001. This bank did not meet the ratio of loan and off balance sheet exposure to any one non-affiliated party (K3.1) the amount of paid provisioning for bad debts as at 31 December 2003 equalled KZT 45 billion.

The financial standing of Kazakhstan's banks varies. As at 31 December 2002, 28 of the 38 commercial banks had registered capital of over KZT 1 billion, six banks had registered capital of KZT 500 million to KZT 1 billion and four banks had registered capital of KZT 100 million to KZT 500 million. Banks with a registered capital of less than KZT 500 million are required to submit to the NBK an application for a permit for voluntary reorganisation into an organisation performing only certain banking operations.

Foreign Capital in the Banking Sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan; to operate as a bank, a Kazakhstan legal entity must be created. 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 31 December 2002 there were 17 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC.

Furthermore, the aggregate registered capital of banks with foreign shareholders may not exceed 50% of the aggregate registered capital of all Kazakhstan banks, unless permitted by the NBK. As at 31 December 2002, the aggregate registered capital of all banks with foreign shareholders represented approximately 17.2% of the aggregate registered capital of all Kazakhstan banks.

For a foreign bank to establish a subsidiary or joint venture where it has more than a 50% 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 Dresdner Bank, Deutsche Bank, CCF, Commerzbank and ING Bank.

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a duly authorised issue of U.S.$225,000,000 7.875% Notes due 2010 (the "Notes", which expression shall, unless the context otherwise so requires, be deemed to include a reference to any further notes issued pursuant to Condition 16 and forming a single series therewith) issued by the Issuer and guaranteed by the Guarantor pursuant to a deed of guarantee (the "Guarantee"). The Notes are constituted by a trust deed dated 2 June 2003 (the "Trust Deed") between the Issuer, the Guarantor and J.P. Morgan Corporate Trustee Services Limited (the "Trustee", which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes. The Issuer and the Guarantor have entered into a Paying Agency Agreement (the "Agency Agreement") dated 2 June 2003 with the Trustee, JPMorgan Chase Bank, as registrar (the "Registrar"), as principal paying agent (the "Principal Paying Agent), and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents") and the transfer agents (the "Transfer Agents") named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "Agents", which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes and the Guarantee.

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

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

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

1. Form, Denomination and Title

(1) Form and Denomination

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

(2) Title

Title to the Notes will pass by and upon registration in the Register. In these Conditions, "Noteholder" and "holder" mean the Person (as such term is defined below) in whose name a Note is registered in the Register (or, in the case of joint holders, the first-named thereof).

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

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

2. Transfer of Notes and Issue of Notes

(1) Transfer

Subject to Condition 2(4), a Note may be transferred in whole or in part in an authorised denomination upon the surrender of the Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the "Transfer Form") duly completed and executed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Transfer Forms are also available from the Transfer Agents, the Registrar and the Issuer upon the request of any holder. In the case of a transfer of only a portion of the Notes represented by a Note Certificate, neither the portion transferred nor the balance thereof not transferred may be less than the applicable authorised denomination, and a new Note Certificate in respect of such balance not so transferred will be issued to the transferor.

(2) Delivery

Each new Note Certificate to be issued upon a transfer of any Notes will, as soon as practicable, be delivered at the principal office of the Registrar or, as the case may be, any Transfer Agent or (at the request and the risk of such transferee) be mailed free of charge to the transferee by uninsured post to such address as the transferee entitled to the Notes represented by such Note Certificate may have specified. In this Condition 2(2), "Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in the cities in which the Registrar and any such Transfer Agent have their respective specified offices.

(3) No Charge

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

(4) Closed Periods

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

(5) Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes set out in a schedule 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 sent, free of charge, by the Registrar or any Transfer Agent to any Noteholder who so requests in writing to the specified office of the Registrar or any Transfer Agent.

3. Status of Notes and Guarantee

(a) Status of the Notes. The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer. The Notes rank, and will at all times rank, *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured 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 Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes and under the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the

Guarantor which rank and will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.

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

4. Negative Pledge

(1) Negative Pledge of the Issuer

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

(2) Negative Pledge of the Guarantor

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

(3) Certain Definitions

For the purposes of these Conditions:

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

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

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

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

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

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

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

''*Permitted Security Interest*'' means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary to secure Financial Indebtedness owed by such entity to the Guarantor, (ii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business which have not been foreclosed or otherwise enforced against the assets to which they apply, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Guarantor held by financial institutions, (iv) arising in the ordinary course of the Guarantor's or a Subsidiary's business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers, (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, (vi) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary other than on a short-term basis as part of the Guarantor's liquidity management activities), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (vii) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest, (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 Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property and (ix) not included in any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding U.S.$35,000,000 (or its equivalent in other currencies) at that time.

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

"*Security Interest*" means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of any Person or any other type of preferential arrangement having similar effect over any assets or revenues of such Person including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

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

5. Certain Covenants

For so long as any Note remains outstanding:

(1) Merger and Consolidation

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

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

The Guarantor will not sell or otherwise dispose of any of its interest in the capital, voting stock or other right of ownership in the Issuer.

6. Interest

Each Note bears interest from and including 2 June 2003 at the rate of 7.875% per annum. Interest is payable semi-annually in arrear on 2 December and 2 June in each year commencing on 2 December 2003 (each an "Interest Payment Date") until maturity, unless any such date is not a Business Day (as defined in Condition 8), in which case the relevant Interest Payment Date shall be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that Interest Payment Date shall be the first preceding day that is a Business Day.

Each Note will cease to bear interest from the due date for redemption unless, after surrender of the relevant Note Certificate, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at the rate set out above (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is any subsequent default in payment).

If interest is required to be calculated for a period of less than six months, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each.

7. Redemption, Purchase and Cancellation

(1) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 2 June 2010, subject as provided in Condition 8.

(2) Purchase

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

(3) Cancellation

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

8. Payments

(1) Principal

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

(2) Interest

Subject to the paragraph directly following below, and paragraph (4) of this Condition 8, payments of interest (other than interest due on redemption) in respect of each Note will be made by U.S. Dollar cheque drawn on a bank in New York City and mailed by uninsured mail at the risk of the Noteholder to the relevant Noteholder at the address appearing in the Register as provided below. For the purposes of Condition 8(1) or 8(2), the Noteholder will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment.

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

(3) Payments Subject to Fiscal Laws

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

(4) Payment on Business Days

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

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

In these Conditions (other than Condition 2 (2)), ''Business Day'' means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in London and New York City and, in the case of the surrender of a Note Certificate, in the place where the Note Certificate is surrendered.

(5) Partial Payments

If at any time a partial payment of principal and/or interest is made in respect of any Note, the Registrar shall endorse the Register with a statement indicating the amount and date of such payment.

(6) Agents

The names of the initial Agents and their initial specified offices are set out below. Any of the Agents may resign in accordance with the provisions of the Agency Agreement and each of the Issuer and the Guarantor reserves the right at any time with the approval of the Trustee (such consent not to be unreasonably withheld or delayed) to vary or terminate the appointment of any Agent and appoint additional or other Agents provided that it will at all times maintain (i) a Registrar, (ii) a Paying Agent and (iii) a Paying Agent and a Transfer Agent having a specified office in Europe, which will be in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. In addition, the Issuer and the Guarantor undertake that, if the conclusions of the ECOFIN Council meeting of 26-27 November 2000 are implemented, the Issuer will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Union Directive referred to in Condition 8(iii). Notice of any such termination or appointment and of any change in the specified offices of the Agents will be published in accordance with Condition 15 below.

9. Taxation

All payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee and any payments by the Issuer or Guarantor under the Trust Deed) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges imposed, levied, collected, withheld or assessed by any taxing authority (each a ''Tax'', collectively ''Taxes'') unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations set out below, pay such additional amounts (the ''Additional Amounts'') to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by any taxing authority upon or as a result of such payment will not be less than the amount provided for in such Note to be then due and payable. However, neither the Issuer nor the Guarantor will be required to make any payment of Additional Amounts to any such holder for or on account of any such Taxes which would not have been so imposed (i) but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership or a corporation) and the relevant taxing authority, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein other than the mere holding of the Note; (ii) but for the presentation by the holder of any such Note for payment on a date more than 30 days after the date (the ''Relevant Date'') which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days or (iii) where such Taxes are imposed on a payment to an individual and are required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; nor shall Additional Amounts be paid with respect to any payment on a Note or under the Guarantee to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for Tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

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

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

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

10. Events of Default

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

(a) *Non-payment*: the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, upon redemption, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or Additional Amounts on any of the Notes and such default in respect of Interest or Additional Amounts continues for a period of five 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 warranty, 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 (if capable of remedy) is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the Guarantor, as the case may be, by the Trustee; or

(c) *Cross-default*: (i) any Financial Indebtedness of the Issuer, the Guarantor or any Material Subsidiary (a) becomes due and payable prior to the due date for payment thereof by reason of any default by the Issuer or the Guarantor 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 in respect of Financial Indebtedness of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Financial Indebtedness referred to in (i) or (ii) exceeds U.S.$5,000,000 (or its equivalent in other currencies (as determined by the Trustee in its discretion)); or

(d) *Judgments or Orders*: one or more judgment(s) or order(s) from which no further appeal or judicial or arbitral review is permissible under applicable law for the payment of an amount in excess of U.S.$10,000,000 (or its equivalent in any other currency or currencies (as determined by the Trustee in its discretion)), whether individually or in the aggregate, is rendered against the Issuer, the Guarantor or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Bankruptcy*: (i) any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, manager, administrator, liquidator or rehabilitation manager in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities or similar arrangements involving the Issuer, the Guarantor or any Material Subsidiary or all or substantially all of their respective assets and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or (ii) the Issuer, the Guarantor or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be placed into rehabilitation, adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, manager, administrator, liquidator, rehabilitation manager or trustee or assignee in bankruptcy or liquidation of the Issuer, the Guarantor or any Material Subsidiary, as the case may be, or in respect of its 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 commences proceedings with a view to the general adjustment of its Indebtedness, which event in any such case is, in the case of any Material Subsidiary, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

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

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

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

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

(j) *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 clause (j), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders.

11. Warranties

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

12. Prescription

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

13. Replacement of Note Certificates

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

14. Meetings of Noteholders, Amendment, Modification, Waiver and Substitution

(1) Meetings of Noteholders

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

(2) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any provision of the Trust Deed, the Guarantee or the Notes (including these Conditions) which is of a formal, minor or technical nature or is made to correct a manifest error in the opinion of the Trustee; (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any provision of these Conditions, the Guarantee or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders provided, however, that no such modification shall be permitted unless an opinion of counsel is delivered to the Trustee to the effect that the Noteholders will not recognise income, gain or loss for U.S. federal income tax purposes or Kazakh or Netherlands tax purposes as a result of such modification and such Noteholders will be subject to U.S. federal income tax and Kazakh and Netherlands tax on the same amount and in the same manner and at the same times as would have been the case if such modification had not occurred. Any such modification, waiver or authorisation shall be binding on the Noteholders and, if the Trustee so requires, will be notified to the Noteholders as soon as practicable thereafter.

(3) 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.

(4) Substitution

The Trustee may, without the consent of the Noteholders, agree on such terms as it may specify to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or the Guarantor or its successor in business in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Trust Deed and the Notes, subject to (a) the Notes being unconditionally and irrevocably guaranteed by the Guarantor and (b) certain other conditions set out in the Trust Deed being complied with.

15. Notices

(1) To Noteholders

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

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

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

(2) To the Issuer and the Guarantor

Notices to the Issuer or the Guarantor will be deemed to be validly given if delivered to the Guarantor at 97 Zholdasbekov Street, "Samal-2" microdistrict, Almaty 480099, Kazakhstan and clearly marked on their exterior "Urgent — Attention: Chairman" (or at such other address and for such other attention as may have been notified to the holders in accordance with Condition 15(1)) with a copy to the Issuer at Schouwburgplein 30-34, 3012 Rotterdam, The Netherlands, and will, be deemed to have been validly given at the opening of business on the next day on which the Guarantor's principal office, as applicable, is open for business.

(3) To the Trustee and Registrar

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

16. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities having the same terms and conditions as the Notes in all respects (except for the issue price, issue date, and the first payment of interest on them) and so that such further issues shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed.

17. Enforcement

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

18. Indemnification of the Trustee; the Agents

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. 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. The Trustee is not responsible for the validity, sufficiency or enforceability of the Guarantee, the Trust Deed and the Notes nor obliged to take any action unless indemnified to its satisfaction. The Trustee is also entitled to be paid its costs and expenses in priority to the claims of the Noteholders.

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

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

The initial Agents and their respective initial specified offices are listed below. The Issuer and the Guarantor acting together may (a) vary or terminate the appointment of any Agent at any time and/or (b) appoint one or more new Agents by giving not less than 30 days' written notice to that effect which notice shall expire not less than 10 days before or after any due date for payment of any principal or interest in respect of the Notes, to the Principal Paying Agent and to the Agent or Agents whose appointment is/are concerned; provided, however, that so long as any of the Notes are outstanding: (i) in the case of termination of the appointment of the Principal Paying Agent or the Registrar, no such notice shall take effect until a new Principal Paying Agent or Registrar, as the case may be, has been appointed and previously approved by the Trustee and notice of such appointment has been given to the Noteholders in accordance with the Condition 15; (ii) there shall never be more than one Registrar at any time; and (iii) that the Issuer and the Guarantor shall at all times maintain a transfer agent and a paying agent in Luxembourg, a registrar and a principal paying agent. Notice of any change in any of the Agents or in their respective specified offices shall promptly be given to the Noteholders.

19. Contracts (Rights of Third Parties) Act 1999

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

20. Governing Law and Jurisdiction

(1) Governing Law

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

(2) Jurisdiction

Subject to Condition 20(7), the courts of England shall have, subject as follows in this Condition 20(2), exclusive jurisdiction to hear and determine any suit, action or proceedings, which may arise out of or in connection with the Notes, the Trust Deed or the Guarantee (respectively, ''Proceedings'') and, for such purposes, the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts. Nothing in this Condition 20(2) shall limit the right of the Trustee or the Noteholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee or the Noteholders in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or the Noteholders in any other jurisdiction (whether concurrent or not) if and to the extent permitted by law.

(3) Appropriate forum

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

(4) Process agent

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

(5) Consent to enforcement, etc.

Each of the Issuer and the Guarantor has consented generally in respect of any Proceedings (or arbitration in accordance with Condition 20(7)) to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be given in such Proceedings.

(6) Waiver of immunity

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

(7) Arbitration

(a) Disputes

Each of the Issuer and the Guarantor has agreed that the Trustee or, if the Trustee, having become bound to take proceedings, fails to do so, a Noteholder may elect, by notice in writing to the Issuer or the Guarantor, to refer such claim to arbitration in accordance with the provisions of this Condition 20(7) any claim, dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a claim, dispute or difference as to the breach, existence or validity of the Notes) or the Trust Deed (each a "Dispute").

(b) UNCITRAL Arbitration Rules

Each of the Issuer and the Guarantor has agreed, and hereby agrees, that (with respect to any Dispute subject to a notice of election in accordance with Condition 20(7)(a)), such Dispute may be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "Rules") as at present in force (which are deemed incorporated into this Condition 20(7)) by a panel of three arbitrators appointed in accordance with the Rules. The seat of arbitration shall be in London, England. The procedural law of any reference shall be English law. The Issuer and/or the Guarantor, as the case may be, shall appoint one arbitrator and the Trustee shall appoint one arbitrator and the two arbitrators thus appointed shall appoint the third arbitrator who shall be chairman of the arbitral tribunal. The language of any arbitral proceedings shall be English. The appointing authority for the purposes of the Rules shall be the London Court of International Arbitration. Sections 45 and 69 of the Arbitration Act 1996 shall not apply to any arbitration proceedings pursuant to this Condition 20(7).

FORM OF NOTES AND TRANSFER RESTRICTIONS

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

1. Form of Notes

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

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

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

2. Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

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

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

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

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

(i) The purchaser (A) is a qualified institutional buyer within the meaning of Rule 144A, (B) is acquiring the Notes and the Guarantee 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 and the Guarantee to it is being made in reliance on Rule 144A.

(ii) The Notes and the Guarantee 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 and the Guarantee offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below.

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

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

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

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

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

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

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

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

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

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

3. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable for Note certificates in definitive form (''Restricted Note Certificates'') if DTC (a) notifies the Issuer and the Guarantor that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a ''clearing agency'' registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer and the Guarantor are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 10 on the Notes) occurs. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Unrestricted Global Note will become exchangeable for Note certificates in definitive form (''Unrestricted Note Certificates'') if (a) the Euroclear Operator or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) an Event of Default (as defined and set out in Condition 10 on the Notes) occurs. In such circumstances, such Unrestricted Note Certificates will be registered in such names as the Euroclear Operator and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

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

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

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

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

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

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

4. The Euroclear Operator, Clearstream, Luxembourg and DTC Arrangements

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

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

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

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

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

The holdings of book-entry interests in the Notes in the Euroclear Operator, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) Chase Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through the Euroclear Operator and

Clearstream, Luxembourg on the one hand and DTC, on the other. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in the Euroclear Operator, Clearstream, Luxembourg and DTC.

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

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

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

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

Trading between the Euroclear Operator/Clearstream, Luxembourg and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of a Euroclear Operator or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear Operator or Clearstream, Luxembourg participant must send to the Euroclear Operator or Clearstream, Luxembourg delivery free of payment instructions by 5 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. The Euroclear Operator or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for the Euroclear Operator and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear Operator or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for the Euroclear Operator and Clearstream, Luxembourg will (i) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interest in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the common depositary for the Euroclear Operator and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note. See above concerning the Record Date for payment of interest.

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

TAXATION

Kazakhstan Taxation

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

Under Kazakh 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 under the Kazakhstan-Netherlands Tax Treaty at a rate of 10%. The Bank will agree to ensure in the Deposit Agreement dated 2 June 2003 between the Issuer and the Bank to pay such additional amounts in respect of such withholding as shall be necessary to ensure that the Issuer receives the full amount of the payment required as if no such deduction were required.

Payments of interest under the Guarantee will be subject to withholding of Kazakh tax at a rate of 15%, and payment of fees and commissions will be subject to withholding of Kazakh tax at a rate of 20% unless reduced or exempt 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 "Terms and Conditions of the Notes — Condition 4". Payments, if any, under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax. For example, Noteholders entitled to the benefits of the Kazakhstan Tax Treaty with Germany, Italy, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax of 10%.

The Netherlands Taxation

General

The following is a 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 Netherlands 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 considerations for 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% or more of the total issued capital of the Issuer or of 5% 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 resident of The Netherlands for Netherlands corporate income tax purposes, income derived from the Notes and gains realised upon the disposal of the Notes are subject to a 34.5% corporate income tax rate (a corporate income rate of 29% applies with respect to taxable profits up to €22,689).

If the holder of a Note is an individual, resident or deemed to be resident of The Netherlands for Netherlands income tax purposes (including the non resident individual holder who has made an election for the application of the rules of the Dutch Income Tax Act 2001 as they apply to residents of The Netherlands), the income derived from the Notes and the gains realised upon the disposal of the Notes are taxable at the progressive income tax rates (with a maximum of 52%), 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% (effective rate of 1.2%), 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 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 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.

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 is or was, in whole or in part, 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 10 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 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 judgement in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes, with the exception of capital tax that may be due by the Issuer on capital contributions made or deemed to be made to the Issuer under the Guarantee.

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 Taxation

The European Union is currently considering proposals for a new directive regarding the taxation of savings income (proposed European Union Directive COM (2001) 400 as presented by the European Commission on 18 July 2001, intended to take effect from 1 January 2005). Subject to a number of important conditions being met, it is proposed that Member States will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States (Belgium, Luxembourg, and Austria) to opt instead for a withholding system for a transitional period in relation to such payments. Since the implementation of these proposals depend on certain non-EU Member States and territories also imposing a withholding tax or introducing an exchange of information, it is currently impossible to predict whether or not, when, or in what form these proposals ultimately will be adopted.

United States Federal Income Taxation

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

This summary is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or differing interpretations which could affect the tax consequences described herein.

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

Interest

Interest paid on a Note or under the Guarantee (including any Additional Amounts) will be includible in a U.S. Holder's gross income as ordinary interest income in accordance with the U.S. Holder's usual method of tax accounting. In addition, interest on the Notes or under the Guarantee will be treated as foreign source income for U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute ''passive income,'' or, in the case of certain U.S. Holders, ''financial services income'' and will constitute ''high withholding tax interest'' if the interest on the Notes or possibly under the Guarantee is subject to a withholding of a rate of 5% or more.

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

Sale, Exchange or Retirement

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

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

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are United States persons. The payor will be required to withhold backup withholding tax from any such payment within the United States on a Note or under the Guarantee to a holder of a Note that is a United States person (other than an ''exempt recipient,'' such as a corporation) if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is false. The backup withholding tax rate is 28%.

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

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

SUBSCRIPTION AND SALE

ABN AMRO Bank N.V., Merrill Lynch International and Raiffeisen Zentralbank Österreich Aktiengesellschaft (together, the "Managers"), have, pursuant to an underwriting agreement (the "Underwriting Agreement") dated 30 May 2003, agreed with the Issuer and the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Issuer and the Bank have agreed to pay certain costs and expenses in connection with the issue of the Notes.

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

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or in a transaction not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. The Underwriting Agreement provides that each Manager may through its agents or affiliates arrange for the resale of Notes in the United States solely to qualified institutional buyers pursuant to Rule 144A.

Each Manager has agreed that, except as permitted by the Underwriting Agreement, it will not offer or sell the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

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

United Kingdom

Each Manager has represented and agreed that: (i) it has not offered or sold and prior to the expiry of the period of six months from the payment date will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Bank, and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Kazakhstan

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

The Netherlands

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

Italy

No Notes may be offered, sold or delivered (including in the secondary market) except to professional investors (*Operatori Qualificati*) as defined in article 31, second paragraph, of CONSOB regulation n. 11522 of 1 July 1998 (as amended from time to time) other than individuals.

General

No action has been, or will be, taken by the Issuer, the Bank or the Managers that would permit a public offering of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither the Offering Circular nor any circular, prospectus, form of application, advertisement or other material, may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws or regulations.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through the Euroclear Operator, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg under Common Code No. 016884880 and ISIN XS0168848801. The Restricted Global Note has been accepted for clearance through DTC. The CUSIP number for the Restricted Global Note is 89989EAC1 and the ISIN is US89989EAC12.

2. The issue of the Notes was authorised by a duly adopted resolution of the Managing Board of the Issuer dated 23 May 2003 and was approved by a duly adopted resolution of the Bank as sole shareholder of the Issuer dated 26 May 2003. The deed of guarantee relating to the Notes was authorised by a duly convened meeting of the shareholders of the Bank held on 7 April 2003.

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

4. Except as otherwise disclosed in this Offering Circular, there has been no material adverse change, or development reasonably likely to involve a material adverse change, in the condition (financial or otherwise) or general affairs of the Guarantor or any of its subsidiaries, taken as a whole, since 31 December 2002 and no change in the condition of the Issuer since its date of incorporation, in either case, that is material in the context of the issue of the Notes or the giving of the Guarantee.

5. The Charter and the annual report of the Bank incorporating the annual financial statements of the Bank for the years ended 31 December 2000, 2001 and 2002 are available and, until the maturity of the Notes, future annual reports of the Bank and the latest audited published financial statements (to the extent any are produced) of the Bank will be available, during normal business hours at the specified office of the Principal Paying Agent and the office of the Paying Agent in Luxembourg from time to time. The Bank does not prepare or publish any interim audited or unaudited financial statements.

6. Copies of the Agency Agreement, the Guarantee, the Trust Deed and the Issuer's annual audited financial statements and any auditors' reports relating thereto, commencing with the financial year ended 31 December 2002, are available during normal business hours at the specified office of the Principal Paying Agent and at the office of the Paying Agent in Luxembourg from time to time. The Issuer does not prepare or publish any interim audited or unaudited financial statements.

7. Application has been made to list the Notes on the Luxembourg Stock Exchange. Prior to the listing, the constitutive documents of the Issuer and the Guarantor and a legal notice relating to the Notes will be deposited with the *Régistre de Commerce et des Sociétés à Luxembourg*, where copies thereof may be obtained upon request. Application has also been made for the Notes issued and sold in reliance on Rule 144A to be designated as eligible for trading on PORTAL.

8. As long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a Paying Agent and a Transfer Agent in the City of Luxembourg. The name of the Paying Agent and the Transfer Agent initially appointed in the City of Luxembourg and the listing agent in the City of Luxembourg is set out at the end of this Offering Circular.

9. The Bank's independent auditors are Ernst & Young. The Bank's consolidated financial statements for the years ended 31 December 2000, 2001 and 2002 were audited by Ernst & Young. The Bank does not prepare non-consolidated financial statements. Ernst & Young's reports are included in this Offering Circular. Ernst & Young have given and not withdrawn its written consent to the distribution of this Offering Circular with the inclusion herein of its reports and references to its name in the form and context as it appears. Ernst & Young is also statutory auditor of the Bank.

10. The Issuer's independent auditors are Mazars Paardekooper Hoffman, Rotterdam, The Netherlands. The Issuer's financial statements as at and for the years ended 31 December 2001 and 2002 were audited by Mazars Paardekooper Hoffman and its reports are included in this Offering Circular. Mazars Paardekooper Hoffman have given and not withdrawn its written consent to the distribution of this Offering Circular with the inclusion herein of its reports and references to its name in the form and context as it appears.

11. According to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the Notes shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

Bank TuranAlem and Subsidiaries

Consolidated Financial Statements

December 31, 2002, 2001 and 2000

Contents

A **Ernst & Young**
st. Furmanova 273
Almaty 480099 Kazakhstan
Phone: 7(3272) 585 960
7(3272) 585 969
Fax: 7(3272) 585 961

A **Эрнст энд Янг**
Казахстан, 480099 г.Алматы
ул. Фурманова, 273
Телефон: 7(3272) 585 960
7(3272) 585 969
Факс: 7(3272) 585 961

Report of Independent Auditors

To the Board of Directors and Shareholders

Bank TuranAlem and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bank TuranAlem and Subsidiaries (the "Group") as of December 31, 2002, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2002, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with International Financial Reporting Standards.

Almaty

February 14, 2003

Consolidated Balance Sheets

December 31, 2002, 2001 and 2000

	Notes	2002	2001	2000
		(in millions of Kazakh Tenge)		
Assets				
Cash and cash equivalents	4	20,557	17,220	7,005
Obligatory reserves	5	2,731	4,684	2,450
Due from other banks	6	10,820	150	—
Trading securities	7	32,081	17,831	8,172
Held-to-maturity securities	8	19,634	—	—
Commercial loans and advances, net	9,10	127,395	110,489	55,247
Premises and equipment, net	11	6,523	5,441	4,999
Other assets		5,507	1,473	1,332
Total assets		225,248	157,288	79,205
Liabilities and shareholders' equity				
Amounts owed to the Government and the NBK	12	2,675	2,433	766
Due to other banks and financial institutions	13	55,978	41,723	18,474
Amounts owed to customers	14	105,757	81,008	46,933
Debt securities issued	15	31,286	13,310	—
Accrued interest payable		1,811	1,455	1,049
Other liabilities		6,976	1,708	2,435
Total liabilities		204,483	141,637	69,657
Minority interest		1,010	809	613
Shareholders' equity:				
Share capital:				
Common shares	17	11,931	11,931	11,931
Preferred shares	17	4,160	4,160	—
		16,091	16,091	11,931
Treasury shares	17	(167)	(21)	(218)
Premises and equipment revaluation reserve		854	190	190
Retained earnings/ (accumulated deficit)		2,977	(1,418)	(2,968)
Total shareholders' equity		19,755	14,842	8,935
Total liabilities and shareholders' equity		225,248	157,288	79,205

The accounting policies and explanatory notes are an integral part of the financial statements.

Consolidated Statements of Income

Years ended December 31, 2002, 2001 and 2000

	Notes	*2002*	*2001*	*2000*
		(in millions of Kazakh Tenge, except earnings per share)		
Interest income:				
Loans		19,178	14,004	7,763
Securities		2,818	1,422	1,081
Deposits with other banks		372	219	103
		22,368	15,645	8,947
Interest expense		(10,527)	(6,671)	(3,416)
Net interest income before provision for losses		11,841	8,974	5,531
Provision for losses	10	(7,430)	(5,838)	(2,987)
Net interest income after provision for losses		4,411	3,136	2,544
Fee and commission income		4,294	3,161	1,988
Gains less losses from trading securities	18	2,745	123	(439)
Gains less losses from foreign currencies	19	1,583	1,678	2,336
Underwriting income		613	39	—
Other operating income	20	1,165	650	309
		10,400	5,651	4,194
Payroll and other staff costs		(2,534)	(1,953)	(1,550)
General and administrative expenses		(1,901)	(1,108)	(1,075)
Occupancy and equipment		(1,432)	(1,427)	(578)
Insurance		(1,079)	(49)	(110)
Taxes other than income taxes		(1,304)	(902)	(710)
Legal & professional fees		(392)	(192)	(106)
Advertising		(453)	(345)	(206)
Fee and commission expense		(169)	(284)	(309)
Custom duties		(253)	(616)	(1,085)
Deposit insurance		(262)	(267)	(94)
Loss on disposal of premises and equipment		(2)	(52)	—
		(9,781)	(7,195)	(5,823)
Income before income taxes		5,030	1,592	915
Income tax expense	16	—	—	—
Net income before minority interest		5,030	1,592	915
Minority interest		(132)	(1)	(18)
Net income after minority interest		4,898	1,591	897
Basic earnings per share (in Kazakh Tenge)	22	3,450	1,217	870
Diluted earnings per share (in Kazakh Tenge)	22	2,796	1,215	870

The accounting policies and explanatory notes are an integral part of the financial statements.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2002, 2001 and 2000

	Notes	*Share Capital-Common Shares*	*Share Capital-Preferred Shares*	*Additional Paid-in Capital*	*Treasury Shares*	*Premises and Equipment Revaluation Reserve*	*Retained Earnings/ (Accumulated Deficit)*	*Total*
		(in millions of Kazakh Tenge)						
At January 1, 2000 ..		8,757	—	1	—	190	(3,865)	5,083
Capital contributions	17	3,174	—	27	—	—	—	3,201
Purchase of treasury shares..		—	—	(28)	(218)	—	—	(246)
Net Income		—	—	—	—	—	897	897
At January 1, 2001		11,931	—	—	(218)	190	(2,968)	8,935
Capital contributions	17	—	4,160	—	—	—	—	4,160
Sale of treasury shares		—	—	—	197	—	—	197
Net income		—	—	—	—	—	1,591	1,591
Dividends on preferred shares ..	17	—	—	—	—	—	(41)	(41)
At December 31, 2001		11,931	4,160	—	(21)	190	(1,418)	14,842
Purchase of treasury shares..		—	—	—	(2,248)	—	—	(2,248)
Sale of treasury shares		—	—	—	2,102	—	—	2,102
Net income		—	—	—	—	—	4,898	4,898
Revaluation of premises and equipment	11	—	—	—	—	669	—	669
Release of premises and equipment revaluation reserve on disposal of previously revalued assets ..		—	—	—	—	(5)	5	—
Dividends on preferred shares ..	17	—	—	—	—	—	(508)	(508)
At December 31, 2002		11,931	4,160	—	(167)	854	2,977	19,755

The accounting policies and explanatory notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2002, 2001 and 2000

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Cash flows from operating activities:			
Net income before minority interest and income taxes	5,030	1,592	915
Adjustments for:			
Depreciation	750	634	133
Amortization of intangible assets	36	33	24
Minority interest	(132)	(1)	(18)
Provision for losses	7,430	5,838	2,987
Loss on sale of premises and equipment	2	52	(33)
Change in unrealized gain on securities	(1,193)	164	169
Operating income before changes in net operating assets	11,923	8,312	4,177
(Increase)/ decrease in operating assets:			
Obligatory reserves with the NBK	1,953	(2,234)	(287)
Due from other banks	(10,670)	(150)	—
Trading securities	(12,648)	(9,850)	(6,543)
Commercial loans and advances	(24,336)	(60,897)	(30,839)
Other assets	(3,790)	(42)	1,579
Increase/(decrease) in operating liabilities:			
Amounts owed to the Government and the NBK	242	1,667	66
Due to other banks and financial institutions	14,255	23,249	9,451
Amounts owed to customers	24,749	34,075	18,709
Accrued interest payable	356	406	585
Other liabilities	4,782	(936)	602
Net cash provided by/(used in) operating activities	6,816	(6,400)	(2,500)
Cash flows from investing activities:			
Net cash (paid)/ acquired on acquisition of subsidiaries	(171)	43	—
Purchase of held-to-maturity securities	(19,634)	—	—
Purchase of premises and equipment	(1,402)	(1,337)	(1,577)
Proceeds from sale of premises and equipment	269	241	64
Net cash used in investing activities	(20,938)	(1,053)	(1,513)
Cash flows from financing activities:			
Capital contributions	—	4,160	3,201
Purchase of treasury shares	(2,248)	—	—
Sale of treasury shares	2,102	197	(246)
Dividends paid	(503)	—	—
Debt securities issued	17,976	13,310	—
Minority interest	132	1	18
Net cash provided by financing activities	17,459	17,668	2,973
Net change in cash and cash equivalents	3,337	10,215	(1,040)
Cash and cash equivalents at the beginning of the year	17,220	7,005	8,045
Cash and cash equivalents at the end of the year	20,557	17,220	7,005
Supplemental information:			
Interest paid	10,171	6,265	2,831
Interest received	21,690	14,829	7,912

The accounting policies and explanatory notes are an integral part of the financial statements.

1. DESCRIPTION OF BUSINESS

Bank TuranAlem and Subsidiaries (the "Group") provide retail and corporate banking services in Kazakhstan. The Parent company of the Group is Bank TuranAlem (the "Bank"), which was registered as a closed joint stock company in 1997 and reregistered as an open joint stock company on December 17, 1998, a bank incorporated and domiciled in the Republic of Kazakhstan. Note 21 lists all of the Bank's subsidiaries whose activities include trading in securities, leasing, collaterized retail consumer lending, insurance, pension fund management, information technology services and real estate management.

The address of the Bank's registered office is: 97 Zholdasbekov Street, Samal-2, Almaty, 480099, Republic of Kazakhstan.

The Bank has a primary listing on the Kazakhstan Stock Exchange ("KASE"), with further listing of debt securities on the Luxemburg Stock Exchange.

The Bank's head office is in Almaty. At December 31, 2002 the Bank had 24 branches and 211 cash settlement units (December 31, 2001: 24 branches and 246 cash settlements units; December 31, 2000: 23 branches and 203 cash settlement units) located throughout Kazakhstan.

The Group had 3,642, 3,298 and 2,905 employees as at December 31, 2002, 2001 and 2000, respectively.

2. BASIS OF PREPARATION

The Group maintains its records and prepares its consolidated financial statements in Kazakh Tenge ("KZT") in accordance with Kazakh accounting and tax regulations. The accompanying consolidated financial statements differ from the consolidated financial statements issued for statutory purposes in Kazakhstan in that they reflect certain adjustments, not recorded on the Group's books, which are appropriate to present the financial position, results of operations, and cash flows of the Group in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Committee. The principal adjustments are primarily related to the allowance for losses and the accounting for the transaction costs relating to the issue of debt securities. A reconciliation between the IFRS shareholders' equity as at December 31 shown in the accompanying consolidated financial statements and the statutory shareholders' equity at December 31 is as follows:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
IFRS shareholders' equity at December 31	19,755	14,842	8,935
Allowance for losses	(251)	817	720
Capitalized bonds issue costs	(321)	(5)	—
Statutory shareholders' equity at December 31	19,183	15,654	9,655

The statutory shareholders' equity at December 31, 2002, presented above is unaudited.

The KZT is not a fully convertible currency outside the Republic of Kazakhstan. During 2001, transactions denominated in foreign currencies are recorded using the official exchange rates quoted by the National Bank of Kazakhstan (the "NBK"), which closely approximate the market exchange rates quoted by the KASE. The Group started to apply the market exchange rates for all of its transaction starting from January 1, 2002.

The exchange rates at December 31, 2002, 2001 and 2000 were KZT 155.85 = US$1, KZT 150.94 = US$1, and KZT 145.40 = US$1, respectively. The official exchange rates at December 31, 2002, 2001 and 2000 were KZT 155.60 = US$1, KZT 150.20 = US$1, and KZT 144.50 = US$1, respectively.

At February 14, 2003, the market exchange rate was KZT 153.69 = US$1.

The accompanying consolidated financial statements were authorized for issue by the Bank's Chairman and Deputy Chairwoman on February 14, 2003.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used in preparing the consolidated financial statements:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with IFRS, and have been prepared under the historical cost convention, modified by estimated fair value accounting for trading securities as required by IFRS 39 "Financial Instruments: Recognition and Measurement" and estimated market value accounting for certain buildings, included in premises and equipment as allowed by IFRS 16 "Property, Plant and Equipment".

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from those estimated.

The Group adopted International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement" on January 1, 2001. This has not resulted in any major adjustments or changes in accounting policies as the accounting policies adopted by the Bank for the measurement of assets and liabilities prior to January 1, 2001 closely approximate the methods of classification, recognition, and measurement of financial instruments adopted by the Bank in applying IAS 39.

Subsidiaries and Consolidation

Subsidiaries comprise those companies and other entities (including Special Purpose Entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies. All subsidiaries have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. All intercompany transactions, balances, and unrealized surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Related Parties

Related parties include the Bank's shareholders, key management personnel, investee and affiliated companies.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBK, and amounts due from other financial institutions which mature within ninety days of the respective balance sheet date and are free from contractual encumbrances.

Obligatory Reserves

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

Due From Other Banks

Due from other banks includes amounts due from, and loans to, other financial institutions, which mature within more than ninety days after the respective balance sheet date, and amounts which mature within ninety days but are not free of contractual encumbrances.

Impairment and Uncollectability Of Financial Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognized in the consolidated statements of income.

A financial asset is considered to be impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets measured at fair value is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Securities

All securities are initially recognized at cost, being the fair value of the consideration given including acquisition charges and transaction costs associated with the security purchased.

Management determines the appropriate classification of its investments, into trading or held-to-maturity, at the time of purchase based on the purpose for acquiring those securities (e.g. profits, liquidity management, etc) and the period that management intends and believes that it will be able to hold those securities for.

All purchases and sales of securities that require delivery within the time frame established by regulation or market convention (''regular way'' purchases and sales) are recognized at the trade date, which is the date that the Group commits to purchase or sell the asset.

Trading Securities

Securities purchased with the intention of recognizing short term profits are classified as trading securities. After initial recognition, securities which are classified as held for trading are measured at estimated fair value. Changes in the estimated fair value are included in the accompanying consolidated statements of income within gains less losses from trading securities.

In determining estimated fair value, trading securities are valued at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter.

Held-to-Maturity Securities

Investment securities with fixed maturities where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Held-to-maturity securities are carried at amortized cost using the effective yield method, less any allowance for impairment.

Commercial Loans

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

Allowance for Loan Losses

A credit risk allowance for loan losses is established if there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original contractual terms of the loans, unless such loans are secured, in process of collection, or other factors exist which make the Group expect that all future cash flows according to the original terms of the contract will be received.

The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

The allowance is based on the Bank's assessment of the credit portfolio, previous loss experience, known and inherent risks in the credit portfolio, the estimated value of any underlying collateral, adverse situations that may affect a borrower's ability to repay, and current economic conditions. The allowance also includes estimates covering probable losses on guarantees.

In addition to the allowance for specific impaired loans and advances, a pooled allowance is made for potential impairment against portfolios of loans and advances based on estimated and historical default rates.

When a loan is deemed uncollectible, it is charged off against the allowance for losses. Subsequent recoveries are credited back to the allowance for loan losses. Actual charge offs, net of recoveries, are deducted from the allowance, while the provision for losses replenishes the allowance.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the allowance is credited as a reduction of the provision for loan losses.

The Bank allocates the allowance to certain sectors based on the relative risk characteristics of the loan portfolio and other financial instruments with credit exposure. Allocations are based on periodic reviews of individual loans outstanding, an analysis of the migration of loans, and actual loan experience. Specific reserves are established on an individual facility basis to recognize credit losses on outstanding loans and other credit exposures. Pooled reserves are established for portfolios of loans based upon credit rating and historical loss trends. Although the allowance for losses is allocated to individual loans and portfolios, it is available to offset losses in the entire portfolio.

Investments

Investments in associates are accounted for using the equity method of accounting and are included in other assets. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognized in the consolidated income statements, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gain on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Premises and Equipment

Premises and equipment, except buildings at December 31, 2002, are stated at the lower of cost less accumulated depreciation, recoverable amount, and any impairment losses. Buildings at December 31, 2002 are stated in the consolidated balance sheets at their valued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any accumulated depreciation and subsequent accumulated impairment losses.

Starting from 2002, revaluations of buildings are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

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

Depreciation on assets under construction commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	15-50 years
Furniture, fixtures and equipment	4-10 years
Computers	4 years

Borrowings

Borrowings are recognized initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability purchased and the consideration paid is included in gains less losses from securities.

Income Taxes

Income taxes payable on profits, based on the applicable tax laws in Kazakhstan, is recognized as an expense in the period in which profits arise.

Deferred income taxes are accounted for under the balance sheet liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying consolidated financial statements. Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. A valuation allowance is provided when it is probable that some portion or all of a deferred tax asset will not be realized.

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting group and relate to the same tax authority and when the legal right to offset exists. Current and deferred taxes are recognized as tax benefit or expense except for deferred taxes recognized or disposed of on acquisition or disposal of a subsidiary.

Interest Income and Expense

Interest income and expense are recognized in the consolidated income statements for all interest bearing instruments on an accrual basis using the effective interest method. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

Fee and Commission Income

Fees and commissions are generally recognized on an accrual basis. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition or the purchase or sale of businesses, are recognized upon completion of the underlying transaction.

Underwriting Income

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

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers.

Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheets.

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

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

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

Reserve for Insurance Losses and Loss Adjustment Expenses

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

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was set up equal to the expected loss ratio for each line of business times the earned premiums, less the losses actually reported.

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

Reinsurance

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

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

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

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income within gains less losses from foreign currencies.

All translation differences on debt securities measured at fair value are included in the accompanying consolidated statements of income within gains less losses from foreign currencies.

Sale and Repurchase Agreements and Lending of Securities

Securities sold subject to a linked repurchase agreement ('repos') are retained in the financial statements as trading securities as the title to the underlying securities remains with the Group, and the counterparty liability is included in amounts due to other banks and financial institutions. Securities purchased under agreements to resell ('reverse repos') are recorded as loans to other banks in "Due from other banks" or "Cash and cash equivalents" as appropriate. It is the Group's policy not to take title to the securities purchased under agreements to resell but to ensure that those securities are pledged in favor of the Group.

The difference between the sale and repurchase prices is treated as interest and accrued over the life of repo agreements using the effective interest method.

The Group monitors the estimated fair value of the underlying securities as compared with the related receivable or payable, and, as necessary, requests additional collateral.

Derivatives

In the normal course of business, the Bank enters into derivative financial instruments, which primarily comprise foreign currency forward contracts. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the consolidated balance sheets. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income within gains less losses from foreign currencies.

Shareholders' Equity

Share capital

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

Share issue costs

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Preferred shares

Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Treasury shares

Where the Bank or its subsidiaries repurchase the Bank's share capital or obtains rights to repurchase its share capital, the consideration paid including any attributable transaction costs net of income taxes is shown as a deduction from total shareholders' equity. Gains and losses on sales of treasury shares are charged or credited to the treasury share account in equity.

Dividends

Dividends on common shares and non-redeemable preferred shares are recognized as a liability in the period in which they are declared.

Fiduciary Assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursements from the customers. Acceptances are accounted for and disclosed as liabilities with corresponding contra assets.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Social Costs

The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. Prior to June 30, 2001 the Group contributed 26% of employees' salaries and related staff costs, and were expensed as incurred. Starting from July 1, 2001 the Group's social contributions rate was reduced to 21%.

Reclassifications

Certain of the 2001 and 2000 amounts were reclassified to conform with the presentation of the 2002 financial statements.

These reclassifications are summarized below,

	2001	2000
	(in millions of Kazakh Tenge)	
Consolidated balance sheets:		
Accrued interest income was reclassified to trading securities	—	183
Accrued interest income was reclassified to commercial loans and advances, net	2,440	1,441
Additional paid-in-capital was reclassified to treasury shares	28	28
Consolidated statements of income:		
Insurance was reclassified from fee and commission expense to a separate line item	(49)	(110)
Underwriting income was reclassified from fee and commission income to a separate line item	197	—
Underwriting expense was reclassified from fee and commission expense and netted into underwriting income	(158)	—

None of the above reclassifications impacted net income or shareholders' equity.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31:

	2002	2001	2000
	(in millions of Kazakh Tenge)		
Cash on hand	7,077	2,145	2,561
Due from the NBK	674	—	—
Correspondent nostro accounts with Kazakh banks	62	31	233
Interest-bearing deposits with Kazakh banks	454	566	74
Loans to other Kazakh banks and financial institutions	507	6,242	2,223
Correspondent nostro accounts with OECD based banks	9,662	3,775	1,119
Correspondent nostro accounts with other banks	2,121	4,461	795
	20,557	17,220	7,005

Interest-bearing deposits represent overnight and short-term placements with other banks at annual contractual interest rates ranging as follows at December 31:

	2002		2001		2000	
	KZT	*US$*	*KZT*	*US$*	*KZT*	*US$*
Deposits with Kazakh banks	7-12%	—	10-16%	8-11%	12-19%	18.5%
Loans to other Kazakh banks and financial institutions	3-6%	—	—	7-8%	0.4-8%	—

Loans to other Kazakh banks and financial institutions are secured by securities held under reverse repurchase agreements in amounts to fully collateralize the deposits. Management regularly reviews the estimated fair value of the collateral to ensure that pledged securities are sufficient to cover the outstanding loans. These loans mature in January 2003 (2001: January 2002; 2000: January 2001).

At December 31, 2002, 4 banks accounted for 45% of total cash and cash equivalents and represented 47% of the Group's total shareholders' equity at that date. At December 31, 2001, 3 banks accounted for 38% of total cash and cash equivalents and represented 45% of the Group's total shareholders' equity. At December 31, 2000, 3 banks accounted for 20% of total cash and cash equivalents and represented 16% of the Group's total shareholders' equity.

5. OBLIGATORY RESERVES

Obligatory reserves consisted of the following at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Due from the NBK	2,731	2,222	1,568
Cash on hand allocated to obligatory reserves	—	2,462	882
	2,731	4,684	2,450

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

6. DUE FROM OTHER BANKS

At December 31, 2002 due from other banks comprised loans due from Kazakh banks that are secured by securities purchased under agreements to resell, carry interest at rates ranging from 3% to 7% and mature in April and June 2003.

At December 31, 2001, due from other banks comprised a US$ denominated loan due from a Russian Bank, which carried interest at 14% per annum. The loan was repaid in April 2002.

At December 31, 2002, 1 bank accounted for 26% of due from other banks and represented 13% of the Bank's total shareholders' equity at that date. At December 31, 2001, 1 bank accounted for 100% of due from other banks and represented 1% of the Bank's total shareholders' equity at that date.

7. TRADING SECURITIES

Trading securities, at estimated fair value, consisted of the following at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Treasury bills of the Ministry of Finance	9,842	6,921	3,716
Notes of the NBK	3,028	—	—
Sovereign bonds of the Republic of Kazakhstan	9,516	9,728	2,834
Bonds of international financial organizations	8,536	—	—
Corporate bonds	1,114	1,182	1,307
Municipal bonds	45	—	315
	32,081	17,831	8,172

Treasury bills of the Ministry of Finance at December 31, 2002 carry interest at rates ranging from 7.85% to 17.50% per annum (2001: from 7.85% to 17.50%, 2000: from 11% to 19.37%) and mature between 2003 and 2007 (2001: 2002-2007, 2000: 2001-2003). Included in treasury bills of the Ministry of Finance are securities pledged under repurchase agreements with other banks whose estimated fair value at December 31, 2002 amounted to KZT 1,384 million (December 31, 2001: KZT 741 million, 2000: KZT 2,530 million). At December 31, 2000, treasury bills amounting to KZT 918 million have been pledged as security for certain of the Bank's borrowings.

Notes of the NBK carry interest at 5.35% per annum and mature in January 2003.

Included in bonds of international financial organizations are securities of the International Bank of Reconstruction and Development ("IBRD"), Council of Europe Development Bank ("CEDB"), Asian Development Bank ("ADB"), and Inter-American Development Bank ("IADB"), that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013. Included in bonds of International Financial Organizations are securities pledged under repurchase agreements with other banks whose estimated fair value at December 31, 2002 amounted to KZT 5,938 million.

Sovereign bonds of the Republic of Kazakhstan at December 31, 2002 carry interest at rates ranging from 11.125 % to 13.625% per annum (December 31, 2001 and 2002: 8.375% to 13.625%) and mature between 2004 and 2007 (2001 and 2000: 2002 and 2007). Included in sovereign bonds of the Republic of Kazakhstan are securities pledged under repurchase agreements with other banks whose estimated fair value at December 31, 2002 amounted to KZT 5,542 million (December 31, 2001: KZT 8,642 million, 2000: Nil).

Corporate bonds at December 31, 2002 represent bonds of prime Kazakh corporations which carry interest at 10.5% per annum (December 31, 2001: from 8% to 11%, 2000: from 9% to 11%) and mature in 2005 (2001: between 2002 and 2005, 2000: between 2001 and 2005).

Municipal bonds at December 31, 2002 represent bonds issued by regional Government authorities in Kazakhstan (December 31, 2001: Nil, December 31, 2000: KZT 315 million). They carry interest at 8.6% per annum (2000: 11%) and mature in 2006 (2000: July 2001).

8. HELD-TO-MATURITY SECURITIES

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Bonds of international financial organizations	19,634	—	—
	19,634	—	—

Bonds of international financial organizations comprise securities of IBRD, CEDB, ADB, and, IADB that carry interest at rates ranging from 4.375 % to 6.125% per annum and mature between 2011 and 2013.

9. COMMERCIAL LOANS AND ADVANCES, NET

Commercial loans and advances consisted of the following at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Commercial loans	137,621	116,050	57,453
Advances	293	1,143	699
	137,914	117,193	58,152
Allowance for losses	(10,519)	(6,704)	(2,905)
Total commercial loans and advances, net of allowance	127,395	110,489	55,247

At December 31, 2002, the annual interest rates charged by the Bank ranged from 11% to 25% per annum for KZT-denominated loans and advances (2001: 12%-26%, 2000: 11%-26%) and from 9% to 22% per annum for US$-denominated loans and advances (2001: 8%-22%, 2000: 17%-25%).

Included in commercial loans at December 31, 2002 is KZT 3,664 million (2001: KZT 2,801 million, 2000: KZT 1,530 million) of loans to customers that are funded by the Government of the Republic of Kazakhstan under foreign credit lines. These loans have been granted at commercial terms and conditions, subject to limitations on the interest rate spread.

Loans and advances to shareholders and related parties, including employees, amounted to KZT 143 million, KZT 2,344 million, and KZT 2,515 million at December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, 2001 and 2000, an allowance for losses of KZT Nil, KZT 2 million and KZT 23 million, respectively, had been established against loans to shareholders and related parties.

At December 31, 2002, the annual interest rates charged by the Bank on loans to shareholders and related parties were 16% per annum for KZT denominated loans (2001: 19% to 21%), and from 9% to 21% per annum for Euro and US$ denominated loans (2001: 8% to 11.5%, 2000: 8% to 24%).

At December 31, 2002, 2001 and 2000, loans for which the accrual of interest has been suspended approximated KZT 2,361 million, KZT 492 million, and KZT 392 million, respectively.

The Bank's gross commercial loan portfolio is concentrated in the following main sectors at December 31:

	2002	*%*	*2001*	*%*	*2000*	*%*
Industrial production	33,430	24	28,274	24	13,574	23
Wholesale trading	27,583	20	30,600	26	21,511	37
Agriculture and food processing	26,208	19	23,329	20	10,054	17
Transport	10,400	8	9,024	8	719	1
Construction	8,495	6	3,177	3	1,121	2
Retail trading	6,303	5	2,553	2	2,961	5
Media and education	5,517	4	3,882	3	2,708	5
Other	19,978	14	16,354	14	5,504	10
	137,914	100	117,193	100	58,152	100

At December 31, 2002, 10 major borrowers accounted for 17% of gross commercial loans and advances (2001: 21%; 2000: 14%) and represented 121% of the Group's total shareholder's equity (2001: 164%; 2000: 88%).

10. ALLOWANCE FOR LOSSES

The movement on the allowance for losses during the year consisted of the following:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
At January 1	6,704	2,905	2,271
Net Charge-offs:			
Charge-offs	(3,886)	(2,997)	(3,371)
Recoveries	271	958	1,018
Net charge-offs	(3,615)	(2,039)	(2,353)
Provision for losses	7,430	5,838	2,987
At December 31	10,519	6,704	2,905

The allowance for losses consisted of the following at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Pooled allowance	6,242	3,273	1,302
Specific allowance	4,277	3,431	1,603
	10,519	6,704	2,905

11. PREMISES AND EQUIPMENT, NET

The movements on the Group's premises and equipment during the years ended December 31 were as follows:

	Buildings	*Furniture, fixtures and equipment*	*Construction in progress*	*Total 2002*	*Total 2001*	*Total 2000*
Cost or Valuation						
At January 1	4,192	2,154	38	6,384	5,382	3,995
Additions	434	968		1,402	1,337	1,577
Additions from acquired subsidiaries	4	39	—	43	40	767
Revaluation adjustment ..	788	—	—	788	—	—
Transfers	38	—	(38)	—	—	—
Disposals	(167)	(367)	—	(534)	(375)	(957)
At December 31	5,289	2,794	—	8,083	6,384	5,382
Depreciation:						
At January 1	(314)	(629)	—	(943)	(383)	(385)
Charge for the year	(311)	(439)	—	(750)	(634)	(133)
Additions from acquired subsidiaries	(1)	(10)	—	(11)	(8)	—
Revaluation adjustment ..	(119)	—	—	(119)	—	—
Disposals	159	104	—	263	82	135
At December 31	(586)	(974)	—	(1,560)	(943)	(383)
Net Carrying Amount:						
At December 31, 2002	4,703	1,820	—	6,523		
At December 31, 2001	3,878	1,525	38		5,441	
At December 31, 2000	3,618	1,190	191			4,999

During 2002, the Group commenced the process of revaluing its buildings. The revaluation process is planned to be completed during 2003 for all buildings. Certain buildings were revalued effective May 24, 2002 by independent appraisal using market values. Had the revalued buildings been included at cost at December 31, 2002, their carrying amount would have amounted to KZT 2,010 million.

12. AMOUNTS OWED TO THE GOVERNMENT AND THE NBK

	2002	2001	2000
	(in millions of Kazakh Tenge)		
Amounts due to the Government:			
Non Interest bearing	5	10	197
Interest bearing – KZT denominated	1,616	1,606	18
Interest bearing – USD denominated	197	148	83
Interest bearing – EURO denominated	454	207	—
	2,272	1,971	298
Amounts due to the NBK	403	462	468
	2,675	2,433	766

Interest bearing KZT denominated amounts due to the Government at December 31, 2002 carry interest at rates ranging from 5% to 10% per annum (2001: from 2.5% to 9.5%; 2000: from 5% to 10%) and mature between 2003 and 2004 (2001and 2000: 2004). The US Dollar denominated amounts due to the Government carry interest at 7.16% (2001 and 2000: 7.16%) per annum and mature in June 2011 (2001 and 2002: June 2011). The EURO denominated amount due to the Government carries interest at 5% per annum and matures in December 2010.

As of December 31, 2002 amounts due to the NBK carry interest at 4.196% per annum (2001: 8.41%; 2000: 9.25%) and mature in August 2003 (2001: July 2002; 2000: July 2001).

13. DUE TO OTHER BANKS AND FINANCIAL INSTITUTIONS

Balances due to other banks and financial institutions consisted of the following at December 31:

	2002	2001	2000
	(in millions of Kazakh Tenge)		
Interest-bearing placement from an OECD based bank	—	4,055	—
Interest-bearing placement from a non OECD bank	78	—	—
Interest-bearing placements from Kazakh banks	856	2,028	966
Correspondent loro accounts	694	559	31
	1,628	6,642	997
Pass-through loans	8,658	3,100	2,500
Loans from Kazakh banks and financial institutions	2,302	2,103	942
Loans from non-Kazakh banks and financial institutions	31,935	19,739	9,700
Loans from Banks' Syndicate	11,455	10,139	4,335
	55,978	41,723	18,474

At December 31, 2001, the US$ denominated interest-bearing placement from an OECD based bank carried interest at 0.5% per annum and matured in January 2002.

The interest-bearing placement from a non OECD based bank is US$ denominated, matures in March 2003, and bears interest at 4% per annum.

At December 31, 2002 interest-bearing placements from Kazakh banks include US$ denominated deposits that amount to KZT 156 million (2001: KZT 1,878 million; 2000: KZT 942 million), mature in January 2003 (2001: January 2002; 2000: 2001), and bear interest at 3.5% per annum (2001: from 3.5% to 5%; 2000: from 8.1% and 13%) and a KZT denominated deposit amounting to KZT 700 million (2001: KZT 150 million) that matures in January 2003 (2001: January 2002) and bears interest at 3.5% per annum (2001:10%).

At December 31, 2002 pass-through loans represent two credit lines provided to the Bank through the Government of the Republic of Kazakhstan from the European Bank for Reconstruction and Development ("EBRD"), US$ 37.7 million (2001: US$ 14 million), Asian Development Bank ("ADB"), US$ 0.24 million (2001: US$ 3 million), Kreditanstalt fur Wiederaufbau ("KFW"), EURO 1.2 million (2001: EURO Nil) and the Entrepreneurship Development Fund to finance small and medium size importers, US$ 16 million (2001: US$ 4 million). Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. The facilities mature between June 2003 and December 2008 (2001: April 2002 and October 2006) and bear contractual interest at rates ranging between 5% and 7.5% per annum (2001: 5% to 10.53%). At December 31, 2002, the Bank's interest spread on these loans ranged from 3% to 13.4% per annum (2001: 3% to 17%). At December 31, 2002, 2001 and 2000, all amounts received under pass-through loans had been advanced to borrowers and included within commercial loans in the accompanying consolidated balance sheets. Undrawn balances of credit lines at December 31, 2002, 2001 and 2000 amounted to US$ 4 million, Nil, and U.S.$0.8 million respectively.

At December 31, 2002 loans from Kazakh banks and financial institutions are US$ denominated, bear interest at rates ranging between 5.71% and 6.42% per annum (2001: 4%-9%; 2000: 8.1%-13%), and mature in 2003 (2001: 2002). Included in loans from Kazakh banks and financial institutions at December 31, 2002, are loans amounting to KZT 1,312 million (2001: KZT 651 million; 2000: KZT 2,256 million) that are secured by a pledge over certain of the Group's trading securities whose fair value at December 31, 2002 amounted to KZT 1,384 million (2001: KZT 741 million; 2000: KZT 2,530 million).

At December 31, 2002 loans from non-Kazakh banks and financial institutions are US$, GBP, CHF and EURO denominated, bear interest at rates ranging between 1% and 11% per annum (2001: 2.61%-10.26%; 2000: 6%-13.6%;), and mature at various dates between January 2003 and August 2009 (2001: January 2002 and July 2006). Included in loans from non-Kazakh banks and financial institutions as of December 31, 2002 are loans amounting to KZT 9,874 million (2001: KZT 6,959 million; 2000: Nil) that are secured by a pledge over certain of the Group's trading securities whose fair value as of December 31, 2002 amounted to KZT 11,480 million. (2001: KZT 8,642 million; 2000: Nil).

At December 31, 2002 loans from non-Kazakh banks and financial institutions include a EURO denominated subordinated loan amounting to KZT 708 million that matures in 2007 (2001: KZT 588 million; 2000: Nil). The loan ranks behind the claims against the Group depositors and other unsecured, unsubordinated creditors.

During 2000, the Bank entered into a US $30 million loan facility agreement with several OECD based financial institutions ("Bank Syndicate"). At December 31, 2000, the Bank had used the full amount. The facility is unsecured and bears annual interest at LIBOR plus 4.75%, fixed at the end of each quarter. The facility matured in July 2001.

During 2001 the Bank entered into a US $67.5 million loan facility agreement with several OECD based financial institutions ("Banks' Syndicate"). As of December 31, 2001, the Bank had drawn the full amount.

The facility is unsecured and bears annual interest at LIBOR plus 3.25% per annum. The facility was renewed at maturity in September 2002. The new facility from the Banks' Syndicate amounted to US $73.5 million, carries interest at LIBOR plus 2.7% per annum and matures in March 2003. As of December 31, 2002, the Bank had drawn the full amount.

14. AMOUNTS OWED TO CUSTOMERS

The amounts owed to customers included balances in customer current accounts, term deposits, and certain other liabilities, and were analyzed as follows at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Customer current accounts:			
Related parties:			
Legal entities	41	25	107
Unrelated parties:			
Legal entities	32,523	22,550	19,375
Individuals	7,172	4,435	1,511
Term deposits:			
Related parties:			
Legal entities	—	2,249	68
Individuals	88	—	—
Unrelated parties:			
Legal entities	13,394	7,347	7,550
Individuals	45,505	31,591	16,917
Amounts payable under letters of credit:			
Legal entities	1,085	1,957	1,008
Other amounts due to customers:			
Unrelated parties:			
Legal entities	5,728	10,731	366
Individuals	221	123	31
	105,757	81,008	46,933

At December 31, 2002, the Bank had US$-denominated term deposits from related parties in the amount of KZT 88 million bearing interest at rates ranging between 1% and 11% per annum (2001: KZT 2,249 million bearing interest at 1% per annum, 2000: KZT 68 million bearing interest at rates ranging between 1% and 13% per annum) and KZT-denominated deposits in the amount of KZT 6 million bearing interest at rates ranging between 1% and 13.5% per annum (2001:KZT 13 million bearing interest at 9% per annum).

Other term deposits at December 31, 2002 bear annual interest at rates ranging from 1% to 13.5% per annum (2001: from 1% to 17%; 2000: from 2% to 19%) for KZT-denominated balances and from 1% to 11% per annum (2001: from 1% to 19%; 2000: from 6% to 14%) for foreign currency-denominated balances.

15. DEBTS SECURITIES ISSUED

Debt securities issued at December 31, consisted of the following:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
US$ medium term notes	30,844	14,824	—
US$ long term subordinated Kazakh notes	6,612	2,938	—
	37,456	17,762	—
Own US$ medium term notes held by the Group	(6,118)	(4,428)	—
Own US$ long term subordinated Kazakh notes held by the Group	(52)	(24)	—
	31,286	13,310	—

The US$ medium term notes at December 31, 2002 mature between 2004 and 2007 and bear interest at rates ranging between 10% and 11.5% per annum (December 31, 2001: mature in 2004 bearing interest at 11.5%).

The US$ long term subordinated Kazakh notes at December 31, 2002 mature in 2010 (2001: in 2009), and bear interest at rates ranging between 9% and 12% per annum (2001: at 12% per annum). These subordinated securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

16. INCOME TAXES

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable. The Bank had no current or deferred income tax liability at December 31, 2002, 2001 and 2000. The Bank incurred no income tax expense during the years ended December 31, 2002, 2001 and 2000.

A reconciliation between the provision for income taxes in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the years ended December 31 is as follows:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Income tax computed at the statutory tax rate	1,471	477	275
Non-deductible expenses	265	701	92
Non-taxable income	(1,661)	(1,381)	(428)
Tax effect of temporary differences not recognized as measured by the change in the valuation allowance	(75)	203	61
Provision for income taxes	—	—	—

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprised the following at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Deferred tax assets:			
Allowance for losses	204	251	80
Premises and equipment	4	32	—
Total deferred tax assets before valuation allowance	208	283	80
Valuation allowance for deferred tax assets	(208)	(283)	(80)
	—	—	—

17. SHAREHOLDERS' EQUITY

Authorized and issued share capital at December 31, 2002, 2001 and 2000 consisted of 1,287,023 KZT denominated common shares and 426,722 Convertible Preferred Shares ("CPS"). All shares are KZT denominated and have a nominal value of KZT 10,000 each.

At December 31, the Group held 10,388 of the Bank's shares as treasury shares (2001: 4,873).

During 2000, the Bank issued 317,354 additional shares at a premium of KZT 86 per share, which were purchased by new shareholders.

Convertible Preferred Shares

During 2001, the Bank issued 426,722 Convertible Preferred Shares at nominal value and recognized the newly issued share capital in these financial statements at the amount received, KZT 4,267 million, net of the external costs directly attributable to the share issue amounting to KZT 107 million. All new shares were purchased by the following new shareholders:

- DEG – 73,500 shares
- IFC – 73,500 shares
- FMO – 44,100 shares
- EBRD – 73,500 shares
- Raiffeisen Zentralbank Osterreich AG ("RZB") – 162,122 shares

The CPS Shareholders have the right to convert all or any part of their CPS's into common shares of the Bank.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the US$ equivalent of the CPS Purchase Price at the offer date (the "Purchase Price"), if any person makes a Shareholder Protection Tender Offer ("Tender Offer") in accordance with Article 29(3) of the Joint Stock Company Law, i.e. an offer to purchase 30% or more of the Bank's common share capital, and the respective Tender Offer Price for each CPS is less than the CPS Purchase Price. If the CPS Shareholders accept the redemption offer, the Bank is then obligated to redeem the shares. Management believes, that the likelihood of a Shareholder Protection Tender Offer being made is remote and that the fair value of each share will soon exceed the CPS Purchase Price, which would further reduce the likelihood of the CPS Shareholders accepting a Redemption Offer.

Upon the expiration of the Convertibility Period, i.e. on December 31, 2006, and only in the event the Bank fails to sell 55% of the aggregate of the Bank's issued common shares to an OECD based bank with total assets of not less than US $60 billion and a financial strength rating of not less than D+ ("Strategic Investor"), each CPS Shareholder shall have the right to redeem all or any portion of the Convertible Preferred Shares. As of December 31, 2002 the Bank has received various offers from various Potential Strategic Investors and started working closely with one of those Potential Strategic

Investors. The Bank's management believes, that the likelihood of the Bank failing to sell 55% of its issued common shares to a Strategic Investor by December 31, 2006 is remote.

Based on the above, the likelihood of the CPS being redeemed is considered remote and the Convertible Preferred Shares are accounted for as equity.

Dividends on Convertible Preferred Shares

The Convertible Preferred Shares carry a dividend of 10.25% per annum. These dividends are cumulative.

18. GAINS LESS LOSSES FROM TRADING SECURITIES

Gains less losses from trading securities for the years ended December 31 comprised the following:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Net realized gains from sale of trading securities	1,552	287	(270)
Change in unrealized gains on trading securities	1,193	(164)	(169)
	2,745	123	(439)

19. GAINS LESS LOSSES FROM FOREIGN CURRENCIES

Gains less losses from foreign currencies for the years ended December 31 comprised the following:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Net gain on revaluation of foreign currency denominated assets and liabilities	234	675	409
Net income from foreign currency trading	1,254	1,603	1,941
Net income/(loss) from foreign currency derivative contracts	95	(600)	(14)
	1,583	1,678	2,336

20. OTHER OPERATING INCOME

Other operating income for the years ended December 31 comprised the following:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Rent	450	240	28
Penalties	399	128	66
Currency transport	99	101	89
Other	217	181	126
	1,165	650	309

21. SUBSIDIARIES

At December 31, 2002 the principal subsidiaries of the Bank are as follows:

Subsidiary	*Ownership %*	*Domicile*	*Principal Business*
TuranAlem Securities	100.00%	Almaty	Securities trading
BTA Leasing	100.00%	Almaty	Leasing
Altyn Orda	100.00%	Almaty	Collaterized retail consumer lending
TuranAlem Finance B.V.	100.00%	Almaty	Securities trading
KBS Garant	58.82%	Almaty	Property and Casualty Insurance
Kazakhstan Pension Fund	50.40%	Almaty	Pension Fund
Dynasty	66.00%	Almaty	Life Insurance
Kazco Construction	—	Almaty	Construction
Samal Properties	—	Almaty	Property Management
Kurmet Pension Fund	66.00%	Almaty	Pension Fund
OJSC SK BTA	66.00%	Almaty	Property and Casualty Insurance
Real Estate Commerce	—	Almaty	Property Management
Force Technology	—	Almaty	Information Technology Services
BTA Ipoteka	100.00%	Almaty	Consumer Mortgage Lending

Although the Bank does not own any shares in Kazco Construction, Samal Properties, Real Estate Commerce and Force Technology, they are treated, in accordance with IFRS, as subsidiaries because the Bank controls their operations.

On December 2, 2002, the Group increased its share from 40% to 66% of the share capital of OJSC SK BTA ("OJSC SK BTA"), an insurance company incorporated in the Republic of Kazakhstan. OJSC SK BTA contributed operating income of KZT 21 million to the Group from December 2, 2002 to December 31, 2002.

On July 22, 2002, the Group increased its share from 24% to 66% of the share capital of Kurmet Pension Fund, a pension fund incorporated in Kazakhstan. Kurmet Pension Fund contributed operating loss of KZT 20 million to the Group from July 22, 2002 to December 31, 2002.

The details of the assets and liabilities acquired in 2002 are as follows:

	SK BTA	*Pension Fund Kurmet*	*Total*
Cash and cash equivalents	68	5	73
Trading securities	352	57	409
Premises and equipment	22	10	32
Other assets	270	10	280
Other liabilities	(476)	(5)	(481)
Minority interest	(51)	(18)	(69)
Cost of acquisition (discharged by cash)	185	59	244
Less: Cash and cash equivalents acquired on acquisition of subsidiaries	(68)	(5)	(73)
Cash outflow on acquisition	117	54	171

On March 26, 2001, the Group acquired 54.51% of the share capital of KBS Garant ("KBS"), an insurance company incorporated in Kazakhstan. KBS contributed operating income of KZT 3 million to the Group from March 26, 2001 to December 31, 2001.

On August 6, 2001, the Group acquired 50.40% of the share capital of Pension Fund Kazakhstan ("PFK"), a pension fund incorporated in Kazakhstan. PFK contributed operating income of KZT 5 million to the Group from August 6, 2001 to December 31, 2001.

The details of the assets and liabilities acquired in 2001 are as follows:

	KBS Garant	*PF "Kazakhstan"*	*Total*
Cash and cash equivalents	22	207	229
Trading securities	137	19	156
Premises and equipment	23	9	32
Other assets	89	43	132
Other liabilities	(151)	(17)	(168)
Minority interest	(60)	(135)	(195)
Cost of acquisition (discharged by cash)	60	126	186
Less: Cash and cash equivalents acquired on acquisition of subsidiaries	(22)	(207)	(229)
Cash outflow (inflow) on acquisition	38	(81)	(43)

22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The subordinated loan from DEG included in amounts due to other banks and financial institutions and the Bank's convertible preferred shares are convertible to common shares. During the 2000 the Bank had no dilutive potential shares. The Bank did not declare or pay any dividends to common shareholders during 2000, 2001 or 2002. During 2002, the Bank accrued dividends to the CPS shareholders amounting to KZT 508 million (2001: KZT 41 million) and paid dividends to the CPS shareholders amounting to KZT 503 million (2001: KZT Nil).

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares. The Group has two types of dilutive potential shares: convertible debt and convertible preferred shares. The convertible debt is assumed to have been converted into shares and the net profit is adjusted to eliminate the applicable interest expense less the tax effect. For the convertible preferred shares the number of shares that could have been converted at the contractual conversion price are added to the shares outstanding, but no adjustment is made to net profit.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31:

	2002	*2001*	*2000*
Net income attributable to common shareholders and basic earnings per share, being net income less dividends acrrued on CPS's (in KZT millions)	4,390	1,550	897
Net income attributable to common and potential common shareholders and diluted earnings per share (in KZT millions)	4,931	1,596	897
Weighted average number of common shares	1,272,373	1,273,236	1,030,566
Weighted average number of potential common shares	1,763,896	1,313,696	1,030,566

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at December 31 is as follows:

	2002	*2001*	*2000*
Weighted average number of common shares at December 31,	1,272,373	1,273,236	1,030,566
Weighted average number of common shares resulting from the potential conversion of the DEG subordinated loan into common shares	64,801	4,900	—
Weighted average number of common shares resulting from the potential conversion of the preferred shares into common shares	426,722	35,560	—
Weighted average number of potential common shares at December 31,	1,763,896	1,313,696	1,030,566

23. COMMITMENTS AND CONTINGENCIES

General

The Group's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Kazakh tax and legal systems, the ultimate taxes as well as penalties and fines, if any, assessed may be in excess of the amounts paid to date and accrued at December 31, 2002. Management believes, based upon its best estimates, that the Group has paid or accrued all taxes that are applicable for the current and prior years, and complied with all essential provisions of laws and regulations of the Republic of Kazakhstan. In management's opinion, the ultimate determination of the Group's overall tax liability and potential loss contingencies, to the extent not previously provided, will not have a material effect on the financial position of the Group.

The Group's proprietary trading activities involve the execution, settlement, and financing of various securities and financial instrument transactions. The execution of these transactions includes the purchase and sale of securities, and the purchase and sale of forward purchase and sales contracts for foreign currencies. These activities may expose the Group to additional risk in the event the counterparty to the transaction is unable to fulfill its contractual obligations.

In these situations, the Group may be required to purchase or sell financial instruments at prevailing market prices, which may not fully cover the obligations of the counterparty. The Group attempts to limit this risk by identifying and monitoring its individual and aggregate exposures to counterparties and establishing and maintaining procedures for counterparty limit authorization and implementation.

Settlement activities involve the Group using securities as collateral in support of various secured financing sources. In the event the counterparty does not meet its contractual obligation to return the collateral, the Group may need to reacquire the securities to satisfy its obligations. The Group controls this risk by evaluating and establishing limits for its counter parties and monitoring the market value of securities pledged on a daily basis.

The Kazakh economy displays emerging market characteristics. These characteristics include lack of liquidity in the capital markets, and the existence of currency controls which causes the national currency to be illiquid outside Kazakhstan.

In addition to the emerging market characteristics mentioned above, the banking system is in a constant state of supervisory reform and additional laws and enforcement actions may be implemented to produce a more sound banking and financial system. The success and stability of the Kazakh economy may be significantly impacted by the government's actions with regard to supervisory, legal, and economic reforms.

Capital Expenditure

At December 31, 2002, 2001 and 2000, the Group had outstanding capital expenditure commitments with respect to building renovations and acquisition of premises and equipment of approximately KZT Nil, KZT 11 million and KZT 53 million, respectively.

24. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

General

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk. These financial instruments include credit-related financial instruments (commitments to extend credit, financial guarantees, commercial letters of credit) and derivative foreign exchange contracts. These instruments involve elements of credit and market risk in excess of the amounts recognized in the consolidated balance sheets of the Group.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits, and monitoring procedures.

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign exchange rates. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Credit-Related Financial Instruments

Commitments are contractual agreements to extend credit, which generally have fixed expiration dates or other termination requirements and require payment of a fee. Substantially all of the Group's commitments to extend credit are revocable as they are contingent upon the prospective borrower maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to other customers. The Group applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under a guarantee.

Commercial letters of credit represent a financing transaction by the Group to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

The Group's exposure to loss under credit-related financial instruments is limited to the contractual amount and was as follows at December 31:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Commitments to extend credit:			
Unrelated parties, KZT-denominated	2,781	661	—
Unrelated parties, foreign currency-denominated	8,374	2,656	2,629
Financial guarantees:			
Related parties, KZT-denominated	—	—	200
Related parties, foreign currency-denominated	470	148	977
Unrelated parties, foreign currency-denominated	17,179	10,610	4,402
Unrelated parties, KZT-denominated	4,176	1,520	—
Commercial letters of credit:			
Related parties, foreign currency-denominated	449	—	415
Unrelated parties, foreign currency-denominated	25,880	15,552	7,897
Unrelated parties, KZT-denominated	178	178	—

At December 31, 2002, ten guarantees (2001 and 2000: ten guarantees) accounted for 28% (2001: 21%, 2000:62%) of total guarantees and represented 68% (2001: 51%, 2000: 38%) of the Bank's total shareholders' equity at that date.

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in bank, government securities, and other.

Deliverable forward contracts

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates and prices of precious metals.

At December 31, 2002, the Group was a party to the following deliverable forward contracts, all of which mature in 2003:

	Notional Amount	*Unrealized Gains*	*Unrealized Losses*
	(in millions of Kazakh Tenge)		
Deliverable forward contracts:			
US$-KZT contracts with Kazakh banks	334	—	—

At December 31, 2001, the Group was a party to the following deliverable forward contracts, all of which matured in 2002:

	Notional Amount	*Unrealized Gains*	*Unrealized Losses*
	(in millions of Kazakh Tenge)		
Deliverable forward contracts:			
US$-EUR contracts with Kazakh banks	403	—	—
US$-KZT contracts with Kazakh banks	451	—	—

At December 31, 2000, the Bank was a party to the following deliverable forward contracts, all of which matured in 2001:

	Notional Amount	*Unrealized Gains*	*Unrealized Losses*
	(in millions of Kazakh Tenge)		
Deliverable forward contracts:			
KZT-DEM contracts with Kazakh clients	282	—	26
DEM-US$ contracts with Kazakh banks	301	33	—
US$-XAU contracts with OECD based banks	47	1	—
XAU-US$ contracts with OECD based banks	16	—	—

25. MATURITY ANALYSIS

The maturity of monetary assets and liabilities represents the remaining terms until repayment in accordance with the underlying contractual agreements and terms of issuance of the monetary asset or liability at the respective balance sheet date, except for trading securities which are shown as demand irrespective of their terms of issuance. In practice, the actual maturity of monetary assets and liabilities may differ from the contractual terms based on addenda to the contracts, which already exist.

The following assumptions and conditions have been adopted in the presentation of the Bank's maturity analysis:

- Obligatory reserves, held in physical cash or deposits with the NBK, are considered as due after one year; however, their availability is dependent on the composition and maturity of the Group's liabilities in the form of customer accounts and certain other deposits.
- While trading securities are shown as demand, realizing such assets upon demand is dependent upon financial market conditions.
- The maturity of amounts due from other banks and commercial loans and advances is based on the contractual maturity date. The actual maturity may differ as loan agreements are often extended or rolled over to update interest rates and facilitate longer term financing for the borrowers. Amounts due from other banks and commercial loans and advances are shown gross, excluding any deductions with respect to the allowance for losses.
- The maturity of equity investments is considered to be over one year as the Bank intends to hold such investments for long-term purposes.
- Amounts due to other banks and owed to customers are shown as having a remaining maturity based on the nature of the amount, which is typically demand for loro accounts, placements, and current accounts, and the contractual maturity date for loans and term deposits.
- Other monetary assets and liabilities are predominantly current claims to and from third parties.

At December 31, the maturity of assets and liabilities was as follows:

2002:	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
			(in millions of Kazakh Tenge)			
Monetary assets:						
Cash and cash equivalents ..	20,557	—	—	—	—	20,557
Obligatory reserves	—	—	—	—	2,731	2,731
Due from other banks	—	—	10,714	91	15	10,820
Trading securities	32,081	—	—	—	—	32,081
Held-to-maturity securities ..	—	—	—	—	19,634	19,634
Commercial loans and advances, gross	26,496	13,416	20,388	23,785	53,829	137,914
Other assets	1,964	169	13	156	3,205	5,507
	81,098	13,585	31,115	24,032	79,414	229,244
Monetary liabilities:						
Amounts owed to the Government and the NBK	165	21	374	725	1,390	2,675
Due to other banks and financial institutions	15,208	1,904	8,885	6,757	23,224	55,978
Amounts owed to customers ..	51,393	17,040	8,553	17,642	11,129	105,757
Debt securities issued	—	—	—	—	31,286	31,286
Accrued interest payable ..	1,811	—	—	—	—	1,811
Other liabilities	6,421	434	1	20	100	6,976
	74,998	19,399	17,813	25,144	67,129	204,483
Net position	6,100	(5,814)	13,302	(1,112)	12,285	24,761
Accumulated gap..	6,100	286	13,588	12,476	24,761	

2001:	Up to 1 Month	1 to 3 months	3 to 6 months	6 to 12 months	Over 12 months	Total
			(in millions of Kazakh Tenge)			
Monetary assets:						
Cash and cash equivalents ..	17,116	50	13	41	—	17,220
Obligatory reserves	—	—	—	—	4,684	4,684
Due from other banks	—	—	150	—	—	150
Trading securities	17,831	—	—	—	—	17,831
Commercial loans and advances, gross	20,005	20,716	14,425	26,050	35,997	117,193
Other assets	—	110	106	150	1,107	1,473
	54,952	20,876	14,694	26,241	41,788	158,551

2001:	*Up to 1 Month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 12 months*	*Total*
			(in millions of Kazakh Tenge)			
Monetary liabilities:						
Amounts owed to the Government and the NBK	157	37	57	540	1,642	2,433
Due to other banks and financial institutions	16,643	1,018	2,776	13,472	7,814	41,723
Amounts owed to customers ..	39,931	29,078	7,449	1,768	2,782	81,008
Debt securities issued	—	—	—	—	13,310	13,310
Accrued interest payable ..	1,455	—	—	—	—	1,455
Other liabilities	652	98	249	404	305	1,708
	58,838	30,231	10,531	16,184	25,853	141,637
Net position	(3,886)	(9,355)	4,163	10,057	15,935	16,914
Accumulated gap	(3,886)	(13,241)	(9,078)	979	16,914	

2000:	*Up to 1 month*	*1 to 3 months*	*3 to 6 months*	*6 to 12 months*	*Over 12 months*	*Total*
			(in millions of Kazakh Tenge)			
Monetary assets:						
Cash and cash equivalents ..	6,945	31	29	—	—	7,005
Obligatory reserves	—	—	—	—	2,450	2,450
Trading securities	8,172	—	—	—	—	8,172
Commercial loans and advances, gross	10,154	6,552	9,453	16,351	15,642	58,152
Other assets	—	1,027	33	26	246	1,332
	25,271	7,610	9,515	16,377	18,338	77,111
Monetary liabilities:						
Amounts owed to the government and the NBK	2	28	428	159	149	766
Due to other banks and financial institutions	4,352	417	5,252	1,258	7,195	18,474
Amounts owed to customers ..	28,122	6,921	5,347	5,594	949	46,933
Accrued interest payable ..	1,049	—	—	—	—	1,049
Other liabilities	1,628	358	165	269	15	2,435
	35,153	7,724	11,192	7,280	8,308	69,657
Net position	(9,882)	(114)	(1,677)	9,097	10,030	7,454
Accumulated gap	(9,882)	(9,996)	(11,673)	(2,576)	7,454	

26. CURRENCY ANALYSIS

The following table presents the KZT-equivalent amount of monetary assets and liabilities denominated in different currencies at December 31:

2002:	*KZT*	*Freely convertible currencies*	*Total*
	(in millions of Kazakh Tenge)		
Monetary assets:			
Cash and cash equivalents	5,053	15,504	20,557
Obligatory reserves	2,731	—	2,731
Due from other banks	9,830	990	10,820
Trading securities	12,925	19,156	32,081
Held-to-maturity securities	—	19,634	19,634
Commercial loans and advances, gross	35,936	101,978	137,914
Other assets	4,980	527	5,507
	71,455	157,789	229,244
Monetary liabilities:			
Amounts owed to the Government and the NBK	969	1,706	2,675
Due to other banks and financial institutions	2,165	53,813	55,978
Amounts owed to customers	49,475	56,282	105,757
Debt securities issued	—	31,286	31,286
Accrued interest payable	625	1,186	1,811
Other liabilities	4,797	2,179	6,976
	58,031	146,452	204,483
Net position	13,424	11,337	24,761

2001:	*KZT*	*Freely convertible currencies*	*Total*
	(in millions of Kazakh Tenge)		
Monetary assets:			
Cash and cash equivalents	475	16,745	17,220
Obligatory reserves	4,684	—	4,684
Due from other banks	—	150	150
Trading securities	13,519	4,312	17,831
Commercial loans and advances, gross	25,189	92,004	117,193
Other assets	932	541	1,473
	44,799	113,752	158,551
Monetary liabilities:			
Amounts owed to the Government and the NBK	770	1,663	2,433
Due to other banks and financial institutions	814	40,909	41,723
Amounts owed to customers	28,030	52,978	81,008
Debt securities issued	—	13,310	13,310
Accrued interest payable	116	1,339	1,455
Other liabilities	1,708	—	1,708
	31,438	110,199	141,637
Net position	13,361	3,553	16,914

2000:	KZT	Freely convertible currencies	Total
	(in millions of Kazakh Tenge)		
Monetary assets:			
Cash and cash equivalents	2,804	4,201	7,005
Obligatory reserves	2,450	—	2,450
Trading securities	3,657	4,515	8,172
Commercial loans and advances, gross	27,141	31,011	58,152
Other assets	509	823	1,332
	36,561	40,550	77,111
Monetary liabilities:			
Amounts owed to the government and the NBK	683	83	766
Due to other banks and financial institutions	2,463	16,011	18,474
Amounts owed to customers	25,394	21,539	46,933
Accrued interest payable	1,049	—	1,049
Other liabilities	907	1,528	2,435
	30,496	39,161	69,657
Net position	6,065	1,389	7,454

The majority of the Group's assets and liabilities held in freely convertible currencies are denominated in US dollars.

The above KZT denominated assets and liabilities include assets and liabilities, which are indexed to the US dollar and revalued, based on the market rate as of December 31, 2002 and the official NBK rate as of December 31, 2001 and 2000 to reflect the effect of any devaluations in the KZT against the US dollar. At December 31, 2002 such assets amounted to KZT 2,926 million (2001: KZT 12,549 million, 2000: KZT 6,528 million) and such liabilities amounted to KZT 7,637 million (2001: KZT 24,923 million, 2000: KZT 2,287 million).

27. FINANCIAL INSTRUMENTS

By its nature the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at fixed rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, thorough lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit, and performance and other bonds.

Credit Risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector, and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The Group maintains strict control limits on net open derivative positions, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (ie. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily.

Note 26 analyses the assets and liabilities of the Group into relevant currency grouping.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The majority of the Group's assets and a significant portion of its liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk.

The interest rates earned and incurred by the Group on its assets and liabilities are disclosed in the relevant notes to the financial statements.

Liquidity Risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Note 25 analyses the assets and liabilities of the Group into relevant maturity groupings.

Fair Values of Monetary Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those monetary assets and liabilities not presented on the Group's balance sheet at their fair value.

	Carrying Amount			Fair Value		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
	(in millions of Kazakh Tenge)					
Monetary assets						
Due from other banks	10,820	150	—	10,820	150	—
Commercial loans and advances ..	127,395	110,489	55,430	125,564	108,501	56,153
Other assets	5,507	1,473	1,332	5,507	1,473	1,332
Monetary liabilities						
Amounts owed to the Government and the NBK	2,675	2,433	766	2,675	3,982	766
Due to other banks and financial institutions	55,978	41,723	18,474	55,574	38,905	19,946
Amounts owed to customers	105,757	81,008	46,933	105,757	81,005	46,776
Debt securities issued	31,286	13,310	—	32,937	13,310	—
Accrued interest payable	1,811	1,455	1,049	1,811	1,455	1,049
Other liabilities ..	6,976	1,708	2,435	6,976	1,742	2,435

Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection. The estimated fair value is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of specific and other allowances for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at estimated current market rates to determine fair value.

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and other borrowings is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

The aggregate fair value is calculated based on quoted market prices.

28. CAPITAL ADEQUACY

To monitor the adequacy of its capital, the Group uses ratios established by the Bank for International Settlements (“BIS”). These ratios measure capital adequacy (minimum of 8% for Tier 1 + Tier 2 capital, and minimum of 4% for Tier 1 capital as required by BIS) by comparing the Group’s eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 8% of the carrying amount.

Off-balance-sheet credit related commitments and forwards based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Tier 1 capital consists of share capital, retained earnings including current year profit, foreign currency translation and minority interest less accrued dividends, net of long positions in own shares and goodwill. Tier 2 capital includes the Group's subordinated long-term debt, the pooled allowance and the premises and equipment revaluation reserves.

At December 31, the Group's capital adequacy levels were as follows:

	Balance Sheet Notional Amount			*Risk Weighted Amount*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
	(in millions of Kazakh Tenge)					
Total risk-weighted assets ..	295,204	195,176	98,473	182,869	142,614	79,553

BIS Capital Ratios	*Capital*			*BIS%*		
	2002	*2001*	*2000*	*2002*	*2001*	*2000*
	(in millions of Kazakh Tenge)					
Tier 1 capital	15,595	10,682	8,935	8.53%	7.49%	11.23%
Tier 2 capital	13,573	9,445	994			
Gross available capital	29,168	20,127	9,929			
Less investments	(50)	(140)	(157)			
Tier 1 + Tier 2 capital	29,118	19,987	9,772	15.92%	14.01%	12.28%

29. RELATED PARTY TRANSACTIONS

As disclosed elsewhere in the financial statements, the Group enters into transactions with related parties. The year-end balances in respect of related parties included in the financial statements and the terms relating to those balances are disclosed in other notes to the financial statements.

The income and expenses in respect of related parties included in the financial statements are as follows:

	2002	*2001*	*2000*
	(in millions of Kazakh Tenge)		
Interest income	36	136	101
Interest expense	33	5	—
Insurance expense	1,079	49	110

30. SEGMENT INFORMATION

The Group's operations are highly integrated and constitute a single industry segment, banking, that account for more than 95% of the Group's business. Accordingly for the purposes of IFRS No. 14 "Segment Reporting" the Group is treated as one business segment. The Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

TuranAlem Finance B.V., The Netherlands
Financial Statements

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Auditor's Report

INTRODUCTION

We have audited the annual accounts of TuranAlem Finance B.V., Rotterdam, The Netherlands for the year 2002. These annual accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

SCOPE

We conducted our audit in accordance with auditing standards generally accepted in The Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the annual accounts give a true and fair view of the financial position of the company as at December 31, 2002, and as at December 31, 2001, of the result 2002 and the result 2001 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, March 6, 2003

MAZARS PAARDEKOOPER HOFFMAN

G.A.P.M. Kannekens RA

H. Hulzer RA

TuranAlem Finance B.V., The Netherlands
Balance Sheet

(after appropriation of results and expressed in USD)

	31-Dec 2002	*31-Dec* *2001*
FINANCIAL FIXED ASSETS		
Loans to group companies	173,500,000	167,500,000
CURRENT ASSETS		
Interest receivable	1,944,606	1,343,628
Current account shareholder	173,492	0
Corporate income tax	21,427	0
VAT receivable	5,839	8,738
Cash at bank	18,772	67,929
	2,164,136	1,420,295
CURRENT LIABILITIES		
Interest payable Syndicated Loan Facility	1,025,864	1,248,188
Interest payable Eurobonds	861,111	63,889
Accruals	27,028	53,302
	1,914,003	1,365,379
NET CURRENT ASSETS/(LIABILITIES)	250,133	54,917
TOTAL ASSETS LESS CURRENT LIABILITIES	173,750,133	167,554,917
LESS: LONG-TERM DEBT		
Long-term loans	173,500,000	167,500,000
	250,133	54,917
CAPITAL AND RESERVES		
Share capital	18,902	15,853
Currency translation reserves	(3,278)	(229)
Retained earnings	234,509	39,293
	250,133	54,917

TuranAlem Finance B.V., The Netherlands
Profit and loss account

(expressed in USD)

	Year ended 31-Dec 2002	*Year ended 31-Dec 2001*
FINANCIAL INCOME/(CHARGES)		
Interest income	17,338,215	7,217,096
Interest expense	(17,136,798)	(7,062,077)
Interest banks	121	(993)
Expense agreement	187,248	0
Exchange differences	1,862	193
	390,648	154,219
EXPENSES		
Capital tax	0	85
Bank charges	1,250	415
General and administrative expenses	156,486	47,238
	157,736	47,738
OPERATING PROFIT BEFORE TAXATION	232,912	106,481
CORPORATE INCOME TAX	37,696	67,188
NET PROFIT FOR THE YEAR	195,216	39,293

1. General

The Company is a private limited liability company established in Rotterdam on 22 May 2001. 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 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. Translation results on the Company's issued share capital are transferred to reserves directly.

(c) Other assets and liabilities

Unless otherwise indicated assets and liabilities are stated at face value.

(d) Revenue recognition

Expenses and income are accounted for under the accrual basis.

(e) Corporation tax

Taxation is incurred and provided for in accordance to a special agreement accepted ruling practice.

3. Loans to group companies

This item reflects the following two loans to group companies:

(1) A loan facility to the amount of USD 100,000,000 The loan was been agreed upon in a loan agreement dated 28 June 2001 between the Company and OJSC Bank TuranAlem. The loan bore interest at a nominal rate of 11.63 per cent. This loan facility agreement was terminated on 26 June 2002.

(2) A loan facility to the amount of USD 67,500,000 (existing of USD 66,918,174.39 and USD 131,759.07 and USD 450,066.54) The loan has been agreed upon in a loan agreement dated 7 September 2001 between the Company and OJSC Bank TuranAlem. The repayment date of the loan was two business days prior to 17 September 2002, but 12 September 2002 the loan facility has been extended with an amount of USD 6,000,000.

The loan bears interest at a nominal rate of 4.5267 per cent until 19 February 2003.

The repayment date of the total loan facility in the amount of USD 73,500,000 is March 2003.

(3) A loan facility to the amount of USD 100,000,000 (15.322.000.000 Kazakh tenge). The loan has been agreed upon in a loan agreement dated 29 May 2002 between the Company and OJSC Bank TuranAlem. The repayment date of the loan is 2007. The loan bears interest at a nominal rate of 11.25 per cent. The borrower shall pay to the company interest from time to time.The loan is excecuted in Tenge and repayments will be done in USD against the exhange rate at the day of repayment

4. Cash at bank

Cash at banks consists of current account balances, which are available on demand.

5. Long-term loans

(1) On 28 June 2001 the Company issued a Note of USD 100,000,000 principal amount, which bore interest at a fixed rate of 11 1/2 per cent. The Trustee of this Note is The Bank Of New York. The Guarantor is OJSC Bank TuranAlem, 97 Zholdasbekov str., Samal-2, Almaty 480099, Kazachstan.The Note was due for repayment in 2004, but was terminated on 26 June 2002.The Note is taken over by OJSC Bank TuranAlem, 97 Zholdasbekov str., Samal-2, Almaty 480099, Kazachstan.

(2) On 7 September 2001 a facility agreement of USD 67,500,000 between TuranAlem Finance B.V. as the borrower, and a syndicate of banks as the lenders has been granted. The Agent of this syndicate of banks is ING Bank N.V. The Guarantor is OJSC Bank TuranAlem, 97 Zholdasbekov str., Samal-2, Almaty 480099, Kazachstan. The interest rate for each Interest Period is the rate per annum determined by the Agent to be the sum of the margin, LIBOR and the Mandatory Cost Rate for the relevant Interest Period. The Borrower shall pay the interest on each Interest Payment Date. On 12 September 2002 the loan facility has been extended with an amount of USD 6,000,000.The repayment date for the loan facility is 7 March 2003.

(3) On 29 May 2002 the Company issued a Note of USD 100,000,000 principal amount, which bears interest at a fixed rate 10 per cent. The Trustee of this Note is The Deutsche Trustee Company Limited, New York. The Guarantor is OJSC Bank TuranAlem, 97 Zholdasbekov str., Samal-2, Almaty 480099, Kazachstan.The Note is due for repayment one Business Day prior to 29 May 2007.

6. Capital and reserves

The authorised share capital of the Company consists of 900 shares of EUR 100 each, amounting to EUR 90,000. As at balance sheet date 180 shares of EUR 100 were issued and fully paid-up.

The movements in capital and reserves can be summarised as:

	31-Dec 2002	*31-Dec 2001*
Share capital	18,902	15,853
Currency translation reserve		
At beginning of period	(229)	0
Movement during the period	(3,049)	(229)
At end of period	(3,278)	(229)
	15,624	15,624
Retained Earnings		
At beginning of period	39,293	0
Result for the period	195,216	39,293
At end of period	234,509	39,293
Total capital and reserves	250,133	54,917

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. Neither remuneration nor any other benefit was paid to the present director during the year under review or the previous year.

Audit

These accounts have been audited. We refer to the Auditors' report.

Retained earnings

Subject to the provisions under Dutch law that no dividends can be declared until any accumulated losses have been recovered, retained earnings are at the disposal of the shareholder in accordance with the Articles of Association of the Company.

Appropriation of result

In anticipation of the decision of the Annual General Meeting of Shareholders, the profit earned by the Company during the period under review has been credited to the retained earnings in accordance with the proposal of the management.

REPUBLIC OF KAZAKHSTAN

The information contained in this Annex A has been extracted from documents and other publications released by, and is presented on the authority of, various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to such information provided therein. Accordingly, the Issuer and the Bank only accept responsibility for accurately reproducing such extracts as they appear in this Annex A. They accept no further or other responsibility in respect of such information.

Introduction

Kazakhstan is a sovereign democratic republic and, after Russia, is the largest in terms of landmass of the nations formed upon the dissolution of the Soviet Union in 1991. The country is rich in natural resources, including oil, gas and minerals. Kazakhstan is a leading producer of chrome, alumina, iron-ore, copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country is also a significant exporter of oil, grain, wool and meat. Kazakhstan has relatively high levels of foreign direct investment, particularly in the oil and gas sector.

Economic and structural reforms undertaken since 1991 have helped to revive Kazakhstan's economy following several years of falling GDP after the dissolution of the Soviet Union. Real GDP in Kazakhstan grew by 9.8 per cent. in 2000, by 13.5 per cent. in 2001 and by 9.5 per cent. in 2002. Further, over the period year-on-year consumer price inflation in Kazakhstan decreased from 1,258.3 per cent. at the end of 1994 to 6.4 per cent. at the start of 2002. By the end of December 2002, the year-on-year consumer price inflation rate had risen to 6.6 per cent.

Steps have been taken to put in place a legal framework for the development of a market-oriented economy, including tax, securities, bankruptcy, joint-stock company and auditing laws. In January 1998, a pension reform programme, the first of its type in the former Soviet Union, was commenced with the aim of transforming the historic "pay as you go" system into a "fully funded" private system, regulated by the State. To date, the pension reform programme is the most successful in the CIS.

Area and Population

Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China's Xinjiang-Uigur Autonomous Region to the east, The Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea. The capital, Astana, is located in central Kazakhstan but Almaty, in the south east of the country is the principal financial centre in the country and is by far its largest city.

The country covers an area of 2,725 million square kilometres, approximately the same size as Western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east. In terms of landmass, Kazakhstan is the ninth largest country in the world and the second largest country, after Russia, belonging to the CIS.

As at 31 December 2002, the population of Kazakhstan was approximately 14.8 million, making Kazakhstan one of the most sparsely populated countries in the world, with an average population density of approximately 5.5 people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for 53 per cent. of the population, followed by Russians (31 per cent), Ukrainians (4.4 per cent), Tartars, Germans, Uzbeks, Poles and others. The relative size of the Kazakh ethnic group has increased since the country's independence, mainly because of the emigration of non-Kazakh ethnic groups and because of the return of many ethnic Kazakhs to the country.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50 per cent. of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government.

Kazakhstan's adult literacy rate exceeds 97 per cent.

Constitution, Government and Political Parties

Constitution

Kazakhstan has been one of the most politically stable countries of the CIS. The country's current constitution (the "Constitution"), adopted in August 1995, provides for a tripartite structure of government in which power is divided between the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council and local governments and administrations and establishes an independent judicial system. Under President Nazarbayev, the Presidency has dominated the other branches of government.

Executive Branch

Under the Constitution, the President is the head of State and its highest official with primary responsibility for domestic and foreign policy and the function of representing Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of Kazakhstan's central bank, the NBK, whose appointment is subject to the approval of Parliament.

The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment. New presidential elections must be held within two months of any such early termination.

The Government comprises the Prime Minister, as its executive head, and deputy prime ministers and ministers as members of the cabinet. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the President. Neither the Prime Minister nor the members of the cabinet are members of Parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy, carrying out social policy and defending the rights and freedoms of citizens.

Mr Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President upon the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency has been confirmed in referenda in December 1991 and April 1995. President Nazarbayev was re-elected in elections held in January 1999 and his current term of office expires in 2006. President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country and, following two Parliamentary dissolutions, from December 1993 until April 1994 and from March 1995 through January 1996, legislative functions were vested solely in the President. During these periods, the President brought into effect over 100 ordinances and decrees representing a substantial part of the legislative framework for the economic and structural reforms which have been made in the country.

The President appointed the current Prime Minister, Imangali Tasmagambetov, in January 2002.

Legislative Branch

The legislative branch of the State is the Parliament, which consists of an upper chamber (the "Senate") of 39 deputies and a lower chamber (the "Majilis") of 77 deputies. The President appoints seven of the deputies in the Senate and the remainder are appointed by representative bodies of the regional and city authorities. The deputies in the Majilis are elected by direct popular vote.

Judicial Branch

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairman of the Supreme Court, the chairpersons of the Supreme Court benches and judges of the Supreme Court are elected by the Senate from the candidacies submitted by the President based on the recommendations of the Supreme Judicial Council.

Constitutional Council

The Constitution provides for a seven member Constitutional Council which is vested with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the constitution for the removal of the President from office and investigating claims brought under the Constitution in relation to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the Majilis appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairman.

Local Government

Local government is effected through representative bodies ("maslikhats") and executive bodies ("akims") for each of the country's 14 regions ("oblasts") and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts ("rayons") and a further 82 cities together make up the second tier of territorial administration. The maslikhats and akims are responsible for collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

Political Parties

Although the principle of political plurality is enshrined in the Constitution, political parties have not played a significant role to date. This is due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies, but also due to changing requirements in the laws relating to the registration of political parties. These factors have made it increasingly difficult to register a party for participation in the constitutional political process. Such changes have, generally, strengthened the President's position and under current legislation only four out of 16 previously registered parties meet the applicable requirements for registration.

International Organisations and International Relations

Kazakhstan's Position in the International Community

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (the "IMF"), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the EBRD, the ADB, the International Development Association, the Multilateral Investment Guarantee Agency, the IFC, the International Organisation of Securities Commissions and the Islamic Development Bank, although its voting rights in some of these organisations or agencies thereof have been suspended pending payment of overdue contributions. Currently, Kazakhstan has observer status with the World Trade Organisation and the Government is actively pursuing full membership and expects to achieve this within the next few years.

Kazakhstan has followed an economic stabilisation programme agreed with the IMF and has in the past been granted both standby and extended fund facilities. No drawings were made under the last extended fund facility, which expired in March 2003.

Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union ("EU"), which came into force in 1999 and cooperates with the EU in various scientific and environmental programmes. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme under which various exercises have taken place involving troops from the United States, Russia, Kazakhstan, Uzbekistan, the Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia. As of 31 December 2002, Kazakhstan had signed double taxation treaties with 36 countries, of which 34 are currently in effect, including treaties with the United States, Russia, The Netherlands and the United Kingdom.

Kazakhstan and CIS Cooperation

Kazakhstan, Russia and Belarus entered into a customs union in January 1995, which, among other things, provides for the removal of trade restrictions between the signatory countries and establishes a common external tariff. The Kyrgyz Republic joined in March 1996 and Tajikistan joined in February 1999. In October 2000, all five member states signed a treaty establishing a new Eurasian Economic Union. The Kazakhstan Government advocates further economic co-operation with other CIS countries and in June 1995, Kazakhstan ratified a treaty for the creation of a single economic zone between Kazakhstan, the Kyrgyz Republic and Uzbekistan (which has since been extended to Tajikistan) in order to promote free trade, movement of capital and workers and to harmonise credit, budget, tax, price, customs and currency policies. This treaty is still in the process of being implemented.

Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan agreed with Russia that in return for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, Kazakhstan waived all claims on former Soviet Union assets located outside its own territory. Kazakhstan and Russia have also reached agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations.

In 1997, Kazakhstan and Russia (together with other parties) signed the Caspian Pipeline Consortium (the "CPC" or the "Consortium") agreement for the construction of a pipeline linking the Tengiz oil field in the western part of Kazakhstan with the Black Sea port of Novorossiisk in Russia. Successful completion of the project is expected to increase substantially Kazakhstan's ability to take advantage of its oil reserves and to attract foreign investment. Work on the pipeline began in January 1999. The first phase was completed in 2001 and the second phase is expected to be completed before 2004.

Kazakhstan and Russia have reached agreement in principle regarding the division, on a sectoral basis, of mineral rights in the Kazakhstan-Russian part of the Caspian Basin, which is estimated to contain significant liquid hydrocarbon deposits, pursuant to which it is envisaged that these deposits would be exploited by them on a broadly simultaneous basis. In 2002 Kazakhstan and Russia agreed on the borders of their respective sectors in relation to subsurface usage rights and on the development of three major oil and gas deposits situated in the Caspian Basin. The Government has stated that it hopes to reach agreement on similar sectoral divisions with the other littoral states but the absence of such agreements is not anticipated to delay exploitation in the Kazakhstani or Russian sectors. Test drilling in both sectors started in August 1999. See "—Natural Resources — Oil and Gas". In addition, both countries have reached agreement relating to the long-term use by Kazakhstan of the Russian oil pipeline network.

The Kazakhstan Economy

Overview

Kazakhstan 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 introduction of a floating exchange rate policy in relation to the Tenge in April 1999 and its subsequent depreciation, improvement in the global economic environment and rising commodity prices over the period.

Gross Domestic Product

The informal, or "black", 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 estimates that the informal economy (including the household sector) has exceeded 35 per cent. of GDP during certain periods. Others, however, estimate the contribution of the informal economy to total GDP to be even higher.

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

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
Nominal GDP (KZT millions)	3,747,200	3,285,400	2,595,965	2,016,240	1,733,264	1,672,142
Real GDP (per cent. change to the previous year)	9.5	13.5	9.8	2.7	(1.9)	—
Nominal GDP per capita (KZT)	252,677	219,169	174,853	135,088	114,991	109,045
Population (millions average annual)	14.83	14.82	14.84	14.9	15.1	15.3

Source: NSA

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 out the composition of nominal GDP by source for the periods indicated:

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
	(per cent. share of GDP)					
Industry	29.3	30.7	31.9	28.2	24.4	21.4
Construction	6.1	5.5	5.3	4.8	4.9	4.2
Agriculture	7.9	8.7	8.7	9.9	8.6	11.4
Transport and Telecommunications.. ..	11.5	11.2	12.0	12.0	13.9	11.7
Trade..	12.0	12.1	12.6	13.6	15.2	15.6
Other(1)	33.2	31.8	29.5	31.5	33.0	35.7
Total(2)	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

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

(2) Components of GDP by source are measured on the basis of factor cost, whereas total GDP is calculated by reference to market prices (including net taxes).

The composition of Kazakhstan's GDP has changed over recent years, with the contribution of the construction sector increasing and agriculture sector decreasing and that of the transportation and telecommunications, trade and industry sectors decreasing.

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 2002, although there have been times in the period when inflationary pressures have resumed, principally as a result of the adoption of a floating exchange rate policy in April 1999 and rising commodity prices.

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

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
Consumer Prices	6.6	6.4	9.8	17.8	1.9	11.2
Producer Prices	(11.9)	(14.1)	19.4	57.2	(5.5)	11.7

Source: NSA

Principal Sectors of the Economy

Historically, metallurgy (including mining and mineral processing) was the main industrial activity in Kazakhstan, although oil and gas related industries are now the most important component of the country's industrial base. The mineral products sector is Kazakhstan's largest employer. See also "— Natural Resources".

Agriculture has traditionally been the second largest sector in the economy, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years due to reduced trade with the countries of the former Soviet Union, the breakdown of the agricultural credit system, and a lack of vital components such as fuel, fertilisers and spare parts for machinery. All agricultural production is now in the private sector and, generally, producer prices reflect world market prices. Cereals are an important component of agricultural output and Kazakhstan is a major producer of hard wheat, with production in 2002 estimated to be 12.7 million tonnes. However, agricultural land privatisation is at a relatively early stage in Kazakhstan.

Employment and Wages

In 2002, on average 6.7 million people were employed in Kazakhstan representing approximately 90.7 per cent. of the eligible workforce. In 2001, of the eligible workforce, approximately 22.7 per cent. were employed in the public sector, and approximately 66.9 per cent. of the eligible workforce were employed in the private sector.

Officially registered unemployment was close to zero in the 1980s. At the end of 2002, the officially registered unemployment figure was 690,700 or 9.6 per cent. of those eligible to work compared with 780,000 (10.4 per cent.) at the end of 2001. The fall in the unemployment rate is primarily attributable to the fact that since 2002 the NSA began using International Labour Organisation methods of calculating unemployment figures.

Average wages vary significantly from sector to sector. In 2002, the financial sector had the highest average wage (approximately 2.5 times the national average) while wages were lowest in the agricultural sector, nearly 2.5 times less than the national average. Wages in industry are approximately 32.0 per cent. higher than the national average. In 2001, the average monthly wage was KZT 17,303, an increase of 10.4 per cent. in real terms and 26.0 per cent. in nominal terms compared with 2000. In 2002, the average monthly wage was estimated to be KZT 20,305, an increase of 10.1 per cent. in real terms and 16.6 per cent. in nominal terms compared with 2001.

Social Security System

Although in the past there have been substantial arrears in State pensions, since 1999 the State has been current in payments.

The pension system in Kazakhstan has been the subject of one of the most radical reform programmes in the CIS. Pension reforms in 1997 established a legal framework for the transformation of the pension system from a State "pay-as-you-go" system to a "fully-funded" accumulative pension system. The principle of the reforms was that private individual retirement accounts should be the main source of pension provision, although individuals can still contribute towards a State-run accumulative pension scheme. Individual retirement accounts are maintained with pension funds managed by pension asset management companies licensed and supervised by the NBK. In 2002, Parliament adopted amendments to the pension laws which, *inter alia*, abolished the privileged position of the State accumulative pension fund as a default fund and allowed pension funds to manage pension assets directly. Pension asset management companies are subject to regulations, including various financial ratios (such as capital adequacy requirements) similar to those imposed on banks and investment requirements. As of 1 January 2003, pension fund assets amounted to KZT 269.8 billion compared to KZT 182.4 billion as of 1 January 2002 and KZT 112.9 billion as of 1 January 2001. The assets of the State-run accumulative pension scheme amounted to 28.05 per cent. of total accumulated pension fund assets as of 1 January 2003 (compared to 32.3 per cent. as of 1 January 2002 and 38.9 per cent. as of 1 January 2001).

The pension reforms increased the pensionable age from 55 to 58 for women and from 60 to 63 for men. Although the changeover to a fully funded system will take many years to complete and until then the legacy of the old system will remain a burden on the State's resources, the introduction of a "fully funded" pension system has been successful and it has achieved significant results within its first five years. The sound growth of the pension industry provides the basis for expectations of a rapid development in Kazakhstan's financial and capital markets in the near future.

Pensions are funded through a social tax of 21 per cent. of total wages paid by employers and a compulsory contribution of 10 per cent. of each employee's salaries is paid into its individual pension fund. Additional contributions may also be made into private pension funds.

Environment

Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north-east Kazakhstan, has a military facility which until 1990 was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in Kazakhstan were used by the Soviet Union for the testing of biological weapons and as a result are contaminated with various pathogens.

The former Soviet Union's "Virgin Lands" policy of the 1950s and 1960s, whereby large areas of Kazakhstan's steppe land were ploughed to increase Soviet grain production, has led to soil erosion on a wide scale and up to 66 per cent. of Kazakhstan's agricultural land is under threat of desertification. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan exposing land, which is unsuitable for agriculture. Further, the Caspian Sea suffers from serious pollution due to industrial dumping.

Natural Resources

Introduction

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and the extraction and processing of minerals are the most significant industries in the Kazakhstan economy. Exports of hydrocarbons and minerals accounted for 58.0 per cent. of total exports in 2001 and 61.0 per cent. in the period of January to November of 2002.

The actual recoverable level of Kazakhstan's significant oil and gas reserves has not yet been established. The BP Statistical Review of World Energy of June 2002 estimated Kazakhstan's total oil reserves in 2001 at 1.1 billion tonnes, or 0.8 per cent. of world reserves, with a reserves/production ratio of 27.6 per cent. Kazakhstan's potentially large Kashagan field in the Caspian has been estimated by Agip Kazakhstan North Caspian Operating Company N.V. ("Agip KCO"), the international consortium which is exploiting the Kashagan field, to have geological reserves of 38 billion barrels, of which 7 to 9 billion are considered extractable reserves.

Oil and Gas

The largest deposits of explored oil reserves are located in the Tengiz, Zhetybai, Kalamkas and Uzen fields in the Caspian region, the Karachaganak and Zhanazhol fields in north-western Kazakhstan and the Kumkol field in central Kazakhstan. The Tengiz field has the potential to produce up to 50 million tonnes (up to 365 million barrels) of oil annually, although revised estimates by TengizChevroil indicate that geological reserves could be several times higher than previous estimates of 3 billion tonnes. 13 million tonnes of oil were produced at the Tengiz field in 2002. The Karachaganak field has the potential to produce 17 million tonnes of gas condensate and 25 billion tonnes of gas annually, but currently production is limited due to a lack of available refining capacity. In 2002, the Karachaganak field produced 5.16 million tonnes of gas condensate and 4.8 billion cubic metres of gas. The liquid hydrocarbon reserves in the Kazakhstan sector of the Caspian Sea have been estimated at 12 billion tonnes (87 billion barrels). Here, following a prospecting program in the north eastern part of the Caspian Sea which started in 1999, Agip KCO, the operator, announced a discovery in East Kashagan, 75km south east of Atyrau.

Kazakhstan produced 47.2 million tonnes of oil and gas condensate in 2002, 12.0 per cent. more than in 2001, of which 39.6 million tonnes were exported.

The BP Statistical Review of World Energy of June 2002 estimated Kazakhstan's total reserves of natural gas in 2001 at approximately 1.84 trillion cubic metres, or 1.2 per cent. of world reserves. In 2002, Kazakhstan produced 10.5 billion cubic metres of gas compared to 8.4 billion cubic metres in 2001.

Exports of Oil and Gas

Despite Kazakhstan's substantial hydrocarbon resources, the production and export of hydrocarbons has been constrained by Kazakhstan's land-locked position and its significant dependence on Russia's transportation infrastructure for export routes. Until recently there was only one pipeline connected to the Russian export network. Russia retains the right to suspend and impose restrictions on the flow of Kazakh oil from this pipeline into Russia's transportation network and Russian enterprises have priority access to Russian export terminals. In the past, Russia has imposed an annual quota on Kazakhstan's exports through Russia. However, a recently signed agreement between Russia and Kazakhstan on oil transportation has significantly improved Kazakhstan's export position. Starting from 2003, the agreement provides for an automatically renewable quota for the next 14 years, of not less than 15 million tonnes through the Atyrau-Samara pipeline and 2.5 million tonnes through the Makhachkala — Tikhoretsk — Novorissiisk pipeline.

Nevertheless, other export outlets will be needed in order for Kazakhstan to realise the full economic potential of its oil and gas reserves and the Government is participating in several projects to diversify Kazakhstan's export routes and to expand its export capacity.

The principal of these projects is the Caspian Pipeline Consortium (the "CPC") which was established for the purpose of developing a 1,500 kilometre export pipeline from the Tengiz oil field to the Russian seaport of Novorossiysk on the Black Sea, together with oil pumping stations and oil storage and loading facilities. The CPC was formed in July 1992 and is currently owned by the Russian, Kazakhstan and Omani Governments and a number of Russian and international oil companies.

The first stage of construction, a pipeline with a capacity of 28 million tonnes (204 million barrels) per year, was completed in September 2001 at a cost of U.S.$2.6 billion. The second stage comprising reconstruction of existing systems and construction of new facilities has not started yet but is expected to take up to three years. Upon completion of the second stage, the capacity of the pipeline is expected to be 67 million tonnes (490 million barrels) per year. Although no formal budget has been prepared, it is anticipated that the second stage will cost in the region of U.S.$500 million.

The CPC started commercial operations in November 2001.

The construction of the Kenkiyak-Atyrau pipeline will provide the Aktobe region oil producing companies with access to the existing export pipelines and will also be used as the first part of the pipeline from West Kazakhstan to China. The Kenkiyak-Atyrau pipeline was started in May 2002 and is expected to be completed by 2006-2007.

Foreign Investment in Oil and Gas

By the end of 2001, foreign investors had invested approximately U.S.$3.3 billion in Kazakhstan's oil and gas sector. The most significant foreign investment thus far has been in the Tengiz oil field where, under the terms of a 40 year joint-venture agreement, Tengizchevroil, and its partners are expected to invest a total of approximately U.S.$20 billion in the field.

In addition to direct investment in transportation, exploration and production projects, there have also been significant purchases by foreign investors of State-owned oil and gas enterprises. In 1997, the Government sold 60 per cent. of JSC Mangistaumunaigas to Central Asian Petroleum (formerly a part of the Medco Group of Indonesia) in a transaction valued at U.S.$4.35 billion (which amount includes a planned investment programme) and 60 per cent. of JSC Aktobemunaigas to China National Petroleum. China National Petroleum, as controlling shareholder in JSC Aktobemunaigas, has agreed to invest up to U.S.$4 billion over a period of 20 years in developing the Zhanazhay field. Access Industries now manages the 40% State shareholding in JSC Aktobemunaigas. Central Asia Petroleum has now privatised the balance of the State shares in JSC Mangistaumunaigas.

An international consortium of oil companies are party to a production sharing agreement (a "PSA") relating to Karachaganak's oil and gas fields. The PSA has a term of 40 years and provides for investments of U.S.$16 billion. It is anticipated that Kazakhstan will be paid approximately 80 per cent. of the shared income over the 40-year PSA period. The consortium members have almost finalised an oil pipeline connecting the Karachaganak fields to the CPC pipeline. Another international consortium of oil companies has a PSA relating to the North Caspian Sea. This PSA also has a term of 40 years and provides that Kazakhstan will be paid approximately 80 per cent. of the shared income, including taxes and other payments to the budget, over the PSA period and provides for certain investments.

Mineral Resources

Despite being a major mineral producer with an annual production in 2002 valued at over KZT 1,070 billion, Kazakhstan's mining output has been relatively modest in relation to its estimated reserves. Moreover, further reserves are known to exist which have not yet been fully surveyed. Although much of Kazakhstan's mineral production has historically been exported in unprocessed form, with a view to retaining part of the value added by processing such minerals in Kazakhstan, it has recently started exporting a progressively greater proportion of semi-processed minerals. Significant investments will be required to take advantage of Kazakhstan's mineral resources.

According to the BP Statistical Review of World Energy of June 2002, Kazakhstan produced 40.4 million tonnes of coal in 2001, approximately 1.8 per cent. of total coal produced globally in 2001. According to Government estimates, less than 3 per cent. of the country's coal reserves have been mined so far.

Kazakhstan has uranium reserves estimated to be in excess of 1 million tonnes, of which reserves amounting to 469,777 tonnes have been prospected.

Kazakhstan produces a significant amount of precious metals. According to the Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tonnes and produced approximately 9.94 tonnes in the eleven months to November 2002. Kazakhstan also produces a significant amount of the world's silver, producing approximately 777.5 tonnes in the eleven months to November 2002.

Kazakhstan has substantial reserves of non-ferrous minerals, including chrome, iron-ore, alumina, lead, zinc, copper and manganese. By reserves, Kazakhstan is ranked second in the world in lead, first in zinc, second in chrome, third in manganese and fifth in copper. Kazakhstan's manganese reserves are exceeded only by those of South Africa and Ukraine. In the eleven months to November 2002, Kazakhstan produced 128,630 tonnes of lead, 261,468 tonnes of zinc and 415,529 tonnes of copper.

Balance of Payments and Foreign Trade

Current Account

Based on NBK data the current account deficit was U.S.$596.0 million in 2002 and U.S.$1,092.6 million in 2001 compared with a surplus of U.S.$674.6 million in 2000.

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.$1,032.2 million resulting in a balance of payment surplus of U.S.$585.1 million. In 2001, foreign direct investments in the amount of U.S.$2,796.4 million resulted in a capital and financial account surplus of U.S.$2,415.9 million. Preliminary figures for 2002 indicate foreign direct investments for the year of US$2,138.1 million and a capital and financial account surplus of US$1,263.1 million.

Foreign Trade

The following table sets out Kazakhstan's foreign trade for the periods indicated:

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
	(US$ millions)					
Exports	10,066.4	8,927.8	9,288.1	5,988.5	5,870.6	6,899.2
Imports (f.o.b)	(7,646.4)	(7,607.3)	(6,848.2)	(5,648.2)	6,671.5)	(7,175.6)
Trade balance	2,420.0	1,320.5	2,439.9	340.3	(800.9)	(276.4)

Source: NBK

General merchandise trade data are based on external trade statistics compiled by the NSA from customs declarations. The data are adjusted by the NBK in respect of coverage classification and valuation for balance of payments purposes. The main adjustments are to exclude the cost of freight and insurance from imports, to include "shuttle" and undeclared trade and to adjust for barter operations.

Official International Reserves

Kazakhstan's international reserves are administered and controlled by the NBK, which is a separate legal entity. Kazakhstan law provides that such international reserves may not be pledged, nor may the NBK be required to make international reserves available to support the Government's borrowings. As at the end of 2002, Kazakhstan's gross international reserves amounted to U.S$3,141 million, covering 3.5 months of imports of goods and services. By the end of February 2003, due to high oil prices and a number of other factors, gross international reserves amounted to U.S.$3,881 million.

Similar to the Norwegian model, the Government established the National Fund of Kazakhstan (the "National Fund") in August 2000 to accumulate State revenues earned from the sale of Kazakhstan's hydrocarbons and mineral resources. By December 2002, the National Fund had U.S.$1,917.3 million in assets.

The following table sets out certain information regarding Kazakhstan's international reserves as at the dates indicated:

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
	(US$ millions)					
Foreign exchange reserves ..	2,548.3	1,990	1,594.0	1,479.9	1,460.2	1,767.4
Gold[(1)]	585.6	510.7	501.8	522.8	503.6	523.9
Gross international reserves ..	3,141.0	2,507.7	2,095.8	2,002.7	1,963.8	2,291.2
Import coverage (including gold) (months)..	3.5	3.6	3.0	3.6	3.1	3.3

Source: NBK

(1) Gold is valued at the market price prevailing at the beginning of the relevant period.

Public Finance

Introduction

Since Kazakhstan's independence fiscal policy has been characterised by fiscal tightening in order to reduce inflation and limit expenditure. The general Government deficit as a percentage of GDP has been reduced sharply, from 7.2 per cent. of GDP in 1996 to a deficit of 0.2 per cent. of GDP in 2001. The Government has increasingly financed this deficit through sales of Treasury bills and foreign borrowings, although in the past it has used postponement of expenditures including wages and pensions. In 2002, the State budget was, broadly, in balance.

The following table sets out information on certain trends in Kazakhstan's actual State revenues and expenditures (excluding quasi-fiscal operations) for the periods indicated:

	Year ended 31 December					
	2002[(2)]	2001	2000	1999	1998	1997
	(KZT millions)[(1)]					
Revenues	821,153	746,612	598,746	430,900	379,623	405,623
Expenditures	820,162	759,610	602,024	498,978	451,594	469,622
Budget surplus (deficit).. ..	991	(12,998)	(3,278)	(68,078)	(72,074)	(63,998)
Surplus (deficit) as a percentage of GDP	0	(0.2)	0.1	(3.7)	(4.2)	(3.8)

Source: Ministry of Finance

(1) Preliminary data.

(2) Includes extra-budgetary funds.

Taxation

Kazakhstan's tax system has been significantly reformed and simplified during recent years. A comprehensive reform of the tax system took place in 1995 and as a result the principal taxes are now corporate income tax ("CIT"), personal income tax ("PIT"), a value added tax on goods and services ("VAT") and various property taxes. The Government has adopted a new tax code to simplify further the tax structure and facilitate tax administration in order to improve the collection rate, which came into effect on 1 January 2002.

The CIT rate is currently 30 per cent., reduced to 10 per cent. for farming corporations. Dividends are subject to a 15 per cent. withholding of CIT. PIT is levied at progressive rates, ranging from 5 per cent. to 30 per cent. This maximum PIT rate was reduced to 30 per cent. from 40 per cent. in 1998.

In general, all business activity in Kazakhstan is subject to a flat rate VAT of 16 per cent. Corporations are subject to property tax at the rate of 1 per cent. of the value of basic production and non-production assets. The rate imposed on real property of individuals ranges from 0.1 per cent. to 0.3 per cent. Fees to the Government relating to the extraction of oil, gas and other natural resources are established by individual agreements with the Government or its agencies.

In 1998, the Government amended the tax code to provide tax-free periods to foreign investors investing in designated priority sectors of the economy, which do not include the oil and gas sector. Eligible investors received exemption on income, property and land taxes on an individual basis.

The President has recently ordered the Government to implement changes to the tax code to reduce value added tax on goods and services to 15%, PIT to a maximum of 20% and social tax to rates of between 7% and 20%, with effect from 1 January 2004.

Revenues

Primarily as a result of improved efficiency in tax administration, increases in property tax rates, the extension of excise tax to further products, including crude oil and gas condensate, and changes in the method of tax calculation. Tax revenues have increased from 16.4 per cent. of GDP in 1999 to 20 per cent. of GDP in 2002.

Inter-Enterprise Arrears

Although the level of inter-enterprise arrears (debts which are due but unpaid) is significant and has been so since independence, there has been a marked reduction in overdue inter-enterprise net debt (overdue debts payable minus overdue debts receivable) from KZT 241.0 billion (or 19.8 per cent. of GDP) at the end of 1997 to KZT 105.7 billion (or 4.2 per cent. of GDP) at the end of 2002. The Government has stated that it expects that the problem of inter-enterprise arrears will ultimately be resolved by the continuation of the privatisation process and the implementation of new bankruptcy legislation and banking reform.

Monetary and Financial System

Overview

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. At the end of 2002, the annualised rate of consumer price inflation was 6.6 per cent. There has been a significant overall decrease in the annualised rate of consumer price inflation over the last ten years, during which it fell from 1,158.3 per cent., per annum at year end 1994, mainly as a result of co-ordinated policies by the Government and the NBK. The depreciation of the Tenge following the adoption of the floating exchange rate policy in April 1999, however, caused inflation to rise in 1999 but since the end of 2000 the annualised rate of consumer price inflation has fallen.

The NBK has intervened successfully to stabilise the value of the Tenge and has managed to keep the Tenge relatively stable and inflation on a slow trend of decline. This has resulted in the benchmark interest rate, the NBK's refinancing rate, falling to 7.5 per cent. at the end of 2002.

Monetary Policy

The main targets of the monetary policy of the NBK are low inflation rates, positive real interest rates and improvement of the quality of financial intermediation. The NBK has stated that it expects to continue policies aimed at financial stabilisation and long-term price and exchange rate stability, as well as sustainable economic growth.

Currently, the NBK implements monetary policy through instruments such as regulation of the volume of credits to commercial banks; determination of the refinancing rate; foreign exchange market interventions and Treasury bill operations, including repurchase and reverse repurchase operations. In addition to the refinancing rate, the NBK also maintains Lombard and overnight rates.

In February 2002, the NBK introduced a repurchase rate as a new tool to regulate liquidity. The NBK currently establishes weekly overnight, seven day, 14 day repurchase and reverse repurchase rates. On 31 December 2002 all these rates were 5.5 per cent.

Money Supply

The floating exchange rate regime adopted in April 1999 had a positive effect on money supply aggregates. The monetary base grew in 1999 by 55.7 per cent. as compared to the 1998 monetary base and amounted to KZT 126.7 billion. An increase in the NBK's net international reserves contributed to the expansion of the monetary base.

The following table presents the main monetary aggregates in Kazakhstan as at the dates indicated:

	31 December			
	2002	*2001*	*2000*	*1999*
	(KZT millions)			
Monetary base	208,171	174,959	134,416	126,749
M0 (cash in circulation)	161,701	131,200	106,400	103,486
M1	287,236	222,400	195,400	162,115
M2	498,013	344,600	290,600	237,260
M3 (money supply)	764,954	569,100	397,000	273,880

Source: NBK

Interest Rates

One of the objectives of the NBK's monetary policy has been to maintain a positive real refinancing interest rate to stimulate investment in the real economy and to promote an effective functioning of financial markets. The following table sets out the annual refinancing rates and average yields of Treasury bills and the NBK's own short-term notes as at the dates indicated:

	31 December			
	2002	*2001*	*2000*	*1999*
		(per cent.)		
Refinancing	7.5	9.0	14.0	18.0
Treasury Bill Yields(1)	6.67	5.40	6.75	16.57
NBK Note Yields(2)	5.93	5.8	7.87	14.28

Source: NBK

(1) Effective annual yield of three-month Treasury bills.

(2) Effective annual yield of short-term NBK Notes.

Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate being limited to interventions in the internal currency market in order to prevent volatile exchange rate fluctuations caused by short-term changes in supply and demand. In 1995 and 1996, the Tenge appreciated against the U.S. Dollar and depreciated against the U.S. Dollar in 1997 and 1998.

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

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. This decision was supported by international financial organisations such as the IMF. As a result, the Tenge depreciated from a pre-announcement rate of KZT 88 per U.S. Dollar to a rate of about KZT 130 per U.S. Dollar by May 1999. Since then, the Tenge continued to depreciate in nominal terms against the U.S. Dollar, but has recently appreciated in 2003. The following table sets out certain average and period-end Tenge/U.S. Dollar exchange rates on the KASE as reported by the NBK:

	Average	*Period-end*
December 1999	120.06	138.20
December 2000	142.12	145.40
December 2001	146.73	150.94
31 December 2002	153.43	155.85
February 2003	—	151.66

Source: NBK

The Tenge exchange rate was stable in 2002 with monthly exchange rate fluctuations between 151.10 KZT/USD and 156.29 KZT/USD. As of December 2002, the real effective exchange rate was 6.9 per cent. lower than in December 2001. The Tenge depreciated in real terms by 4.5 per cent. against the currencies of other CIS trading partners, 1.4 per cent. against the US dollar, 11 per cent. against the euro and by 5.5 per cent. against the Russian rouble.

Foreign Exchange Regulations

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.

New licensing rules adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules in the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of dollars into Kazakhstan due to high market prices for Kazakh export goods by directing export revenues abroad. A draft law submitted by the NBK to the Parliament in March 2003, provides for step-by-step liberalisation resulting *inter alia* in full internal convertibility of the Tenge, unlicensed investments in foreign investment-grade securities and unlicensed openings of bank accounts in OECD Banks by 2007.

Public Debt

As a percentage of GDP, total public debt decreased from 17.5. per cent. of GDP at 31 December 2001 to 15.5 per cent. of GDP at 31 December 2002. In nominal terms, Kazakhstan's total public debt has grown from KZT 139.6 billion at 31 December 1994 to KZT 579.9 billion at 31 December 2002. The growth in public debt has been funded primarily by an increase in external borrowing and it has been used to finance budget deficits.

The following table sets out data regarding Kazakhstan's nominal public debt (i.e., excluding private sector debt and State-guaranteed debt) as at the dates indicated:

	31 December			
	2002	*2001*	*2000*	*1999*
Internal Public Debt (KZT millions)	121,802	83,976.8	87,418.0	136,339.4
As a percentage of GDP	3.3	2.6	3.4	6.8
External Public Debt(1) (KZT millions)	458,094	489,982.4	472,799.0	400,568.0
As a percentage of GDP	12.2	14.9	18.2	19.9
Total Public Debt (KZT million)	579,896	573,959.2	560,217.0	536,907.4
As a percentage of GDP	15.5	17.5	21.6	26.7

Source: NBK

(1) External Public Debt comprises only debt of the Government and the NBK.

The Government is required to adopt a ten-year borrowing programme and revise it annually. The current ten-year programme, covering the years 1999 to 2008, provides for external and domestic capital market borrowing to finance the State budget deficit. The current ten-year programme also contains estimates of Kazakhstan's increasing debt burdens and related debt servicing costs and provides recommendations as to the most effective utilisation of borrowed funds.

REGISTERED OFFICE OF THE ISSUER
Schouwburgplein 30-34
3012 CL Rotterdam
The Netherlands

REGISTERED OFFICE OF THE GUARANTOR
97 Zholdasbekov Street
"Samal-2" microdistrict
Almaty 480099
Kazakhstan

AUDITORS OF THE ISSUER
Mazaars Paardekooper Hoffman
Rivium Promenade 200
P.O. Box 23123
3001 KC Rotterdam
The Netherlands

AUDITORS OF THE GUARANTOR
Ernst & Young Kazakhstan
St. Furmanova 240
Almaty 480099
Kazakhstan

LEGAL ADVISERS

To the Managers as to English and United States law and to the Trustee as to English law
White & Case LLP
7-11 Moorgate
London EC2R 6HH
England

To the Managers as to Kazakh law
White & Case Kazakhstan LLP
64 Amangeldy
Almaty 480012
Kazakhstan

To the Managers as to Dutch law
Nauta Dutilh
P.O. Box 1110
3000 BC Rotterdam
The Netherlands

To the Issuer and the Guarantor as to Kazakh law
Michael Wilson & Partners, Ltd
36 Samal — 1, Fifth Floor
Almaty 480099
Kazakhstan

REGISTRAR AND TRANSFER AGENT
JPMorgan Chase Bank
4 New York Plaza, 15th Floor
New York NY 10004
USA

PAYING AGENT AND TRANSFER AGENT
J.P. Morgan Bank Luxembourg S.A.
5 rue Plaetis
L-2338 Luxembourg

PRINCIPAL PAYING AGENT AND TRANSFER AGENT
JPMorgan Chase Bank
Trinity Tower
9 Thomas More Street
London E1W 1YT
England

LISTING AGENT
The Bank of New York (Luxembourg) S.A.
Aérogolf Centre
1A, Moehenhof
L-1736 Senningerberg
Luxembourg

TRUSTEE
J.P. Morgan Corporate Trustee Services Limited
Trinity Tower
9 Thomas More Street
London E1W 1YT
England

imprima de bussy C87543