

## IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS UNDER RULE 144A OR (2) NON-U.S. PERSONS OR ADDRESSEES OUTSIDE OF THE U.S.

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**Confirmation of your Representation:** In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be either (1) Qualified Investment Buyers (QIBs) (within the meaning of Rule 144A under the Securities Act) or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act). This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) not a U.S. person and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S. and (2) that you consent to delivery of such Offering Circular by electronic transmission.

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

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

This offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither ABN AMRO Bank N.V. nor J.P. Morgan Securities Ltd. nor any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from ABN AMRO Bank N.V. or J.P. Morgan Securities Ltd.



# Bank TuranAlem

## TuranAlem Finance BV

*(incorporated with limited liability in The Netherlands)*

**U.S.\$375,000,000**  
**7.875% Notes due 2010**

**Guaranteed by**  
**JSC Bank TuranAlem**

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

**Issue Price: 104.00%**

*(plus accrued interest from 2 June 2004*

*to be consolidated and form a single series with the Issuer's U.S.\$225,000,000 7.875% Notes due 2010)*

The U.S.\$375,000,000 7.875% Notes due 2010 (the "Further Notes") are issued by TuranAlem Finance BV (the "Issuer") and are guaranteed by JSC Bank TuranAlem (the "Bank" or the "Guarantor"). Interest on the Further Notes will accrue from 2 June 2004 and will be payable semi-annually in arrear on 2 June and 2 December of each year, commencing on 2 December 2004. The Further Notes represented by the Further Restricted Global Note (as defined below) will be consolidated and form a single series with the U.S.\$225,000,000 7.875% Notes due 2010 of the Issuer (the "Existing Notes", and together with the Further Notes, the "Notes") on 30 November 2004 (the "Closing Date"). The Further Notes represented by the Further Unrestricted Global Note will be consolidated and form a single series with the Existing Notes on the date which is 40 days after the later of the commencement of the offering and the Closing Date. The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Further Notes pursuant to the Deed of Guarantee dated 2 June 2003 as supplemented by a supplemental deed of guarantee to be dated the Closing Date (as so supplemented, the "Guarantee"). The Further Notes will be constituted by, subject to, and have the benefit of, the Trust Deed dated 2 June 2003, as supplemented by a supplemental trust deed to be dated the Closing Date (as so supplemented, 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 Further 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 Further 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 Further Notes and Transfer Restrictions". Application has been made to list the Further Notes on the Luxembourg Stock Exchange. Application has also been made for the Further Notes to be designated as eligible for trading on The PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). In addition, the Guarantor shall use its best endeavours to cause the Further Notes to be listed on the Kazakhstan Stock Exchange ("KASE").

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

THE FURTHER 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.

It is expected that, on issue, the Further Notes will be assigned a Baa2 (positive) rating by Moody's Investors Service Limited ("Moody's") and a BB- (positive) 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.

The Further 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.

*Further Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global note (the "Further 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 the Closing Date with JPMorgan Chase Bank, N.A., as common depositary (the "Common Depositary") for, Euroclear Bank S.A./N.V., as operator of the Euroclear System (the "Euroclear Operator"), and Clearstream Bank, société anonyme ("Clearstream, Luxembourg"). Further Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global note (the "Further Restricted Global Note" and, together with the Further 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, N.A., as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). The Further 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 Further Notes". Interests in the Further Restricted Global Note will be subject to certain restrictions on transfer. See "Form of Further 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.*

**ABN AMRO**

**JPMorgan**

The date of this Offering Circular is 29 November 2004.



*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 Further Notes which is material in the context of the issue and offering of the Further 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 Further 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 Further 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.*

*In making an investment decision, investors must rely on their own examination of the Issuer, the Bank, the Republic of Kazakhstan (“Kazakhstan”), the Further Notes, the Guarantee and the terms of the offering, including the merits and risks involved. See “Investment Considerations”. The Further 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 Further Notes and no representation or warranty, expressed or implied, is made by the Managers or any of their directors, affiliates, advisers or agents, or such counsel, 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 Further Notes or the Guarantee, the performance and observance by the Issuer or the Bank of their respective obligations in respect of the Further Notes and the Guarantee or the recoverability of any sums due or to become due from the Issuer or the Bank under the Further 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 Further 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. 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. This Offering Circular has been prepared by the Issuer and the Bank solely for use in connection with the proposed offering of the Further Notes described in this Offering Circular.*

*The Issuer has not authorised any offer of Further Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulation 1995 (the “Regulations”). Further 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 may not be used for, or in connection with, and does not constitute, any offer to sell, or any solicitation of an offer to purchase, the Further Notes to or by any person in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. The distribution of this Offering Circular and the offer or sale of the Further Notes in certain jurisdictions is restricted by law. 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 Further Notes and the distribution of this Offering Circular is set out under “Subscription and Sale” and “Form of Further Notes and Transfer Restrictions”.*

IN CONNECTION WITH THIS ISSUE, ABN AMRO BANK N.V. (THE “STABILISING MANAGER”) (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 THE STABILISING MANAGER (OR ANY AGENT OF THE STABILISING MANAGER) 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.**

## **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, statements relating to the Bank’s strategic objectives, including the anticipated expansion of the Bank’s corporate, retail and investment banking business and, in particular, 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, estimates and financial targets for increasing and diversifying the composition of the loan portfolio and statements regarding planned capital expenditures. 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”.

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

## **MARKET SHARE AND INDUSTRY DATA**

It is difficult to obtain precise industry and market information in the Kazakhstan 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 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 a 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, or the Guarantee, as the case may be, the Trust Deed and the Agency Agreement (as defined in “Terms and Conditions of the Notes”) are governed by the laws of England and the Issuer and the Guarantor have agreed in the Notes or the Guarantee, as the case may be, and in the Trust Deed and the Agency Agreement that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in “Terms and Conditions of the Notes”), to arbitration in London, England. See “Terms and Conditions of the Notes – Conditions 17 and 20”. Courts in Kazakhstan 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”) and English arbitration awards are generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

It should be noted, however, that a decision of the Constitutional Council of Kazakhstan makes it uncertain as to how these provisions of the Convention will be enforced in Kazakhstan, although this decision was later deemed by the Constitutional Council not to apply to international arbitrations. There is a draft Law on Enforcement of Arbitral Awards pending before the Kazakhstan parliament, although no details as to the terms of this law or the timing or likelihood of its adoption can be ascertained at this time. See “Certain Investment Considerations—Investment Considerations Relating to the Notes—Enforcement of Judgments.”

In addition, the Issuer is incorporated under the laws of The Netherlands and its managing directors are residents of The Netherlands and Kazakhstan, respectively. A substantial portion of the assets of the Issuer and of its managing directors are located in The Netherlands and Kazakhstan. As a result, it may not be possible for investors (a) to effect service of process upon the Issuer or any such person outside The Netherlands or Kazakhstan, as the case may be, (b) to enforce against any of them, in courts of jurisdictions other than The Netherlands or Kazakhstan, as the case may be, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in the Courts of The Netherlands or Kazakhstan, as the case may be, judgments obtained in jurisdictions other than The Netherlands or Kazakhstan, respectively, including judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States. The

Issuer has been advised by legal counsel in The Netherlands, NautaDutilh, that The Netherlands does not currently have a treaty with the United States 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 a Dutch court the final judgment that 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, the Dutch 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 and regulations in Kazakhstan, including the regulations of the National Bank of Kazakhstan (the “NBK”) and, since January 2004, the regulations of the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of Kazakhstan (“FMSA”). For the purposes of the financial analysis and management discussions herein, the term “the Group” shall mean, unless otherwise specified, the Bank and its principal subsidiaries and affiliates, including TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities), JSC BTA Leasing, LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce, 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 Force Technology and LLP Real Estate Commerce, in accordance with International Financial Reporting Standards (“IFRS”), these entities are treated as subsidiaries because the Bank controls and benefits from their operations and, accordingly, the consolidated financial statements of the Group include their results. Banking operations account for more than 95% of the total income of the Group. The Group’s annual consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003 were prepared in accordance with IFRS and have been audited by Ernst & Young Kazakhstan (“Ernst & Young”), whose audit report thereon is also included in this Offering Circular. The Group’s interim condensed consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the six months ended 30 June 2003 and 2004 were also prepared in accordance with IFRS and have been reviewed by Ernst & Young, whose review report thereon is also included in this Offering Circular. The Group’s annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003, which are contained in this Offering Circular, have been reclassified in accordance with IAS 1 to permit comparability with the Group’s condensed interim consolidated financial statements, including the notes thereto, as at and for the six-month periods ended 30 June 2003 and 2004, which are also contained in this Offering Circular. No change to amounts of net income or shareholders’ equity have been made. 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 “CHF” are to Swiss francs, the lawful currency of Switzerland. 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 references to the “CIS” are to the Commonwealth of Independent States. References to “CPS” are to the convertible preferred 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 relates, in each case, calculated in accordance with the official exchange rates for U.S. Dollars published by the KASE.

The following table sets forth the period-average and period-end Tenge/U.S. Dollar exchange rates reported by the NBK for the periods indicated:

	As at and for the six-month period ended 30 June		As at and for the year ended 31 December	
	2004	2003	2003	2002
Average.....	138.42	152.33	149.58	153.28
Period-end .....	136.45	148.00	144.22	155.60

*Source: National Bank of the Republic of Kazakhstan*

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 appears in this Offering Circular has been derived from statistics published by Kazakhstan's National Statistics Agency (the "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 incorporated on 22 May 2001 under the laws of The Netherlands for the purpose of, amongst other things, raising funds in the international capital markets and lending such funds to 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, the Bank was fully privatised at a competitive auction in March 1998 and sold to a group of domestic companies.

The Bank’s head office is in Almaty. As at 30 September 2004, the Bank had 22 regional branches and 185 retail units throughout Kazakhstan and a representative office in each of Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyz Republic; and Shanghai, China. Although most branches only provide cash settlement services for individual customers, some branches provide a broad range of banking services. The Bank has eleven (11) subsidiaries: TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities) and JSC BTA Leasing; and four affiliates, which in accordance with IFRS are treated as subsidiaries: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce. See “Presentation of Financial Information” and “Business – Subsidiaries and Affilites”.

### **Credit Ratings**

As at the date of this Offering Circular, the Bank is rated by two rating agencies: Moody’s and Standard & Poor’s, which have issued the following credit ratings:

<b>Moody’s</b>		<b>Standard &amp; Poor’s</b>	
Long-term foreign currency deposits	Bal	Senior long-term debt	BB-
Senior debt	Baa2	Short-term	B
Financial strength	D-	Outlook	Positive
Outlook	Positive		

It is expected that, on issue, the Further Notes will be assigned a Baa2 (positive) rating by Moody’s and a BB- (positive) 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 principal business areas include corporate banking, retail banking, trade finance, credit and debit card services and currency and securities trading. The Bank is expanding its business to other services such as payroll management and corporate cards.

As at 30 June 2004, based on published financial statements of the Bank and its principal competitors, the Bank was the second largest bank in Kazakhstan in terms of total assets (KZT 448,070 million), shareholders’ equity (KZT 35,842 million) and total loans (KZT 289,579 million) and the third largest bank in Kazakhstan in terms of the number of its deposits. The Bank has a wide range of corporate customers, including many of the country’s leading industrial companies. As at 30 June 2004, the Bank had a 24.0% share of the corporate lending market with over 43,200 corporate accounts, mostly in trade finance and medium-to-long term loans, and a 20.5% share of all corporate deposits.

As at 30 June 2004, the Bank had approximately 617,700 individual customer accounts, representing a 20.8% share of the market for term and demand retail deposits.

As at the date of this Offering Circular, the Bank also has a leading market position in offering a wide range of card products, representing a 12.8% share of the market for these cards. The Bank offers 17 different types of cards to its customers. As at the date of this Offering Circular, the Bank has issued over 290,668 cards that are in circulation, 2,307 of which are credit cards. 259,874 of the Bank's cards are domestic cards, including 168,775 domestic VISA cards, 40,012 domestic Maestro cards and 51,087 Smart Alem cards, while the remaining 28,487 of the Bank's cards are international VISA cards and MasterCard. The Bank is also an authorised agent for the distribution of American Express cards. The Bank's card processing activities have been outsourced by the Bank to Alem Card Ltd., an affiliate of the Bank that provides card processing services to the Bank and other similarly situated financial institutions.

During 2003, the Bank's subsidiary, JSC TuranAlem Securities, had the highest market share (22.5%) of aggregate trade volumes of non-government securities on the KASE. JSC TuranAlem Securities has also acted as an adviser for a number of corporate and municipal securities issues.

The Bank provides international trade services to many of Kazakhstan's leading exporters, such as Petrokazakhstan, 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. As at 30 June 2004, the Bank's market share of off-balance sheet operations accounted for 35.5% in terms of volume.

### **Strategy**

As the Kazakhstan economy continues to grow and the private sector to expand, the Bank expects there will be continued strong demand for financing from private sector companies. At the same time, the banking sector has grown significantly as a result of the NBK's efforts to develop and stabilise the banking system. The FMSA assumed the supervisory authority of the NBK effective January 2004, while the NBK continues to act as the Central Bank of Kazakhstan. The division of these regulatory functions has served to strengthen the banking sector by bolstering public confidence in the system. The Bank is a member of the Fund for Guaranteeing Deposits (the "Fund for Guaranteeing Deposits") deposit-insurance fund, which has been another major factor in increasing public confidence in the banking sector and, in turn, increasing the level of retail deposits. In addition, the NBK is in the process of establishing a central credit bureau through which banks in Kazakhstan will be able to gather information about existing and potential borrowers for purposes of analysing and approving credit applications and monitoring loans. See "The Banking Sector in Kazakhstan".

Generally, the Bank's strategy focuses on increasing its corporate, small and medium-sized enterprise ("SME") and retail market shares. The Bank also expects to increase its fee and commission income both as a result of the expansion of its business and by focusing on those activities that generate fees and commissions. The Bank is also focused on increasing revenue derived from its subsidiaries, namely in the capital markets and insurance industry sectors. In addition, part of the Bank's strategy is to expand its business activities in neighbouring countries, in particular the CIS, in order to extend its base of operations. As part of this strategy, the Bank intends to invest up to U.S.\$100 million in the CIS within the next five years, including increasing its shareholding in Slavinvest Bank, Moscow. See "Strategy – New Markets".

The Bank plans to expand its operations and increase its profitability by:

- expanding corporate banking;
- expanding retail services;
- further developing its credit card business;
- further developing its securities, insurance and pensions operations;
- entering new markets;
- enhancing management; and
- improving its funding base.

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 of the Further Notes**

Issue:	U.S.\$375,000,000 principal amount of 7.875% Notes due 2010.
Interest and Interest Payment Dates:	The Further Notes will bear interest at a rate of 7.875% per annum. Interest on the Further Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 2 June and 2 December of each year, commencing on 2 December 2004.
Maturity Date:	2 June 2010.
Status:	The Further Notes constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Issuer. The Further Notes rank and will rank <i>pari passu</i> among themselves and at least <i>pari passu</i> 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 Further 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 <i>pari passu</i> in right of payment with all other present and future unsecured obligations of the Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.
Guarantee:	The Bank will, on or prior to the Closing Date, enter into the Guarantee under a supplemental deed of guarantee pursuant to which the Bank will guarantee on an unconditional basis due payment of all sums payable by the Issuer under the Further Notes. The supplemental deed of guarantee will supplement the Deed of Guarantee dated 2 June 2003 entered into by the Bank in connection with the Existing 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 Further 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 Further Notes – Condition 4".
Certain Covenants:	The Issuer and the Guarantor will agree to certain covenants, including, without limitation, covenants with respect to a limitation on merger and consolidation and a limitation on transfer of interests in the Issuer by the Guarantor. See "Terms and Conditions of the Further Notes – Condition 5".
Taxation:	All payments under the Further Notes will be made free and clear of any taxes imposed by or within The Netherlands or Kazakhstan or any jurisdiction from or through which payment is made. 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 Further 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 Further Note as may be necessary in order that every net payment of the principal of and interest on such Further 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 Further Note to be then due and payable. See “Terms and Conditions of the Further Notes – Condition 9”.

**Governing Law:** The Notes, the Guarantee and the Trust Deed will be governed by, and construed in accordance with, the laws of England.

**Listing:** Application has been made to list the Further Notes on the Luxembourg Stock Exchange. In addition, the Bank will use its best endeavours to cause the Further Notes to be listed on the KASE. Neither the Issuer nor the Bank can give any assurance that either such listing will be obtained.

**Selling Restrictions:** Neither the Further 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 Further 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 Further Notes, after the addition of accrued interest and deduction of management and underwriting commissions but before payment of expenses, are expected to be approximately U.S.\$403,476,562.50. 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 Further Notes that prospective investors should carefully consider prior to making an investment in the Further 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 Group'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 Group's consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements, including the notes thereto, as at and for the six-month periods ended 30 June 2004 and 2003, were prepared in accordance with IFRS. The Group's consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2003, 2002 and 2001 were audited by Ernst & Young, whose audit report is included elsewhere in this Offering Circular. The Group's interim condensed consolidated financial statements in this Offering Circular, including the notes thereto, as at and for the six months ended 30 June 2003 and 2004 were reviewed by Ernst & Young, whose review report thereon is also included elsewhere in this Offering Circular. The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003, which are contained in this Offering Circular, have been reclassified in accordance with IAS 1 to permit comparability with the Group's condensed interim consolidated financial statements, including the notes thereto, as at and for the six-month periods ended 30 June 2003 and 2004, which are also contained in this Offering Circular. No changes to amounts of net income or shareholders' equity have been made. Interim results are not necessarily indicative of the results that may be expected for any other period or for the full year.

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

	Six-month period ended 30 June			Year ended 31 December			
	2004	2004	2003	2003	2003	2002	2001
	(U.S.\$ millions, unaudited) <sup>(1)(2)</sup>	(KZT millions, unaudited) <sup>(2)</sup>	(U.S.\$ millions, unaudited) <sup>(1)(2)</sup>	(U.S.\$ millions, unaudited) <sup>(1)(2)</sup>	(KZT millions) <sup>(2)</sup>		
<b>INCOME STATEMENT DATA</b>							
Interest income.....	161.6	22,377	13,778	206.0	30,818	22,368	15,645
Interest expense.....	(78.5)	(10,864)	(6,822)	(105.4)	(15,763)	(10,527)	(6,671)
Net interest income before impairment charge.....	83.1	11,513	6,956	100.6	15,055	11,841	8,974
Impairment charge.....	(44.8)	(6,202)	(3,627)	(69.4)	(10,391)	(7,184)	(5,838)
Net interest income after impairment charge.....	38.3	5,311	3,329	31.2	4,664	4,657	3,136
Non-interest income.....	36.6	5,071	4,154	68.2	10,203	10,231	5,367
Non-interest expense.....	(42.4)	(5,869)	(4,784)	(67.0)	(10,021)	(9,858)	(6,911)
Income before tax expense.....	32.5	4,513	2,699	32.4	4,846	5,030	1,592
Income tax expense.....	(2.7)	(370)	(158)	(1.8)	(266)	–	–
Income before minority interest.....	29.8	4,143	2,541	30.6	4,580	5,030	1,592
Minority interest in net loss (income)	1.0	139	26	0.3	40	(132)	(1)
Net income.....	30.8	4,282	2,567	30.9	4,620	4,898	1,591
Basic earnings per share (in KZT).....		2,388	1,838		3,245	3,450	1,217
Diluted earnings.....		1,902	1,481		2,714	2,883	1,215
Basic weighted average number of shares.....		1,678,584	1,249,031		1,273,425	1,272,373	1,273,236

	As at 30 June		As at 31 December			
	2004	2003	2003	2003	2002	2001
	(U.S.\$ millions, unaudited) <sup>(1)</sup>	(KZT millions, unaudited)	(U.S.\$ millions, unaudited) <sup>(1)</sup>	(KZT millions)		
<b>BALANCE SHEET DATA</b>						
<b>Assets</b>						
Cash, cash equivalents, obligatory reserves and amounts due from other financial institutions.....	185.1	25,262	217.6	31,390	34,108	22,054
Securities.....	856.1	116,809	609.4	87,879	51,715	17,831
Loans to customers (including interest accrued thereon).....	2,122.2	289,579	1,663.1	239,847	127,747	110,719
Property and equipment, net.....	50.3	6,865	46.8	6,745	6,523	5,441
Other assets.....	70.1	9,555	49.9	7,203	5,399	1,292
<b>Total assets.....</b>	<b>3,283.8</b>	<b>448,070</b>	<b>2,586.8</b>	<b>373,064</b>	<b>225,492</b>	<b>157,337</b>
<b>Liabilities, shareholders' equity and minority interest</b>						
Amounts due to the NBK, the Government and other financial institutions.....	800.6	109,246	847.6	122,241	59,176	44,491
Amount due to customers.....	1,328.5	181,268	972.9	140,318	106,810	81,972
Debt securities issued.....	820.9	112,009	514.3	74,174	31,521	13,466
Other liabilities.....	62.5	8,540	30.0	4,318	7,220	1,757
Total liabilities.....	3,012.5	411,063	2,364.8	341,051	204,727	141,686
Minority interest.....	8.5	1,165	9.2	1,330	1,010	809
Total shareholders' equity.....	262.8	35,842	212.8	30,683	19,755	14,842
<b>Total liabilities, shareholders' equity and minority interest.....</b>	<b>3,283.8</b>	<b>448,070</b>	<b>2,586.8</b>	<b>373,064</b>	<b>225,492</b>	<b>157,337</b>

Notes:

- (1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.
- (2) Except share and per share data.

## Summary Financial Ratios and Economic Data<sup>(1)</sup>

	As at and for the six-month period ended 30 June 2004	As at and for the year ended 31 December		
		2003	2002	2001
		<i>(unaudited)</i>		
<b>Profitability Ratios</b>				
Return on average common shareholders' equity	29.6% <sup>(4)</sup>	24.3%	33.4%	15.8%
Return on average total shareholders' equity .....	26.9% <sup>(4)</sup>	21.8%	28.3%	13.4%
Return on average assets .....	2.0% <sup>(4)</sup>	1.5%	2.6%	1.3%
Net interest margin .....	6.0% <sup>(4)</sup>	5.5%	6.9%	8.6%
Net interest spread .....	4.9% <sup>(4)</sup>	4.5%	5.5%	7.0%
Non-interest expense/net interest income before impairment charge plus non-interest income...	35.1%	39.5%	44.3%	47.3%
Non-interest expense as a percentage of net interest income before impairment charge.....	51.0%	66.6%	83.3%	77.0%
Non-interest expense as a percentage of average total assets .....	2.9% <sup>(4)</sup>	3.4%	5.2%	6.1%
<b>Loan Portfolio Quality</b>				
Classified loans/gross loans .....	6.4%	7.2%	14.3%	14.6%
Non-performing loans/gross loans .....	0.5%	0.7%	1.8%	0.4%
Allowance for impairment/gross loans.....	6.3%	6.2%	7.5%	5.6%
Allowance for impairment/classified loans.....	97.3%	86.2%	52.8%	38.7%
Allowance for impairment/non-performing loans	1,191.0%	860.8%	431.0%	1,316.0%
<b>Balance Sheet Ratios and Capital Adequacy</b>				
Customer deposits as a percentage of total assets	40.5%	37.6%	47.4%	52.1%
Net loans as a percentage of total assets.....	62.5%	62.3%	55.3%	68.8%
Total shareholders' equity as a percentage of total assets.....	8.0%	8.2%	8.8%	9.4%
Liquid assets as a percentage of total assets <sup>(2)</sup> .....	31.7%	32.0%	38.1%	25.4%
Risk weighted capital adequacy ratio <sup>(3)</sup> .....	13.6%	15.1%	15.9%	14.0%
<b>Economic Data</b>				
Period end exchange rate (KZT/U.S.\$).....	136.5	144.22	155.85	150.20
Average exchange rate for period (KZT/U.S.\$) ..	138.4	149.58	153.43	146.72
Number of employees (active workforce).....	n/a	76,610	73,996	74,791
Inflation rate (CPI) .....	6.9%	6.8%	6.6%	6.4%
GDP growth (real).....	9.1%	9.2%	9.5%	13.5%

Notes:

- (1) For the definitions of certain ratios, see "Selected Financial Information – Selected Financial Ratios and Economic Data".
- (2) Liquid assets comprise held-to-maturity and trading securities, cash or cash equivalents, obligatory reserves and amounts due from other banks.
- (3) Calculated in accordance with the Bank for International Settlements ("BIS") standards.
- (4) Annualized.

## INVESTMENT CONSIDERATIONS

*Prior to making an investment decision, prospective purchasers of the Further 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 Kazakhstan**

Most of the Bank's operations are conducted, and substantially all of its customers are located, in Kazakhstan. Accordingly, the Bank's financial position, results of operations and ability to recover on its loans are substantially dependent on the economic and political conditions prevailing in 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 addition to taking various steps to promote regional economic integration among neighbouring countries, Kazakhstan signed an agreement in September 2003 with Ukraine, Russia, and Belarus for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to co-ordinate their fiscal, credit and currency policies. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, the economy of Kazakhstan could be adversely affected.

Like other countries in Central Asia, Kazakhstan could be affected by any further military action taken by the United States and an international coalition following the recent conflict in Iraq and continuing unrest in the region and the effect such military action may have on the world economy and political stability of other countries. Also, in common with other countries in Central Asia, Kazakhstan could be affected by military or other action taken against sponsors of terrorism in the region. In particular, countries in 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 Policies*

Since Kazakhstan is heavily dependent upon export trade and commodity prices, it was particularly affected by the Asian financial crisis in early 1998 and by the Russian crisis later that year, both of which exacerbated the problems associated with falling commodity prices. Because Kazakhstan is negatively affected by low commodity prices and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. Moreover, to mitigate any such negative effect, the Government established the National Fund of Kazakhstan in 2000 for the purpose of supporting the financial markets and the Kazakh economy in the event of any sustained drop in oil revenues. 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 following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 12 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. Whilst GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5% in 2001, 9.8% in 2002 and 9.2% in 2003 and by 9.1% in the twelve-month period ended 30 June 2004, there can be no assurance that the GDP will continue to grow and any fall in GDP in subsequent years could adversely affect Kazakhstan's economy.

The Tenge is convertible for current account transactions, although it is not fully convertible currency outside Kazakhstan. Depressed export markets in 1998 and early 1999 caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% 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. In 2002, 2001 and 2000, the Tenge 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 appreciated in value against the U.S. Dollar during 2003 to KZT 144.22 per U.S.\$1.00 as at 31 December 2003 compared to KZT 155.85 per U.S.\$1.00 as at 31 December 2002. The exchange rate was KZT 136.45 per U.S.\$1.00 as at 30 June 2004 and KZT [●] per U.S.\$1.00 as at 25 November 2004. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

#### *Implementation of Further Market-Based Economic Reforms*

The need for substantial investment in many enterprises has driven the Government's privatisation programme. The programme has excluded certain 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. In addition, the Government has indicated that it is considering presenting to Parliament a law establishing a one-time property amnesty aimed at reducing the size of the black market and increasing the size of the country's tax base. Implementation of all or any 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 an amended tax code in January 2002, 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. 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.

Payments from Kazakhstan 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. 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. As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. 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. Any expansion of the circumstances in which withholding tax is applicable may give the Issuer the right to redeem the Notes prior to their stated maturity.

### *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 102% in 2001 to KZT 114,753 million, by 17% in 2002 to KZT 134,820 million, by 84% in 2003 to KZT 247,620 million and by a further 21% to KZT 298,589 million in the first half of 2004. The growth in the gross loan portfolio is attributable to an overall increase in the growth rate of lending activity, especially to small and medium size businesses and retail customers. The increased levels of lending to small and medium size businesses as well as to retail customers may increase further the credit risk of the Bank. Small and medium size businesses and retail customers typically have less financial strength, and negative developments in the Kazakhstan economy could affect these borrowers more significantly than large companies. This could result in higher levels of classified and non-performing loans and, as a result, higher levels of provisioning, as well as implementation and application of credit policies and provisioning procedures that differ from those used for large corporations. The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels and continued and anticipated 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 a

significant number of qualified personnel and to train new personnel appropriately, not only to monitor asset quality but also to ensure access to appropriately flexible funding sources which do not impose inappropriate constraints on the Bank's future funding strategy. Furthermore, the development of relatively new products such as fixed rate mortgages and financing packages for SMEs require not only credit assessment skills and personnel, but also appropriate risk management systems, some of which are not currently in place at the Bank. For example, the Bank primarily relies on the relatively short average maturity of its loan portfolio to mitigate its interest rate risk. However, as the average maturity of its loan portfolio increases it will need to introduce more sophisticated techniques to manage this risk and there can be no assurance that it will do so in a timely manner, if at all. Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's results of operations and financial condition.

#### *Risk Management*

The Bank is subject to liquidity risk due to maturity mismatches between its assets and liabilities. Although the Bank currently has negative liquidity gaps, particularly in the short term, management believes that the Bank's access to domestic and international funds will continue to allow it to meet its liquidity needs. In addition, management believes that the majority of its customer accounts will be extended over their contractual maturity as their liquidation has historically taken place over a period longer than their contractual maturity. Liquidity management requires management to extend the maturity of its customer deposits, which is subject to prevailing market conditions, including market, liquidity, pricing and competitive pressure, and to secure additional long-term funding. Although management has plans to secure such additional long-term funding, there can be no assurance that these additional sources of funds will be available for the Bank on acceptable terms or at all.

The Bank is also exposed to a number of market risks, including interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets and foreign currency exchange risk resulting from fluctuations in the prevailing foreign currency exchange rates.

Management of these risks also requires substantial resources. The Bank is currently upgrading its information technology systems to allow it to better monitor and manage the risks discussed. Although the Bank believes that it has policies and procedures in place to measure, monitor and manage liquidity and market risks, maturity mismatches or any significant volatility in interest rate movements, exchange rates or commodity market prices could have a material adverse effect on the Bank's business, financial condition, results of operations, foreign currency positions and prospects of the Bank. In addition, there can also be no assurance that the improved information technology systems will be developed according to schedule or that the new system will address all of the shortcomings of the current system.

#### *Concentration of Lending*

The Bank's loan portfolio shows relatively high industry and borrower concentration. As at 30 June 2004, the Bank's 10 major borrowers accounted for 20% of gross commercial loans and advances, compared to 26% as at 31 December 2003. 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 manage the Bank's credit concentrations 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. Parliament is currently developing legislation to authorise the establishment of a central credit bureau in Kazakhstan to facilitate the collection of information and

assessment of risk. However, such legislation is at a preliminary stage and there can be no assurance that such legislation will be passed or, if passed, will be successful in achieving its aims.

### *Competition*

The Bank, in common with other Kazakhstan banks, is subject to competition from both domestic and foreign banks and other existing and prospective participants in the Kazakhstan banking sector. As at 30 June 2004, there were a total of 36 banks, excluding the NBK, licensed to operate in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. In particular, the Development Bank of Kazakhstan (“DBK”), established in 2001, has an equity base larger than any commercial domestic bank in Kazakhstan. Because DBK is not licensed to accept deposits or provide corporate settlement services, the Bank does not classify DBK as a commercial bank for purposes of calculating market share data or rankings in the banking sector. The Bank expects that DBK may become an important competitor in the corporate lending sector. Kazkommertsbank, which is the largest bank in Kazakhstan in terms of both total assets and shareholders’ equity, is the Bank’s major competitor in the corporate and retail banking sectors. In addition, Halyk Savings Bank, which has the largest branch network in Kazakhstan, is one of the bank’s major competitors in retail banking. Moreover, although foreign-owned banks do not currently provide significant domestic competition, these institutions have significantly greater resources and cheaper funding bases than the Bank. Foreign banks also have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate banking sector in the longer term. See “The Bank – Competition” and “The Banking Sector in Kazakhstan”.

According to the Bank’s strategy, the Bank plans to expand its business activities into neighbouring countries, particularly in the CIS, including by increasing its shareholding in Slavinvestbank, Moscow. The Bank’s international presence exposes the Bank to risks the Bank would not face as a purely domestic bank, including certain regulatory risks, compliance risks, foreign currency exchange risk and failure to market adequately to potential customers in other countries. To the extent the Bank expands its international operations further, it will be exposed to additional risks. Any failure to manage such risks may cause the Bank to incur increased liabilities in respect of such operations. For more information on the recent acquisitions discussed above, see “The Bank – Subsidiaries”.

### *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 IFRS and to apply the Basle Committee accords. The Bank has maintained its accounts in accordance with IFRS since January 2003. In order to accept deposits, banks are required to 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 should be one of the leading international firms. Following legislative changes in July 2003, the FMSA was formed and, on 1 January 2004, took responsibility for most of the supervisory and regulatory functions in the financial sector, which had previously been performed by the NBK. The FMSA’s main task is to regulate and supervise the financial markets and financial institutions. See “The Banking Sector in Kazakhstan”. 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 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 Group’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 Kazakhstan 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 Kazakhstan banks.

#### *Change of Control and CPS*

The Bank's management and current shareholders have expressed an interest in selling, an equity interest of at least 55% 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 "Management and Share Ownership — Principal Shareholders — The Bank's CPS". The Bank has been in negotiations with Raiffeisen Zentralbank Oesterreich AG ("RZB") to increase its current 7.1% 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 on terms. In the event that the Bank and its shareholders do not reach agreement with RZB or another suitable strategic partner by 31 December 2006 in compliance with the CPS agreements, the Bank may be obliged to redeem the CPS at cost if the holders of such CPS so request. In addition, the Bank may also be obliged to offer to redeem the CPS if a person makes a tender offer to purchase 30% or more of the Bank's common share capital and the tender offer price for each share is less than the original purchase price. The Bank's management believes that, on the basis of the current market price for its shares, it is unlikely that it would be profitable for a holder to require such redemption and that the likelihood of a tender offer is remote. The holders of the CPS have the right to convert all or any part of the CPS held by them into common shares of the Bank at any time up to 31 December 2006.

#### *Failure To Meet Financial Ratios*

Under various financing agreements, the Bank is obliged to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. As at 30 June 2004, the Bank failed to meet the liquidity ratio required under the 2003 EBRD Facility (as defined below), but, having been informed of the failure, EBRD (as defined below) did not take any action and, subsequently, delivered a waiver to the Bank in respect of such failure. The failure to meet this liquidity ratio was a temporary result of the Bank's repayment of the 2004 Notes (as defined below) on 28 June 2004, when the measurement date under the covenants immediately followed the payment date on 30 June 2004. While management believes that the failure was a one-off occurrence, the Bank is negotiating with its lenders to increase the flexibility of the financial tests imposed under certain of its financial agreements (including with EBRD under the 2003 EBRD Facility). Among other things, the Bank has requested that investments in securities of supranational financial institutions be counted as liquid assets, although they have medium or long-term maturities. There can be no assurance that such negotiations will be successful and a subsequent failure by the Bank to meet its financial ratio tests could result in a default under the Bank's financing agreements, which could, in turn, have a material adverse effect on the Group's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes. The Bank measures its compliance with its debt covenant ratios on a quarterly basis after the Bank's quarterly consolidated financial statements are prepared. As at 30 September 2004, the Bank was in compliance with all financial ratios and other covenants imposed on it under any financing agreement under which it is a borrower or guarantor and the Bank is not aware of any incidents or cases of breach of any debt covenants to which it is subject as at the date of this Offering Circular.

### **Investment Considerations Relating to the Further 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. Financial instability in Kazakhstan and other emerging market countries following the 1997 Asian and the 1998 Russian crises adversely affected market prices in the world's securities markets for the debt and equity securities of companies that operate in those countries. Financial stability in emerging market countries other than Kazakhstan could adversely affect the market price of the Notes, even if the economy in Kazakhstan remains relatively stable. Accordingly, the Notes may be subject to fluctuations

which may not necessarily be related to the financial performance of the Bank or economic conditions in Kazakhstan.

#### *Central Asia and Regional Risks*

On 11 September 2001, terrorist attacks were conducted against multiple targets in the United States, causing a large loss of life and extensive damage. These events and their aftermath, including the ensuing conflicts in Afghanistan and Iraq in response to alleged violations by Iraq of various United Nations Security Council resolutions, together with continuing unrest in the region, 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 BBB- 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 "Baa2" (outlook positive) from Moody's and "BB-" (outlook positive) 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 Further Notes.

#### *Absence of Trading Market for the Further Notes*

There can be no assurance as to the liquidity of any market that may develop for the Further Notes, the ability of holders of the Further Notes to sell their Further Notes, or the price at which such holders would be able to sell Further Notes. Application has been made for the listing of the Further Notes on the Luxembourg Stock Exchange and to have the Further Notes declared eligible for trading on PORTAL. The Bank is also obliged to use its best endeavours to cause the Further Notes to be listed on the KASE. There can be no assurance that any such 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 Further Notes will depend on the number of holders of the Further Notes, the interest of securities dealers in making a market in the Further 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 Further Notes. Accordingly, there can be no assurance as to the development or liquidity of any market for the Further Notes.

## TERMS AND CONDITIONS OF THE FURTHER NOTES

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

This Note is one of a duly authorised issue of U.S.\$375,000,000 7.875% Notes due 2010 (the “Further 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 as supplemented by a supplemental deed of guarantee dated 30 November, 2004 (together, the “Guarantee”). The Further Notes are constituted by a trust deed dated 2 June 2003 as supplemented by a supplemental trust deed dated 30 November 2004 (together, 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 dated 2 June 2003 as supplemented by a supplemental paying agency agreement dated 30 November 2004 (together, the “Agency Agreement”) with the Trustee, JPMorgan Chase Bank, N.A., as registrar (the “Registrar”), as principal paying agent (the “Principal Paying Agent), 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 officers are listed below.

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

For the purposes of the Further Restricted Global Note and the Further 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 Further Restricted Global Note or, as the case may be, the Further 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 a 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 supranational, 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 2004 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 2004 (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 The Netherlands tax purposes as a result of such modification and such Noteholders will be subject to U.S. federal income tax and Kazakh and The 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 Further 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 Further 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 judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or 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).

## **SUMMARY OF PROVISIONS RELATING TO THE FURTHER NOTES WHILE IN GLOBAL FORM**

*The Global Notes contain provision which apply to the Further Notes in respect of which the Global Notes are issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

### **1. Meetings**

The registered holder of each Global Note will be treated as being two persons for the purpose of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 principal amount of Further Notes for which the Global Notes are issued. The Trustee may allow a person with an interest in Further Notes in respect of which a Global Note has been issued to attend and speak at a meeting of Noteholders on appropriate proof of his identity and interest.

### **2. Cancellation**

Cancellation of any Further Note following its redemption or purchase by the Issuer will be effected by a reduction in the principal amount of the Further Notes in the register of Noteholders.

### **3. Payment**

Payments of principal and interest in respect of Further Notes represented by a Global Note will be made without presentation or if no further payment is to be made in respect of the Further Notes against presentation and surrender of such Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose.

### **4. Notices**

So long as the Further Notes are represented by a Global Note and such Global Note is held on behalf of DTC, Euroclear or Clearstream, Luxembourg, or any successor depositary, notices to Noteholders may be given by delivery of the relevant notice to DTC, Euroclear or Clearstream, Luxembourg, or any successor depositary, for communication by it to entitled accountholders in substitutions for notification as required by the Conditions, provided that, for so long as the Further Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, a copy of such notice shall also be delivered to the Luxembourg Stock Exchange and published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

### **5. Registration of Title**

Certificates in definitive form for individual holders of Further Notes will not be issued in exchange for interests in the Further Notes in respect of which Global Notes are issued, except in the following circumstances:

- (a) in the case of the Restricted Global Note, DTC or any successor depositary on behalf of which the Further Notes evidenced by the Restricted Global Note may be held notifies the Issuer and the Guarantors that it is no longer willing or able to discharge its responsibilities as depositary with respect to the Further Notes, 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 is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depositary; or
- (b) in the case of the Unrestricted Global Note, either Euroclear or Clearstream, Luxembourg or any successor depositary on behalf of which the Further Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so; or
- (c) an Event of Default occurs as set out in Condition 10; or
- (d) if instructions have been given for the transfer of an interest in the Further Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form on an interest in the Further Notes evidenced by the other Global Note where such other Global Note has been exchanged for definitive Further Notes.

## **6. Transfers**

Transfers of interests in the Further Notes will be effected through the records of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

### **USE OF PROCEEDS**

The net proceeds to the Issuer from the sale of the Further Notes, after the addition of accrued interest and deduction of management and underwriting commissions but before payment of expenses, are expected to be approximately U.S.\$403,476,562.50. Such net proceeds will be lent by the Issuer to the Bank and used by the Bank to fund the Bank's loan portfolio and for other general corporate purposes, including liquidity management.

## 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 is a direct, wholly owned subsidiary of the Bank.

### Capitalisation

The following table sets out the capitalisation of the Issuer as at 30 June 2004 and as adjusted to reflect the issue and sale of the Further Notes, before deducting commissions and expenses:

	Actual		As adjusted <sup>(1)</sup>	
	(U.S.\$, unaudited) <sup>(2)</sup>	(Euro, unaudited)	(U.S.\$, unaudited) <sup>(2)</sup>	(Euro, unaudited)
Senior long-term liabilities <sup>(3)</sup> .....	725,000,000	594,282,500	1,100,000,000	90,167,000
Total shareholders' equity .....	21,958	18,000	21,958	18,000
<b>Total shareholders' equity and long-term liabilities .....</b>	<b>725,021,958</b>	<b>594,300,500</b>	<b>1,100,021,958</b>	<b>90,185,000</b>

Notes:

- (1) Adjusted to reflect the issuance of the Further Notes.
- (2) U.S. Dollars amounts have been translated from the Euro amounts at the rate of Euro 0.8197 = U.S.\$1.00, which is the rate published by Bloomberg L.P. on 30 June 2004.
- (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.

The authorised share capital of the Issuer is €90,000, divided into ordinary 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 ordinary shares which have been issued and fully paid at par and are directly owned by the Bank.

Except for the issue of the Further Notes, and as described below, there has been no material adverse change in the capitalisation, financial position or prospects of the Issuer since the date of its incorporation (22 May 2001).

### Business

As set out in Article 2 of its Articles of Association, the Issuer was incorporated for the purpose of, among other things, raising funds in 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% Notes due 2004 (the "2004 Notes"). In September 2001, the Issuer arranged a U.S.\$67,500,000 syndicated loan facility that was later increased to U.S.\$73,500,000 and repaid in 2003. In May 2002, the Issuer issued U.S.\$100 million 10% Notes due 2007. In May 2003, the Issuer issued the Existing Notes. On 24 March 2004, the Issuer issued U.S.\$300,000,000 8% Notes due 2014. On 2 April 2004, the Issuer issued U.S.\$100,000,000 8% Notes due 2014, which were consolidated and form a single series with the Issuer's U.S.\$300,000,000 8% Notes due 2014 and the proceeds of which were used to repay the 2004 Notes in full in June 2004.

Apart from the indebtedness mentioned above and the Existing Notes, the Issuer has no outstanding indebtedness in the nature of borrowings, guarantees or contingent liabilities as at the date of this Offering Circular.

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 annual 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 Kazakhstan banks must be independently audited, the Issuer has engaged Mazars Paardekooper

Hoffman, Rotterdam, The Netherlands, to conduct annual audits of its statutory financial statements. Copies of the Issuer's audited statutory financial statements as at and for the years ended 31 December 2003 and 2002, including the notes thereto and together with the auditors' report relating thereto, are contained elsewhere in this Offering Circular. The Issuer does not produce interim financial statements. The Issuer's results are consolidated in the Group's consolidated financial statements contained in this Offering Circular.

### **Management**

The Issuer currently has two managing directors, Ms Zhamilya Sarsembayeva, age 34, who is an Executive Vice President of the Bank, and Equity Trust Co. N.V., a company incorporated with limited liabilities in The Netherlands.

### **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 Further Notes and the performance of its obligations in relation thereto.

## OVERVIEW OF 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. 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 26 September 2003, the Bank completed its re-registration as a joint stock company and adopted a new charter, each in accordance with the new Law on Joint-Stock Companies in Kazakhstan. Management believes that there has been no material effect on the operations of the Bank as a result of such change. On 30 December 2003, 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.

Following the break-up of the former Soviet Union and the establishment of Kazakhstan as an independent state in 1991, Alem Bank was founded as a joint stock commercial bank to replace the Kazakhstan branch of Vnesheconombank (Bank for Foreign Economic Activity) of the Union of Soviet Socialist Republics (the “USSR”). The Kazakhstan branch of Vnesheconombank 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 Kazakhstan 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*

Whilst by 1996 Alem Bank and Turan Bank had each been reorganised into a joint stock company, the Government continued to own the majority of shares in both banks.

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. In the circumstances, the Ministry of Finance of Kazakhstan was required by law to take control of the two banks, which were then merged and, on 15 January 1997, the Government incorporated the Bank as their successor. 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, in 1997, 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.

#### *Expansion of the shareholder base*

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 purchased all of the Bank’s shares for U.S.\$72 million. Following this sale, the Bank increased its share capital and expanded its shareholder base. Between 2001 and 2004, the Bank issued CPS in the amount of KZT 5,239 million, which constituted approximately 14.6% of the Group’s equity as at 30 June 2004. The CPS are currently held by a number of development finance institutions, namely: 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 “Capitalisation of the Bank” and “Management and Share Ownership – Principal Shareholders”.

### **Overview of Business**

The Bank is one of the leading commercial banks in Kazakhstan servicing private commercial enterprises, state-owned enterprises and individual customers. As at 30 September 2004, the Bank had 22 regional branches and 185 retail units throughout Kazakhstan and a representative office in each of Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyz Republic; and Shanghai, China. Although most branches only provide cash settlement services for individual customers, some branches provide a broad range of banking services. The Bank has eleven subsidiaries: TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities) and JSC BTA Leasing; and four affiliates, which in accordance with IFRS are treated as subsidiaries: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce. See “Presentation of Financial Information” and “Business – The Bank’s Subsidiaries and Affiliates – Affiliates”.

Under the terms of the Bank’s licences, the Bank is currently authorised to offer a full range of traditional banking products and services, including retail and corporate deposits, promissory notes, bills of exchange, transactions settlement, custody, issuance of credit and debit cards, foreign currency exchange transactions, issuance of bank guarantees and securities, forfeiting, 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 State programmes, such as effecting the payment of pensions.

Since its privatisation in 1998, the Bank has become the second largest bank in Kazakhstan in terms of assets and the third largest bank in terms of shareholders’ equity. Currently, the Bank has a market share of 24.0% in the corporate lending market, 20.5% of deposits from the corporate sector and 20.8% of retail deposits.

The Bank believes that its competitive position in the market is strengthened by its relatively large capitalisation and asset base, relatively low cost deposit base, relatively large and diversified customer base, professional management, transparent and consistent business practices, strong branch network and infrastructure and up-to-date IT system.

The Bank has been able to achieve substantial growth over the last three years and has adequately maintained its risk weighted capital adequacy through the issuance of CPS and common shares and retained earnings. The Bank constantly monitors its capital adequacy ratios. The Bank’s risk weighted Tier I + Tier II capital adequacy ratio according to BIS (Tier I + Tier II capital divided by total risk weighted assets) was 13.6% as at 30 June 2004, while the BIS Tier I ratio as at that date (Tier I capital divided by total risk weighted assets) was 7.37%. In accordance with the resolution of the shareholders’ meeting on 10 June 2004, the Bank’s authorised charter capital was increased through the Bank’s eighth issue of shares in an aggregate amount of KZT 13,632 million. The issue was comprised of 615,287 shares of common stock and 204,006 shares of CPS, in each case, at a price per share equal to KZT 16,638.78. The management of the Bank believes that this additional capital increase shall enable the Bank to continue the growth of its business in the future.

During 2003, the Bank’s subsidiary, JSC TuranAlem Securities, had the highest market share (22.5%) of aggregate trade volumes of non-government securities on the KASE. JSC TuranAlem Securities has also acted as an adviser for a number of corporate and municipal securities issues and offers investment and financial consulting services and brokerage and trust services both to domestic and foreign customers.

### **Strategy**

As the Kazakhstan economy continues to grow and the private sector to expand, 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 to develop and stabilise the banking system and thereby develop public confidence in banks. The Bank is a member of the Fund for

Guaranteeing Deposits, which has been a major factor in increasing public confidence in the banking sector and, in turn, increasing the level of retail deposits.

Generally, the Bank's strategy focuses on increasing its corporate, SME and retail market shares. The Bank also expects to increase its fee and commission income both as a result of the expansion of its business and by focusing on those activities that generate fees and commissions. The Bank is also focused on increasing revenue derived from its subsidiaries, namely in the capital markets and insurance industry sectors. In addition, part of the Bank's strategy is to expand its business activities in neighbouring countries, in particular the CIS, in order to extend its base of operations. As part of this strategy, the Bank intends to invest up to U.S.\$100 million in the CIS within the next five years, including increasing its shareholding in Slavinvest Bank, Moscow. See "New Markets" below.

#### *Expansion of Corporate Banking*

One of the Bank's principal strategic objectives is to capitalise on the continued growth of the Kazakh economy and the related increase in demand for private sector corporate finance. To this end, the Bank intends to develop further its corporate banking services, while maintaining the overall quality of its corporate loan portfolio. The Bank's strategies in this regard are to:

- *Increase its trade finance lending.* The rapid and continuing economic growth in Kazakhstan 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 expand further its established trade finance facilities for major customers in support of their import and export activities and plans to establish new facilities with other foreign correspondent banks.
- *Expand and enhance its project finance loan programmes.* The Bank aims to become a leading provider of financing for 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 construct, improve and develop further its highway and road transportation system. The Bank believes it is well positioned to capitalise on this segment of the market and is developing a specific loan funding campaign to do so.
- *Develop new customers.* The Bank plans to attract new large corporate customers by offering products such as payroll services, salary payment programmes and cash and asset management services and to market these products to its existing customers, which do not currently use them.
- *Expand its SME loan portfolio.* Historically, the SME sector has been of primary importance to the Bank; this focus has been further encouraged by a speech given by the President of Kazakhstan in 2003 emphasising the need to focus on developing the SME market in Kazakhstan. The Bank intends to increase substantially its SME loan portfolio, in terms of value and number of clients, and establish a leading position in this market, as it believes this sector will represent one of the most important areas of growth in the Kazakhstan banking system.
- *Increase fee and commission income.* Management believes that the planned increase in the Bank's trade finance documentary business will result in increased fee and commission income that will allow the Bank to provide further pricing flexibilities. The Bank believes that its market share and pricing flexibility provide it with a significant competitive advantage in this business.

#### *Expansion of Retail Services*

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

- *Expand and develop further its existing high net-worth individual marketing programme.* In the past, the Bank 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 intends to continue to modernise and expand its retail facilities on an ongoing basis to enhance its reputation and to make such facilities more attractive to its customers.
- *Increase the number of ATMs.* The Bank plans to increase the number of its ATMs through cooperation with other local banks and by placing ATMs at low-cost, attractive and convenient retail locations, such as supermarkets.
- *Offer new products and services.* The Bank has recently introduced and plans to develop further a new system of express money transfers, CREDO revolver cards, mortgage loan crediting, automobile loans and personal loans.
- *Expand on-line Internet banking services.* The Bank offers fee-based Internet banking services through which Bank customers can review their accounts on-line. Currently, the Bank is upgrading the functional capabilities of its Internet banking to offer transfers, payment services and on-line account functions. The Bank intends to promote Internet banking in both the corporate and retail markets through various educational awareness initiatives.

#### *Development of Credit Card Business*

The Bank has placed and continues to place significant emphasis on its credit and debit card 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 area in retail banking in Kazakhstan and, as a part of its business development plan, the Bank intends to pursue an increasing share of this business.

#### *Securities, Insurance and Pensions Operations*

Kazakhstan's capital markets are evolving and developing. As the Kazakhstan economy grows, the Bank anticipates an expansion of the local capital markets to meet the related increase in the financing needs of developing businesses. Accordingly, the Bank is committed to developing further the business and human resource capabilities of its subsidiary, JSC TuranAlem Securities, to service the needs of its existing customers and to attract new business. JSC TuranAlem Securities is planning to develop a corporate consulting group to assist companies to optimise their capital structures. The Bank believes that the success of this planned programme will allow JSC TuranAlem Securities to capture a significant share of the anticipated growth in corporate and municipal securities offerings.

Currently, the Bank has three insurance subsidiaries, Dynasty Life Insurance, BTA Insurance Company and KBS Garant, offering the most extensive range of insurance products in the market, including medical, car, property, freight, accident and illness coverage, to both corporate and individual customers. During 2003, the Bank increased its shareholding in certain of these subsidiaries and now has controlling interests in all of them. Accordingly, the Bank is considering various restructuring plans that will improve its efficiency and enable its insurance companies to offer a wide range 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 private pension funds in Kazakhstan will also provide strong revenue growth as the sector continues to grow. Currently, the Bank owns two pension funds, JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund (66.0% and 87.75%, respectively). While not currently profitable, the Bank anticipates that future growth in pension assets will generate additional fees enabling these operations to become profitable.

#### *New Markets*

The Bank believes that opportunities exist to expand its operations into neighbouring countries that have high growth potential, including, in particular, in markets where trade finance can be developed in cooperation with local banks. Management considers that the geographical diversification that will be a corollary to becoming one of the leading banks in the CIS will provide the Bank with a prudent means of reducing banking, political and economic risks, while, at the same time, heightening the Bank's visibility and, in turn, allowing the Bank to capitalize on growth opportunities in larger markets with nearer access to Europe.

As at the date of this Offering Circular, the Bank has a representative office in each of Moscow, Russia; Kiev, Ukraine; Bishkek, Kyrgyzstan; Minsk, Belarus; and Shanghai, China; and owns a 9.57% interest in Slavinvest Bank, a small Moscow-based Russian bank, together with an option to acquire a controlling interest at a later date. The Bank is exploring other investment opportunities in Russia and the CIS

(particularly Ukraine) in an attempt to diversify its revenue sources and spread risk and intends to make additional investments if management believes the potential for reward exceeds the risk. The Bank has developed a specific policy relating to regional target investments, which requires (among other things) that all investments initiate as minority positions with an option to acquire a controlling interest within five years and that investments be made within specified limits for particular investments in a single target (U.S.\$10,000,000), total investments in any one country (U.S.\$50,000,000) and total investments in any one year (U.S.\$90,000,000). Moreover, the Bank will undertake thorough due diligence and apply strict “know-your-client” parameters in considering any potential investment.

The Bank’s stated policy with respect to Slavinvest Bank is to increase its ownership participation up to 50.0% in step-by-step increments over the medium term, depending on when required approvals are received from the relevant regulators. Application has been made to the NBK to increase the Bank’s ownership level to 49.0%; the approval is pending. As at the date of this Offering Circular, the Bank has also entered into a strategic cooperation agreement with Omsk Bank, a small local bank in Russia. Pursuant to this agreement, the Bank is working with Omsk Bank to develop and harmonise the credit policies and risk management and operating systems of the bank. This process is on-going, with the expectation of a re-evaluation of the program by the end of 2004. While the acquisition of an ownership interest is being considered there are no immediate plans for committing to this investment. Management does believe, however, that the investment could be beneficial to the Bank as it could afford access to the regional client base with minimal risk and investment.

#### *Enhanced Management*

In 2003, the Bank completed a twinning programme with RZB. Under this programme, RZB specialists rendered consultancy services and provided training to Bank employees in certain departments, such as regional development, marketing, SME and corporate business development. The Bank has derived and anticipates deriving further significant benefits in the future from this programme and is confident that improved business processes will lead to better customer service and lower costs.

#### *Improving Funding Base*

The Bank expects to continue to improve its funding base by increasing its market share in domestic deposits through its extensive branch and retail unit network, by increasing its borrowing from international banks and development organisations and by accessing the international capital markets.

Domestic deposits are an important and attractive source of low cost funding for the Bank. 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 permit it to continue to access the international capital markets, while also enhancing its reputation in the domestic market and, in turn, allowing it to maintain its strong market share in providing retail banking services.

#### **Competition**

Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector due to its relatively large capitalisation and asset base, relatively low cost deposit base, relatively large and diversified customer base, professional management, transparent and consistent business practices, strong branch network and infrastructure and up-to-date IT system, the Bank faces competition from both domestic and foreign banks, as well as a number of other existing and prospective participants in the banking sector in Kazakhstan. As at 1 November 2004, there were 36 banks operating in Kazakhstan, excluding the NBK, compared to 44 as at the end of 2001. Of these, 15 were banks under foreign ownership, including subsidiaries of foreign banks. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank and its principal competitors, Kazkommertsbank and Halyk Savings Bank; banks under foreign ownership, such as ABN AMRO Bank Kazakhstan, HSBC Bank Kazakhstan and Citibank Kazakhstan; and smaller local banks. The decrease in the number of banks from the end of 2001 to 1 November 2004 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 Bank’s principal competitors are Kazkommertsbank and Halyk Savings Bank. Kazkommertsbank was established in July 1990 and is the largest banking group in Kazakhstan in terms of assets and shareholders’ equity with a focus on the corporate and retail banking sectors. The extensive branch network of Halyk Savings Bank makes it one of the Bank’s major competitors in the retail banking

market. As at 31 December 2003, Halyk Savings Bank was the third largest bank in Kazakhstan in terms of total assets. It is also a leading participant in the primary domestic securities market.

In 2001, the Government established DBK to provide longer term financing and otherwise facilitate complex industrial and infrastructure projects within Kazakhstan. DBK was established with a charter fund of KZT 30 billion. Inside the commercial banking sector, DBK is not considered to be a competitor of the Bank as, on the one hand, DBK is not licensed to accept corporate or retail deposits or to provide corporate settlement services and, on the other hand, the Bank does not intend to finance complex industrial or infrastructure projects. Accordingly, 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 bring international experience in servicing customers and target the strongest potential corporate customers, 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 ten largest banks in Kazakhstan in terms of shareholders' equity and is expected to become a major long-term competitor of the Bank, particularly with respect to corporate lending. 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 become 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 relating to the Bank and the largest local and foreign banks which the Bank considers to be its major competitors in the Kazakhstan banking sector as at 30 June 2004:

	As at 30 June 2004			
	Total Assets	Total Loans	Customer Deposits	Shareholders' Equity
	<i>(KZT millions)</i>			
Kazkommertsbank .....	475,683	357,868	160,836	42,656
<b>Bank TuranAlem .....</b>	<b>448,070</b>	<b>289,579</b>	<b>181,268</b>	<b>35,842</b>
Halyk Savings Bank.....	291,415	200,768	176,711	25,624
Citibank Kazakhstan.....	31,583	17,179	17,339	4,842
ABN AMRO Bank Kazakhstan.....	34,815	10,994	27,010	4,630

Source: Estimates from Bank sources.

## CAPITALISATION OF THE BANK

The following table sets out the unaudited consolidated current finance liabilities and total consolidated capitalisation of the Bank as at 30 June 2004 and as adjusted to reflect the loan of the net proceeds from the issue and sale of the Further Notes made by the Issuer to the Bank:

	Six-month period ended 30 June 2004			
	Actual		As adjusted <sup>(1)</sup>	
	(U.S.\$ millions, unaudited) <sup>(2)</sup>	(KZT millions, unaudited)	(U.S.\$ millions, unaudited) <sup>(2)</sup>	(KZT millions, unaudited)
<b>Short-term debt (maturing within a year) .....</b>	<b>449</b>	<b>61,294</b>	<b>449</b>	<b>61,294</b>
Senior long-term liabilities <sup>(3)</sup> .....	845	115,328	1,220	166,469
Subordinated long-term liabilities .....	112	15,263	112	15,263
<b>Total long-term liabilities.....</b>	<b>957</b>	<b>130,591</b>	<b>1,781</b>	<b>243,017</b>
Share capital <sup>(4)</sup> .....	156	21,318	156	21,318
Additional paid-in capital .....	12	1,687	12	1,687
Retained earnings <sup>(5)</sup> .....	94	12,837	94	12,837
<b>Total shareholders' equity .....</b>	<b>262</b>	<b>35,842</b>	<b>263</b>	<b>35,842</b>
<b>Total shareholders' equity and long-term liabilities.....</b>	<b>1,219</b>	<b>166,433</b>	<b>2,044</b>	<b>278,904</b>

Notes:

- (1) Adjusted to reflect the issuance of the Further 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.
- (4) Share capital less shares held in treasury.
- (5) Includes premises and equipment revaluation reserve of KZT 1,581 million.

As at 30 June 2004, the Bank's authorised share capital consisted of 1,719,148 common shares, 569,997 CPS and 59,204 non-convertible preferred shares, of which 1,688,144 common shares, 510,793 CPS and 59,204 non-convertible preferred shares were issued and outstanding, compared to 1,677,269 common shares and 484,215 CPS as at 31 December 2003. As at the same date, the Group held 30,716 of the Bank's common shares as treasury stock, compared to 41,104 common shares held as treasury stock as at 31 December 2003. All common shares, CPS and non-convertible preferred shares of the Bank are denominated in Tenge with a nominal value of KZT 10,000 each.

In December 2003, the International Accounting Standards Board issued revised IAS 32 and IAS 39. Both standards are effective for financial years beginning on or after January 1, 2005. The revised standards will restrict the classification of financial instruments with contingent settlement provisions as equity thus increasing the likelihood of such instruments having to be classified as liabilities. The new standard will require the Bank to reclassify the CPS from equity to liabilities, resulting in a reduction in Tier II capital and an increase in liabilities of KZT 5,239 millions and in a reduction in the Bank's BIS Tier I + Tier II capital adequacy ratio. Had the Bank applied revised IAS 32 and IAS 39 from 1 January 2004, the Bank's key financial figures as at 30 June 2004, and for the six-month period then ended would have been as follows:

	<b>As at and for the six-month period ended 30 June 2004</b>
	<i>(restated)</i> <i>(KZT millions, unaudited)</i>
Total liabilities (including short-term debt of KZT 61,294 million and long-term liabilities of KZT 135,830 million) .....	KZT 197,124
Shareholders' equity .....	KZT 30,603
Net income .....	KZT 4,012
 <b>Capital Adequacy</b>	
Tier I capital .....	KZT 28,668
BIS Tier I capital adequacy ratio .....	7.37%
Tier I + Tier II Capital less investments .....	KZT 47,900
BIS Tier I + Tier II capital adequacy ratio .....	12.32%

In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's authorised share capital was increased by KZT 13,632 million. It is expected that this increase will be effected through the eighth issuance of 615,287 common shares and the issuance of 204,004 CPS before the end of 2004. It is expected that the eighth issuance of shares will be fully subscribed by the Bank's existing shareholders pursuant to pre-emptive rights at a purchase price, in each case, of KZT 16,638.78 per share.

Save as indicated above, there has been no material change in the capitalisation of the Bank since 30 June 2004.

## SELECTED FINANCIAL INFORMATION AND OTHER DATA

The summary information set out below has been extracted from, should be read in conjunction with, and is qualified in its entirety by, the Group'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 Group's consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements, including the notes thereto, as at and for the six-month periods ended 30 June 2004 and 2003, were prepared in accordance with IFRS. The Group's consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2003, 2002 and 2001 were audited by Ernst & Young, whose audit report is included elsewhere in this Offering Circular. The Group's interim condensed consolidated financial statements in this Offering Circular, including the notes thereto, as at and for the six months ended 30 June 2004 and 2003 were reviewed by Ernst & Young, whose review report thereon is also included elsewhere in this Offering Circular. The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003, which are contained in this Offering Circular, have been reclassified in accordance with IAS 1 to permit comparability with the Group's condensed interim consolidated financial statements, including the notes thereto, as at and for the six-month periods ended 30 June 2003 and 2004, which are also contained in this Offering Circular. No changes to amounts of net income or shareholders' equity have been made. Interim results are not necessarily indicative of the results that may be expected for any other period or for the full year.

Prospective investors should read this selected consolidated financial information in conjunction with the information contained in "Investment Considerations", "Overview of the Bank", "Capitalisation of the Bank", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Selected Statistical and Other Information", "Business" and the Bank's audited consolidated financial statements and interim condensed consolidated financial statements, including the related notes thereto, as well as the other financial data appearing elsewhere in this Offering Circular.

	Six-month period ended 30 June			Year ended 31 December			
	2004		2003	2003	2003	2002	2001
	(U.S.\$ millions, unaudited) <sup>(1)</sup>	(KZT millions, unaudited)	(KZT millions, unaudited)	(U.S.\$ millions, unaudited) <sup>(1)</sup>	(KZT millions)		
<b>INCOME STATEMENT DATA</b>							
<b>Interest income</b>							
Loans.....	141.1	19,530	11,438	175.5	26,263	19,178	14,004
Securities.....	18.0	2,495	2,167	28.5	4,257	2,818	1,422
Deposits with other banks.....	2.5	352	173	2.0	298	372	219
<b>Total interest income.....</b>	<b>161.6</b>	<b>22,377</b>	<b>13,778</b>	<b>206.0</b>	<b>30,818</b>	<b>22,368</b>	<b>15,645</b>
Interest expense.....	(78.5)	(10,864)	(6,822)	(105.4)	(15,763)	(10,527)	(6,671)
<b>Net interest income before impairment charge.....</b>	<b>83.1</b>	<b>11,513</b>	<b>6,956</b>	<b>100.6</b>	<b>15,055</b>	<b>11,841</b>	<b>8,974</b>
Impairment charge.....	(44.8)	(6,202)	(3,627)	(69.4)	(10,391)	(7,184)	(5,838)
<b>Net interest income after impairment charge.....</b>	<b>38.3</b>	<b>5,311</b>	<b>3,329</b>	<b>31.2</b>	<b>4,664</b>	<b>4,657</b>	<b>3,136</b>
<b>Non-interest income</b>							
Fee and commission income, net.....	27.2	3,761	2,704	41.6	6,221	4,125	2,877
Gains less losses from trading securities.....	(16.6)	(2,296)	39	3.9	589	2,745	123
Gains less losses from foreign currencies.....	23.5	3,256	928	17.0	2,553	1,583	1,678
Underwriting income (loss)....	(1.8)	(246)	(214)	(1.7)	(260)	613	39
Other operating income.....	4.3	596	697	7.4	1,100	1,165	650
<b>Total non-interest income.....</b>	<b>36.6</b>	<b>5,071</b>	<b>4,154</b>	<b>68.2</b>	<b>10,203</b>	<b>10,231</b>	<b>5,367</b>
<b>Non-interest expense</b>							
Salaries and benefits.....	(14.8)	(2,047)	(1,699)	(22.9)	(3,432)	(3,023)	(2,311)
Depreciation and amortization.....	(3.6)	(495)	(445)	(6.2)	(926)	(786)	(667)
Insurance.....	0	(2)	(34)	(1.0)	(145)	(1,079)	(49)
Deposit insurance.....	(1.3)	(183)	(153)	(2.0)	(306)	(262)	(267)
Administrative and operating expenses, taxes other than income tax and other.....	(22.7)	(3,142)	(2,453)	(34.9)	(5,212)	(4,708)	(3,617)
<b>Total non-interest expense.....</b>	<b>(42.4)</b>	<b>(5,869)</b>	<b>(4,784)</b>	<b>(67.0)</b>	<b>(10,021)</b>	<b>(9,858)</b>	<b>(6,911)</b>
Income before income taxes...	32.5	4,513	2,699	32.4	4,846	5,030	1,592
Income tax expense.....	(2.7)	(370)	(158)	(1.8)	(266)	-	-
Income before minority interest.....	29.8	4,143	2,541	30.6	4,580	5,030	1,592
Minority interest.....	1.0	139	26	0.3	40	(132)	(1)
<b>Net income.....</b>	<b>30.8</b>	<b>4,282</b>	<b>2,567</b>	<b>30.9</b>	<b>4,620</b>	<b>4,898</b>	<b>1,591</b>

Note:

- (1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

	As at 30 June 2004		As at 31 December			
	(U.S.\$ millions, unaudited) <sup>(1)</sup>	(KZT millions, unaudited)	2003 (U.S.\$ millions unaudited) <sup>(1)</sup>	2003	2002	2001
<b>BALANCE SHEET DATA</b>						
<b>Assets</b>						
Cash, cash equivalents, obligatory reserves and amounts due from other financial institutions.....	185.1	25,262	217.6	31,390	34,108	22,054
Securities.....	856.1	116,809	609.4	87,879	51,715	17,831
Loans to customers (including interest accrued thereon) .....	2,122.2	289,579	1,663.1	239,847	127,747	110,719
Property and equipment, net.....	50.3	6,865	46.8	6,745	6,523	5,441
Other assets.....	70.1	9,555	49.9	7,203	5,399	1,292
<b>Total assets.....</b>	<b>3,283.8</b>	<b>448,070</b>	<b>2,586.8</b>	<b>373,064</b>	<b>225,492</b>	<b>157,337</b>
<b>Liabilities and shareholders' equity</b>						
Amounts due to NBK, the Government and credit institutions.....	800.6	109,246	847.6	122,241	59,176	44,491
Amounts owed to customers.....	1,328.5	181,262	972.9	140,318	106,810	81,972
Subordinated debt securities issued .....	820.9	112,009	514.3	74,174	31,521	13,466
Other liabilities.....	62.5	8,540	30.0	4,318	7,220	1,757
<b>Total liabilities.....</b>	<b>3,012.5</b>	<b>411,063</b>	<b>2,364.8</b>	<b>341,051</b>	<b>204,727</b>	<b>141,686</b>
Minority interest.....	8.5	1,165	9.2	1,330	1,010	809
<b>Shareholders' equity .....</b>	<b>262.8</b>	<b>35,842</b>	<b>212.8</b>	<b>30,683</b>	<b>19,755</b>	<b>14,842</b>
<b>Total liabilities, shareholders' equity and minority interest.....</b>	<b>3,283.8</b>	<b>448,070</b>	<b>2,586.8</b>	<b>373,064</b>	<b>225,492</b>	<b>157,337</b>

Notes:

- (1) See "Presentation of Certain Information" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

	As at and for the six-month period ended 30 June 2004	As at and for the year ended 31 December		
		2003	2002	2001
		<i>(Unaudited)</i>		
<b>SELECTED FINANCIAL RATIOS AND ECONOMIC DATA</b>				
<b>Profitability Ratios<sup>(1)</sup></b>				
Return on average common shareholders' equity	29.6% <sup>(10)</sup>	24.3%	33.4%	15.8%
Return on average total shareholders' equity .....	26.9% <sup>(10)</sup>	28.1%	28.3%	13.4%
Return on average assets <sup>(2)</sup> .....	2.0% <sup>(10)</sup>	1.5%	2.6%	1.3%
Net interest margin <sup>(3)</sup> .....	6.0% <sup>(10)</sup>	5.5%	6.9%	8.6%
Net interest spread <sup>(4)</sup> .....	4.9% <sup>(10)</sup>	4.4%	8.9%	7.0%
Non-interest expense/net interest income before impairment charge plus non-interest income...	35.1%	39.5%	44.3%	47.3%
Non-interest expense as a percentage of net interest income before impairment charge .....	51.0%	66.6%	83.3%	77.0%
Non-interest expense as a percentage of average total assets .....	2.9% <sup>(10)</sup>	3.4%	5.2%	6.1%
<b>Loan Portfolio Quality<sup>(9)</sup></b>				
Classified loans/gross loans <sup>(5)</sup> .....	6.4%	7.2%	14.3%	14.6%
Non-performing loans/gross loans <sup>(6)</sup> .....	0.5%	0.7%	1.8%	0.4%
Allowance for impairment/gross loans.....	6.3%	6.2%	7.5%	5.6%
Allowance for impairment/classified loans <sup>(5)</sup> .....	97.3%	86.2%	52.8%	38.7%
Allowance for impairment/non-performing loans <sup>(6)</sup> .....	1,191.0%	860.8%	431.0%	1,316.0%
<b>Balance Sheet Ratios and Capital Adequacy</b>				
Customer deposits as a percentage of total assets	40.5%	37.6%	47.4%	52.1%
Net loans as a percentage of total assets.....	62.5%	62.3%	55.3%	68.8%
Total shareholders' equity as a percentage of total assets.....	8.0%	8.2%	8.8%	9.4%
Liquid assets as a percentage of total assets <sup>(7)</sup> .....	31.7%	32.0%	38.1%	25.4%
Risk weighted capital adequacy ratio <sup>(8)</sup> .....	13.6%	15.1%	15.9%	14.0%
<b>Economic Data</b>				
Period-end exchange rate (KZT/U.S.\$).....	136.5	144.22	155.85	150.20
Average exchange rate for period (KZT/U.S.\$) ..	138.4	149.58	153.43	146.72
Number of employees .....	NA	76,610	73,996	74,971
Inflation rate (CPI) .....	6.9%	6.8%	6.6%	6.4%
GDP growth (real).....	9.1%	9.2%	9.5%	13.5%

Notes:

- (1) Based on average balances for each period calculated by adding the opening and closing balances and dividing by two, except on average common shareholders' equity and average total shareholders' equity, which were calculated using monthly averages for 2003 due to the issuance of common and preferred shares in November and December 2003.
- (2) Return on average assets comprises net income divided by average period 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" as described in "Asset and Liability management – Lending Policies and Procedures".
- (6) Non-performing loans comprise loans where past due payments exceed 30 days and where interest has ceased to accrue.
- (7) Liquid assets comprise trading and held-to-maturity 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.
- (10) Annualized.

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

*The following discussion should be read in conjunction with the Group's annual consolidated financial statements and interim condensed consolidated financial statements, including the related notes thereto, prepared in accordance with IFRS and included elsewhere in this Offering Circular. This discussion includes forward-looking statements based on assumptions about the Group's future business. The Group's actual results could differ materially from those contained in the forward-looking statements. Operating results for the six-month period ended 30 June 2004 are not necessarily indicative of the results for the year ending 31 December 2004.*

### **Introduction**

The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2003, 2002 and 2001, which are included on pages F-16 to F-48 of this Offering Circular, were audited by Ernst & Young, whose audit report thereon is also included on page F-15 of this Offering Circular. The Group's interim condensed consolidated financial statements, including the notes thereto, as at and for the six months ended 30 June 2004 and 2003, which are included on pages F-52 to F-69 of this Offering Circular, were reviewed by Ernst & Young, whose review report thereon is also included on page F-51 of this Offering Circular. All of the Group's financial statements included in this Offering Circular were prepared in accordance with IFRS and are consolidated and include the financial statements of the Bank, its subsidiaries and certain affiliates as set out in "Presentation of Certain Information". The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003, which are contained in this Offering Circular, have been reclassified in accordance with IAS 1 to permit comparability with the Group's condensed interim consolidated financial statements, including the notes thereto, as at and for the six-month periods ended 30 June 2003 and 2004, which are also contained in this Offering Circular. No changes to amounts of net income or shareholders' equity have been made.

### **Critical Accounting Policies and Estimates**

The Group's accounting policies are integral to understanding the results of operations and financial condition presented in the consolidated financial statements and notes thereto. The Group's significant accounting policies are described in Note 3 to the annual consolidated financial statements appearing elsewhere in 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 relevant period. On an on-going basis, management evaluates its estimates and judgments, including those related to impairment charges, reserves for insurance claims, the carrying values of property and investments, income taxes and deferred taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgments 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 Group's critical accounting policies include:

#### *Allowances for Impairment of Financial Assets*

The Group establishes an allowance for impairment of financial assets if there is objective evidence that the Group will not be able to collect all amounts due on the relevant asset. The allowance is based on the Group's loss experience and management's assessment of the credit portfolio, including known and inherent risks in the credit portfolio, the estimated value of collateral, the borrower's repayment history and adverse situations that may affect the borrower's ability to repay and existing economic and political conditions. If actual loan losses are higher or market conditions are less favourable than those projected by management, additional allowances may be required.

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, such as loans and 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. To the extent that the estimates and assumptions used in determining impairment values vary from actual results, such values may not be indicative of future impairment values, which the Group may be required to recognise.

#### *Preferred Shares*

The Bank classifies as equity preferred shares that are either non-redeemable or redeemable only upon the occurrence of an unlikely event. Under local rules for regulatory capital, no distinction is made among preferred shares and, accordingly, under Kazakh accounting standards, the CPS are classified as equity in any event. The holders of the CPS issued by the Bank have the right to convert all or any part of their CPS into common shares of the Bank at any time. The Bank is obliged to redeem the CPS at the request of the holders in the event that 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 is also obligated to offer to redeem the CPS in the event a person makes a tender 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. The Bank's management believes that, on the basis of the current market price for its shares, it is unlikely that it would be profitable for a holder to require such redemption and that the likelihood of a tender offer is remote; accordingly, the CPS are accounted for as equity.

#### *Reserves for Insurance Losses*

The Group 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, which have been reported prior to the relevant balance sheet date, but which have not yet been settled. A reserve is also established based on the amount of incurred claims, which have not been reported as at the relevant date. Because the Group does not have prior experience in this respect, the reserve established for incurred but unreported claims is equal to the expected loss ratio for each insured category multiplied by the value of coverage, 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 judgments 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 judgments made by management, the actual realization 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 realize in a market exchange from its sale of its full holding of a particular instrument.

#### **Recent Developments**

The Bank's total assets have increased during the three-month period ended 30 September 2004 by 13.1% from KZT 448,070 million as at 30 June 2004 to KZT 506,987 million as at 30 September 2004. The growth in total assets during this period was primarily attributable to an overall increase in loans extended to customers and an increase in the size of the Bank's trading securities portfolio.

As at 30 September 2004, the Bank's total liabilities of KZT 466,937 million were 13.6%, or KZT 55,542 million, higher than total liabilities of KZT 411,063 million as at 30 June 2004. The increase in total liabilities as at 30 September 2004, compared to 30 June 2004, was primarily attributable to the increase in debt securities issued by the Bank and the increase in customer deposits held by the Bank.

Total shareholders' equity as at 30 September 2004 was KZT 38,433 million (7.6% of total assets), compared to total shareholders' equity of KZT 35,842 million (8.0% of total assets) as at 30 June 2004.

For the nine-month period ended 30 September 2004, the Group had net income of KZT 6,177 million; compared to net income of KZT 3,508 million for the nine-month period ended 30 September 2003. The

increase in net income for the first three quarters of 2004, compared to the first three quarters of 2003, reflected primarily the increase in the Group's assets between the same periods.

### Results of Operations for the Six-Month Period ended 30 June 2004 and 2003 and the Years ended 31 December 2003, 2002 and 2001

#### Summary

For the six months ended 30 June 2004, the Group reported net income of KZT 4,282 million, or KZT 1,902 per diluted share, compared to net income of KZT 2,567 million, or KZT 1,481 per diluted share, for the first six months of 2003. The increase in net income for the first half of 2004, compared to the first half of 2003, reflected primarily the growth in the Group's assets over the same period. See " – Financial Condition – Total Assets", below.

The Group reported net income of KZT 4,620 million, or KZT 2,714 per diluted share, for 2003, compared to net income of KZT 4,898 million, or KZT 2,883 per diluted share, for 2002 and net income of KZT 1,591 million, or KZT 1,215 per diluted share, for 2001. The decrease of KZT 278 million in reported net income for 2003, compared to 2002, was largely attributable to the increase in the provision for losses in the later period. The increase in reported net income for 2002 of KZT 3,307 million, compared to 2001, primarily reflected the growth in the Group's assets.

The return on average common shareholders' equity was 29.6% for the six months ended 30 June 2004, as compared to 27.7% for the six months ended 30 June 2003. The return on average common shareholders' equity was 24.3%, 33.4% and 15.8% in 2003, 2002 and 2001, respectively. The decrease in return on equity from 2002 to 2003 was due to increase in the Bank capital.

#### Interest Income, Interest Expense, Net Interest Income and Provision for Losses

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

	Six-month period ended 30 June		Year ended 31 December		
	2004	2003	2003	2002	2001
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		
Interest on loans to customers .....	19,530	11,438	26,263	19,178	14,004
Interest on trading securities .....	2,495	2,167	4,257	2,818	1,422
Interest on deposits with other banks .....	352	173	298	372	219
<b>Total interest income .....</b>	<b>22,377</b>	<b>13,778</b>	<b>30,818</b>	<b>22,368</b>	<b>15,645</b>
<b>Interest expense .....</b>	<b>(10,864)</b>	<b>(6,822)</b>	<b>(15,763)</b>	<b>(10,527)</b>	<b>(6,671)</b>
Net interest income before impairment charge .....	11,513	6,956	15,055	11,841	8,974
Impairment charge .....	(6,202)	(3,627)	(10,391)	(7,184)	(5,838)
<b>Net interest income after impairment charge .....</b>	<b>5,311</b>	<b>3,329</b>	<b>4,664</b>	<b>4,657</b>	<b>3,136</b>

#### Total Interest Income

Total interest income increased by 62.4% to KZT 22,377 million for the six months ended 30 June 2004 from KZT 13,778 million for the six months ended 30 June 2003, largely as a result of the 67.3% period-to-period increase in average interest-earning assets to KZT 385,220 million as at 30 June 2004 from KZT 230,274 million as at 30 June 2003. Total interest income increased by 37.8% to KZT 30,818 million in 2003 from KZT 22,368 million in 2002, reflecting a 59.2% year-on-year increase in average annual interest-earning assets to KZT 273,626 million as at 31 December 2003 from KZT 171,915 million as at 31 December 2002. Interest income in 2002 had increased by 43% to KZT 22,368 million from KZT 15,645 million in 2001, similarly as a result of an increase in average interest-earning assets over the year, partially offset by a decline in average annual yields.

The average yield on total interest-earning assets decreased to 11.3% in 2003 from 13.0% in 2002 and 15.0% in 2001. For the six months ended 30 June 2004, the average yield on total interest-earning assets was 11.6%, compared to 12.0% for the same period in 2003.

Interest income on loans to customers increased by 70.7% to KZT 19,530 million for the six months ended 30 June 2004, compared to KZT 11,438 million for the six months ended 30 June 2003, as the average balance of outstanding loans in the Group's loan portfolio rose by 79.8% between the periods to KZT 273,105 million for the six months ended 30 June 2004 from KZT 151,935 million for the year ended 31 December 2003.

Interest income on loans to customers increased by 36.9% to KZT 26,263 million for the year ended 31 December 2003 from KZT 19,178 million for the year ended 31 December 2002, after having increased by 36.9% in 2002 from KZT 14,004 million for the year ended 31 December 2001. These year-on-year increases also reflected principally increases of 53.2% and 45.6%, respectively, in the Group's annual loan balances, which were KZT 191,220 million in 2003, KZT 124,789 million in 2002 and KZT 85,732 million in 2001. The continuing growth in the Group's loan portfolio was largely due to on-going improvement in the Kazakh economy and the resulting increase in the number of businesses requiring funding.

The higher loan balances were offset, however, by decreases in the average yield earned on loans in each period. As at 30 June 2004, interest rates charged to borrowers ranged from 16% to 33% on Tenge-denominated loans with the weighted average interest rate on Tenge-denominated loans being 16.8%, while interest rates charged on U.S. Dollar loans ranged from 12.0% to 26.0%, with the weighted average interest rate on U.S. dollar-denominated loans being 12.9%. The overall average yield earned on loans in the six months ended 30 June 2004 was 14.3%, compared to 15.1% in the same period in 2003. The average yield fell to 13.7% in 2003 from 15.4% in 2002 and 16.3% in 2001. This decrease in 2003, compared to 2002, largely reflected declining interest rates and competitive price pressures, while the decrease in 2002, compared to 2001, resulted from a higher level of non-performing loans in the later period, as well as a slight decline in rates charged by the Group for loaned funds.

Interest income on the Group's securities portfolio also increased over the relevant periods. In the six months ended 30 June 2004, interest income earned on securities increased by 15.1% to KZT 2,495 million from KZT 2,167 million for the same period in 2003. Interest income on securities was KZT 4,257 million for the year ended 31 December 2003, KZT 2,818 million for the year ended 31 December 2002 and KZT 1,422 million for the year ended 31 December 2001, reflecting year-on-year increases of 51.1% and 98.2%, respectively. In each case, the higher levels of interest income on securities largely resulted from the continued growth in the Group's securities portfolio over the period, reflecting the Bank's objective to improve its liquidity position, which was only partially offset by declining average rates.

For the six months ended 30 June 2004, the average annual balance of the Group's securities portfolio was KZT 102,344 million, compared to KZT 70,140 million for the six months ended 30 June 2003, reflecting an increase of 45.9%. The average annual balances of the Group's securities portfolio was KZT 69,797 million for 2003, compared to KZT 34,773 million for 2002 and KZT 13,002 million for 2001, reflecting year-on-year increases of 100.7% and 167.4%, respectively. Average interest rates earned on the securities portfolio were 10.9%, 8.1% and 6.1% for 2001, 2002 and 2003, respectively, and 6.2% and 4.9% for the six months ended 30 June 2003 and 2004, respectively.

Interest earned on bank deposits increased by 103.5% to KZT 352 million for the first half of 2004 from KZT 173 million for the first half of 2003. Conversely, interest earned on bank deposits had decreased by 19.9% to KZT 298 million for 2003 from KZT 372 million for 2002, after having increased by 69.9% from KZT 219 million in 2001. The decrease in interest earned on bank deposits in 2003, compared to 2002, was primarily attributable to the Group's allocation of higher levels of cash to other short-term earning asset categories. The increase in 2002, compared to 2001, was largely due to higher average balances maintained with banks during the later year, partially offset by the decline in average rates earned to 3.0% from 3.9% over the period. The increase in interest earned on bank deposits the first half of 2004, compared to the first half of 2003, was primarily attributable to the Group's allocation of higher levels of cash to longer term investments.

## Interest Expense

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

	Six-month period ended 30 June		Year ended 31 December		
	2004	2003	2003	2002	2001
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		
Interest on amounts due to NBK, the Government and credit institutions .....	149	110	408	150	77
Interest on loans and advances from banks.....	2,347	2,216	3,467	2,386	1,740
Interest on customer accounts.....	3,584	3,017	6,177	5,274	3,701
Interest on debt securities issued....	4,784	1,479	5,711	2,717	1,153
<b>Total .....</b>	<b>10,864</b>	<b>6,822</b>	<b>15,763</b>	<b>10,527</b>	<b>6,671</b>

For the six months ended 30 June 2004, interest expense increased by 59.2% to KZT 10,864 million from KZT 6,822 million for the six months ended 30 June 2003. Interest expense increased 49.7% in 2003 to KZT 15,763 million from KZT 10,527 million in 2002, after having increased by 57.8% in 2002 from KZT 6,671 million in 2001. The increases in interest expense over each period were largely due to the growth in the Group's deposit base, increased bank borrowings and the issuances of debt securities in 2003 and 2002, partially offset by reductions in average rates paid on customer accounts and in average rates paid on bank borrowings and debt securities.

Average balances of the Group's interest-bearing customer deposits (including both corporate and retail deposits) were KZT 120,161 million for the first six months of 2004, compared to KZT 86,361 million for the six months ended 30 June 2003, reflecting an increase of 39.1% between the periods. Such average annual balances were KZT 90,878 million in 2003, compared to KZT 66,192 million in 2002 and KZT 44,669 million in 2001, reflecting year-on-year increases of 37.3% and 48.2%, respectively. The higher balances for each period were largely attributable to the generally improved economic conditions in Kazakhstan and the related improvement in the level of customer confidence in Kazakhstan banks.

Average interest rates paid on interest-bearing customer deposits for 2001, 2002 and 2003 were 8.3%, 8.0% and 6.8%, respectively. Average interest rates paid on interest-bearing customer deposits for the six-month periods ended 30 June 2004 and 30 June 2003 were 6.0% and 7.0% respectively. The period-to-period decreases in the average rates paid primarily reflected the declining rate environment globally as most of the Group's term deposits bear rates prescribed by the Fund for Guaranteeing Deposits, which continually lowered rates throughout the period in line with movements in global rates.

For the six months ended 30 June 2004, interest expense paid on issued debt securities increased by 223.5% to KZT 4,784 million from KZT 1,479 million for the six months ended 30 June 2003. Interest on debt securities issued increased by 110.2% in 2003 to KZT 5,711 million from KZT 2,717 million in 2002 and by 135.6% in 2002 from KZT 1,153 million for 2001. In each case, the primary reason for the increase was the higher average balances of debt securities outstanding. See "Selected Statistical and other Information – Funding Sources – Bank Loans and Similar Financings".

## Net Interest Income before Impairment Charge

For the six months ended 30 June 2004, net interest income before impairment charge increased to KZT 11,513 million from KZT 6,956 million for the six-months ended 30 June, 2003, reflecting an increase of 65.5%. Net interest income before impairment charge increased for the year ended 31 December 2003 to KZT 15,055 million from KZT 11,841 million for the year ended 31 December 2002, after having increased 31.9% from KZT 8,974 million for the year ended 31 December 2001.

The Bank's net interest margin, defined as net interest income before impairment charge as a percentage of average interest-earning assets, was 6.0% for the six months ended 30 June 2004, compared to 6.0% for the first half of 2003, while net interest margin was 5.5% for the year ended 31 December 2003, 6.9% for the year ended 31 December 2002 and 8.6% for the year ended 31 December 2001. The period-to-period decreasing margins, in each case, were primarily attributable to decreases in the average interest rate

received on interest-earning assets, partially offset by a decrease in rates paid on interest-bearing liabilities, as lending rates decreased over the period at a more rapid pace than the cost of funds. Currently, there is excess liquidity in the Kazakh banking industry that has led to loan pricing pressures. The Bank constantly monitors its interest rate margins and spreads. While no assurance can be given, despite the declining margins, the Bank believes that it will be able to maintain an adequate spread between its cost of funds and the rates earned on its loans.

### Impairment Charge

The Group's impairment charge for the six months ended 30 June 2004 increased by 71.0% to KZT 6,202 million from KZT 3,627 million for the six months ended 30 June 2003. Impairment charges for the years ended 31 December 2003, 2002 and 2001 were KZT 10,391 million, KZT 7,184 million and KZT 5,838 million, respectively, reflecting year-on-year increases of 44.6% and 23.1%. The period-to-period increases are, in each case, primarily reflected growth in the Group's loan portfolio, which rose 20.9% to KZT 308,313 million as at 30 June 2004 from KZT 255,118 million as at 31 December 2003, after having grown 85.0% from KZT 137,913 million as at 31 December 2002 and 17.7% from KZT 117,193 million as at 31 December 2001. As a result, allowance for loan impairment as a percentage of total loans increased to 6.3% as at 30 June 2004, compared to 6.2% as at 31 December 2003, 7.5% as at 31 December 2002 and 5.6% as at 31 December 2001. See "Asset and Liability Management — Lending Policies and Procedures".

For the first half of 2004, net write-offs were KZT 2,603 million (representing KZT 3,929 million in gross write-offs less KZT 1,326 million in recoveries), compared to net write-offs of KZT 3,689 million (representing KZT 4,975 million in gross write-offs less KZT 1,286 million in recoveries) for the first half of 2003. For 2003, net write-offs were KZT 5,286 million (representing gross write-offs of KZT 6,762 million less KZT 1,476 million in recoveries), compared to KZT 3,492 million for 2002 (representing gross write-offs of KZT 3,763 million less KZT 271 million in recoveries) and KZT 2,269 million for 2001 (representing gross write-offs of KZT 3,227 million less KZT 958 million in recoveries). See "Asset and Liability Management – Write-off Policy."

### Non-Interest Income

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

	Six-month period ended 30 June		Year ended 31 December		
	2004	2003	2003	2002	2001
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		
Fees and commissions, net.....	3,761	2,704	6,221	4,125	2,877
Trading securities gains, net .....	(2,296)	39	589	2,745	123
Foreign exchange gains, net .....	3,256	928	2,553	1,583	1,678
Underwriting income (loss) .....	(246)	(214)	(260)	613	39
Other income .....	596	697	1,100	1,165	650
<b>Total .....</b>	<b>5,071</b>	<b>4,154</b>	<b>10,203</b>	<b>10,231</b>	<b>5,367</b>

#### *Fees and Commissions*

Fee and commission income for the first half of 2004 increased by 39.1% to KZT 3,761 million from KZT 2,704 million for the first half of 2003. This increase in fee and commission income was largely attributable to increases in trade finance documentary fees and fees and commissions earned on cash receipts and money orders and on credit and debit card transactions. Fee and commission income in 2003 increased by 50.8% to KZT 6,221 million from KZT 4,125 million in 2002, which in turn represented an increase of 43.4% from KZT 2,877 million in 2001. The increases in 2003 and 2002 are principally attributed 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*

For the first half of 2004, the Group had a net loss on trading securities of KZT 2,296 million, compared to a net gain of KZT 39 million for the first half of 2003. This change in income (loss) on trading securities

was principally attributable to the decrease in the fair market value of bonds issued by supranational financial organizations and held in the Bank's investment portfolio.

For the year ended 31 December 2003, the Group realised a net gain on trading securities of KZT 589 million, compared to KZT 2,745 million for the year ended 31 December 2002, reflecting a decrease of 78.5%. This decrease of KZT 2,156 million was almost entirely attributable to a decrease in unrealised gains on trading securities of KZT 607 million to KZT 586 million for 2003 from KZT 1,193 million in 2002, as net realised gains on sales of securities actually decreased by KZT 1,549 million in 2003, compared to 2002, principally as a result of the sale of high coupon securities in 2002 in a declining rate environment, which generated significant profits in 2002 that were not repeated in 2003. In 2001, the Group had an unrealised loss on trading securities of KZT 164 million resulting from application of its policy, in compliance with applicable accounting rules, to mark the securities to market.

#### *Gains and Losses from Foreign Currencies*

Gains and losses arising from the translation of foreign currency-denominated assets and liabilities, which are reported in the income statement as gains less losses from foreign currencies, increased by 250.9% to KZT 3,256 million for the first half of 2004, compared to KZT 928 million for the first half of 2003, due, in large part, to the appreciation of the Tenge against the U.S. Dollar and application of the Bank's policy on hedging currency risks.

Net gain from foreign exchange operations was KZT 2,553 million for the year ended 31 December 2003, KZT 1,583 million for the year ended 31 December 2002 and KZT 1,678 million for the year ended 31 December 2001, reflecting an increase of 61.3% in 2003, compared to 2002, and a decrease of 5.7% in 2002, compared to 2001. The significant decrease in gains from foreign currency translations in 2003, compared to 2002, was largely a result of translation losses arising from the decline in the value of the U.S. Dollar, while the smaller decrease in 2002, compared to 2001, reflected principally the continued relative stability of the Tenge during 2002 and 2001, as well as an increase in competitive pressures, which resulted in lower trading margins.

#### *Underwriting Income (Loss)*

The Group reported net underwriting losses of KZT 246 million and KZT 214 million for the six months ended 30 June 2004 and 2003, respectively. The decrease in insurance losses by 15% in the 2004 period, compared to the same period in 2003, resulted principally from an increase in the reserve for insurance losses due to an increase in claims paid and reported in the first half of 2004, as well as competitive pressures in the industry that led to pricing limitations and higher marketing costs.

The Group reported net underwriting losses of KZT 260 million in 2003, compared to net underwriting income of KZT 613 million in 2002 and KZT 39 million in 2001. The net underwriting loss in 2003 resulted primarily from an increase in the reserve for insurance losses and loss adjustment expenses due to an increase in claims paid and reported in 2003, as well as competitive pressures in the industry that led to pricing limitations and higher marketing costs. The increase in net underwriting income of KZT 574 million in 2002, compared to 2001, reflected principally the stronger presence of the Group's insurance operations in the market.

#### *Other Income*

Other income decreased by 14.5% to KZT 596 million for the six months ended 30 June 2004, compared to KZT 697 million for the six months ended 30 June 2003, largely due to decreases in income from the sale of inventory stock and in income on derivatives.

Other income also decreased by 5.58% to KZT 1,100 million for 2003 from KZT 1,165 million for 2002, after having increased 79.2% from KZT 650 million for 2001. The decrease in 2003, compared to 2002, was largely attributable to a reduction in currency translation revenues, partially offset by an increase in customer charges. The increase in 2002, compared to 2001, was largely attributable to increases in rental income and income earned on customer accounts.

## Non-interest Expense

The following table shows the composition of the Group's non-interest expense for the periods indicated:

	Six-month period ended 30 June		Year ended 31 December		
	2004	2003	2003	2002	2001
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		
Salaries and benefits .....	2,047	1,699	3,432	3,023	2,311
Depreciation and amortisation.....	495	445	926	786	667
Insurance .....	2	34	145	1,079	49
Deposit insurance.....	183	153	306	262	267
Administrative and operating expenses .....	3,142	2,453	5,212	4,708	3,617
	<b>5,869</b>	<b>4,784</b>	<b>10,021</b>	<b>9,858</b>	<b>6,911</b>

Non-interest expense for the first half of 2004 increased by 22.7% to KZT 5,869 million from KZT 4,784 million for the first half of 2003, while non-interest expense increased by 1.7% for 2003 to KZT 10,021 million from KZT 9,858 million for 2002 and by 42.6% in 2002 from KZT 6,911 million for 2001.

The increase in non-interest expense for the first half of 2004, compared to the same period in 2003, was mainly due to increases in salaries and benefits, deposit insurance and taxes (other than income taxes). The increase in non-interest expense in 2003, compared to 2002, was mainly due to increases in salaries and benefits, depreciation and amortisation, deposit insurance expenses and administrative and operating expenses, partially offset by a decrease in insurance expense, while the increase in non-interest expense in 2002, compared to 2001, was mainly due to increases in salaries and benefits, insurance expenses and administrative and operating expenses.

### *Salaries and Benefits*

Salaries and benefits for the first half of 2004 increased by 20.5% to KZT 2,047 million from KZT 1,699 million for the first half of 2003, largely as a result of higher salaries paid. Salaries and benefits increased by 13.5% in 2003 to KZT 3,432 million from KZT 3,023 million in 2002, after having increased by 30.8% in 2002, compared to 2001. The increase in 2003, compared to 2002, was largely attributable to salary increases, while the increase in 2002, compared to 2001, was primarily due to increases in the number of personnel and, to a lesser extent, salary raises.

### *Depreciation and Amortisation*

Depreciation and amortization expenses for the first half of 2004 increased 11.2% to KZT 495 million from KZT 445 million for the first half of 2003, while depreciation and amortisation rose by 17.8% in 2003 to KZT 926 million from KZT 786 million for 2002 and by 17.8% in 2002 from KZT 667 million for 2001. The period-to-period increases were, in each case, due to a higher carrying amount of fixed assets.

### *Insurance Expense*

Insurance expense of KZT 2 million for the first half of 2004 was 94.1% lower than insurance expense of KZT 34 million for the first half of 2003. The lower expense for the 2004 period, compared to the 2003 period, was due principally to a decrease in insurance premiums paid on third party liability insurance, as well as to a reduction in the number of property insurance policies held by the Bank in the later period.

Insurance expense decreased by 86.6% in 2003 to KZT 145 million from KZT 1,079 million in 2002, after having increased by 2,102.0% from KZT 49 million in 2001. The decrease in 2003, compared to 2002, was largely attributable to the cancellation of certain insurance policies, a reduction in premiums due to the divestiture of certain service companies and a reduction in building insurance premiums. The increase in 2002, compared to 2001, was largely attributable to higher building insurance premiums, the adoption of employee medical and life insurance programmes and the consolidation of an insurance subsidiary, which was previously accounted for using the equity method.

### Deposit Insurance

Deposit insurance expenses increased by 19.6% in the first half of 2004 to KZT 183 million, compared to KZT 153 million for the first half of 2003. Deposit insurance expense increased by 16.8% in 2003 to KZT 306 million from KZT 262 million in 2002, after decreasing by 1.9% in 2002 from KZT 267 million in 2001. The period-to-period changes in deposit insurance expense were, in each case, primarily attributable to increases or decreases, as the case may be, in the level of deposit balances covered by insurance in the relevant periods.

### Other Administrative and Operating Expenses

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

	Six-month period ended 30 June		Year ended 31 December		
	2004	2003	2003	2002	2001
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		
Taxes other than income taxes .....	524	444	955	815	571
Repairs and maintenance.....	58	58	754	646	760
Advertising.....	286	198	447	453	345
Legal and consultancy fees.....	196	38	388	209	192
Other loss provision.....	–	–	338	246	230
Occupancy costs .....	226	127	312	137	86
Security .....	169	114	279	183	91
Communications.....	99	117	292	207	159
Custom duties .....	–	–	53	253	524
Other .....	1,769	1,544	1,394	1,559	659
	<b>3,327</b>	<b>2,640</b>	<b>5,212</b>	<b>4,708</b>	<b>3,617</b>

Other administrative and operating expenses increased by 26.0% to KZT 3,327 million for the first half of 2004, compared to KZT 2,640 million for the first half 2003. Legal and consultancy fees, occupancy fees (i.e., rental charges), advertising expenses and taxes other than income taxes represented the largest contributing factors to this increase.

Other administrative and operating expenses increased by 10.7% in 2003 to KZT 5,212 million, compared to KZT 4,708 million for 2002, after having increased by 30.2% in 2002 from KZT 3,617 million for 2001. Higher legal and consultancy fees, occupancy costs, taxes other than income taxes and repairs and maintenance represented the largest contributing factors to the increase in 2003, compared to 2002, although these were partially offset by reductions in custom duties and other expenses. The increase in 2002, compared to 2001, was largely attributable to an increase in other expenses, which represented approximately 33.1% of total other administrative and operating expenses for 2002.

Legal and consultancy fees increased by 415.8% to KZT 196 million for the six months ended 30 June 2004, compared to KZT 38 million for the six months ended 30 June 2003, and by 85.7% to KZT 388 million for the year ended 31 December 2003, compared to KZT 209 million for the year ended 31 December 2002, after having increased by 8.9% in the year ended 31 December 2002, compared to KZT 192 million for the year ended 31 December 2001. In each case, these increases were largely a result of new borrowings and increased levels of other business activity within the Group during the respective later period.

Occupancy costs rose by 78.0%, or KZT 99 million, for the first half of 2004, compared to the same period in 2003, by 127.7%, or KZT 175 million, for the year ended 31 December 2003, compared to the year ended 31 December 2002, and by 59.3% to KZT 137 million for the year ended 31 December 2002, compared to KZT 86 million for the year ended 31 December 2001, in each case, largely as a result of the acquisition of interests in additional facilities to accommodate the expansion of the Group's business.

Taxes other than income taxes were KZT 524 million for the six months ended 30 June 2004, compared to KZT 444 million for same period in 2003, reflecting an increase of 18.0% primarily as a result of higher VAT payments. Taxes other than income taxes increased by 17.2%, or KZT 140 million, to KZT 955 million for 2003, compared to 2002, principally as a result of higher VAT payments on services provided by companies that were divested from the Group. Taxes other than income taxes increased in 2002 to KZT 815 million from KZT 571 million in 2001 largely as a result of increased VAT payments on services that were outsourced by the Group.

Repairs and maintenance expenses were stable at KZT 58 million for each of the six-month periods ended 30 June 2004 and 2003. Repairs and maintenance increased by 16.7% to KZT 754 million for 2003, compared to KZT 646 million for 2002, after having decreased by 15.0% for the year ended 31 December 2002, compared to KZT 760 million for the year ended 31 December 2001, in each case, largely reflecting non-capitalised renovations made to a number of facilities during the later year.

Custom duties decreased by 79.1%, or KZT 200 million, to KZT 53 million for 2003, compared to 2002, largely as a result of the elimination of customs duty on the import of foreign currency. Custom duties decreased by KZT 271 million to KZT 253 million for 2002, compared to KZT 524 million for 2001. This decrease resulted solely from the impact of a 1.0% reduction in the duty on the import of cash from abroad for the full year in 2002, compared to only part of the year in 2001.

Advertisement expenses for the first half of 2004 increased by 44.4% to KZT 286 million from KZT 198 million for the first half of 2003, primarily due to increased advertising following the expansion of the Bank's business and the launch of new products. Advertisement expenses for 2003 decreased by 1.3% to KZT 447 million from KZT 453 million for 2002, primarily due to a decrease in advertisement expenses of subsidiaries. Advertisement expenses rose by 31.3% to KZT 453 million for 2002 from KZT 345 million for 2001, as the Group engaged in more advertising in response to the more favourable business environment prevailing during 2002, compared to 2001.

Other expenses increased by 14.6%, or KZT 225 million, to KZT 1,769 million for the six months ended 30 June 2004 from KZT 1,544 million for the six months ended 30 June 2003, largely reflecting cost increases associated with the Group's growth from period-to-period. Other expenses decreased by 10.6%, or KZT 165 million, to KZT 1,394 million for 2003, compared to 2002, largely as a result of the divestiture by the Group of certain service companies. Other expenses for 2002 increased by 136.6% to KZT 1,559 million from KZT 659 million for 2001, primarily due to a decrease in transportation and other costs related to business trips.

#### *Taxation*

Kazakhstan tax regulations do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. In the past, due to beneficial tax regulations (such as those in relation to the tax-exempt status of interest income on government securities), the Bank did not incur any income tax liability. In 2003, the Group reported income tax expense of KZT 266 million or an effective tax rate of 5.5%, compared to the current statutory income tax rate of 30%. While the operations of the Bank and its subsidiaries are expanding, management believes that the effective tax rate on any future taxable income will remain below the statutory rate.

### **Financial Condition**

#### *Total Assets*

As at 30 June 2004, the Group's total assets were KZT 448,070 million, compared to KZT 373,064 million as at 31 December 2003, KZT 225,492 million as at 31 December 2002 and KZT 157,337 million as at 31 December 2001, reflecting increases of 20.1%, 65.4% and 43.3%, respectively.

The increase in total assets as at 30 June 2004, compared to 31 December 2003, was primarily due to a 49.4% increase in trading securities to KZT 92,002 million and a 20.7% growth in the net loan portfolio. The higher total assets as at 31 December 2003, compared to 31 December 2002, was primarily due to increases in the net loan portfolio by 87.8%, or KZT 112,100 million, and in the trading securities portfolio by 92.0%, or KZT 29,510 million. The increase as at year-end 2002, compared to year-end 2001, was primarily attributable to growth in net loans by a 15.4%, or KZT 17,028 million and an increase in the amount of trading and held-to-maturity investment securities held by the Group by 190%, or KZT 33,884 million, partially offset by a decrease in cash balances (comprising cash and cash equivalents and obligatory reserves) by 6.3%, or KZT 1,384 million. The increases in both loans and trading securities were in conformity with the Bank's strategy and related budgeted figures.

Other assets increased by 32.7% to KZT 9,555 millions as at 30 June 2004, from KZT 7,203 million as at 31 December 2003, after having increased by 33.4% from KZT 5,399 million as at 31 December 2002 and by 317.9% from KZT 1,292 million as at 31 December 2001. The increase as at 30 June 2004, compared to 31 December 2003, was related to the increase in loans to related parties and the volume of interest-bearing assets other than loans. The higher amount of other assets as at year-end 2003, compared to year-end 2002, primarily reflected increases of KZT 955 million in accrued interest receivable on interest-earning assets other than loans and of KZT 820 million in investments in associates. The increase as at year-end 2002, compared to year-end 2001, primarily related to the growth in the Group's insurance operations.

The following table sets out a breakdown of the Group's total assets (less allowances), by currency as at the dates indicated:

	As at 31 December											
	2004		2003		2002		2001					
	KZT	Foreign Currency	Total	KZT	Foreign Currency	Total	KZT	Foreign Currency	Total			
	<i>(KZT millions)</i>											
Cash and cash equivalents .....	7,694	7,674	15,368	6,688	6,598	13,286	5,053	15,504	20,557	475	16,745	17,220
Obligatory reserves .....	4,886	0	4,886	3,706	-	3,706	2,731	-	2,731	4,684	-	4,684
Due from other banks .....	1,195	3,949	5,144	8,483	5,915	14,398	9,830	990	10,820	-	150	150
Trading securities .....	34,738	57,264	92,002	11,648	49,943	61,591	12,925	19,156	32,081	13,519	4,312	17,831
Held-to-maturity securities .....	1,671	23,136	24,807	3	26,285	26,288	-	19,634	19,634	-	-	-
Loans to clients.....	99,569	208,744	308,313	78,426	176,692	255,118	35,936	101,977	137,913	25,189	92,004	117,193
Other assets.....	16,308	906	17,214	13,920	367	14,287	11,504	527	12,031	6,373	541	6,914
<b>Total assets (less allowances)</b>	<b>166,061</b>	<b>301,673</b>	<b>467,734</b>	<b>122,874</b>	<b>265,800</b>	<b>388,674</b>	<b>77,979</b>	<b>157,788</b>	<b>235,767</b>	<b>50,240</b>	<b>113,752</b>	<b>163,992</b>

The change in composition of the Bank's assets as at 30 June 2004, compared to 31 December 2003, 2002 and 2001, related primarily to increases in the percentage of loans to total assets to 65.9% as at 30 June 2004 from 65.6% as at 31 December 2003, 58.5% as at 31 December 2002 and 71.5% as at 31 December 2001 and in the percentage of trading and held-to-maturity securities to 25.0% as at 30 June 2004 from 22.6% as at 30 June 2003, 21.9% as at 31 December 2002 and 10.9% as at 31 December 2001 which, in each case, also resulted in the overall growth in total assets.

### Total Liabilities

As at 30 June 2004, the Bank's total liabilities of KZT 411,063 million were 20.5%, or KZT 70,012 million, higher than total liabilities of KZT 341,051 million as at 31 December 2003, which had, in turn, increased from KZT 204,727 million as at 31 December 2002 and from KZT 141,686 million as at 31 December 2001, or 66.6% and 44.5%, respectively. The increase in total liabilities as at 30 June 2004, compared to 31 December 2003, was primarily attributable to the increase by KZT 37,835 million in debt securities issued by the Bank and the increase by KZT 40,950 million in deposits held by the Bank. The increase in total liabilities as at year-end 2003, compared to year-end 2002, primarily consisted of an increase of KZT 60,558 million in bank borrowings, an increase of KZT 42,653 million in debt securities issued and an increase of KZT 33,508 million in deposits held by the Bank. The increase in total liabilities as at 31 December 2002, compared to 31 December 2001, primarily reflected growth of KZT 24,838 million in customer deposits, an increase of KZT 14,440 million in foreign currency and domestic bank borrowings and an increase of KZT 18,055 million in debt securities issued.

As at 30 June 2004, other liabilities were KZT 8,540 million, reflecting an increase of 97.8%, or KZT 4,222 million, from other liabilities of KZT 4,318 million as at 31 December 2003, which were, in turn, 40.2% lower than other liabilities of KZT 7,220 million as at 31 December 2002. Other liabilities as at year-end 2002 were, however, 310.9% higher than other liabilities of KZT 1,757 million as at 31 December 2001. The decrease in other liabilities as at year-end 2003, compared to year-end 2002, was primarily attributable to decreases of KZT 2,092 million in year-end settlements and of KZT 470 million in unearned insurance premiums, while the increase in other liabilities as at year-end 2002, compared to year-end 2001, was primarily attributable to growth in the Group's insurance operations and higher levels of payables at year-end 2002.

### Shareholders' Equity

The following table sets out a breakdown of the Group's shareholders' equity as at the dates indicated:

	As at 30 June 2004	As at 31 December 2003	Amount of Change	Percent of Change
	<i>(KZT millions, unaudited)</i>	<i>(KZT millions)</i>	<i>(KZT millions, unaudited)</i>	(%)
<b>Shareholders' Equity:</b>				
Charter capital: .....	21,842	16,091	5,751	36
Common shares .....	16,249	11,931	4,318	36
Preferred shares .....	5,593	4,160	1,433	34
Treasury shares .....	(524)	(195)	(329)	169
Revaluation reserve .....	1,581	820	761	93
Retained earnings .....	11,256	5,307	5,949	112
Additional paid-in capital .....	1,687	28	1,659	5,925
<b>Total shareholders' equity .....</b>	<b>35,842</b>	<b>22,051</b>	<b>13,791</b>	<b>63</b>

Total shareholders' equity as at 30 June 2004 amounted to KZT 35,842 million (8.0% of total assets), compared to total shareholders' equity of KZT 30,683 million (8.2% of total assets) as at 31 December 2003, KZT 19,755 million (8.8% of total assets) as at 31 December 2002 and KZT 14,842 million (9.4% of total assets) as at 31 December 2001.

As at both 30 June 2004 and 31 December 2003, the authorised share capital of the Bank consisted of 1,719,148 common shares and 569,997 CPS. As at 30 June 2004, the Bank held 30,716 of such common shares as treasury stock (compared to 41,104 common shares held as treasury stock as at 31 December 2003). For a more detailed discussion of the Bank's share capital, including a description of the terms of the CPS, see "Business – Management and Share Ownership — Principal Shareholders".

### Off-Balance Sheet Arrangements

The Group 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 Group's balance sheet.

As at 30 June 2004, the Group had issued letters of credit totalling KZT 46,576 million, guarantees of third party promissory notes totalling KZT 34,907 million and commercial letters of credit (*aval* of promissory notes) totalling KZT 11,316 million and had open forward contracts outstanding for a total amount of KZT 10,454 million. As at 31 December 2003, the Group had issued commercial letters of credit totalling KZT 45,141 million, guarantees totalling KZT 18,648 million and guarantees of third party promissory notes totalling KZT 5,799 million and had open forward contracts outstanding for a total amount of KZT 12,478 million. The Group'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 30 June 2004, the Group had recorded an impairment charge for contingent liabilities of KZT 483 million, compared to KZT 319 million as at 31 December 2003, KZT 244 million as at 31 December 2002 and KZT 49 million as at 31 December 2001.

The Group did not have any significant commitments as at 30 June 2004, 31 December 2003 and 2002 other than as shown in the table.

The Group applies the same credit control and management policies to its off-balance sheet commitments as it does to its on-balance sheet operations.

### Capital Adequacy

The following table gives certain information regarding the Group's Tier I and Tier II capital and risk weighted capital adequacy ratio as at the dates indicated based on the Group's consolidated financial statements prepared in accordance with IFRS:

	Six-month period ended 30 June 2004	Year ended 31 December		
		2003	2002	2001
	(KZT millions, unaudited)	(KZT millions)		
Tier I capital .....	28,668	25,948	15,595	10,682
Tier II capital.....	25,211	21,561	13,573	9,445
Tier I and tier II capital.....	53,879	47,509	29,168	20,127
Total risk weighted assets .....	388,900	308,124	182,869	142,614
Risk weighted capital adequacy ratio .....	13.60%	15.14%	15.92%	14.01%

Using ratios established by the BIS to monitor capital adequacy, the Bank had a Tier I capital adequacy ratio of 7.37% as at 30 June 2004, compared to 8.42% as at 31 December 2003, and a risk weighted capital adequacy ratio (comprising Tier I + Tier II capital divided by total risk weighted assets) of 13.6% as at 30 June 2004, compared to 15.14% as at 31 December 2003. The Bank's CPS constitute Tier II capital.

In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's shareholders have approved an increase in the Bank's authorised share capital by KZT 13,632 million. It is expected that this increase will be effected through the eighth issuance of 615,287 common shares and the issuance of 204,004 CPS before the end of 2004. It is expected that the eighth issuance of shares will be fully subscribed by the Bank's existing shareholders pursuant to pre-emptive rights at a purchase price, in each case, of KZT 16,638.78 per share.

## 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 market changes on the Bank's profitability and liquidity. The Bank has a relatively liquid asset base, including substantial Tenge and U.S. Dollar demand deposits, comprised, as at 30 June 2004, 56.7% by corporate deposits and 43.3% by retail deposits, and other short-term assets, comprised primarily of commercial loans and advances and securities. In addition, as at 30 June 2004, 68.0% of the Bank's loans were denominated in foreign currencies or indexed to the U.S. Dollar and the majority of the loans in the Bank's loan portfolio had short-term maturities. Accordingly, the Bank's interest rate risk is relatively low and, despite the size of the portfolio, adjusting the profile of the portfolio is relatively straightforward.

### 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 directly to the Management Board with respect to issues relating to the day-to-day operations of the Bank or, in the case of matters relating to the Group's strategy, directly to the Board of Directors. ALCO is chaired by a Deputy Chairman and comprises one other Deputy Chairman, the Finance Director, the Treasurer, 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 Analytical Centre:

- size and maturity of assets and liabilities;
- the Bank's foreign currency position;
- operational ratios in terms of the regulations established by the FMSA; and
- exchange rates and other economic data.

Based on its review of this information, ALCO determines short-term policies for the forthcoming week with the aim of increasing interest and non-interest revenues for the Bank, while maintaining adequate liquidity, complying with prudential standards and regulations and minimising the impact of financial market risks so as to maintain the Bank's attractiveness to depositors. Policies proposed by ALCO 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 in compliance with all of the FMSA's requirements and limitations.

## Maturities

The following tables set out a breakdown of the Group's banking assets and liabilities by maturity as at 30 June 2004 and 31 December 2003 and contains certain information regarding the liquidity risk faced by the Bank. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they fall due. See also "Funding and Liquidity".

	As at 30 June 2004							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Past due	Total
	<i>(KZT millions, unaudited)</i>							
<b>Assets</b>								
Cash and cash equivalents .....	11,796	3,451	121	–	–	–	–	15,368
Obligatory reserves .....	–	–	–	–	4,886	–	–	4,886
Trading securities .....	92,002	–	–	–	–	–	–	92,002
Amounts due from other financial institutions .....	85	1,203	686	210	95	2,865	–	5,144
Held-to-maturity investment securities .....	–	–	–	–	–	24,807	–	24,807
Loans to customers .....	2,352	20,088	31,565	68,975	58,839	122,224	4,270	308,313
Other assets .....	1,867	97	6,639	558	330	858	–	10,349
	<b>108,102</b>	<b>24,839</b>	<b>39,011</b>	<b>69,743</b>	<b>64,150</b>	<b>150,754</b>	<b>4,270</b>	<b>460,869</b>
<b>Liabilities</b>								
Amounts due to NBK and the Government .....	161	–	3,022	565	556	750	–	5,054
Amounts due to other financial institutions .....	633	16,542	27,786	33,693	10,222	15,316	–	104,192
Amounts due to customers .....	59,480	18,200	40,166	49,250	12,388	1,784	–	181,268
Debt securities issued .....	352	–	1,171	2,458	15,305	92,723	–	112,009
Other liabilities .....	2,220	223	3,262	2,565	172	98	–	8,267
	<b>62,846</b>	<b>34,965</b>	<b>75,407</b>	<b>88,531</b>	<b>38,643</b>	<b>110,671</b>	<b>–</b>	<b>411,063</b>
<b>Net position</b> .....	<b>45,256</b>	<b>(10,126)</b>	<b>(36,396)</b>	<b>(18,788)</b>	<b>25,507</b>	<b>40,083</b>	<b>4,270</b>	<b>49,806</b>
<b>Accumulated gap</b> .....	<b>45,256</b>	<b>35,130</b>	<b>(1,266)</b>	<b>(20,054)</b>	<b>5,453</b>	<b>45,536</b>	<b>49,806</b>	

Notes:

- (1) In this table, securities are listed as maturing within less than one month due to the relatively liquid market for such securities. 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 borrower.

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

## Treasury Operations

The Bank's Treasury Department is responsible for the efficient management of the Bank's funds on a daily basis by using 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 municipal bonds. The Treasury Department also executes foreign exchange and currency swap transactions, repurchase agreements, reverse repurchase agreements and forward, futures and options contracts. The Group also engages in proprietary trading of derivatives and provides such services to its clients, although the volume of these activities has been insignificant due to the under-development of the local market.

## Liquidity

Liquidity is managed centrally on a real-time basis by the Bank's Treasury Department according to the requirements and forecasts for all of the Bank's divisions and branches in Kazakhstan. The Bank is able to obtain liquid funds quickly in the overnight interbank market and enters into repurchase and reverse repurchase agreements for this purpose when and as needed. Because the local market capacity is relatively small, the Bank also accesses the international interbank markets through its correspondent banking network, in particular, taking advantage of its strong commercial relationships with the London-based offices of major Japanese and Hong Kong banks.

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

	As at 30 June 2004	As at 31 December		
		2003	2002	2001
		(%)		
Net loans (excluding accrued income)/assets .....	62.46	62.28	55.28	68.81
Net loans (excluding accrued income)/deposits ..	155.87	166.89	117.87	133.66
Net loans (excluding accrued income)/shareholders' equity .....	780.80	757.26	631.03	729.54
Liquid assets <sup>(1)</sup> /total assets .....	31.71	31.97	38.06	25.35
Liquid assets/total amounts owed to customers ..	78.38	85.70	81.15	49.23

Note:

- (1) Liquid assets comprise trading and held-to-maturity securities plus cash and cash equivalents, obligatory reserves and due from other banks.

## Foreign Currency Management

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

	As at 30 June 2004			As at 31 December 2003		
	KZT	Other foreign currencies	Total	KZT	Other foreign currencies	Total
	<i>(KZT millions, unaudited)</i>			<i>(KZT millions)</i>		
<b>Assets</b>						
Cash and cash equivalents .....	7,694	7,674	15,368	6,688	6,598	13,286
Obligatory reserves .....	4,886	–	4,886	3,706	–	3,706
Trading securities .....	34,738	57,264	92,002	11,648	49,943	61,591
Amounts due from credit institutions.	1,195	3,949	5,144	8,483	5,915	14,398
Held-to-maturity investment securities	1,671	23,136	24,807	3	26,285	26,288
Loans to customers .....	99,569	208,744	308,313	78,426	176,692	255,118
Other assets.....	9,443	906	10,349	7,175	367	7,542
	<b>159,196</b>	<b>301,673</b>	<b>460,869</b>	<b>116,129</b>	<b>265,800</b>	<b>381,929</b>
<b>Liabilities</b>						
Amounts due to the Government and NBK.....	4,477	577	5,054	4,263	927	5,190
Due to credit institutions .....	1,054	103,138	104,192	4,390	112,661	117,051
Due to customers .....	88,760	92,508	181,268	69,043	71,275	140,318
Subordinated debt securities issued ....	11,262	100,747	112,009	7,598	66,576	74,174
Dividends payable.....	-	273	273	–	–	–
Other liabilities.....	7,549	718	8,267	3,982	336	4,318
	<b>113,102</b>	<b>297,961</b>	<b>411,063</b>	<b>89,276</b>	<b>251,775</b>	<b>341,051</b>
<b>Net balance sheet position.....</b>	<b>46,094</b>	<b>3,712</b>	<b>49,806</b>	<b>26,853</b>	<b>14,025</b>	<b>40,878</b>

Regulation and monitoring of the net foreign currency positions of banks is carried out by the FMSA. According to current regulations, the ratio of a bank's net open foreign currency position relative to its risk weighted capital must not exceed 50%. The FMSA 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 FMSA on a weekly basis a report on the Bank's net currency positions.

Since the Bank's inception, management has maintained a net long foreign currency position. At weekly meetings, the ALCO monitors the open foreign currency position in relation to prevailing market conditions and outlook, advises on the Bank's position and implements the Bank's strategy accordingly. The Bank applies strict daily limits on open positions for each currency. In this respect, the Bank is permitted to maintain open positions in currencies of countries with sovereign ratings of "A" or better at a level not exceeding 30% of equity capital, with an overall limit on all currencies not exceeding 50% of equity capital.

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

	As at 30 June	As at 31 December		
	2004	2003	2002	2001
Net long/(short) position (U.S.\$ millions).....	0.78	18	71	21
Net position as a percentage of risk weighted capital .....	0.20%	5%	38%	16%
Net position as a percentage of foreign currency liabilities.....	0.04%	1%	8%	3%

The Bank is a party to a number of deliverable forward contracts providing for the purchase or sale of a specified amount of foreign currency (typically U.S. Dollars) or precious metals at an agreed-upon price

in Tenge with delivery and settlement at a specified future date, which are used for hedging purposes to manage currency risks. As at 30 June 2004, the aggregate amount outstanding under such contracts, which mature in 2004, was KZT 10,454 million, compared to KZT 12,478 million as at 31 December 2003.

## **Lending Policies and Procedures**

### *General*

The FMSA has strict guidelines in relation to the credit approval process of Kazakhstan banks and the terms, exposure levels and interest rates that such banks may apply. FMSA 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 credit approval process is based on the NBK and FMSA regulations and internal procedures established by the Management Board as approved by the Board of Directors.

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 eight corporate business departments, each of which is responsible for a certain industry sector, or the Project Finance Department or the SME Department, as appropriate. The relevant reviewing department undertakes a thorough analysis of the credit applicant, including carrying out feasibility studies and analysis of the 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, if required by the Bank's policy, 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, if required by the Bank's policy, obtains information from the FMSA's list of previous defaulting borrowers. If the loan is collateralised, as required by the Bank's policy, the Bank's Security Appraisal Group or an outside firm 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 forms of 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 “— Non-Performing Loans and Impairment Assessment Policy” below. The Risk Management Department is also responsible for the assessment on a systematic basis of all on and off-balance sheet credit risks. 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 application is examined by the appropriate credit decision-making body of the Bank for a final decision on the approval of the application as follows:

- the Credit Committee of each branch is authorised to take decisions within lending limits established for each branch by the Management Board; this authority ranges up to U.S.\$300,000 (or the equivalent) depending on the size of the branch and its underwriting capabilities, as assessed by the Management Board;
- the Retail Loans Credit Committee is responsible for improving the Bank's retail loan portfolio structure and is authorised to take decisions on retail loan recovery measures; it considers applications by individuals for short- and long-term financing up to U.S.\$300,000 (or the equivalent);
- the SME Credit Committee is authorised to take decisions on loans and guarantees to SMEs up to U.S.\$300,000 (or the equivalent);
- the Branch Network Committee is authorised to take decisions on loans and guarantees in excess of U.S.\$300,000 but less than U.S.\$1,500,000 (or the equivalent); and
- the Head Office Credit Committee is authorised to take decisions on loans and guarantees in excess of U.S.\$1,500,000 (or the equivalent).

All credit limits are established by the Management Board of the Bank based on the recommendation of the Risk Management Department. Credits in excess of U.S.\$1,500,000 (or the equivalent) must be approved by the full Management Board.

### *Maturity Limit*

Limits are imposed on the maximum maturity of a loan depending on the type of loan as follows:

<b>Nature of the Loan</b>	<b>Maximum Maturity<sup>(1)</sup></b>
Financing of working capital .....	Up to 18 months
Consumer credit to individuals .....	Up to 5 years excluding mortgage lending
Mortgage loans .....	Up to 15 years
Loans to employees .....	Up to 5 years
Investments .....	Up to 7 years
Interbank deposit .....	Up to 1 year
Leasing.....	Up to 5 years

Note:

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

### *Collateralisation*

The Bank seeks to reduce its credit risk substantially 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:

<b>Collateral Categories</b>	<b>Loan/Collateral Value</b>
Cash.....	100%
Guarantees from financial institutions.....	100%
Government debt securities.....	100%
Real estate.....	30-50%
Commodities .....	30-50%
Fixed assets .....	30-50%
Equity securities .....	Up to 30%

The Bank believes that it has a satisfactory 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.

### **Loan Supervision and Monitoring**

The Bank's Risk Management Department, which is independent of the loan granting and approval process, is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto. In order to establish adequate allowances and provisions, loans are classified by their perceived risk criteria in accordance with the Bank policy's and the requirements of the NBK, FMSA and IFRS. The Risk Management Department also conducts evaluations of other assets and off-balance sheet contingent liabilities.

Until 2004, banks established allowances for loan impairment under an NBK policy based on event-oriented criteria relying primarily on the timeliness of a borrower's payment of interest and principal. Effective as of 2004, the NBK and the FMSA revised their policies regarding loan classifications and requirements for provisions and allowances to conform them more closely to the guidelines provided under IFRS. While the guidelines of the NBK, FMSA and IFRS are similar, there are differences in terminology, which in substance do not alter the framework for the classification and establishment of adequate allowances for loan impairment, other assets and off-balance sheet risks.

In classifying the Bank's loan exposures, the Risk Management Department performs detailed credit reviews and assesses the borrower's financial condition and operating results to determine if these have deteriorated since the origination of the loan, the current performance of the borrower with regard to the timely repayment of principal and interest and whether any extensions of interest or principal payments have been granted or other modifications have been made to the original loan agreement, the quality and quantity of any collateral provided, the basic fundamentals of the purpose of the loan and whether there has been any unauthorised use of the loan proceeds. In addition to these assessments, the Risk Management Department performs other analytical procedures and takes into consideration any macro and microeconomic factors specifically relating to the Kazakh economy and industry sector analysis.

Based on these assessments and other analytical procedures, the Risk Management Department classifies loans according to their risk and the exposure that they potentially present to the Bank. At present, the Risk Management Department uses classifications as set out in the FMSA regulations:

*Pass loan* – The financial condition of the borrower is assessed as good and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. Interest and principal are being repaid in full in a timely fashion. The borrower is considered as having the capability of repaying the loan in accordance with its terms.

*Watch loan* – There is evidence of a temporary deterioration in the financial condition of the borrower, including reduction of income or a loss of market share. However, there is evidence to suggest that the borrower will be able to cope with any temporary difficulties and there is a low expectation that the borrower will be unable to repay the loan and interest in full.

*Unsatisfactory loan* – There is evidence indicating a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower raises concerns as to the ability of the borrower to stabilise and improve its current financial performance and casts doubt on the borrower's ability to repay the loan and interest in full.

*Doubtful loan* – The deterioration of the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position and/or negative shareholders' equity, and it is probable that the borrower will be unable to repay the loan and interest in full.

*Loss* – In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan.

Classified loans comprise unsatisfactory, doubtful and loss loans. Unclassified loans comprise pass and watch loans.

The functions of the Risk Management Department are split between the Bank's corporate banking activities and SME and retail operations. With respect to corporate banking, each account is subject to an individual review, while the SME and retail accounts are assessed by reference to branch and product limits. The Risk Management Department provides weekly and monthly reports to the Bank's management detailing all aspects of the Bank's credit activity. Senior management pays strict attention to the timeliness of debt repayments and the classified loans and contingent liabilities as reported by the Risk Management Department. Immediate action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. The Bank's determination of 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 the terms and conditions of its loan agreement and refusal of a borrower to cooperate in supplying current information.

The Bank's Risk Management Department is also involved in overseeing the risk management activities of the target banks in which the Group holds investments, such as Slavinvest Bank. While Slavinvest Bank has its own risk management division, its policies have been coordinated with the Bank's and the Bank has approval authority with respect to any loan in excess of U.S.\$5.0 million (or its equivalent).

The Bank adopted detailed anti-money laundering policies, including extensive "know-your-client" regulations, in 1995.

Any overall deterioration in the quality of the Bank's loan portfolio or increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Bank's Management Board.

### **Non-Performing Loans and Impairment Assessment Policy**

Non-performing loans comprise loans where the payment of principal is past due and interest is past due for more than 30 days. When a loan is placed on non-accrual status, contractual interest income is not recognised in the Bank's accounting records. A non-accrual loan is restored to accrual status when all arrears have been paid and it is considered likely that the customer will continue timely performance. A non-accrual loan may also be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured of collection, such as in the case when all amounts due under a loan are fully collateralised by cash or marketable securities and actions have commenced to foreclose on the collateral.

As at 30 June 2004, the aggregate amount of loans deemed to be impaired and on which interest accrual was overdue totaled KZT 1,574 million, compared to KZT 1,774 million as at 31 December 2003. As at 31 December 2001 and 2002, such loans totaled KZT 492 million and KZT 2,361 million, respectively. As at 30 June 2004, the percentage of non-performing loans to gross loans was 0.5%, while, as at 31 December 2003, the percentage of non-performing loans to gross loans was 0.7%, compared to 0.4% as at 31 December 2001 and 1.8% as at 31 December 2002.

The loan classifications described above are used to determine the adequacy of the allowance for loan impairment and the adequacy of the allowance for other assets and off-balance sheet risks. Calculation of loan provisions is carried out on a monthly basis. Consistent with general practice in the banking industry in Kazakhstan, allowances are established by applying a percentage rate for the aggregate amount of each loan classification. The Bank estimates allowances for impairment based on the difference between the discounted expected future cash flows from loans and the carrying amounts of loans. In order to establish adequate allowances for loan impairment, other assets and off-balance sheet contingent liabilities, the Bank uses the following impairment rates, which are based on NBK and FMSA regulations and result in allowances for losses that are substantially consistent with IFRS:

<b>Loan Classification</b>	<b>Provision Requirement</b>
Unclassified loans .....	0 to 10%
Classified loans	
Unsatisfactory .....	20 to 25%
Doubtful.....	50%
Loss.....	100%

The Bank makes 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. Accordingly, the actual provision levels may differ from the above provisioning rates.

The following table sets out certain information relating to the Bank's gross loans and impairment charge as at the dates indicated:

	Six-month period ended 30 June 2004			Year ended 31 December 2003		
	Gross Loans	Total Impairment Allowance	Percentage Reserved	Gross Loans	Total Impairment Allowance	Percentage Reserved
	<i>(KZT millions, unaudited)</i>			<i>(KZT millions)</i>		
<b>Impairment rates</b>						
0% up to 5%.....	197,490	4,199	2.1%	136,327	3,478	2.6%
5% up to 10%.....	81,851	5,021	6.1%	93,583	5,270	5.6%
20% up to 25%.....	6,571	1,479	22.5%	13,415	2,909	22.7%
25% up to 50%.....	10,029	5,387	53.7%	2,051	1,100	53.6%
100%.....	2,648	2,648	100.0%	2,514	2,514	100.0%
Gross loans/allowance ....	298,589	18,734	6.3%	247,620	15,271	6.2%
Accrued interest .....	9,724			7,498		
	<b>308,313</b>			<b>255,118</b>		

As at 30 June 2004, loans, net of interest, increased by 20.6% to KZT 298,589 million from KZT 247,620 million in 2003. The allowance for loan impairment increased by 22.7% to KZT 18,734 million as at 30 June 2004 from KZT 15,271 million as at 31 December 2003, principally as a result of the increase in loans.

Total classified loans as at 30 June 2004 increased by 8.7% to KZT 19,248 million from KZT 17,710 million as at 31 December 2003. Loans classified as doubtful increased by 389% times to KZT 10,029 million as at 30 June 2004 from KZT 2,051 million as at 31 December 2003. This increase in doubtful loans was principally attributable to the impairment of asset quality in relation to certain borrowers.

The Bank undertakes the following actions with regard to bad loans: (i) develops an action plan for collection of such loans; (ii) conducts an audit of the relevant company's financial results and activities; (iii) approves a debt repayment schedule considered to be realistic by both the Bank and the borrower; (iv) continuously monitors financial flows of the relevant companies; and (v) requires additional collateral to secure such loans. Loans classified as bad loans or loss remained relatively level at KZT 2,648 million as at 30 June 2004, compared to KZT 2,514 million as at 31 December 2003. As at 30 June 2004, the ratio of the Bank's impairment charges to total loans, net of interest, was 6.3%, compared to 6.2% as at 31 December 2003.

#### Write-off Policy

The Bank writes-off loans that are past due by 180 days or more or at such earlier time as it is evident that a loss has been sustained and no amounts will be collected. Once a loan has been written-off or fully provisioned, the Security Department and Security Appraisal Group of the Bank will commence monitoring the loan and its collateral for a five year period.

The following table sets out an analysis of the Bank's reserve for loan impairments for the periods indicated:

	Six-month period ended 30 June 2004	Year ended 31 December		
		2003	2002	2001
	<i>(KZT millions, unaudited)</i>	<i>(KZT millions)</i>		
Beginning reserve balance .....	15,271	10,166	6,474	2,905
Impairment charge for losses .....	6,066	10,391	7,184	5,838
Net write-offs				
Write-offs.....	(3,929)	(6,762)	(3,763)	(3,227)
Recoveries .....	1,326	1,476	271	958
	<b>(2,603)</b>	<b>(5,286)</b>	<b>(3,492)</b>	<b>(2,269)</b>
<b>Ending reserve balance .....</b>	<b>18,734</b>	<b>15,271</b>	<b>10,166</b>	<b>6,474</b>

Write-offs in the first half of 2004 decreased by 21% to KZT 3,929 million, compared to write-offs of KZT 4,975 million in the same period in 2003, after having increased by KZT 2,999 million or 80% in 2003, compared to KZT 3,763 million as at 31 December 2002 from KZT 3,227 million as at 31 December 2001. Write-offs increased in 2003, compared to 2002, and in 2002, compared to 2001, in line with the overall growth in the Bank's loan portfolio. In 2003, the increase in write-offs was also due to several problem loans that were identified in the latter part of 2002. While management actively tried to correct these problems, these loans were eventually written off in 2003.

The following table sets forth certain ratios of the Bank's write-offs for periods indicated:

	Six-month period ended 30 June 2004	Year ended 31 December		
		2003	2002	2001
		(%)		
Percentage of net write-offs to gross loans .....	0.8	2.1	2.5	1.9
Percentage of net write-offs to the opening reserve balance .....	17.0	52.0	53.9	78.1
Percentage of recoveries to write-offs .....	33.7	21.8	7.2	29.7

In 2001, 2002 and 2003, net write-offs as a percentage of gross loans remained relatively constant at 1.9%, 2.5% and 2.1%, respectively, and then decreased to 0.8% for the six months ended 30 June 2004. Net write-offs as a percentage of the opening reserve balance have continually decreased over the period.

The ratio of recoveries to write-offs in 2001, 2002 and 2003 has fluctuated. It is difficult to assess the reasons for this fluctuation due to the timing of a write-off and the date when a recovery is made. The discounting of bad loans is not permitted in Kazakhstan and, accordingly, the Bank must pursue other methods of recovery. There is no industry concentration among the Bank's bad debts. The Bank continues to concentrate on improving its collection ratio, although no assurance can be made that any significant improvement will be achieved.

## SELECTED STATISTICAL AND OTHER INFORMATION

### Average Balances

The following table sets out certain information as to average balances of the Group's assets and liabilities for the periods indicated based upon the average of the balances as at the first and last days of such periods, respectively:

	Average Balance for the six-month period ended 30 June		Average Balance for the years ended 31 December		
	2004	2003	2003	2002	2001
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		
<b>Average Assets</b>					
Cash and equivalents .....	14,327	18,469	16,922	18,889	12,113
Obligatory reserves .....	4,296	2,608	3,219	3,708	3,567
Due from other banks .....	9,771	8,199	12,609	5,485	75
Trading securities .....	76,797	50,948	46,836	24,956	13,002
Held-to-maturity securities ..	25,547	19,192	22,961	9,817	-
Gross loans .....	273,105	151,935	191,220	124,789	85,732
Impairment charge .....	(17,071)	(9,772)	(12,718)	(8,320)	(4,805)
Accrued interest .....	8,611	3,982	5,293	2,764	1,941
Premises and equipment .....	6,805	6,450	6,634	5,982	5,220
Other assets .....	8,379	7,752	6,300	3,345	1,403
<b>Total average assets .....</b>	<b>410,567</b>	<b>259,763</b>	<b>299,276</b>	<b>191,415</b>	<b>118,248</b>
<b>Average liabilities and shareholders' equity</b>					
Amounts owed to the Government and the NBK .....	5,105	2,724	3,925	2,554	1,600
Due to other banks and financial institutions .....	109,435	55,558	85,829	48,851	30,099
Amounts owed to customers	159,383	120,439	122,491	93,383	63,971
Debt securities issued .....	90,943	48,727	52,397	22,298	6,655
Accrued interest payable .....	4,750	2,591	2,478	1,632	1,252
Other liabilities .....	6,440	7,796	5,767	4,488	2,072
<b>Total average liabilities .....</b>	<b>376,056</b>	<b>237,835</b>	<b>272,887</b>	<b>173,206</b>	<b>105,649</b>
Minority interest .....	1,248	1,026	1,170	910	711
<b>Average shareholders' equity .....</b>	<b>33,263</b>	<b>20,902</b>	<b>25,219</b>	<b>17,299</b>	<b>11,888</b>
<b>Average liabilities and shareholders' equity .....</b>	<b>410,567</b>	<b>259,763</b>	<b>299,276</b>	<b>191,415</b>	<b>118,248</b>

The following table shows the Group'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 relevant period:

	Six-month period ended			Year ended 31 December								
	30 June			2003		2002		2001				
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate			
	<i>(KZT millions, unaudited, except percentages)</i>											
<b>Assets</b>	<i>(KZT millions, except percentages)</i>											
Interest-earning deposits .....	9,771	352	7.2%	12,609	298	2.4%	12,353	372	3.0%	5,602	219	3.9%
KZT .....	4,839	132	5.4%	9,157	228	2.5%	1,667	74	4.4%	247	18	7.3%
Foreign currency .....	4,932	221	9.0%	3,452	70	2.0%	10,686	298	2.8%	5,355	201	3.8%
Securities:.....	102,344	2,495	4.9%	69,797	4,257	6.1%	34,773	2,818	8.1%	13,002	1,422	10.9%
KZT .....	24,030	351	2.9%	12,288	993	8.1%	13,222	1,407	10.6%	8,680	1,028	11.8%
Foreign currency .....	78,314	2,144	5.5%	57,509	3,264	5.7%	21,551	1,411	6.6%	4,322	394	9.1%
Loans:.....	273,105	19,530	14.3%	191,220	26,263	13.7%	124,789	19,178	15.4%	85,732	14,004	16.3%
KZT .....	86,080	7,791	18.1%	56,130	10,990	19.6%	27,798	5,235	18.8%	24,133	5,968	24.7%
Foreign currency .....	187,025	11,738	12.6%	135,090	15,273	11.3%	96,991	13,943	14.4%	61,599	8,036	13.1%
<b>Total interest-earning assets</b> .....	<b>385,220</b>	<b>22,377</b>	<b>11.6%</b>	<b>273,626</b>	<b>30,818</b>	<b>11.3%</b>	<b>171,915</b>	<b>22,368</b>	<b>13.0%</b>	<b>104,336</b>	<b>15,645</b>	<b>15.0%</b>
Cash and non-interest deposits .....	18,625			20,141			15,729			10,153		
Accrued interest .....	8,611			5,293			2,764			1,941		
Impairment charge .....	(17,071)			(12,718)			(8,320)			(4,805)		
Fixed assets .....	6,805			6,634			5,982			5,220		
Other assets .....	8,377			6,300			3,345			1,403		
<b>Total average assets</b> .....	<b>410,567</b>			<b>299,276</b>			<b>191,415</b>			<b>118,248</b>		

	Year ended 31 December													
	Six-month period ended 30 June				2003				2002				2001	
	2004		2003		2002		2001		2000		1999		1998	
Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
<i>(KZT millions, unaudited, except percentages)</i>														
<b>Liabilities and Shareholders' Equity</b>														
Due to Government and NBK .....	5,105	150	5.9%	3,925	408	10.4%	2,554	150	5.9%	1,600	77	4.8%	77	4.8%
KZT .....	4,355	129	5.9%	2,611	283	10.8%	870	78	9.0%	727	63	8.7%	63	8.7%
Foreign currency .....	750	21	5.5%	1,314	125	9.5%	1,684	72	4.3%	873	14	1.6%	14	1.6%
Due to other banks .....	109,435	2,346	4.3%	85,829	3,467	4.0%	48,851	2,386	4.9%	30,099	1,740	5.8%	1,740	5.8%
KZT .....	2,614	145	11.1%	3,176	214	6.7%	1,490	241	6.0%	1,639	5	0.3%	5	0.3%
Foreign currency .....	106,821	2,202	4.1%	82,653	3,253	3.9%	47,361	2,145	4.5%	28,460	1,735	6.1%	1,735	6.1%
Due to customers .....	120,161	3,584	6.0%	90,878	6,177	6.8%	66,192	5,274	8.0%	44,669	3,701	8.3%	3,701	8.3%
KZT .....	48,119	1,641	6.8%	36,320	3,179	8.8%	19,771	2,465	12.5%	11,784	1,940	16.5%	1,940	16.5%
Foreign currency .....	72,042	1,943	5.4%	54,558	2,998	5.5%	46,421	2,809	6.1%	32,885	1,761	5.4%	1,761	5.4%
Debt securities issued .....	90,943	4,784	10.5%	52,397	5,711	10.9%	22,298	2,717	12.2%	6,655	1,153	17.3%	1,153	17.3%
KZT <sup>(2)</sup> .....	7,586	639	16.8%	3,691	58	8.0%	—	—	—	—	—	—	—	—
Foreign currency .....	83,357	4,145	9.9%	48,706	5,653	11.6%	22,298	2,717	12.2%	6,655	1,153	17.3%	1,153	17.3%
<b>Total interest-bearing liabilities</b> .....	<b>325,644</b>	<b>10,864</b>	<b>6.7%</b>	<b>233,029</b>	<b>15,763</b>	<b>6.8%</b>	<b>139,895</b>	<b>10,527</b>	<b>7.5%</b>	<b>83,023</b>	<b>6,671</b>	<b>8.0%</b>	<b>6,671</b>	<b>8.0%</b>
Non-interest-bearing customer accounts .....	39,222			31,613			27,191			19,302				
Other liabilities .....	11,190			8,245			6,120			3,324				
Minority interest .....	1,248			1,170			910			711				
Shareholders equity .....	33,263			25,219			17,299			11,888				
<b>Total average liabilities and shareholders</b> .....	<b>410,567</b>			<b>299,276</b>			<b>191,415</b>			<b>118,248</b>				
Net interest spread <sup>(1)</sup> .....			4.9%			4.5%			5.5%			7.0%		7.0%
Net interest income .....		11,513			15,055			11,841			8,974			8,974
Net interest margin <sup>(1)</sup> .....			6.0%			5.5%			6.9%					8.6%

Notes:

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

(2) Domestic debt was issued in September 2003 and accordingly any average would be meaningless. The rate represents the debenture coupon rate.

## Analysis of Changes in Net Interest Income

The following table provides a comparative analysis of changes in net interest income and expense by reference 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 changes 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								
	30 June 2004/ 31 December 2003			2003/2002			2002/2001		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
	<i>(KZT millions)</i>								
<b>Interest Income</b>									
Interest-earning deposits:									
KZT.....	(108)	143	35	199	(45)	154	66	(10)	56
Foreign currency.....	30	342	371	(110)	(118)	(228)	159	(62)	97
Securities:									
KZT.....	951	(1,242)	(291)	(545)	131	(414)	492	(113)	379
Foreign currency.....	1,186	(161)	1,025	2,188	(335)	1,853	1,157	(140)	1,017
Loans:									
KZT.....	5,870	(1,278)	4,592	5,539	216	5,755	(822)	1,555	(733)
Foreign currency.....	5,869	2,335	8,203	4,719	(3,389)	1,330	5,071	890	5,907
<b>Total interest income.....</b>	<b>13,798</b>	<b>139</b>	<b>13,935</b>	<b>12,303</b>	<b>(1,853)</b>	<b>8,450</b>	<b>7,713</b>	<b>(990)</b>	<b>6,723</b>
<b>Interest Expense</b>									
Due to the Government and the NBK									
KZT.....	18,832	(18,857)	(26)	186	19	205	13	2	15
Foreign currency.....	(54)	(30)	(84)	(21)	65	53	21	37	58
Due to other banks:									
KZT.....	(38)	113	75	(168)	(195)	(27)	0	236	236
Foreign currency.....	943	207	1,150	420	(312)	1,108	939	(592)	410
Due to customers:									
KZT.....	1,038	(935)	103	1,609	(894)	715	1,080	(556)	524
Foreign currency.....	962	(73)	888	463	(274)	189	792	252	1,048
Debt securities:									
KZT.....	312	909	1,221	58	-	58	-	-	-
Foreign currency.....	4,020	(1,382)	2,637	3,071	(135)	2,936	3,913	(2,300)	1,564
<b>Total interest expense ....</b>	<b>26,015</b>	<b>(20,048)</b>	<b>5,964</b>	<b>6,463</b>	<b>(1,284)</b>	<b>5,237</b>	<b>6,761</b>	<b>(2,900)</b>	<b>3,855</b>
<b>Net change in net interest income .....</b>	<b>(12,217)</b>	<b>19,909</b>	<b>7,971</b>	<b>5,841</b>	<b>(2,570)</b>	<b>3,213</b>	<b>953</b>	<b>1,920</b>	<b>2,868</b>

## The Bank's Loan Portfolio

Loans to customers represent the largest part of the Bank's assets. The Bank's gross loan portfolio as at 31 December 2001 was KZT 117,193 million, KZT 137,913 million as at 31 December 2002, KZT 255,118 million as at 31 December 2003 and KZT 308,313 million as at 30 June 2004. See "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 85,732 million in 2001, KZT 124,789 million in 2002, KZT 191,220 million in 2003 and KZT 273,105 million as at 30 June 2004. Lending to corporate clients represented 52.0% of the Bank's total assets as at 30 June 2004, compared to 54.8% as at 31 December 2003, 49.5% as at 31 December 2002 and 60.4% as at 31 December 2001. 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. Loans to individual customers are relatively rare (primarily loans for automobile purchases) as the mortgage lending market in Kazakhstan is still developing. Loans to other banks also represent a small percentage of the Bank's total assets (1.1% as at 30 June 2004, 3.9% as at 31 December 2003 and 4.8% as at 31 December 2002).

The following table sets out certain information relating to the composition of the Bank's loan portfolio, the amount of its contingent liability exposure and loss allowances as at the dates indicated:

	As at 30 June 2004	As at 31 December		
		2003	2002	2001
	(KZT millions, unaudited)	(KZT millions)		
Gross loans.....	298,589	247,620	134,825	114,753
Accrued interest receivable .....	9,724	7,498	3,088	2,440
<b>Total</b> .....	<b>308,313</b>	<b>255,118</b>	<b>137,913</b>	<b>117,193</b>
<b>Classified loans<sup>(1)</sup></b> .....	<b>19,248</b>	<b>17,710</b>	<b>19,272</b>	<b>16,720</b>
<b>Non-performing loans<sup>(2)</sup></b> .....	<b>1,573</b>	<b>1,774</b>	<b>2,361</b>	<b>492</b>
<b>Contingent liabilities</b>				
Commercial letters of credit.....	46,576	45,141	26,507	15,730
Financial guarantees <sup>(3)</sup> .....	34,907	18,648	17,392	7,114
Promissory notes .....	11,316	5,799	4,433	5,164
Undrawn loan commitments .....	39,981	25,443	11,155	3,317
Other contingencies .....	350	–	–	–
<b>Total contingent liabilities</b> .....	<b>133,130</b>	<b>95,031</b>	<b>59,487</b>	<b>31,325</b>
Allowance for impairment				
Allowance for impairment of loans.....	18,734	15,271	10,166	6,474
Allowance for off-balance sheet items .....	483	319	244	49
Other allowance .....	136	339	109	181
<b>Total allowances</b> .....	<b>19,353</b>	<b>15,929</b>	<b>10,519</b>	<b>6,704</b>
<b>Shareholders' equity</b> .....	<b>35,842</b>	<b>30,683</b>	<b>19,755</b>	<b>14,842</b>
Classified loans/gross loans .....	6.4%	7.2%	14.3%	14.6%
Non-performing loans/gross loans .....	0.5%	0.7%	1.8%	0.4%
Loan allowance/classified loans.....	97.3%	86.2%	52.8%	38.7%
Loan allowance/non-performing loans.....	1,191%	860.8%	431.0%	1,316.0%
Loan allowance/gross loans .....	6.3%	6.2%	7.5%	5.6%

Notes:

- (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) Financial guarantees do not include the guarantees given by the Bank in favour of TuranAlem Finance B.V. in respect of its eurobonds issued in 2001, 2002, 2003 and 2004.

### Loans by Type

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, and for trade finance.

The following table sets out certain information relating to the Bank's loan portfolio (including advances and accrued interest) by reference to the type of loan, as at the dates indicated:

	As at 30 June 2004		As at 31 December					
			2003		2002		2001	
	(KZT millions, unaudited)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Working capital finance.....	163,159	52.9	132,553	51.96	116,491	84.5	95,357	81.4
Fixed asset purchase (excluding real estate) ..	35,888	11.6	32,895	12.89	4,039	2.9	4,417	3.8
Construction and repair ...	21,613	7.0	22,610	8.86	816	0.6	7,422	6.3
Consumer loans .....	26,762	8.7	20,953	8.21	9,182	6.7	3,813	3.3
Other .....	60,891	19.8	46,107	18.08	7,385	5.3	6,184	5.3
<b>Total (including accrued interest) .....</b>	<b>308,313</b>	<b>100.0</b>	<b>255,118</b>	<b>100.0</b>	<b>137,913</b>	<b>100.0</b>	<b>117,193</b>	<b>100.0</b>

### Loans by Type of Borrower

The following table set out certain information relating to the Bank's commercial loan portfolio (including advances and accrued interest) by reference to the type of borrower, as at the dates indicated:

	As at 30 June 2004		As at 31 December					
			2003		2002		2001	
	(KZT millions, unaudited)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Private companies (corporates) .....	275,423	89.3	219,838	86.2	121,186	87.9	98,405	84.0
Individuals .....	30,881	10.0	27,222	10.7	12,765	9.3	5,785	4.9
State companies .....	1,432	0.5	7,506	2.9	801	0.6	1,230	1.0
State budget or local authorities .....	351	0.1	518	0.2	706	0.5	815	0.7
Other .....	226	0.1	34	0.0	2,455	1.8	10,958	9.4
<b>Total .....</b>	<b>308,313</b>	<b>100.0</b>	<b>255,118</b>	<b>100.0</b>	<b>137,913</b>	<b>100.0</b>	<b>117,193</b>	<b>100.0</b>

The Bank inherited a large corporate customer base from its predecessor, Alem Bank and Turan Bank, 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 57.0% of total loans as at the time of the Bank's establishment to 99.3% of total loans as at 30 June 2004. The increase in loans to individuals reflects the overall growth of the economy and the resulting improvement in the general welfare of a large number of individuals across Kazakhstan.

The increase in loans to private companies reflects the privatisation of a number of State-owned enterprises by the Government in recent years, as well as a deliberate policy of the Bank. The Bank has identified certain 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 30 June 2004, the Bank's loan portfolio, including accrued interest receivable, comprised KZT 306,304 million to private companies and individuals (99.3%) and KZT 1,783 million to State-owned companies (0.6%). As at 31 December 2003, the Bank's loan portfolio, including accrued interest receivable comprised KZT 247,060 million to private companies and individuals (96.8%) and KZT 8,024 million to State-owned companies (3.1%). As at 31 December 2002, the Bank's loan portfolio, including accrued

interest receivable, comprised KZT 133,951 million to private companies and individuals (97.1%) and KZT 1,507 million to State-owned companies (1.1%).

As at 30 June 2004, the Bank's 10 largest customers accounted for 20.0% of total commercial loans then outstanding, although no single borrower accounted for more than 5.0% of the total loan portfolio.

#### *Loans by Sector*

The following table sets out the composition of the Bank's loan portfolio (including advances and accrued interest), by reference to the economic sector of the borrower, as at the dates indicated:

	As at 30 June 2004		As at 31 December			
	(KZT millions unaudited)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Wholesale trade.....	66,363	22	53,538	21	27,583	20
Agriculture .....	35,602	12	32,506	13	14,547	11
Food industry .....	27,283	9	30,350	12	11,661	8
Oil & gas production.....	17,175	6	29,841	12	11,710	9
Individuals .....	28,794	9	27,222	11	12,765	9
Construction.....	40,393	13	17,863	7	8,495	6
Mining .....	18,290	6	15,242	6	6,124	4
Chemical industry.....	8,951	3	9,254	4	10,161	7
Real estate activities.....	7,171	3	7,173	3	5,602	4
Metallurgical industry.....	2,348	1	7,125	3	1,134	1
Telecommunication.....	4,472	1	4,612	2	335	(*)
Energy .....	4,176	1	3,558	1	3,061	2
Publishing .....	3,209	1	549	(*)	n/a	–
Machinery & adjustment production .....	2,057	1	1,991	1	n/a	–
Hospitality .....	1,213	(*)	362	(*)	n/a	–
Research and Development .....	618	(*)	432	(*)	n/a	–
Transport .....	9,392	3	3,541	1	10,400	8
Retail trade .....	11,728	4	1,480	(*)	6,303	5
Production of rubber and plastics articles.	1,358	(*)	1,243	(*)	1,195	1
Light and leather industry .....	811	(*)	688	(*)	45	(*)
Other .....	16,909	5	6,548	3	6,792	5
<b>Total.....</b>	<b>308,313</b>	<b>100.0</b>	<b>255,118</b>	<b>100.0</b>	<b>137,913</b>	<b>100.0</b>

Note:

(\*) Less than 1.0%.

#### *Loans by Maturity*

The Bank predominantly lends to SMEs for terms ranging from one to three years and to large corporations for longer terms. The Bank expects that demand for longer-term financing from existing customers and other high quality corporate credits will continue to increase and that the maturity profile of the Bank's loan portfolio will, in turn, be lengthened. The terms on which the Bank lends depend, on the one hand, on the Bank's strategic goals and the sources of credit available to the Bank and, on the other hand, on the current state of the Kazakhstan economy, market requirements and the financial condition of the borrower.

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

	As at 30 June 2004		As at 31 December					
			2003		2002		2001	
	(KZT millions unaudited)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Less than 1 year .....	122,980	40	123,431	48	84,085	61	81,196	69
From 1 to 3 years .....	58,839	19	51,795	20	31,492	23	25,748	22
Over 3 years .....	122,224	40	75,056	29	19,743	14	8,451	7
Past Due .....	4,270	1	4,836	3	2,593	2	1,798	2
<b>Total .....</b>	<b>308,313</b>	<b>100.0</b>	<b>255,118</b>	<b>100.0</b>	<b>137,913</b>	<b>100.0</b>	<b>117,193</b>	<b>100.0</b>

Note:

(\*) Less than 1.0%.

#### Loans by Geographic Location

The following table sets out certain information relating to the Bank's loan portfolio (including advances and accrued interest) by reference to the geographic location of the Borrower, as at the dates indicated:

	As at 30 June 2004		As at 31 December 2003	
	(KZT millions, unaudited)	(%)	(KZT millions)	(%)
Almaty .....	75,207	24.4	62,035	24.3
Astana .....	21,553	7.0	21,582	8.5
CIS and other countries .....	60,368	19.6	38,914	15.3
West region .....	49,680	16.1	45,244	17.7
East region .....	34,555	11.2	31,948	12.5
North region .....	31,212	10.1	24,258	9.5
South region .....	27,965	9.1	24,934	9.8
Central region .....	7,773	2.5	6,203	2.4
<b>Total .....</b>	<b>308,313</b>	<b>100.0</b>	<b>255,118</b>	<b>100.0</b>

#### Collateralisation of Loan Portfolio

The Bank estimates that it holds collateral with a value in excess of the principal amount of its loan portfolio. While Kazakhstan has promulgated a law on the foreclosure of assets, historically the Bank has generally not 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."

	Six-month period ended 30 June 2004		Year ended 31 December 2003	
	(KZT millions, unaudited)	(%)	(KZT millions)	(%)
Collateralised .....	303,524	98.4	251,159	98.4
Uncollateralised .....	4,789	1.6	3,959	1.6
<b>Total loans .....</b>	<b>308,313</b>	<b>100.0</b>	<b>255,118</b>	<b>100.0</b>

### Credit Exposure other than Loans

As at 30 June 2004, the Bank was exposed to other credit risks consisting of financial instruments with off-balance sheet risk in the aggregate amount of KZT 132,935 million, including commitments to extend credit of KZT 39,981 million, financial guarantees and promissory notes of KZT 46,223 million and commercial letters of credit of KZT 46,576 million. As at 30 June 2004, the Bank held open forward contracts for the total amount of KZT 10,454 million.

As at 31 December 2003, the aggregate amount of credits and financial instruments with off-balance sheet risk amounted to KZT 95,031 million (including commitments to extend credit of KZT 25,443 million, financial guarantees and promissory notes of KZT 24,447 million and commercial letters of credit of KZT 45,141 million). As at 31 December 2003, the Bank entered into open forward contracts of KZT 12,478 million. As at 31 December 2002 and 2001, total off-balance sheet commitments amounted to KZT 59,487 million and KZT 31,325 million.

As at 30 June 2004 and 31 December 2003, 2002 and 2001, the Bank had established allowances for losses with respect to off-balance sheet risks of KZT 483 million, KZT 319 million, 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”.

### Investments

The increasing level of investments over the period reflects the Bank’s strategy to diversify its asset base and thereby spread related risks.

#### Trading Portfolio

Securities purchased with the intention of recognising short-term profits, which consists primarily of debt securities, but also include some equity securities, 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 valued at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter.

The following table sets out certain information relating to the Bank’s portfolio of trading securities as at the dates indicated:

	As at 30 June 2004			As at 31 December 2003		
	Amount	Interest Rate %	Maturity	Amount	Interest Rate %	Maturity
	(KZT millions, unaudited)			(KZT millions)		
Bonds of international financial organizations ..	45,030	2.4% - 7.1%	2005 - 2013	37,473	4.4% - 7.1%	2005 - 2013
Notes of NBK .....	21,306	4.9% - 5.2%	2005	6,683	5.0% - 5.5%	2004
Treasury bills of the Ministry of Finance .....	12,933	5.8% - 8.3%	2004 - 2014	3,800	6.1% - 16.9%	2004 - 2008
Sovereign bonds of the Republic of Kazakhstan	8,263	11.1% - 13.6%	2004 - 2007	9,605	11.1% - 13.6%	2004 - 2007
Corporate bonds .....	3,313	7.4% - 11.5%	2005 - 2013	3,555	7.4% - 13.0%	2004 - 2013
Municipal bonds .....	1,067	8.5% - 8.6%	2005 - 2008	33	6.3% - 8.6%	2004 - 2006
Equity securities of Kazakhstani banks and financial institutions .....	90			442		
<b>Trading securities .....</b>	<b>92,002</b>			<b>61,591</b>		
Subject to repurchase agreements .....	12,497			15,773		

### Held-to-Maturity Investment 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.

The following table sets out certain information relating to the Bank's portfolio of held-to-maturity securities as at the dates indicated:

	As at 30 June 2004		As at 31 December 2003	
	Carrying value	Nominal value	Carrying value	Nominal value
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>	
Bonds of international financial organizations .....	24,807	23,285	26,288	24,611

Bonds of international financial organisations held by the Bank included securities of the International Bank of Reconstruction and Development ("IBRD"), Council of Europe Development Bank ("CEDB"), Asian Development Bank ("ADB"), Inter-American Development Bank ("IADB") and European Association of Project Development ("EuroFIMA") bearing interest at rates ranging from 4.375% to 6.125% per annum and maturing between 2011 and 2013.

### Funding Sources

The Bank's principal sources of funding include domestic customer deposits, amounts due from other banks and financial institutions and debt securities issued. The Bank believes that its strong presence in the corporate banking market gives it a competitive advantage over other banks in Kazakhstan in deposit-taking, as a result of which it has generally managed to maintain a relatively high share of the market for corporate deposits and current account balances during recent years. In 2003, the Bank increased domestic deposits as the primary source of its funding and, in particular, leveraged its large retail customer base to increase individual demand and term deposits. Total demand and term deposits increased to KZT 41,708 million and KZT 96,579 million, respectively, in 2003 from KZT 39,736 million and KZT 64,936 million in 2002 and KZT 27,010 and KZT 52,041, respectively, in 2001. In the first half of 2004, demand deposits and term deposits increased further to KZT 59,467 million and KZT 116,618 million.

The following table sets out certain information relating to the Bank's sources of funding as at the dates indicated:

	As at 30 June 2004		As at 31 December					
			2003		2002		2001	
	<i>(KZT millions, unaudited)</i>		<i>(KZT millions)</i>		<i>(KZT millions)</i>		<i>(KZT millions)</i>	
		(%)		(%)		(%)		(%)
Customer deposits								
Term .....	116,618	28.4	96,579	28.3	64,936	31.7	52,041	36.7
Demand .....	59,467	14.5	41,708	12.2	39,736	19.4	27,010	19.1
Other .....	3,458	0.8	937	0.3	1,085	0.5	1,957	1.4
	<b>179,543</b>	<b>43.7</b>	<b>139,224</b>	<b>40.8</b>	<b>105,757</b>	<b>51.6</b>	<b>81,008</b>	<b>57.2</b>
Bank borrowings .....	108,225	26.3	120,857	35.4	58,653	28.6	44,156	31.2
Debt securities issued .....	108,380	26.4	73,507	21.6	31,286	15.3	13,310	9.4
Other liabilities .....	14,915	3.6	7,463	2.2	9,031	4.5	3,212	2.2
<b>Total .....</b>	<b>411,063</b>	<b>100.0</b>	<b>341,051</b>	<b>100.0</b>	<b>204,727</b>	<b>100.0</b>	<b>141,686</b>	<b>100.0</b>

### Customer Deposits

Customer deposits represent the largest part of the Bank's funding sources. The Bank believes these funds are relatively insensitive to short-term fluctuations in interest rates and more dependent on the Bank's ability to provide a good level of customer service and an alternative range of banking products and services. As at 31 December 2003, the Bank had total deposits of KZT 139,224 million, representing 14.3% of the total deposits in the banking system. As at 31 December 2003, deposits from corporate customers comprised 50.8% of total deposits, while retail deposits comprised 49.2% of total deposits, resulting in the Bank having a 20.8% market share of the retail banking sector at that date. As at 30 June 2004, the Bank had total customer deposits of KZT 179,543 million, of which 56.7% were corporate deposits and 43.3% were individual deposits.

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 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 accounts offered by the Bank. As at 31 December 2003, rates on Tenge based term accounts offered by the Bank to corporate customers ranged between 1.0% and 12.3%, while the interest rates paid on U.S. Dollar accounts ranged between 1.0% and 12.0%. As at 30 June 2004, interest rates on term deposits offered by the Bank to corporate customers on Tenge deposits had declined to between 0.1% and 8.5%, while the interest rates paid on U.S. Dollar accounts had declined to between 0.1% and 6.0%.

#### *Deposits by Currency*

The average balances of foreign currency customer deposits accounted for 58.2%, 58.5% and 51.9% of total average balances of customer deposits for 2001, 2002 and 2003, respectively. Customer deposits in foreign currencies are substantially denominated in U.S. Dollars.

The following table sets out certain information relating to customer deposits in Tenge and foreign currency, by amount and as a percentage of the total amount owed to customers, as at the dates indicated:

	As at 30 June 2004		As at 31 December					
			2003		2002		2001	
	<i>(KZT millions, unaudited)</i>	(%)	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)
Foreign currency.....	92,508	51.0	71,275	51.0	56,733	53.0	53,858	65.7
Tenge accounts .....	88,760	49.0	69,043	49.0	50,077	47.0	28,114	34.3
	<b>181,268</b>	<b>100.0%</b>	<b>140,318</b>	<b>100.0%</b>	<b>106,810</b>	<b>100.0%</b>	<b>81,972</b>	<b>100.0%</b>

#### *Deposits by maturity*

The following table sets out certain information relating to the maturity profile of the Group's customer deposits as at the dates indicated:

	As at 30 June 2004		As at 31 December					
			2003		2002		2001	
	<i>(KZT millions, unaudited)</i>	(%)	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)
<b>On demand.....</b>	10,864.0		9,890.9		7,171.8		4,435.9	
Less than 1 month.....	1,854.0	2.8	1,404.9	2.4	896.0	2.0	367.2	1.2
Between 1 and 3 month...	8,190.9	12.3	7,793.1	13.3	7,545.7	16.5	5,523.5	17.4
Between 3 months and 1 year.....	24,157.5	36.3	25,509.7	43.5	21,213.7	46.4	19,032.7	60.0
Between 1 and 5 years .....	30,773.4	46.3	23,670.1	40.4	16,067.6	35.1	6,790.6	21.4
Over 5 years.....	1,550.4	2.3	227.3	0.4	2.6	0.01		
<b>Total (savings) .....</b>	<b>66,526.2</b>	<b>100.0</b>	<b>58,605.1</b>	<b>100.0</b>	<b>45,725.6</b>	<b>100.0</b>	<b>31,714.0</b>	<b>100.0</b>
<b>TOTAL (demand + savings) .....</b>	<b>77,390.2</b>		<b>68,496.0</b>		<b>52,897.4</b>		<b>36,149.9</b>	

### Deposits by Type of Accounts

The following table sets out the balances of the Group's customer deposits, by type, as at the dates indicated:

	As at 30 June	As at 31 December		
	2004	2003	2002	2001
	(KZT millions, unaudited)		(KZT millions)	
Corporate deposits .....	91,762	55,600	39,254	33,263
Individual deposits (retail).....	77,744	68,496	52,986	36,149
State and budgetary deposits.....	6,579	9,251	12,384	10,097
Other .....	3,458	5,877	1,133	1,499
	<b>179,543</b>	<b>139,224</b>	<b>105,757</b>	<b>81,008</b>

### Bank Loans and Similar Financings

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

	As at 30 June	As at 31 December		
	2004	2003	2002	2001
	(KZT millions, unaudited)		(KZT millions)	
Interest-bearing placements from an OECD-based bank .....	–	–	–	4,055
Interest-bearing placements from a non- OECD-based bank .....	341	288	78	–
Interest-bearing placements from Kazakhstan banks.....	1,528	8,490	856	2,028
Correspondence loan accounts.....	214	1,583	694	559
Pass-through loans.....	3,894	3,856	6,846	2,973
Loans from Kazakhstan banks and financial institutions .....	926	3,402	2,302	2,103
Loans from non-Kazakhstan banks and financial institutions .....	56,787	49,893	33,747	19,866
Syndicated bank loans .....	39,502	48,168	11,455	10,139
<b>Total .....</b>	<b>103,192</b>	<b>115,680</b>	<b>55,978</b>	<b>41,723</b>

The following sets forth a summary description of the terms of the principal debt facilities under which the Bank is a borrower and/or guarantor as at the date of this Offering Circular:

#### The 2003 EBRD Facility

On 27 February 2003, the Bank entered into a four year, unsecured loan agreement with the European Bank for Reconstruction and Development (the "EBRD"), pursuant to which the Bank was permitted to draw up to U.S.\$30 million (consisting of an 'A loan' in the amount of up to U.S.\$10 million and a 'B loan' in the amount of up to U.S.\$20 million) for general corporate purposes (the "2003 EBRD Facility"). The 2003 EBRD Facility was fully drawn down in August 2004.

The loan identified under the EBRD Facility as the 'A loan' bears interest on its outstanding principal balance at the rate of LIBOR plus 3.8% and the loan identified under the EBRD Facility as the 'B loan' bears interest on its outstanding principal balance at the rate of LIBOR plus 3.05%. The Bank is entitled to repay the 2003 EBRD Facility at any time in full or in part. In addition, EBRD is entitled to require the Bank to pre-pay all of the then outstanding portion of the 'B loan' at any time after 27 February 2005.

As at 22 November 2004, the outstanding principal balance of the 2003 EBRD Facility was U.S.\$30 million, including U.S.\$10 million under the 'A loan' and U.S.\$20 million under the 'B loan'. The Bank intends to fully repay the 2003 EBRD Facility at its stated final maturity on 27 February 2007.

### *The JBIC Facility*

On 1 April 2004, the Bank entered into an unsecured loan agreement with the Japan Bank for International Cooperation (“JBIC”) and UFJ Bank Limited, pursuant to which the Bank was permitted to draw up to U.S.\$30 million (consisting of Tranche A loans in the aggregate amount of up to U.S.\$18 million and Tranche B loans in the aggregate amount of up to U.S.\$12 million) for the purpose of funding loans to the Bank’s clients to finance up to 85% of the cost of certain goods or services imported under contracts approved by JBIC (the “JBIC Facility”).

Tranche A loans under the JBIC Facility bear interest on their respective outstanding principal balances at the rate which is the sum of (i) the rate which would be applied by JBIC to Japanese officially supported US Dollar-denominated export credits to borrowers in Kazakhstan (being the Commercial Interest Reference Rate as agreed from time to time among the OECD member countries; the “CIRR”) and (ii) a risk premium required to be charged pursuant to applicable OECD guidelines in effect at the time of the approval of the relevant export contract by JBIC. JBIC may, from time to time, in its sole discretion, adjust the risk premium applicable to any Tranche A loan. Tranche B loans under the JBIC Facility with maturities in excess of four years bear interest on their respective outstanding principal balances at the rate of LIBOR plus 0.56%, while Tranche B loans maturing within four years bear interest on their respective outstanding principal balances at the rate of LIBOR plus 0.54%.

As at 22 November 2004, the Bank had not drawn down any amounts under the JBIC Facility.

### *The Mashreqbank Facility*

On 20 September 2004, the Bank entered into a one-year, unsecured loan agreement with a syndicate of foreign banks led by Mashreqbank psc and Abudhabi Commercial Bank (the “Mashreqbank Lenders”), pursuant to which the Bank was permitted to draw up to U.S.\$25 million for the purpose of funding of loans to two of the Bank’s specific corporate clients to finance specific export contracts (the “Mashreqbank Facility”). The Mashreqbank Facility was fully drawn down in October 2004.

The outstanding principal balance under the Mashreqbank Facility bears interest at the rate of LIBOR plus 1.3%.

The Bank is entitled to repay the Mashreqbank Facility at any time in full or in part. As at 22 November 2004, the outstanding principal balance of the Mashreqbank Facility was U.S.\$25 million. The Bank intends to fully repay the Mashreqbank Facility in 2005.

### *The Citi/Deutsche Bank Facility*

On 1 August 2003, the Bank entered into an unsecured loan agreement with a syndicate of foreign banks led by Citibank International plc and Deutsche Bank AG London, which has been amended on a number of occasions, including most recently on 23 August 2004 (as amended and restated, the “Citi/Deutsche Bank Facility”). Pursuant to the Citi/Deutsche Bank Facility, the Bank was permitted to draw up to U.S.\$360.25 million in two tranches, consisting of a “tranche A loan” in an amount up to U.S.\$250 million and a “tranche B loan” in an amount up to U.S.\$110.25 million, for the purposes of effecting the repayment of a then outstanding U.S.\$50 million facility advanced by the same lenders and funding loans to the Bank’s clients to finance certain contracts designated by agreement between the Bank and Deutsche Bank.

As at 22 November 2004, the outstanding principal balance under the tranche A loan under the Citi/Deutsche Bank Facility was U.S.\$250 million. The tranche A loan matures on 29 July 2005. The tranche A loan bears interest on its outstanding principal balance at the rate of LIBOR plus 1.5%

The maturity of the tranche B loan under the Citi/Deutsche Bank Facility, which was initially 1 February 2005, has been extended, pursuant to the terms of the Citi/Deutsche Bank Facility, for a further 364-day period to 1 February 2006. As at 9 November 2004, the outstanding principal balance under the tranche B loan was U.S.\$110.25 million. The tranche B loan bears interest on its outstanding principal balance at the rate of LIBOR plus 2.5%.

The Bank is entitled to repay both the tranche A loan and the tranche B loan under the Citi/Deutsche Bank Facility at any time in full or in part. The Bank intends to fully repay the outstanding principal amounts under the Citi/Deutsche Bank Facility upon their respective maturities.

### *The Bank of Tokyo Facility*

On 23 September 2004, the Bank entered into an unsecured loan agreement with a syndicate of foreign banks led by Bank of Tokyo-Mitsubishi, Ltd (the “Bank of Tokyo”), pursuant to which the Bank was permitted to draw up to U.S.\$20 million for the purpose of funding or refinancing loans to certain of the Bank’s customers to fund such customers’ obligations under various trade contracts (the “Bank of Tokyo Facility”). The Bank of Tokyo Facility was fully drawn down in October 2004.

The outstanding principal balance under the Bank of Tokyo Facility bears interest at the rate of LIBOR plus 1.5%.

The Bank is entitled to repay the Bank of Tokyo Facility at any time in full or in part. The Bank is required to repay a portion of the loan in the amount of U.S.\$10 million within 18 months from the drawdown date (i.e., in April 2006). As at 22 November 2004, the outstanding principal balance of the Bank of Tokyo Facility was U.S.\$20 million. The Bank intends to fully repay the Bank of Tokyo Facility as required in 2006.

### *The India Exim Facility*

On 27 February 2004, the Bank entered into an unsecured revolving facility agreement with the Export-Import Bank of India, pursuant to which the Bank was permitted to draw loans for a term of up to five years each in an aggregate amount of up to U.S.\$10 million outstanding from time to time for the purpose of securing letters of credit to fund purchases by the Bank’s customers of certain goods from India (the “India Exim Facility”).

Loans drawn under the India Exim Facility bear interest on their respective outstanding principal balances depending on their maturities at the following rates: loans maturing within one year – LIBOR plus 1.5%; loans maturing after one year but within three years – LIBOR plus 2%; and loans maturing after three years but within five years – LIBOR plus 2.5%.

As at 22 November 2004, the Bank had not drawn down any amounts under the India Exim Facility.

### *The Nordbank Facility*

On 19 August 2004, the Bank entered into an unsecured loan facility agreement with HSH Nordbank AG (the “Nordbank”), pursuant to which the Bank was permitted to draw up to U.S.\$18 million for the pre-export financing of grain deliveries in 2004 and 2005 under certain grain delivery contracts (the “Nordbank Facility”) in two tranches, consisting of tranche 1 loans in an aggregate amount up to U.S.\$9 million for a term of 12 months and tranche 2 loans in an aggregate amount up to a further U.S.\$9 million for a term of 18 months. Amounts were drawn down under the Nordbank Facility in September 2004.

Tranche 1 loans under the Nordbank facility bear interest on their outstanding principal balance at the rate of LIBOR plus 2.15%, while tranche 2 loans bear interest on their outstanding principal balance at the rate of LIBOR plus 2.40%.

As at 22 November 2004, the outstanding principal balance of the Nordbank Facility was U.S.\$18 million, including U.S.\$9 million in tranche 1 loans and U.S.\$9 million in tranche 2 loans. The Bank intends to fully repay the tranche 1 loans and the tranche 2 loans under the Nordbank Facility when due 12 months and 18 months, respectively, after the initial drawdown date (i.e., in September 2005 and March 2006, respectively).

### *Other On-Lending Trade Finance Facilities*

The Bank regularly enters into various other inter-bank facilities with foreign banks and Kazakhstan subsidiaries of foreign banks, pursuant to each of which the Bank is permitted to draw moderate amounts in foreign currency (typically ranging between U.S.\$0.25 million to U.S.\$3.5 million or the equivalent in the relevant currency) for the purpose of on-lending funds to a specific corporate client of the Bank typically with a view to financing 85% of value of a specific import contract (the “On-Lending Trade Finance Facilities”). As at the date of this Offering Circular, the Bank maintains On-Lending Trade Finance Facilities with, *inter alia*, JPMorgan Chase Bank, N.A., ABN AMRO Bank N.V., EBRD, HSBC Bank Kazakhstan, Bank Austria Creditanstalt AG (Austria), Garantibank International N.V. (the Netherlands), Ceskolovenská obchodní banka, a.s. (the Czech Republic), Bayerische Hypo-Und Vereinsbank Aktiengesellschaft (Germany) and The Bank of New York.

Whilst most of the On-Lending Trade Finance Facilities are concluded for a six-month term, some provide for maturities of up to five years. The On-Lending Trade Finance Facilities are typically either

unsecured or secured by the Bank's funds held in accounts with the NBK or the Bank's correspondent banks outside Kazakhstan or by letters of credit. The On-Lending Trade Finance Facilities are typically prepayable by the Bank at any time in full or in part.

Typically, loans drawn under the On-Lending Trade Finance Facilities bear interest on their outstanding principal balance at the rate of LIBOR plus a margin of between 0.75% and 3.0% and at the rate of EURIBOR plus a margin of between 0.7% and 1.125% for loans drawn in Euros.

Whilst a number of the On-Lending Trade Finance Facilities provide that default under an On-Lending Finance Facility constitutes an event of default only under the On-Lending Trade Finance Facilities concluded with the same lender, others contain broader cross-default provisions.

As at 22 November 2004, the aggregate outstanding principal balance under the On-Lending Trade Finance Facilities was equivalent to approximately U.S.\$85 million. The Bank intends to continue to fully repay amounts due under the On-Lending Trade Finance Facilities upon their respective maturities.

#### *EBRD/ADB SME Loans*

The Bank 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 Kazakhstan banks for on-lending to small-sized businesses (the "EBRD/ADB SME Loans"). The Bank grants loans to small sized businesses on the basis of its analysis of their creditworthiness under terms and conditions comparable to similar credit facilities.

The Bank draws EBRD/ADB SME Loans for a term of up to 3.5 years. The EBRD/ADB SME Loans drawn by the Bank bear interest on their respective outstanding principal balances at the rate of LIBOR plus 3.0%. The Bank is entitled to repay EBRD/ADB SME Loan at any time in full or in part.

As at 22 November 2004, the outstanding principal balance due under the EBRD/ADB SME Loans was U.S.\$13.6 million. The Bank intends to continue to fully repay the EBRD/ADB SME Loans upon their respective maturities.

#### *Covenants in the facility agreements*

Under various financing agreements, the Bank is obliged to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In addition, in accordance with the term of these facilities, the Bank is required to obtain the approval of the relevant lenders before distributing any dividends (other than share dividends) to holders of its common shares and the lenders are entitled to receive reports on the Bank's compliance with certain of those ratios. As at 30 June 2004, the Bank failed to meet the liquidity ratio required under the 2003 EBRD Facility, but, having been informed of the failure, EBRD did not take any action and, subsequently, delivered a waiver to the Bank in respect of such failure. The failure to meet this liquidity ratio was a temporary result of the Bank's repayment of the 2004 Notes on 28 June 2004, when the measurement date under the covenants immediately followed the repayment date on 30 June 2004. While management believes that the failure was a one-off occurrence, the Bank is negotiating with its lenders to increase the flexibility of the financial tests imposed under certain of its financial agreement (including with EBRD under the 2003 EBRD Facility). Among other things, the Bank has requested that investments in securities of supranational financial institutions be counted as liquid assets, although they have medium or long-term maturities. The Bank measures its compliance with its debt covenant ratios on a quarterly basis after the Bank's quarterly consolidated financial statements are prepared. As at 30 September 2004, the Bank was in compliance with all financial ratios and other covenants imposed on it under any financing agreement under which it is a borrower or guarantor and the Bank is not aware of any incidents or cases of breach of any debt covenants to which it is subject as at the date of this Offering Circular.

#### *The Bank's Guarantee with respect to the Samal Facility*

On 13 July 1999, the Bank's affiliate, LLP Samal Properties ("Samal Properties"), entered into a 7.5-year, non-recourse loan facility with EBRD, pursuant to which Samal Properties was permitted to draw up to U.S.\$9.8 million for the purpose of financing the completion of Samal Towers, the Bank's headquarters in Almaty (the "Samal Facility"). The obligations of Samal Properties under the Samal Facility are secured by a mortgage over the Bank's headquarters.

The Samal Facility was drawn down in the amount of U.S.\$9.27 million in 1999. The loan under the Samal Facility bears interest on its outstanding principal balance at the rate of LIBOR plus 7.0%.

As at 22 November 2004, the outstanding principal balance under the Samal Facility was U.S.\$4.4 million. Samal Properties is entitled to repay the Samal Facility at any time in full or in part. The Bank's management understands that Samal Properties intends to repay the Samal Facility in full upon its final maturity in January 2006.

*Debt Securities*

The Bank has guaranteed the obligations of the Issuer under the following debt securities issued under Rule 144A and Regulation S: the issue of U.S.\$100,000,000 10% Notes due 2007; the issue of the Existing Notes; and the issue of U.S.\$300,000,000 and U.S.\$100,000,000 8% Notes due 2014, which are consolidated and form a single series.

## BUSINESS

### General

The Bank is a leading commercial bank in Kazakhstan, offering a full range of traditional banking products and services, including retail and corporate deposits, promissory notes, bills of exchange, transactions settlement, custody, issuance of payment cards, foreign currency exchange transactions, issuance of bank guarantees and securities, forfeiting, 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. Its business areas include corporate banking, retail banking, trade finance, credit and debit card services, currency and securities trading, trust activities, international banking, pension fund services and insurance activities.

### Structure of the Bank

The Bank's head office is in Almaty and, as at 30 June 2004, the Bank had 22 regional branches, 185 retail units and representative offices in each of Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyzstan; and Shanghai, China. 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 forfeiting operations and transactions with precious metals are conducted by the head office.

The Bank has 20 principal business departments: Corporate (consisting of eight credit departments), Treasury, International Relations, Global Trade Finance, Retail Business, Project Finance, SME, Problem Loan, Financial Institutions, Group of Regional Managers, Security Appraisal Group, CIS Markets and Custody Services. The Bank has various ancillary departments that provide support services.

### Principal Business Activities

#### *Corporate Banking and Trade Finance*

The Bank's corporate business is comprised of eight corporate business departments, which are in charge of commercial lending; the Project Finance Department, which deals with investment projects; and the Department of CIS and Baltic Financing, which is engaged in financing projects in CIS and Baltic countries.

The Bank has a wide range of corporate customers, including many of the country's leading industrial companies. As at 30 June 2004, the Bank had over 43,200 corporate accounts.

A major part of the Corporate Business Department's activities consist of the provision of trade finance and short-term credit facilities, mostly in Tenge and U.S. Dollars, including letters of credit, guarantees and working capital. Since long-term funding is limited in Kazakhstan, the majority of these corporate loan facilities have maturities of less than 12 months, although the Bank does make some medium-term loans and even long-term loans to some of its largest and highest quality corporate customers. As at 30 June 2004, the Bank held a 24.0% share of the corporate lending market. The Bank is also expanding into services such as payroll management, corporate cards and foreign exchange. The Kazakhstan Electricity Grid Operating Company and the Kazakhstan Railways Company are two leading Kazakhstan corporates for 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 relatively 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. As at 30 June 2004, the Bank had over 617,700 individual customer accounts aggregating KZT 181,268 million, making it Kazakhstan's third largest bank in terms of the size of its retail deposit-taking operations and held a 20.8% market share of retail term deposits in Kazakhstan.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, credit and debit cards, currency exchange and ATM services. The Bank is the second largest bank in Kazakhstan measured by number of retail customers (after Halyk Savings Bank, which historically has led the retail banking market as Kazakhstan's former state-owned "savings" bank). Since

1999, the Bank has continued to increase its penetration of the retail banking market and to expand its branch network in regions 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.

As at 30 June 2004, retail deposits amounted to KZT 77,744 million held in approximately 148,123 accounts. As at the date of this Offering Circular, longer-term retail deposits have increased as a percentage of the Bank's total retail deposit base. As at 30 June 2004, deposits with a term of one to three years represented 15.9%, while deposits with a term of more than three years comprised 2.3% of the total retail deposit base.

The Bank has also benefited from an increase of Tenge-denominated deposits from 46.9% of total deposits as at 31 December 2002 to 49.2% as at 31 December 2003. As at 30 June 2004, large deposits (i.e., in excess of U.S.\$10,000) also increased with deposits of an amount between U.S.\$10,000 to U.S.\$100,000 accounting for 31.0% of the term deposit portfolio and deposits in excess of U.S.\$100,000 accounting for 22.5%, compared to 30.6% and 19.1% of total deposits as at 30 December 2003.

The Bank also offers a wide range of consumer lending products: mortgage lending, loans for purchasing automobiles and consumer goods, loans to employees of large corporate customers and loans to the Bank personnel. As at 30 June 2004, total consumer loans were KZT 26,762 million compared to KZT 20,953 million as at 31 December 2003.

In order to further develop mortgage lending, the Kazakhstan Mortgage Loan Guarantee Fund has been set up. Participation in such system of guaranteeing mortgage loans entitles banks and mortgage companies to be secured from losses resulting from the borrower's default under mortgage loans.

As at the date of this Offering Circular, the Bank has a leading market position in offering a wide range of card products, representing a 12.8% share of the market for these cards. The Bank offers 17 different types of cards to its customers, including Visa Gold, Visa Platinum, Visa Virtual, MasterCard Gold, MasterCard Platinum, World Signia and Cirrus Maestro International. As at the date of this Offering Circular, the Bank has issued over 290,668 cards that are in circulation, 2,307 of which are credit cards. 259,874 of the Bank's cards are domestic cards, including 168,775 domestic VISA cards, 40,012 domestic Maestro cards and 51,087 Smart Alem cards, while the remaining 28,487 of the Bank's cards are international VISA cards and MasterCards. The Bank's card processing activities have been outsourced by the Bank to Alem Card Ltd., an independent process center that provides card processing services to the Bank and other similarly situated financial institutions.

#### *Capital Market Operations*

Since Kazakhstan began its privatisation programme in 1992, the country has put in place considerable legal and technical infrastructure to support the domestic capital markets. The Bank is committed to maintaining its position in the local capital markets. During 2003, JSC TuranAlem Securities, the Bank's wholly owned subsidiary, handled approximately 44.7% of trades on the KASE.

JSC TuranAlem Securities' primary activities are 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.

JSC TuranAlem Securities' trading partners include certain major domestic financial institutions, such as Halyk Bank, Kazkommertsbank and Almaty Merchant Bank, as well as affiliates of foreign banks operating in Kazakhstan, such as ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, and 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 Petrokazakhstan, Aktobemunaigas, Maygystanmunaigas, Kazakhmys, Ispat-Karmet and Kazatomprom; the Bank also services some large Russian corporates, such as Prodimpex Group of Companies, Extra M Group of Companies, United Food Company and Income Group of Companies. The Bank organizes medium and long-term import financing not only in Kazakhstan but also in other CIS countries.

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 Bank, N.A., Citibank, N.A., Akbank, Sumitomo Mitsui Banking Corporation and American Express Bank. As a leading trade finance bank in Kazakhstan, the Bank benefits from close cooperation with the major export credit agencies, such as Euler-Hermes Germany, SACE-Italy, EGAP-Czech Republic, Finnvera-Finland, Esportkreditnamnden (EKN)-Sweden, Export Risk Guarantee Agency (ERG)-Switzerland, Office du Ducroire (ODL)-Luxembourg office and Office National du Ducroire (OND)-Belgium and export-import banks, such as EXIM USA, EXIM Korea and Export-Import Bank of Slovakia, among others.

The Bank has expanded its regional presence through the establishment of a network of representative offices. As at the date of this Offering Circular, the Bank maintains representative offices outside Kazakhstan in each of Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyzstan; and Shanghai, China through which it intends to diversify its clientele and the range of banking products in the areas of lending and international trade finance. In 2003, the Bank arranged the first equipment delivery transaction to Russia to be financed by a syndicate of international banks with insurance cover being provided by certain export credit agencies. The Bank's representative office in Shanghai, China, allows the Bank to expand its activities into Asia.

As at 30 September 2004, the Bank also owned a 15.63% interest in Slavinvest Bank, which is based in Moscow, Russia. The Bank's stated policy with respect to Slavinvest Bank is to increase its ownership participation up to 50.0% in step-by-step increments over the medium term, depending on when required approvals are received from the relevant regulators. Application has been made to the NBK to increase the Bank's ownership level to 49.0%; the approval is pending. As at the date of this Offering Circular, the Bank has also entered into a strategic cooperation agreement with Omsk Bank, a small local bank in Russia. Pursuant to this agreement, the Bank is working with Omsk Bank to develop and harmonise the credit policies and risk management and operating systems of the bank. This process is on-going, with the expectation of a re-evaluation of the programme by the end of 2004. While the acquisition of an ownership interest is being considered, and the Bank has an option to purchase up to 19.0% of the share capital of Omsk Bank under the strategic cooperation agreement, there are no immediate plans for committing to this investment. Management does believe, however, that the investment could be beneficial to the Bank as it could afford access to the regional client base with minimal risk and investment. The Bank also has a wholly owned overseas subsidiary in the Netherlands, TuranAlem Finance B.V., which is acting as the Issuer.

#### *Pension Fund Services*

The provision of pension fund services is a growing business in Kazakhstan as a result of government reform in this area in 1998. There are currently eight asset management companies, 15 private pension funds and one state-run pension fund in Kazakhstan. The Group is committed to becoming a leading provider of pension fund services and has an equity share in two pension funds, JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund. As at 30 June 2004, the Group owned 66.0% and 87.8%, respectively, of the share capital of such pension funds.

#### *Insurance Activities*

The insurance market is developing rapidly in Kazakhstan due to improvements in legislative measures, expanded regulatory supervision and the general economic development in Kazakhstan over the past few years. There are approximately 32 insurance companies operating in Kazakhstan. As at 31 December 2003, the total capital of insurance companies was estimated at KZT 8.5 billion. The Bank has a controlling interest in three insurance providers, Dynasty Life Insurance, BTA Insurance Company and KBS Garant through which it offers a broad range of insurance products and is focused on furthering its penetration of the market over the next few years. Management believes the Bank is well positioned to capitalise on the anticipated growth in this sector in the next five years. In 2003, the total insurance industry gross revenues were estimated at KZT 4 billion and are expected to grow in excess of 15% per year over the next five years.

#### **Branch Operations and Technology**

The Bank operates integrated banking and accounting systems 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. Accordingly, during 2003, the Bank adopted a number of new information systems,

including the “Centralised Retail System” (by LLP Force Technology, Kazakhstan), the “Resource Navigator” system, which focuses on foreign exchange position control (by Softwell, Russia); a trade finance system “Trade Innovation” (by Misys, UK), a financial analysis system; “Contour Corporation” (by IntersoftLab, Russia), and “Siebel 7”; which is focused on managing client interaction (by Siebel, USA). In addition, SwiftAlliance Access has been upgraded to version 5.0. Although the Bank expects to upgrade its principal information and technology systems within the next three years, the Bank does not expect to make significant additional investments in its branch network in the near to medium term as management believes that the network is sufficiently well-developed throughout Kazakhstan to service the Bank’s existing and planned future business. The Bank will, however, focus on developing its ATM and POS networks.

### Subsidiaries and Affiliates

The Bank has 11 subsidiaries: TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities) and JSC BTA Leasing; and four affiliates: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce, which are treated as subsidiaries in accordance with IFRS.

#### Subsidiaries

The following table sets out certain information relating to the Bank’s subsidiaries as at 30 September 2004:

Company Name	Date of Investment	Investment at Cost	Bank’s Shareholding
		<i>(KZT millions)</i>	<i>(%)</i>
<b>Subsidiaries</b>			
TuranAlem Finance B.V.....	21 May 2001	2.98	100.0
JSC TuranAlem Securities.....	13 December 1997	43.6	100.0
LLP TuranAlem Finance (Russia).....	22 June 2004	(1)	100.0
LLP TuranAlem Capital (Russia).....	24 August 2004	(1)	100.0
JSC Dynasty Life Insurance Company.....	30 March 2001	129.25	66.0
JSC Insurance Company KBS Garant.....	4 April 2001	101.82	57.5
JSC Insurance Company BTA.....	8 September 1998	570.24	49.0
JSC Kurmet Pension Fund.....	16 September 1998	332.64	66.0
JSC Kazakhstan Pension Fund.....	6 July 1999	454.37	87.8
JSC BTA Ipoteka.....	20 November 2000	45.95	100.0
JSC BTA Leasing.....	14 September 2000	297.19	100.0

Note:

(1) The Bank’s investment in these companies is equal 10,000 Russian Roubles each.

*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. is acting as the Issuer of the Note. See “The Issuer”.

*JSC TuranAlem Securities.* JSC TuranAlem Securities is a wholly owned, consolidated subsidiary of the Bank. Its principal business areas include sales, investment banking, trading and underwriting of government, municipal and corporate securities in Kazakhstan. In 2003, JSC TuranAlem Securities handled approximately 44.7% of the trades on the KASE. The company’s major trading partners are ING Bank, Morgan Stanley, Standard Bank and RZB. As at 30 September 2004, JSC TuranAlem Securities’ share capital was KZT 1,258 million and its assets amounted to KZT 2,055.9 million.

*LLP TuranAlem Finance (Russia).* LLP TuranAlem Finance (Russia) was incorporated on 22 June 2004 in Moscow, Russia as a limited liability company and is a wholly-owned subsidiary of the Bank. It was created principally for the purpose of raising funds for the Bank. Although incorporated prior to the end of the period, LLP TuranAlem Finance (Russia) was not consolidated with the Group as at or for the six-month period ended 30 June 2004 because LLP TuranAlem Finance (Russia) did not conduct any business prior to July 2004; this entity will be consolidated with the Group, however, on a going forward basis.

*LLP TuranAlem Capital (Russia).* LLP TuranAlem Capital (Russia) was incorporated on 25 June 2004 in Moscow, Russia as a limited liability company and is a wholly-owned subsidiary of the Bank. It was created principally for the purpose of raising funds for the Bank. Although incorporated prior to the end of the period, LLP TuranAlem Capital (Russia) was not consolidated with the Group as at or for the six-month period ended 30 June 2004 because LLP TuranAlem Capital (Russia) did not conduct any business prior to July 2004; this entity will be consolidated with the Group, however, on a going forward basis.

*JSC Dynasty Life Insurance Company.* JSC Dynasty Life Insurance Company was established in July 1999 as a closed joint stock company and is based in Almaty. As at 30 September 2004, the Bank held 66% of JSC Dynasty Life Insurance Company's share capital. JSC Insurance Company BTA (described below) is also a major shareholder of JSC Dynasty Life Insurance Company. JSC Dynasty Life Insurance Company provides life insurance services and is the sole insurance company in Kazakhstan which is licensed by the FMSA to provide these services. As at 30 September 2004, JSC Dynasty Life Insurance Company had a 13.8% share of the life insurance market in Kazakhstan and its assets amounted to KZT 722.7 million.

*JSC Insurance Company KBS Garant.* JSC Insurance Company KBS Garant was established in January 1999 as an open joint stock company. As at 30 September 2004, the Bank held 57.5% of JSC Insurance Company KBS Garant's share capital. JSC Insurance Company KBS Garant provides a range of property and personal accident insurance products and is based in Almaty. As at 30 June 2004, it had a 6.0% share of the insurance market in Kazakhstan. The total assets of JSC Insurance Company KBS Garant as at 30 September 2004 were KZT 1,225.3 million and its share capital was KZT 261.6 million.

*JSC Insurance Company BTA.* JSC Insurance Company BTA was established in September 1998 as an open joint stock company and is based in Almaty. As at 30 September 2004, the Bank held 49.0% of JSC Insurance Company BTA's share capital. JSC Insurance Company BTA provides a range of property and casualty insurance products. As at 31 December 2003, it had a 17.0% share of the insurance market in Kazakhstan.

*JSC Kurmet Pension Fund.* JSC Kurmet Pension Fund was established in September 1998 as a closed joint stock company and is based in Almaty. As at 30 September 2004, the Bank held 66.0% of JSC Kurmet Pension Fund's share capital. JSC Kurmet Pension Fund is also a non-state pension fund. See "The Bank's Business — Banking Services — Pension Fund Services". As at 30 June it had a 4.2% share of the pensions market in Kazakhstan. As at 30 September 2004, this entity's share capital was KZT 408.2 million and its pension assets amounted to KZT 18.5 million.

*JSC Kazakhstan Pension Fund.* JSC Kazakhstan Pension Fund was established in June 1999 as a closed joint stock company and is based in Almaty. As at 30 September 2004, the Bank held approximately 87.8% of JSC Kazakhstan Pension Fund's share capital. JSC Kazakhstan Pension Fund is a non-state pension fund established to attract pension contributions and to make pension payments. See "Principal Business Activities — Pension Fund Services". As at 30 September 2004, it had a 2.9% share of the pensions market in Kazakhstan. Its share capital as at 30 September 2004 was KZT 514.6 million.

*JSC BTA Ipoteka.* JSC BTA Ipoteka was established in November 2000 as an open joint stock company and is based in Almaty. The Bank holds indirectly, through JSC TuranAlem Securities, 100% of JSC BTA Ipoteka's share capital. JSC BTA Ipoteka provides a wide range of services, including the purchase, maintenance and construction of real estate. As at 30 June 2004, it had a 24.0% share of the mortgage market in Kazakhstan. As at 30 September 2004, its shareholders' equity was KZT 1,669.0 million and its assets were KZT 7,469.5 million.

*JSC BTA Leasing.* JSC BTA Leasing was established in August 2000 as an open joint stock company and is based in Almaty. JSC BTA Leasing provides leasing services to its clients for equipment and the servicing of equipment. Its net income as at 31 December 2003 was U.S.\$1.09 million.

### *Affiliates*

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 IFRS, as subsidiaries because the Bank controls and benefits from 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, in turn, 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 Almaty. 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**

Following an inspection by the Kazakhstan tax authorities with respect to the years ended December 31, 2002 and 2003, the tax authorities claimed KZT 541 million in unpaid taxes from the Bank. The claim arose primarily due to the introduction of changes in Kazakhstan tax laws with respect to which there was no satisfactory authoritative interpretation. Whilst the Bank has admitted liability for KZT 190 million in unpaid taxes (which liability has since been offset against tax credits due to the Bank), part of the tax claim in the amount of KZT 350 million remains in dispute and the Bank intends to vigorously defend this portion of the claim and, if necessary, will take the matter to the Kazakhstan courts. No assurance can be given that the Kazakhstan courts will rule in the Bank's favour.

In the past, the Bank was involved in a number of disputes relating to its trade finance activities, which were based on credit lines extended to its predecessor, Turan Bank. Although the amount involved in these disputes was substantial, pursuant to a decision confirmed on 25 December 2000, the Government of the Republic of Kazakhstan agreed that any amounts paid by the Bank in connection with such matters would be reimbursed by the MOF from the State budget, and, in accordance with this decision, the Government has made partial payment to the claimants. The Bank does not expect that it will have ultimate liability for any amounts in connection with these disputes.

In the past, claims have also been made in relation to certain Kazakhstan residents' foreign currency accounts held at the Kazakhstan 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 to the repayment of foreign debts incurred during the Soviet era. The Bank is not the legal successor to the Kazakhstan branch of Vnesheconombank and does not regard itself as having any liability to the holders of those accounts. This view was supported by the conclusions of an intergovernmental meeting between Kazakhstan and Russia and a non-binding opinion of the Ministry of Justice issued in 2003, stating that the Bank did not have any liability to those holders.

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 30 June 2004, the Group employed 3,321 full-time employees, of which 2,284 were employed at the Group's branches outside Almaty. As at 31 December 2003 and 2002, the Group employed 3,221 and 3,624 full time employees, respectively. Currently, there are no labour unions representing any employees of the Bank or its subsidiaries. The Group has never experienced any industrial action or other work stoppages resulting from labour disputes. The average age of the Group employees is 31.2 years and 82.8% of the employees in professional positions hold university degrees. A number of key staff have

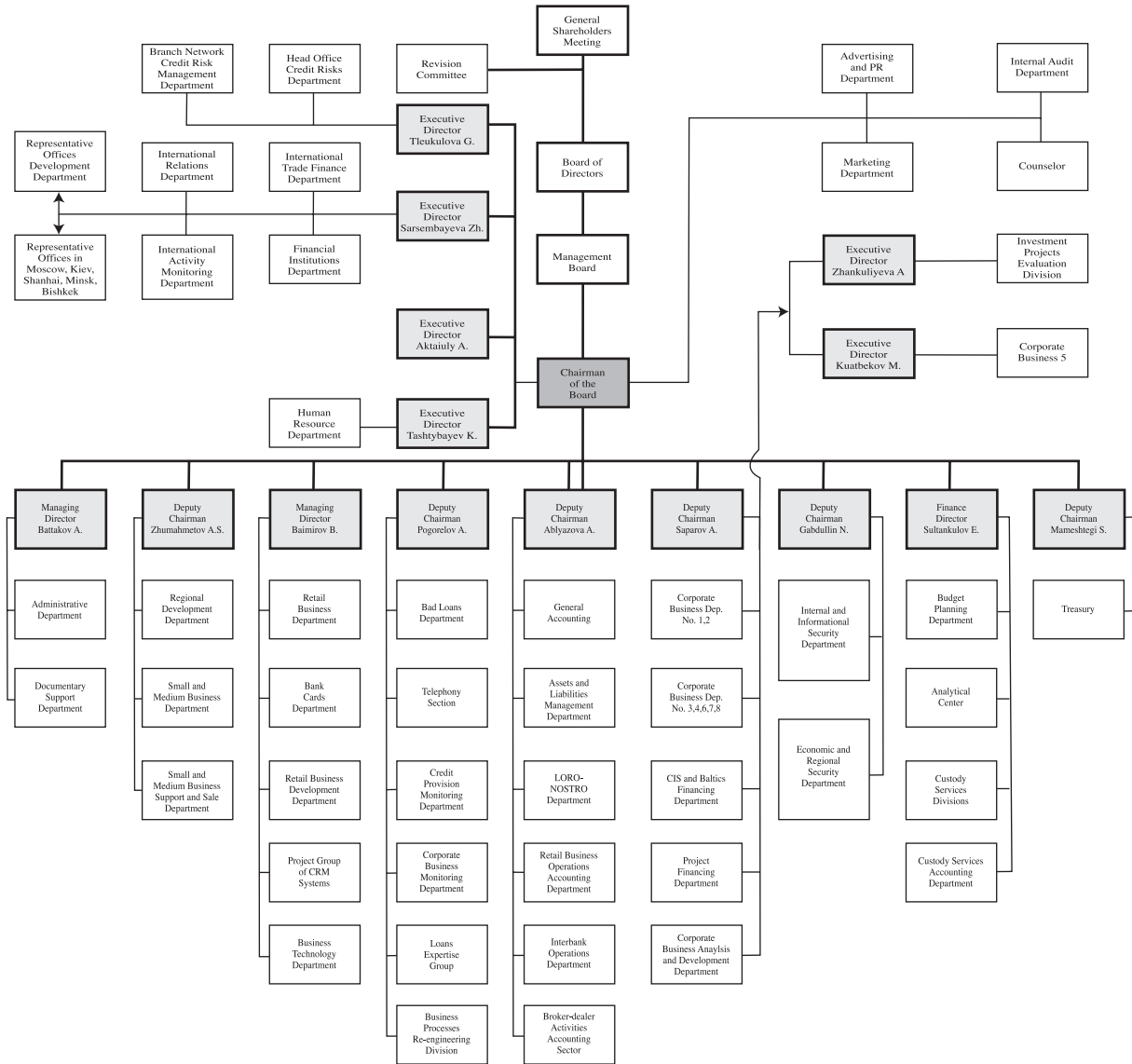
been trained at the Bank's main correspondent banks, including ING, Bayerische HypoVereinsbank, CSFB, SMBC, Deutsche Bank, Dresdner Bank and RZB.

There is a considerable shortage of adequately qualified personnel in the Kazakhstan banking sector, particularly in such areas as risk management, brokerage services and asset management. As of the date of this Offering Circular, the Bank has over 100 vacancies for qualified banking personnel. If the shortage of adequately qualified banking personnel persists, the Bank's ability to offer the desired range and volume of services may be affected which may, in turn, affect the Bank's market share and financial results. In addition, shortage of adequately qualified banking personnel may cause the bank to implement additional financial and other incentives to retain the existing, and recruit additional, personnel, which may increase the Bank's expenses.

## MANAGEMENT AND SHARE OWNERSHIP

### Organisation Chart

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



## Management

In September 2003, the Bank was re-registered as a joint stock company to comply with the requirements of the new Law on Joint Stock Companies in Kazakhstan adopted in May 2003. The General Shareholders' Meeting approved the revised Charter on 28 July 2003 and the Bank's revised Charter was agreed with the NBK on 11 September 2003. The Charter provides that the Bank must have a Board of Directors and a Management Board, which is the executive body of the Bank. The General Shareholders' Meeting elects the members of the Board of Directors. The Board of Directors, in turn, elects the members of the Management Board. The Board of Directors represents the interests of shareholders, is responsible for 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 Kazakhstan legislation, the Chairman and the members of the Board of Directors and the Chairman and the members of the Management Board are appointed only with the consent of the FMSA. The FMSA does not have a representative on the Board of Directors or the Management Board. The General Shareholders' Meeting represents the highest corporate governing authority of the Bank. The General Shareholder's Meeting is empowered to make decisions on, among other things extraordinary matters relating to the Bank and the entry into material transactions. The new Law on Joint Stock Companies vests in the General Shareholders' Meeting the final approval of certain major corporate decisions, including the making of the Guarantee.

The Bank's Revision Commission monitors the financial activity of the Bank and is elected by the Bank's shareholders.

## Board of Directors

The Board of Directors is not directly involved in the day-to-day management of the affairs of the Bank 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 (i.e., those which increase the Bank's liabilities by 10% or more or those involving 25% or more of the net book value of the Bank's assets or 25% or more of the Bank's securities);
- calling general and extraordinary general meetings of shareholders; and
- approving the Bank's budget.

As at the date of this Offering Circular, the members of the Board of Directors were as follows:

<b>Name</b>	<b>Position</b>
S. Ualiev	Chairman of the Board of Directors, Euroasia Transit Group
K. Mazhibayev	President of Resmi Group Ltd
T. Aksambiyev	Member of the Board of Directors of Yassy JSC
Y. Tatishev	Chairman of the Management Board of the Bank
D. Abzhanov	Deputy Director of Kazakhstan Legal Group Ltd
A. Iliyav	Member of the Management Board, Priorbank, Belarus
N. Tesseyman	Director of EBRD Representative Office, Moscow, Russia

Members of the Board of Directors are elected for an indefinite term by a resolution of a general shareholders' meeting. All current members of the Board of Directors were elected in January 2002.

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

## **Management Board**

The Management Board is responsible for the day-to-day management and administration of the Bank. Under Kazakhstan law, the Management Board is vested with executive powers over the day-to-day management of the affairs of the Bank, subject to the supervision of the Board of Directors and ultimately the Bank's shareholders. 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;
- proposing dividends; and
- dealing with all other matters not reserved to the Board of Directors or the General Shareholders' Meeting.

The internal by-laws of the Management Board are fixed by the Board of Directors, which also appoints the members of the Management Board. The Management Board has a duty to fulfil decisions approved by the General Meeting of Shareholders and the Board of Directors. Shareholders and employees (whether or not shareholders) are eligible to become members of the Management Board. Members of the Management Board are permitted to act in other capacities for other entities only with the prior consent of the Board of Directors.

The core of the Bank's senior management has come from Kazkommertsbank and other leading Kazakhstan 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** (37), Chairman, was educated at the Moscow Institute of Applied Biotechnology, from which he graduated in 1991. In 1997, he graduated from the Kazakhstan 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** (52), 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** (49), 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 his current position at the Bank since early 1997.

**Arsen Saparov** (35), Deputy Chairman, was educated at the Kazakhstan 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** (51), 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** (34), 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 in the Treasury Department, and became a Deputy Chairman in 1999.

**Azat Battakov** (45), 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** (44), 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 obtained a 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 was Head of the Bank's Kyzylorda branch office and has held his current position since August 2000.

**Bolat Baimirov** (36), Managing Director, graduated from Moscow Physics and Technical Institute, Applied Mathematics and Physics Department in 1990 and started to work as a teacher at Kazakhstan 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 his current position at the Bank since September 2000.

**Yerik Sultankulov** (38), Finance Director, graduated from Kazakhstan State University named after Al-Farabi, Journalist Department in 1993 and Kazakhstan 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 before becoming General Director of LLP Alem Sauda in the same year. From 1996 to 1998, he worked at Altor JV as Vice President for Finance. From 1998 to 2000, he was Deputy Director and then Director of CJSC State Cumulative Pension Fund. He has held his current position at the Bank since December 2000.

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

### **Committees**

The Bank has established several decision-making committees, each with the authority to take certain decisions according to limits prescribed by the Bank's policies.

#### ***The Head Office Credit Committee***

The Head Office Credit Committee is responsible for the implementation of the Bank's credit policy in respect of its large corporate customers and for authorising the terms and conditions of any credit facilities and/or guarantees extended by the Bank in amounts in excess of U.S.\$1,500,000 and up to 25% of the equity capital of the Bank (10% of equity for related party loans). Members of the Head Office Credit Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the Head Office Credit Committee were as follows:

<b>Name</b>	<b>Position</b>
A. Pogorelov, Chairman of the Committee	Deputy Chairman
A. Saparov, Deputy to Committee Chairman	Deputy Chairman
Y. Tatishev	Chairman
B. Tasibekov	Head of Corporate Banking No.2
G. Tleukulova	Executive Director
D. Sundetov	Lawyer, KLG Ltd.
A. Ramazanov	Head of Corporate Banking No.7
Y. Dikanbayev	Head of Economic and Regional Security Department

### ***The Branch Network Credit Committee***

The Branch Network Credit Committee is authorised to consider and approve credit requests extended by the Bank in amounts ranging from U.S.\$300,000 to U.S.\$1,500,000. Members of the Branch Network Credit Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the Branch Network Credit Committee were as follows:

<b>Name</b>	<b>Position</b>
A. Zhumakhmetov, Committee Chairman	Deputy Chairman
A. Saparov	Deputy Chairman
G. Omarov	Head of Branch Network Risk Management Department
O. Isakova	Lawyer KLG Ltd
Y. Dikanbayev	Head of Economic and Regional Security Department
A. Maulenkulov	Head of SME Sales Support Department
S. Isina	Head of SME Department
R. Umirzakova, Secretary of Committee	

### ***SME Credit Committee***

The SME Credit Committee is in charge of loans to small- and medium-sized businesses in excess of the limits of the relevant branch but not exceeding U.S.\$300,000. The SME Credit Committee reports to the Branch Network Credit Committee. Members of the SME Credit Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the SME Credit Committee were as follows:

<b>Name</b>	<b>Position</b>
A. Maulenkulov	Head of SME Sales Support Department
K. Ergalauov	Head of Regional Managers Desk, SME Department
G. Omarov	Head of Branches Risk Management Department
O. Isakova	Lawyer within KLG
M. Abzhanov	Head of Economic Security Desk, Economic and Regional Security Dept
L. Bitabarova	Head of Project Analysis Desk, SME Sales Support Department
R. Umirzakova, Secretary of Committee	

### ***The Asset Liability Management Committee (ALCO)***

ALCO determines the Bank's general policy on assets and liabilities management with the objective of increasing interest and non-interest income, maintaining adequate liquidity and complying with prudential standards and regulations, and minimising the impact of financial market risks so as to maintain the Bank's attractiveness to depositors. ALCO monitors the Bank's deposit base, borrowings and equity and ensures a satisfactory level of dividends is payable to the Bank's shareholders. Members of ALCO are appointed by the Management Board for indefinite terms.

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

<b>Name</b>	<b>Position</b>
S. Mameshtegi, Committee Chairman	Deputy Chairman
Y. Sultankulov	Finance Director
K. Altynbekov	Managing Director
B. Alzhanova	Head of International Relations Department
L. Zdanovich	Head of Analytical Centre
N. Mukhametzhanov	Treasurer
A. Khaltayev	Head of Financial Institutions Department
R. Kadyrov	Head of Corporate Banking Analysis and Development Department
Z. Seralina, Secretary of Committee	Analytical Centre

### ***The Tariffs Committee***

The Tariffs Committee is responsible for implementing the Bank's internal policy aimed at improving interest and tariff rates and non-interest income in connection with banking transactions, as well as execution of the Bank's tariff policy. Members of the Tariffs Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the Tariffs Committee were as follows:

<b>Name</b>	<b>Position</b>
A. Zhumakhmetov, Committee Chairman	Deputy Chairman
A. Ablyazova	Deputy Chairwoman
D. Abdykalykova	Head of Global Trade Finance Department
N. Beisembinov	Head of Branch Development Department
F. Izenbayeva	Head of Cash Settlement Unit
R. Kadyrov	Head of Corporate Banking Analysis and Development Department
Y. Kostin	Head of Marketing Department
N. Mukhametzhano	Treasurer
A. Togisbayeva	Head of LORO-NOSTRO Department
N. Kakimzhanov	Manager, Retail Business Department
A. Maulenkulov	Head of SME Sales Support Department
I. Adil, Committee Secretary	Regional Development Department

### ***The Information Committee***

The Information Committee is responsible for the strategic development of the Bank's information technology systems. Members of the Information Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the Information Committee were as follows:

<b>Name</b>	<b>Position</b>
A. Ablyazova, Chairwoman of the Committee	Deputy Chairwoman
A. Pogorelov, Deputy to Committee Chairwoman	Deputy Chairman
B. Musanov	Director General Force Technology Ltd
S. Sarkytbayev	Branch Director
N. Beisembinov	Head of Branch Development Department
K. Altynbekov	Managing Director
N. Grebennikov	Deputy Head of Internal and Informational Security
R. Kadyrov	Head of Corporate Banking Analysis and Development
N. Mukhametzhano	Treasurer
Y. Krylova	IT System Administrator

### ***The Bad Debt Credit Committee***

The Bad Debt Credit Committee is responsible for improving the Bank's loan portfolio structure and its loan recovery measures. Members of the Bad Debt Credit Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the Bad Debt Credit Committee were as follows:

<b>Name</b>	<b>Position</b>
A. Pogorelov, Chairman of the Committee	Deputy Chairman
A. Zhumakhmetov	Deputy Chairman
M. Abzhanov	Head of Economic Security Desk, Economic and Regional Security Department
A. Kozhakhmetov	Head of Bad Debt Management Department
Y. Gromova	Head of Branch Monitoring Desk, Bad Debt Management Department
R. Kadyrov	Head of Corporate Banking Analysis and Development
S. Yussupova	Head of Debt/Credit Operations Department
Y. Dikanbayev	Head of Economic and Regional Security Department
O. Rulimova	Specialist, Bad Debt Management Department

### ***The Retail Loans Credit Committee***

The Retail Loans Committee is responsible for improving the Bank's retail loan portfolio structure and is authorised to take decisions on retail loan recovery measures. Members of the Retail Loans Credit Committee are appointed by the Management Board for indefinite terms.

As at the date of this Offering Circular, the members of the Retail Loans Credit Committee were as follows:

<b>Name</b>	<b>Position</b>
B. Baimirov, Chairman of the Committee	Managing Director
E. Urekeshva	Head of Retail Business Department
N. Yesimzhanova	Head of Retail Business Development Department
A. Urisbayev	Head of Retail Risk Management Department
V. Ovchinnikov	Head of Economic Security Desk
G. Abdusalyamova	Lawyer, KLG Ltd

### **Management Remuneration**

In accordance with the Bank's charter, the remuneration of the Chairman and the Management Board is determined by the Board of Directors and amounted in aggregate to KZT 105 million as at 30 June 2004. See also "—Transactions with Related Parties".

### **Principal Shareholders**

#### ***The Bank's Common Shares***

Following the privatisation of the Bank in 1998, a number of private sector local companies purchased 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 latest issuance of common shares occurred in the last quarter of 2003, when the Bank issued 431,350 common shares for KZT 5,535 million. The common shares have a nominal value of KZT 10,000.00.

In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's authorised share capital was increased by KZT 13,632 million. It is expected that this increase will be effected through the eighth issuance of 615,287 common shares and the issuance of 204,004 CPS before the end of 2004. It is expected that the eighth issuance of shares will be fully subscribed by the Bank's existing shareholders pursuant to pre-emptive rights at a purchase price, in each case, of KZT 16,638.78 per share.

The following table sets out certain information as to the registered holders of common shares as at 30 June 2004:

<b>Holder of Record</b>	<b>Number of Shares</b>	<b>Percentage Ownership</b>
Management .....	475,221	27.65
Valaxis Asset Management SA .....	161,142	9.38
Hawsbrok.....	127,619	7.42
Bank of New York (nominee).....	444,064	25.84
Central Securities Depository (nominee).....	452,814	26.34
Other .....	58,000	3.37
<b>Total<sup>(1)</sup></b> .....	<b>1,718,860</b>	<b>100.00</b>

Note:

(1) 30,716 common shares are held by the Bank as treasury stock.

#### *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. The 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. In 2003, the Bank issued an additional 57,493 CPS in an aggregate amount of KZT 738 million at a price per share of KZT12,832.80.

The following table sets out certain information as to the holders of CPS as at 30 June 2004:

<b>Shareholder</b>	<b>Number of CPS</b>	<b>Percentage ownership</b>
DEG.....	130,993	25.65
EBRD .....	73,500	14.39
IFC .....	73,500	14.39
FMO.....	70,678	13.84
RZB .....	162,122	31.73
<b>Total</b> .....	<b>510,793</b>	<b>100.00</b>

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. Holders of CPS are entitled to receive 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 at any time prior to 1 May 2006. Such conversion shall be completed by the end of the calendar year in which requested. If the Bank has not sold at least 55% of the Bank's then issued common shares to 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") by 31 December 2006, each CPS shareholder will be entitled to redeem all or any portion of its CPS at the Indexed Nominal Value. In any event, the Bank will have a right to repurchase all of the CPS from CPS shareholders at the Indexed Nominal Value per each CPS prior to 30 June 2007. In addition, 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 (a "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. The Bank's management believes that, on the basis of the current

market price for its shares, it is unlikely that it would be profitable for a holder to require such redemption and that the likelihood of a tender offer is remote.

### Transactions with Related Parties

Loans and advances to shareholders and related parties, including employees, amounted to KZT 341 million, KZT 276 million and KZT 143 million as at 30 June 2004 and 31 December 2003 and 2002, respectively. As at end of 30 June 2004 and 31 December 2003 and 2002, the allowance for impairment in respect of these related party loans was zero. As at 31 December 2003, the annual interest rates charged by the Bank on loans to shareholders and related parties ranged from 9% to 29% per annum for KZT denominated loans, compared to 16% per annum as at 31 December 2002, and 9% to 21% per annum for U.S. Dollar denominated loans, compared to 9% to 21% per annum as at 31 December 2002.

The following table sets out certain information relating to the principal amounts of loans outstanding to members of the Management Board as at 1 November 2004:

<b>Name</b>	<b>Principal amount outstanding</b>
	<i>(KZT thousands)</i>
Gabdullin N.....	7,572
Mameshtegi S .....	13,451
Saparov A .....	34,981
Zhumakhmetov A .....	13,959
<b>Total</b> .....	<b>69,963</b>

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 475,221 common shares, representing 27.65% of the total amount of the Bank's issued common shares.

## THE BANKING SECTOR IN KAZAKHSTAN

### Introduction

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. 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 National Bank of Kazakhstan and the FMSA*

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

The principal governing bodies of the NBK are the Executive Board and the Board of Directors. The Executive Board, the highest governing body of the NBK, consists of nine members, including the Governor, five other representatives of the NBK, a representative of the President of Kazakhstan and two representatives of the Government.

Currently the principal task of the NBK is to ensure price stability in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, to organise banking settlement systems, to conduct currency regulation and control, to assist in ensuring stability of the financial system and to protect the interests of depositors with commercial banks. Following legislative changes in July 2003, the FMSA was formed and on 1 January 2004 took responsibility for most of the supervisory and regulatory functions in the financial sector, previously performed by the NBK.

The FMSA is an independent institution reporting directly to the President. The President has appointed Bolat Zhamishev, former Deputy Governor of the NBK, as the Chairman of the FMSA.

The principal task of the FMSA is to regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds and pension asset management companies, as well as professional participants of the securities market. The FMSA is empowered, among other things, to licence financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions, and to monitor the activities of, to apply sanctions where necessary to, and to participate in the liquidation of, financial institutions.

### Banking

#### *Structure of the Banking System of Kazakhstan*

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks comprising the second tier. Generally, all credit institutions in Kazakhstan are required to be licensed and regulated by the FMSA, or prior to 2004, the NBK.

#### *Banking Reform and Supervision*

Reform of the banking sector started in 1996 with the introduction of international prudential standards, including capital adequacy requirements and liquidity ratios, to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, harmonisation of local accounting practices to IFRS and personnel training programmes.

In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were established for bank inspections and for periodic reporting by commercial banks to the NBK, now the FMSA. In 2003, all banks were requested to develop and install an internal risk management systems.

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

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

The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system.

In December 1999, a self-funded domestic deposit insurance scheme was established and as at 30 June 2004, 33 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal time deposits in any currency and current accounts up to KZT 400,000 in total at any given bank and operates on a sliding scale of coverage up to a maximum amount per customer at any given bank. As of 2004, only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

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

### *Commercial Banks*

According to the NBK, as at 30 June 2004, there were 35 banks in Kazakhstan, compared to 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks. In November 2001 the Government divested its remaining 33% stake in Halyk Savings Bank, by means of privatisation through a public auction. This stake has since been sold to a group of companies, including ATF Bank. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2.1 billion.

As of 30 June 2004, two commercial banks failed to comply with prudential regulatory requirements, compared to one as at 31 December 2003 and six as at 31 December 2001. These banks did not meet the single borrower exposure, the open currency position and the maximum asset investment ratios. Provisions for bad debts as at 30 June 2004 amounted to KZT 33.4 billion.

The financial standing of Kazakhstan's banks varies. As at 30 June 2004, 16 of the 35 commercial banks had registered capital of over KZT 2 billion, 15 banks had registered capital of KZT 1 billion to KZT 2 billion and four banks had registered capital of KZT 500 million to KZT 1 billion. There are no banks with a registered capital of less than KZT 500 million; any bank whose capital falls below that level is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

### *Foreign Capital in the Banking Sector*

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment or otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. Accordingly, foreign banks must establish a Kazakh subsidiary or joint venture in order to operate as a bank in Kazakhstan.

As at 30 June 2004, there were 15 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan. Under relevant legislation, "a bank with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks.

Furthermore, the aggregate registered capital of banks with foreign participation may not exceed 50% of the aggregate registered capital of all Kazakhstan banks, unless authorised by the FMSA. As at 30 June 2004, the aggregate registered capital of all banks with foreign participation represented approximately 40.9% of the aggregate registered capital of all Kazakhstan banks.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank, Deutsche Bank, Crédit Commercial de France, Commerzbank and ING Bank.

## FORM OF FURTHER NOTES AND TRANSFER RESTRICTIONS

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

### 1. Form of Further Notes

All Further Notes will be in definitive, fully registered form, without interest coupons attached. Further Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Further 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, N.A., as common depository for the Euroclear Operator and Clearstream, Luxembourg, and registered in the name of Chase Nominees Limited, as nominee for such common depository 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 Further 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, N.A., as custodian (the “Custodian”) for, DTC. The Further 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.

The Further Notes represented by the Further Restricted Global Note will be consolidated and form a single series with the Existing Notes on the Closing Date. The Further Restricted Global Note issued in respect of the Further Notes will have the same CUSIP Number and ISIN as the Restricted Global Note issued in respect of the Existing Notes. The Further Notes represented by the Further Unrestricted Global Note will be consolidated and form a single series with the Existing Notes on the date which is 40 days after the later of the commencement of the offering and the Closing Date. Until such time, in order to facilitate compliance with the transfer restrictions described below, the Further Unrestricted Global Note issued in respect of the Further Notes will have a temporary Common Code and ISIN. Thereafter, the Further Unrestricted Global Note issued in respect of the Further Notes will have the same Common Code and ISIN as the Unrestricted Global Note issued in respect of the Existing Notes. See “General Information”.

For the purposes of the Further Restricted Global Note and the Further 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 Further Restricted Global Note or, as the case may be, the Further 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 Further Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Further 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 it being understood, however, that the Issuer has been advised that neither the Euroclear Operator nor Clearstream, Luxembourg will monitor compliance with these Transfer Restrictions nor provide certification of non-U.S. beneficial ownership. 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 Further Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Further 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 Further Restricted Global Note or the Further 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 Further Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

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

- (i) The purchaser (A) is a qualified institutional buyer within the meaning of Rule 144A, (B) is acquiring the Further 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 Further Notes and the Guarantee to it is being made in reliance on Rule 144A.
- (ii) The Further 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 Further 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 Further Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Further 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 REGULATIONS 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 REALES 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 Further Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing 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 Further Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

Each purchaser of Further Notes outside the United States pursuant to Regulation S and each subsequent purchaser of such Further 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 Further Notes, will be deemed to have represented and agreed as follows:

- (i) It is, or will be at the time Further Notes are purchased, the beneficial owner of such Further 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 Further 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 Further 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 Further Restricted Global Note will become exchangeable for Note Certificates (as defined below) 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 depository with respect to the Further 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 Further Unrestricted Global Note will become exchangeable for Note Certificates in definitive form (“Further 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 Further 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 Further Restricted Global Note is to be exchanged for Restricted Note Certificates or the Further 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 Further 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 Further Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Further 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 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 depository 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 Further Restricted Global Note and the Further 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 Further Unrestricted Global Note and the Further 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 Further Restricted Global Note to the account of the Euroclear Operator or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Further 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 Further Restricted Global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for the Euroclear Operator and Clearstream, Luxembourg and evidenced by the Further Unrestricted Global Note. Book-entry interests will be delivered free of payment to the Euroclear Operator or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

*Trading between the Euroclear Operator/Clearstream, Luxembourg Seller and DTC Purchaser.* When book-entry interests in the Notes are to be transferred from the account of a Euroclear Operator or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the Further 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 depository 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 depository 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 depository for the Euroclear Operator and Clearstream, Luxembourg and evidenced by the Further Unrestricted Global Note and (b) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Further 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 Kazakhstan law as presently in effect, payments of principal and interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, “Non-Kazakhstan Holders”) will not be subject to taxation in Kazakhstan, and no withholding of any Kazakhstan tax will be required on any such payments. In addition, gains realised by Non-Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to Kazakhstan income or profits tax.

Payments of interest from the Bank to the Issuer to fund the Issuer’s obligations to make payments under the Notes will be subject to Kazakhstan withholding tax 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, as supplemented by the Supplemental Agreement dated 29 November 2004 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 Kazakhstan tax at a rate of 15%, and payment of fees and commissions will be subject to withholding of Kazakhstan 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 Dutch 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 Dutch 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% 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 by a holder of a Note in The Netherlands in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including the enforcement of any foreign judgment in the courts of The Netherlands) of the Notes or the performance of the Issuer's obligations under the Notes.

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

### ***European Union Taxation***

The EU has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from a date not earlier than 1 July 2005, to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

### ***United States Federal Income Taxation***

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and retirement of Notes by a holder thereof. This summary applies only to Notes held as capital assets and does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, pass-through entities, individual retirement and other tax-deferred accounts, holders that mark their securities to market, controlled foreign corporations, foreign personal holding companies, passive foreign investment companies, certain expatriates or former long term residents of the United States, 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 U.S. Holders (defined below) 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 non-U.S. 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 individual resident of the United States; (ii) a corporation organised in or under the laws of the United States or any political subdivision 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 elected 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 regular 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. A U.S. Holder may be eligible, subject to a number of limitations, for a foreign tax credit or deduction against such U.S. Holder's U.S. federal income tax liability for taxes withheld on the Notes.

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 or, if such Non-U.S. Holder is entitled to the benefits of an income tax treaty to which the United States is a party, such income is attributable to such Non-U.S. Holder's permanent establishment in the United States

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

Upon the taxable sale, exchange or retirement of a Note, a U.S. Holder will generally recognise 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 U.S. 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, if such Non-U.S. Holder is entitled to the benefits of an income tax treaty to which the United States is a party, such gain is attributable to such Non-U.S. Holder's permanent establishment 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.

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. and J.P. Morgan Securities Ltd. (together, the “Managers”), have, pursuant to an underwriting agreement (the “Underwriting Agreement”) dated 29 November 2004, agreed with the Issuer and the Bank, subject to the satisfaction of certain conditions, to subscribe for the Further Notes. The Issuer and the Bank have agreed to pay certain costs and expenses in connection with the issue of the Further 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 Further Notes.

### **United States**

The Further 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 Further 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 Further Notes during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Further Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Further 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 Further 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 Further 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 Further Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan, except in compliance with the laws of Kazakhstan.

### **The Netherlands**

Each Manager has represented and agreed that (i) it has not offered, sold or transferred and will not offer, sell or transfer any Further Notes, directly or indirectly, to individuals or legal entities, whether situated in or outside The Netherlands, other than those who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, securities firms, investment institutions,

insurance companies, pension funds, other institutional investors and commercial enterprises which regularly, as an ancillary activity, invest in securities) and (ii) it has mentioned and will mention the selling restriction to this effect in all offers, offer advertisements, publications and other documents in which an offer of the Further Notes is made or a forthcoming offer is announced.

**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 Further Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Further 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 Further Notes have been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg. The Further Notes represented by the Further Restricted Global Note will be fungible for trading purposes with the Existing Notes on the Closing Date. The Further Restricted Global Note has been accepted for clearance through DTC and will have the same CUSIP number and ISIN as the Restricted Global Note relating to the Existing Notes, namely CUSIP number 89989EAC1 and ISIN US89989EAC12. The Further Notes represented by the Further Unrestricted Global Note will be fungible for trading purposes with the Existing Notes on the date which is 40 days after the later of the commencement of the offering and the Closing Date. Until such time, the Further Unrestricted Global Note issued in respect of the Further Notes, which has been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg, will have a temporary Common Code of 020586869 and a temporary ISIN of XS0205868697. Thereafter, the Further Unrestricted Global Note issued in respect of the Further Notes will have the same Common Code and ISIN as the Unrestricted Global Note issued in respect of the Existing Notes, namely Common Code No. 016884880 and ISIN XS0168848801.
2. The issue of the Further Notes was authorised by a duly adopted resolution of the Managing Board of the Issuer dated ● 2004 and by a duly adopted resolution of the Bank as sole shareholder of the Issuer dated ● 2004. The supplemental deed of guarantee relating to the Further Notes was authorised by a duly convened meeting of the shareholders of the Bank held on ● 2004 and by a duly adopted resolution of the Board of Directors dated ● 2004.
3. Neither the Issuer nor the Guarantor or any of its 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 Further 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 30 June 2004 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 Further 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 2001, 2002 and 2003 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 generally prepare or publish any interim audited or unaudited financial statements or non-consolidated financial statements. The unaudited interim condensed consolidated financial statements of the Bank as at and for the six months ended 30 June 2003 and 2004 were prepared solely for purposes of the offering of the Further Notes contemplated by this Offering Circular.
6. Copies of the Guarantee, the Trust Deed, the Agency Agreement 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 Further 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 Further Notes will be deposited with the *Registre de Commerce et des Sociétés à Luxembourg*, where copies thereof may be obtained upon request. Application has also been made for the Further Notes issued and sold in reliance on Rule 144A to be designated as eligible for trading on PORTAL. In addition, the Guarantor will use its best endeavours to cause the Further Notes to be listed on the KASE.
8. As long as the Further 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 2001, 2002 and 2003 were audited by Ernst & Young. The Group's condensed interim consolidated financial statements as at and for the six-month periods ended 30 June 2003 and 2004 were reviewed by Ernst & Young. Ernst & Young's audit report and review report are included in this Offering Circular. Ernst & Young has 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 in which these appear.
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 2002 and 2003 were audited by Mazars Paardekooper Hoffman and its reports are included in this Offering Circular. Mazars Paardekooper Hoffman has 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 in which these appear.
11. According to Chapter VI, Article 3, point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the Further Notes shall be freely transferable and therefore no transaction made on the Luxembourg Stock Exchange shall be cancelled.

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**TuranAlem Finance B.V.**

**Rotterdam, The Netherlands.**

**ANNUAL ACCOUNTS**

**2003**

**ADDRESS:**

Schouwburgplein 30-34  
3012 CL Rotterdam

Chamber of Commerce  
File number 24.32.14.12

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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 2003, with capital and reserves as at 31 December 2003 of USD 481,285 and net profit for the period 2003 of USD 231,152. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

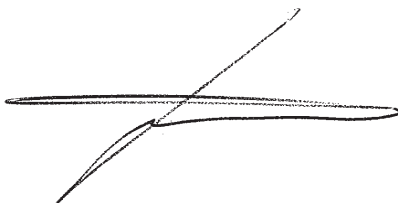
In our opinion, the annual accounts give a true and fair view of the financial position of the company as at 31 December 2003 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Rotterdam, 6 February, 2004

**MAZARS PAARDEKOOPER HOFFMAN**



G.A.P.M. Kannekens RA



H. Huizer RA

## TuranAlem Finance B.V.

### Balance Sheet

*(before appropriations of results and expressed in USD)*

	<b>December 31, 2003</b>	<b>December 31, 2002</b>
<b>LONG-TERM ASSETS</b>		
Loans to Parent company	325,000,000	100,000,000
Shareholder account	252,159	173,492
	325,252,159	100,173,492
<b>CURRENT ASSETS</b>		
Loan to parent company	-	73,500,000
Interest receivable	2,321,875	1,944,606
Corporate income tax	11,675	21,427
VAT receivable	5,493	5,839
Cash at bank	195,180	18,772
	2,534,223	75,490,644
<b>CURRENT LIABILITIES</b>		
Syndicate loan payable	-	73,500,000
Interest payable Eurobond	2,288,455	861,111
Interest payable Syndicated loan	-	1,025,864
Accrued liabilities	16,642	27,028
	2,305,097	75,414,003
<b>NET CURRENT ASSETS</b>	229,126	76,641
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	325,481,285	100,250,133
<b>LESS: LONG-TERM DEBT</b>	325,000,000	100,000,000
	481,285	250,133
<b>CAPITAL AND RESERVES</b>		
Share capital	22,507	18,902
Currency translation reserve	(6,883)	(3,278)
Retained earnings	234,509	39,293
Net profit for the year	231,152	195,216
	481,285	250,133

### The Management,

**TuranAlem Finance B.V.**  
**Profit and Loss Account**

(Expressed in USD)

**For the Year Ended**  
**December 31,**

**2003**                      **2002**

**FINANCIAL INCOME (CHARGES)**

Interest income – parent company loan	23,454,152	17,338,215
Interest expense – debt	(23,169,402)	(17,136,798)
Interest banks	111	121
Interest Shareholder	5,300	-
Expense agreement	155,612	187,248
Exchange differences	(19)	1,862
	<u>445,754</u>	<u>390,648</u>

**EXPENSES**

General and administrative expenses	139,701	156,486
Bank charges	1,900	1,250
	<u>141,601</u>	<u>157,736</u>

<b>OPERATING PROFIT BEFORE TAXATION</b>	304,152	232,912
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<b>CORPORATE INCOME TAX</b>	<u>73,000</u>	<u>37,696</u>
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<b>NET PROFIT FOR THE YEAR</b>	<u><u>231,152</u></u>	<u><u>195,216</u></u>
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**The Management,**

Equity Trust Co. N.V.

Zhamilya Sarsembayeva

**TuranAlem Finance B.V.**  
**Notes to the Accounts at 31 December 2003**

**1. General**

The Company is a private limited liability company established in Rotterdam on 22 May 2001. The Company acts as a finance company. The Company is a wholly-owned subsidiary of, OJSC Bank TuranAlem, 97 Zholdasbekov Street, Samal 2, Almaty, Kazakhstan.

**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 Parent Company**

Loans to Parent Company consists of the following as at December 31:

		<b>Amount</b>	
<u>Long-term</u>		<u>2003</u>	<u>2002</u>
29 May 2002	29 May 2007	\$ 100,000,000	\$ 100,000,000
2 June 2003	2 June 2010	225,000,000	-
		<u>325,000,000</u>	<u>\$ 100,000,000</u>
 <u>Short-term</u>			
7 Sept 2001	7 March 2003	-	73,500,000
		<u>\$325,000,000</u>	<u>\$173,500,000</u>

**TuranAlem Finance B.V.**  
**Notes to the Accounts at 31 December 2003**

**3. Loans to Parent Company (continued)**

Loans to the Parent Company, evidenced by deposit receipts, represent the pass through of the net proceeds of debt issued by the Company plus direct issuance cost. Loans to the Parent Company are subject to a Guarantee Agreement, an Expenses Agreement and a Deposit Agreement. Under these various agreements, the Parent Company has unconditionally guaranteed the return of all principal plus interest, payment of direct issuance costs and, if necessary, to fund any cash operating deficits. Interest rates on the loans are directly related to the interest rates paid on the related debt issued by the Company. As agreed, interest on each loan is equal to the rate paid on the related debt issued plus a spread of .125 per cent, grossed up for any withholding taxes held at the source.

**4. Cash at Bank**

Cash at banks consists of current account balances, which are available on demand.

**5. Long-Term Debt**

Long-term debt consists of the following as at 31 December:

<u>Issued</u>	<u>Term</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>2003</u>	<u>Amount</u> <u>2002</u>
29 May 2002	29 May 2007	10.000%	\$ 100,000,000	\$ 100,000,000
2 June 2003	2 June 2010	7.875%	225,000,000	-
17 Sept 2002	18 March 2003	4.527%	-	73,500,000
			<u>325,000,000</u>	<u>\$ 173,500,000</u>
Less current instalment			-	(73,500,000)
<b>Total Long-term debt</b>			<u><u>\$325,000,000</u></u>	<u><u>\$100,000,000</u></u>

At 31 December 2003, long-term debt consists of two Eurobond placements denominated in US Dollars. Both placements are listed on the Luxembourg Stock Exchange. The obligations are unconditionally guaranteed as to the repayment of interest and principal by the Parent Company. Both obligations carry fixed interest rates.

Interest payments on the US \$100,000,000 Eurobond are required to be made semi-annually on 29 November and 29 May. Principal repayment is due on 29 May 2007. Interest payments on the US \$ 225,000,000 Eurobond are required to be made semi-annually on 2 December and 2 June. Principal repayment is due on 2 June 2010.

During 2002, the Company had an outstanding syndicated loan facility that was originally funded in September 2001, in the amount of US \$ 67,500,000. The facility was scheduled for repayment in 2002. In September 2002, the facility was increased by US \$ 6,000,000 and extended for an additional six-months. During the period it was outstanding, the facility bore a floating interest rate tied to LIBOR plus a spread and was subject to six-month re-pricing. Interest on the debt was payable semi-annually in March and September. The facility was repaid in February and March 2003.

**TuranAlem Finance B.V.**  
**Notes to the Accounts at 31 December 2003**

**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 for the years ended December 31, 2003 and 2002 can be summarised as

	<b>2003</b>	<b>2002</b>
<b>Share capital</b>	<u>22,507</u>	<u>18,902</u>
<b>Currency translation reserve</b>		
At beginning of period	(3,278)	(229)
Movement	<u>(3,505)</u>	<u>(3,049)</u>
<b>At end of period</b>	<u>(6,883)</u>	<u>(3,278)</u>
<b>Retained Earnings</b>		
At beginning of the period	39,293	0
Results last year	<u>195,216</u>	<u>39,293</u>
<b>At end of period</b>	234,509	39,293
<b>Net result for the year</b>	<u>231,152</u>	<u>195,216</u>
<b>Total capital and reserves</b>	<u><u>481,285</u></u>	<u><u>250,133</u></u>

The balance sheet 2003 is made up before appropriations of results. The balance sheet in the annual accounts 2002 was made up after appropriations of result. We therefore made a presentation correction in the balance sheet 2002.

**7. Expense Agreement**

The Parent Company has guaranteed that the Company would report minimum taxable income under its accepted tax ruling. Expense agreement income represents the amount of required income to comply with the ruling.

**8. 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.

**TuranAlem Finance B.V.**  
**Notes to the Accounts at 31 December 2003**

**9. 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.

Rotterdam, February 2003

**The Management,**

\_\_\_\_\_  
Equity Trust Co. N.V.

\_\_\_\_\_  
Sarsembayeva, Zhamilya

**TuranAlem Finance B.V.**  
**Notes to the Accounts at 31 December 2003**

**Supplementary information to the Accounts as at 31 December 2003**

**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.

**Bank TuranAlem**  
**Consolidated Financial Statements**

*Years ended December 31, 2003, 2002 and 2001*  
*Together with Report of Independent Auditors*

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■ Ernst & Young Kazakhstan  
Furmanov Street, 240 G  
Almaty 480099, Kazakhstan  
Tel.: 7 (3272) 58-5960  
Fax: 7 (3272) 58-5961  
www.ey.com/kazakhstan

■ Эрнст энд Янг Казахстан  
Казахстан, 480099 Алматы  
ул. Фурманова, 240 Г  
Тел.: 7 (3272) 58-5960  
Факс: 7 (3272) 58-5961

## REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank TuranAlem

We have audited the accompanying consolidated balance sheets of Bank TuranAlem (the "Bank") as of December 31, 2003, 2002 and 2001, 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 Bank'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. 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 Bank as of December 31, 2003, 2002 and 2001, and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

February 1, 2004

## Consolidated Balance Sheets

(Millions of Kazakh Tenge)

		<i>December 31,</i>		
	<i>Notes</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
<b>Assets</b>				
Cash and cash equivalents	4	13,286	20,557	17,220
Obligatory reserves	5	3,706	2,731	4,684
Trading securities	6	61,591	32,081	17,831
Amounts due from other financial institutions	7	14,398	10,820	150
Held-to-maturity investment securities	8	26,288	19,634	–
Loans to customers	9	239,847	127,747	110,719
Property and equipment	12	6,745	6,523	5,441
Other assets		7,203	5,399	1,292
<b>Total assets</b>		<b>373,064</b>	225,492	157,337
<b>Liabilities</b>				
Amounts due to NBK and the Government	13	5,190	2,683	2,438
Amounts due to other financial institutions	14	117,051	56,493	42,053
Amounts due to customers	15	140,318	106,810	81,972
Debt securities issued	16	74,174	31,521	13,466
Other liabilities		4,318	7,220	1,757
<b>Total liabilities</b>		<b>341,051</b>	204,727	141,686
Minority interest		1,330	1,010	809
<b>Shareholders' equity</b>				
Share capital:	17			
- common shares		16,244	11,931	11,931
- preferred shares		4,735	4,160	4,160
Treasury stock		(628)	(195)	(49)
Additional paid-in-capital		1,413	28	28
Property and equipment revaluation reserve		1,737	854	190
Retained earnings (accumulated deficit)		7,182	2,977	(1,418)
<b>Total shareholders' equity</b>		<b>30,683</b>	19,755	14,842
<b>Total liabilities, shareholders' equity and minority interest</b>		<b>373,064</b>	225,492	157,337
<b>Financial commitments and contingencies</b>	18			

Signed and authorized for release on behalf of the Board of the Bank

Yerzhan N. Tatishev

Chairman of the Board

Akmaral N. Abylazova

Chief Accountant

February 1, 2004

*The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.*

## Consolidated Statements of Income

(Millions of Kazakh Tenge, except per share amounts)

	Notes	Years ended December 31,		
		2003	2002	2001
<b>Interest income</b>				
Loans		26,263	19,178	14,004
Securities		4,257	2,818	1,422
Other		298	372	219
		<u>30,818</u>	<u>22,368</u>	<u>15,645</u>
<b>Interest expense</b>				
Deposits		(6,177)	(5,274)	(3,701)
Debt securities issued		(5,711)	(2,717)	(1,153)
Borrowings		(3,875)	(2,536)	(1,817)
		<u>(15,763)</u>	<u>(10,527)</u>	<u>(6,671)</u>
<b>Net interest income</b>		<b>15,055</b>	<b>11,841</b>	<b>8,974</b>
Provision for losses	10	(10,391)	(7,184)	(5,838)
		<u>4,664</u>	<u>4,657</u>	<u>3,136</u>
Fee and commission income	19	6,358	4,294	3,161
Fee and commission expense	19	(137)	(169)	(284)
<b>Fees and commissions</b>		<u>6,221</u>	<u>4,125</u>	<u>2,877</u>
Gains less losses from trading securities	20	589	2,745	123
Gains less losses from foreign currencies:				
- dealing		1,980	1,349	1,003
- translation differences		573	234	675
Insurance underwriting income (loss)		(260)	613	39
Other operating income	21	1,100	1,165	650
<b>Non interest income</b>		<u>3,982</u>	<u>6,106</u>	<u>2,490</u>
Salaries and benefits	22	(3,432)	(3,023)	(2,311)
Depreciation and amortization		(926)	(786)	(667)
Insurance		(145)	(1,079)	(49)
Deposit insurance		(306)	(262)	(267)
Administrative and operating expenses	22	(5,212)	(4,708)	(3,617)
<b>Non interest expense</b>		<u>(10,021)</u>	<u>(9,858)</u>	<u>(6,911)</u>
<b>Income before income tax expense and minority interest</b>		<b>4,846</b>	<b>5,030</b>	<b>1,592</b>
Income tax expense	11	(266)	-	-
<b>Income before minority interest</b>		<u>4,580</u>	<u>5,030</u>	<u>1,592</u>
Minority interest in net loss (income)		40	(132)	(1)
<b>Net income</b>		<u>4,620</u>	<u>4,898</u>	<u>1,591</u>
Basic earnings per share in Kazakh Tenge	23	3,245	3,450	1,217
Diluted earnings per share in Kazakh Tenge	23	2,714	2,883	1,215

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 2003, 2002 and 2001**

(Millions of Kazakh Tenge)

	<i>Share Capital- Common Shares</i>	<i>Share Capital- Preferred Shares</i>	<i>Treasury Stock</i>	<i>Additional Paid-in Capital</i>	<i>Property and Equipment Revaluation Reserve</i>	<i>Retained Earnings (Accumulated Deficit)</i>	<i>Total Shareholders' Equity</i>
<b>December 31, 2000</b>	11,931	—	(246)	28	190	(2,968)	8,935
Sale of preferred shares	—	4,160	—	—	—	—	4,160
Sale of treasury stock	—	—	197	—	—	—	197
Dividends – preferred shares	—	—	—	—	—	(41)	(41)
Net income	—	—	—	—	—	1,591	1,591
<b>December 31, 2001</b>	11,931	4,160	(49)	28	190	(1,418)	14,842
Purchase of treasury stock	—	—	(2,248)	—	—	—	(2,248)
Sale of treasury stock	—	—	2,102	—	—	—	2,102
Revaluation of property and equipment	—	—	—	—	669	—	669
Release of property and equipment revaluation reserve on disposal of previously revalued assets	—	—	—	—	(5)	5	—
Dividends – preferred shares	—	—	—	—	—	(508)	(508)
Net income	—	—	—	—	—	4,898	4,898
<b>December 31, 2002</b>	<b>11,931</b>	<b>4,160</b>	<b>(195)</b>	<b>28</b>	<b>854</b>	<b>2,977</b>	<b>19,755</b>
Sale of common shares	4,313	—	—	1,222	—	—	5,535
Sale of preferred shares	—	575	—	163	—	—	738
Purchase of treasury shares	—	—	(433)	—	—	—	(433)
Dividends – preferred shares	—	—	—	—	—	(487)	(487)
Revaluation of property and equipment	—	—	—	—	955	—	955
Release of property and equipment revaluation reserve on usage of previously revalued assets	—	—	—	—	(68)	68	—
Release of property and equipment revaluation reserve on disposal of previously revalued assets	—	—	—	—	(4)	4	—
Net income	—	—	—	—	—	4,620	4,620
<b>December 31, 2003</b>	<b>16,244</b>	<b>4,735</b>	<b>(628)</b>	<b>1,413</b>	<b>1,737</b>	<b>7,182</b>	<b>30,683</b>

*The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.*

## Consolidated Statements of Cash Flows

(Millions of Kazakh Tenge)

	<i>Years ended December 31,</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>
<b>Cash flows from operating activities</b>			
Income before income tax expense and minority interest	4,846	5,030	1,592
Adjustments for:			
Depreciation and amortization	926	786	667
Minority interest	40	(132)	(1)
Provision for losses	10,729	7,430	6,068
Loss on sale of property and equipment	63	2	52
Reserve for insurance losses	983	733	766
Unrealized foreign exchange loss (gain)	723	(251)	(215)
Unrealized (gain) loss on securities	(2,879)	(1,193)	164
<b>Operating cash flows before changes in net operating assets</b>	<b>15,431</b>	<b>12,405</b>	<b>9,093</b>
<b>(Increase) decrease in operating assets:</b>			
Obligatory reserves	(975)	1,953	(2,234)
Amounts due from other banks	(3,796)	(10,643)	(147)
Trading securities	(29,327)	(12,194)	(9,686)
Loans to customers	(133,724)	(20,822)	(58,561)
Other assets	(1,915)	(3,685)	(252)
<b>Increase (decrease) in operating liabilities:</b>			
Amounts owed to NBK and the Government	2,581	185	1,634
Amounts due to other financial institutions	67,346	12,680	22,337
Amounts due to customers	38,601	22,868	32,801
Other liabilities	(3,962)	4,019	(1,733)
<b>Net cash flows from operating activities before income tax</b>	<b>(49,740)</b>	<b>6,766</b>	<b>(6,748)</b>
Income tax paid	(300)	–	–
<b>Net cash flows from operating activities</b>	<b>(50,040)</b>	<b>6,766</b>	<b>(6,748)</b>
<b>Cash flows from investing activities</b>			
Net cash acquired (paid) on acquisition of subsidiaries	–	(171)	43
Purchase of held-to-maturity securities	(8,505)	(19,278)	–
Purchase of property and equipment	(1,914)	(1,402)	(1,337)
Proceeds from sale of property and equipment	1,698	269	241
<b>Net cash flows from investing activities</b>	<b>(8,721)</b>	<b>(20,582)</b>	<b>(1,053)</b>
<b>Cash flows from financing activities</b>			
Sale of common shares	5,535	–	–
Sale of preferred shares	738	–	4,160
Purchase of treasury stock	(433)	(2,248)	–
Sale of treasury stock	–	2,102	197
Dividends paid	(475)	(503)	–
Debt securities issued	46,587	17,247	13,265
<b>Net cash flows from financing activities</b>	<b>51,952</b>	<b>16,598</b>	<b>17,622</b>
Effect of exchange rate changes on cash and cash equivalents	(462)	555	394
<b>Net change in cash and cash equivalents</b>	<b>(7,271)</b>	<b>3,337</b>	<b>10,215</b>
<b>Cash and cash equivalents, beginning</b>	<b>20,557</b>	<b>17,220</b>	<b>7,005</b>
<b>Cash and cash equivalents, ending</b>	<b>13,286</b>	<b>20,557</b>	<b>17,220</b>
<b>Supplementary information:</b>			
Interest paid	14,329	9,901	6,265
Interest received	26,854	21,685	14,829

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

(Millions of Kazakh Tenge)

## 1. Principal Activities

Bank TuranAlem and subsidiaries (the “Group”) provide retail and corporate banking services, insurance services, leasing and other financial and non financial 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 was reregistered as an open joint stock company in December 1998. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on September 26, 2003. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 2 lists the Bank’s subsidiaries.

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank is the second largest bank in Kazakhstan in terms of total assets. Its head office is located in Almaty, Kazakhstan. At December 31, 2003, it had 22 regional branches and 188 cash settlement units (2002 – 24 regional branches and 211 cash settlement units; 2001 – 24 regional branches and 246 cash settlement units). The Bank’s registered legal address is 97 Zholdasbekov Street, Samal-2, Almaty, 480099, Republic of Kazakhstan.

The Bank’s common shares and certain of its debt securities are listed on the Kazakhstan Stock Exchange (“KASE”). Certain of the Group’s debt securities are listed on the Luxemburg Stock Exchange with secondary listing on KASE.

As of December 31, 2003, members of the Shareholders’ Members’ Council and Management Board controlled 475,213 shares (21.68% of share capital) (2002 – 350,874 shares or 20.60%, 2001 – nil). The Group had 3,221, 3,642, and 3,298 employees as of December 31 2003, 2002, and 2001, respectively.

## 2. Basis of Preparation

### General

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

During 2002 and 2001, the Group was required to maintain its records and prepare its financial statements for regulatory purposes in KZT in accordance with Kazakhstani accounting and banking legislation and related instructions (KAS). The consolidated financial statements for 2002 and 2001 were based on the Group’s statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 and 2001 between KAS and IFRS are presented later in this note. Starting from January 1, 2003, the Group maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS.

The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of trading securities and derivative contracts as required by IAS 39 “Financial Instruments: Recognition and Measurement” and estimated market value accounting for certain buildings, included in property and equipment as allowed by IAS 16 “Property, Plant and Equipment”.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regards to those financial statements relate to the allowances for impairment of assets, reserves for insurance claims and other provisions. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

(Millions of Kazakh Tenge)

**Consolidated Subsidiaries**

The consolidated financial statements include the following subsidiaries:

<i>2003</i>					
<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
				Consumer Mortgage	
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kurmet Pension Fund	72.47%	Kazakhstan	16.09.98	Pension Fund	16.09.98
JSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
Kazakhstan Pension Fund	65.97%	Kazakhstan	22.06.99	Pension Fund	06.07.99
				Property and Casualty Insurance	04.04.01
KBS Garant	57.53%	Kazakhstan	12.01.99	Construction	–
Kazco Construction	–	Kazakhstan	14.01.99	Property Management	–
Samal Properties Real Estate Commerce	–	Kazakhstan	17.02.99	Property Management	–
				Property Management	–
Force Technology	–	Kazakhstan	16.04.02	IT Services	–
				IT Services	–

On September 3, 2003, the Group increased its share from 66.00% to 72.47% in the paid-in share capital of Kurmet Pension Fund.

On November 25, 2003, the Group increased its share from 50.40% to 65.97% in the paid-in share capital of Kazakhstan Pension Fund (“KPF”).

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 SIC-12 “Consolidation – Special Purpose Entities”, as subsidiaries because the Bank controls and benefits directly from their operations.

<i>2002</i>					
<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
				Consumer Mortgage	
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
				Collateralised Retail Consumer Lending	28.05.01
Altyn Orda	100.00%	Kazakhstan	28.05.01	Securities Trading	21.05.01
TuranAlem Finance B.V.	100.00%	Netherlands	22.07.99	Pension Fund	16.09.98
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Property and Casualty Insurance	08.09.98
OJSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	04.04.01
KBS Garant	57.53%	Kazakhstan	22.06.99	Pension Fund	06.07.99
Kazakhstan Pension Fund	50.40%	Kazakhstan	12.01.99	Life Insurance	30.03.01
Dynasty	66.00%	Kazakhstan	22.07.99	Construction	–
Kazco Construction	–	Kazakhstan	14.01.99	Property Management	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

On December 2, 2002, the Group increased its share from 40.00% to 66.00% in the share capital of OJSC Insurance Company BTA. OJSC Insurance Company BTA contributed operating income of KZT 28 million to the Group from December 2, 2002 to December 31, 2002.

(Millions of Kazakh Tenge)

On July 22, 2002, the Group increased its share from 23.70% to 66.00% in the share capital of Kurmet. Kurmet contributed operating loss of KZT 35 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:

	<i>Insurance Company BTA</i>	<i>Kurmet Pension Fund</i>	<i>Total</i>
Cash and cash equivalents	68	5	73
Trading securities	352	57	409
Property and equipment	22	10	32
Other assets	270	10	280
Other liabilities	(476)	(5)	(481)
Minority interest	(51)	(18)	(69)
Cost of acquisition (paid in cash)	185	59	244
Less: Cash and cash equivalents acquired on acquisition of subsidiaries	(68)	(5)	(73)
Cash outflow on acquisition	117	54	171

### 2001

<i>Subsidiary</i>	<i>Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
Altyn Orda	100.00%	Kazakhstan	28.05.01	Collateralised Retail Consumer Lending	28.05.01
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading Property and Casualty	21.05.01
KBS Garant	54.52%	Kazakhstan	12.01.99	Insurance	04.04.01
Kazakhstan Pension Fund	50.40%	Kazakhstan	22.06.99	Pension Fund	06.07.99
Dinasty	41.38%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kazco Construction	-	Kazakhstan	14.01.99	Construction	-
Samal Properties	-	Kazakhstan	17.02.99	Property Management	-
Kurmet Pension Fund	23.70%	Kazakhstan	16.09.98	Pension Fund	16.09.98
OJSC Insurance Company BTA	40.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Consumer Mortgage Lending	20.11.00

On March 26, 2001, the Group acquired 54.52% of the share capital of KBS Garant ("KBS"). 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 KPF. KPF 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:

	<i>KBS Garant</i>	<i>KPF</i>	<i>Total</i>
Cash and cash equivalents	22	207	229
Trading securities	137	19	156
Property and equipment	23	9	32
Other assets	89	43	132
Other liabilities	(151)	(17)	(168)
Minority interest	(60)	(135)	(195)
Cost of acquisition (paid in 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)

(Millions of Kazakh Tenge)

### Reconciliation between KAS and IFRS

Shareholders' equity and net income are reconciled between KAS and IFRS for 2002 and 2001 are as follows:

	2002		2001	
	Shareholders' equity	Net income	Shareholders' equity	Net income
<b>Kazakhstani Accounting Requirements</b>	19,183	3,469	15,654	1,576
Provisions for losses	251	1,068	(817)	10
Amortization of transaction costs relating to issue of bonds	321	316	5	5
Other	–	45	–	–
<b>International Financial Reporting Standards</b>	<b>19,755</b>	<b>4,898</b>	<b>14,842</b>	<b>1,591</b>

### 3. Summary of Accounting Policies

#### Principles of Consolidation

The consolidated financial statements of the Group include Bank TuranAlem and the companies that it controls (subsidiaries). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and statements of income, respectively.

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 assumed 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. Intercompany transactions, balances, and unrealised 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.

#### Recognition of Financial Instruments

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

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

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

#### Related Parties

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

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from NBK – excluding obligatory reserves, and due from other financial institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

(Millions of Kazakh Tenge)

### **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.

### **Trading Securities**

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date.

Realized and unrealised gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

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

### **Amounts Due from Other Financial Institutions**

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

### **Repurchase and Reverse Repurchase Agreements**

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

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

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

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

### **Derivative Financial Instruments**

In the normal course of business, the Group enters into various derivative financial instruments, primarily forwards in the foreign exchange markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives, for which offsetting is performed are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Other derivative assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from trading securities.

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At December 31, 2003, 2002, 2001 embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

(Millions of Kazakh Tenge)

### Held-to-Maturity Investment Securities

The Group classifies its investment securities into held-to-maturities securities as these securities are with fixed maturities and fixed or determinable payments, and Management has both the positive intent and the ability to hold them to maturity.

Held-to-maturity investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using amortized cost and the effective interest method. The allowance for impairment is estimated on a case-by-case basis.

### Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the financial instruments recognition policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment.

### Leases

#### *i. Finance – Group as Lessor*

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

#### *ii. Operating – Group as Lessee*

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

#### *iii. Operating – Group as Lessor*

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the statement of income in the period in which they are incurred.

### Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and of the cities in which the Group has offices, branches or subsidiaries. TuranAlem Finance B.V., a Netherlands company, is subject to Dutch taxation.

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

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised:

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- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

### Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost.

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

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

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

### Property and Equipment

Property and equipment, except buildings, are stated at the lower of cost less accumulated depreciation, recoverable amount, and any impairment losses. Buildings are stated in the consolidated balance sheets at their revalued 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. 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 land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property 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 of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	15-50
Furniture and fixtures	4-10
Computers and office equipment	4

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

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

(Millions of Kazakh Tenge)

### **Amounts Due to NBK, Other Financial Institutions and to Customers**

Amounts due to NBK, other financial institutions and to customers are initially recorded in accordance with the financial instruments recognition policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

### **Debt Securities Issued**

Debt securities issued represent bonds issued by the Group. They are accounted for according to the same principles used for amounts owed to other financial institutions and to customers.

### **Provisions**

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

### **Retirement and Other Benefit Obligations**

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and benefits in consolidated income statements. The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

### **Share Capital**

Share capital, additional paid-in capital and treasury stock are recognized at the fair value of consideration received or paid. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Purchases of treasury stock are recorded at cost. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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

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

### **Contingencies**

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

### **Trust Activities**

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.

### **Income and Expense Recognition**

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

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### **Underwriting Income (Loss)**

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

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers. Upon inception of a contract, premiums are recorded as written and are earned on a 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 the consolidated income statements 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 sheets within other assets, and are amortized over the period in which the related written premiums are earned.

### **Reserve for Insurance Losses and Loss Adjustment Expenses**

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

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

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

### **Reinsurance**

In the ordinary course of business, the Group cedes insurance. 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 transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the market exchange rate quoted by KASE at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies.

Differences between the contractual exchange rate of a certain transaction and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at December 31, 2003, 2002 and 2001, were KZT 144.22, KZT 155.85, and KZT 150.94 to USD 1, respectively.

(Millions of Kazakh Tenge)

**Reclassifications**

Certain of the 2002 and 2001 amounts were reclassified to conform with the presentation of the 2003 financial statements. None of these reclassifications impacted net income or shareholders' equity. These reclassifications are summarized below:

	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>Previously reported</i>		<i>As reclassified</i>	
<i>Consolidated balance sheet:</i>				
Interest accrued on loans to customers was separated from loans to customers to a separate line item	–	–	3,088	2,440
Provisions for letters of credits and guarantees were reclassified from allowances for losses to other liabilities	–	–	353	–
<i>Consolidated statement of income:</i>				
Other impairment and provisions were reclassified from provisions for losses to administrative and operating expenses	477	–	–	–
Taxes other than income taxes (except social security costs) were reclassified to administrative and operating expenses	815	571	–	–
Social security costs were reclassified to salaries and benefits	489	358	–	–
Legal and professional fees were reclassified to administrative and operating expenses	392	192	–	–
Advertising were reclassified to administrative and operating expenses	453	345	–	–
Custom duties were reclassified to administrative and operating expenses	253	616	–	–
Loss on disposal of property and equipment was reclassified to administrative and operating expenses	2	52	–	–

**4. Cash and Cash Equivalents**

Cash and cash equivalents comprise:

	<i>2003</i>	<i>2002</i>	<i>2001</i>
Cash on hand	<b>9,784</b>	7,077	2,145
Current accounts with the NBK	<b>632</b>	674	–
Time deposits with contractual maturity of less than 90 days	–	454	566
Current accounts with other financial institutions	<b>2,734</b>	11,845	8,267
Loans to other Kazakh banks and credit institutions	<b>136</b>	507	6,242
<b>Cash and cash equivalents</b>	<b>13,286</b>	20,557	17,220

At December 31, 2002 time deposits with contractual maturity of less than 90 days bear interest rates from 9.8% to 16%, (2001 – 7%-12%) and mature in January 2003 (2001 – January 2002).

Loans to other Kazakhstani banks and financial institutions are secured by securities held under reverse repurchase agreements in amounts to fully collateralise 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 2004 (2002 – January 2003; 2001 – January 2002).

At December 31, 2003, 10 banks accounted for 16.37% of total cash and cash equivalents and represented 7.90% of the Group's total shareholders' equity at that date (2002 – 10 banks accounted for 58.29% of total cash and cash equivalents and represented 60.66% of the Group's total shareholders' equity; 2001 – 10 banks accounted for 47.00% of total cash and cash equivalents and represented 54.00% of the Group's total shareholders' equity).

**5. Obligatory Reserves**

Obligatory reserves comprise:

	<i>2003</i>	<i>2002</i>	<i>2001</i>
Due from NBK	<b>3,706</b>	2,731	2,222
Cash on hand allocated to obligatory reserves	–	–	2,462
	<b>3,706</b>	2,731	4,684

(Millions of Kazakh Tenge)

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 NBK or in physical cash and maintained based on average monthly balances of the aggregate of deposits with NBK and physical cash. The use of such funds is, therefore, subject to certain usage restrictions.

## 6. Trading Securities

Trading securities owned comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Bonds of international financial organizations	37,473	8,536	–
Sovereign bonds of the Republic of Kazakhstan	9,605	9,516	9,728
Notes of NBK	6,683	3,028	–
Treasury bills of the Ministry of Finance	3,800	9,842	6,921
Corporate bonds	3,555	1,114	1,182
Equity securities of Kazakhstani banks and financial institutions	442	–	–
Municipal bonds	33	45	–
<b>Trading securities</b>	<b>61,591</b>	<b>32,081</b>	<b>17,831</b>
Subject to repurchase agreements	15,773	11,186	7,609

Interest rates and maturity of these securities follow:

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	6.1% - 16.9%	2004 – 2008	7.9% - 17.5%	2003 - 2007	7.9% - 17.5%	2002 - 2007
Sovereign bonds of the Republic of Kazakhstan	11.1% - 13.6%	2004 – 2007	11.1% - 13.7%	2004 - 2007	8.4% - 13.6%	2002 - 2007
Bonds of international financial organizations	4.4% - 7.1%	2005 – 2013	4.4% - 6.1%	2011 - 2013	4.4% - 6.1%	2011 - 2013
Corporate bonds	7.4% - 13.0%	2004 – 2013	10.5%	2005	8.0% - 11.0%	2002 - 2005
Municipal bonds	6.3% - 8.6%	2004 – 2006	8.0%	2006	–	–
Notes of NBK	–	2004	–	2003	–	–

## 7. Amounts Due from Other Financial Institutions

Amounts due from other financial institutions comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reverse repurchase agreements	8,405	9,445	–
Loans	5,993	–	150
Time deposits of more than 90 days or overdue	–	1,375	–
<b>Amounts due from other financial institutions</b>	<b>14,398</b>	<b>10,820</b>	<b>150</b>

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements were Treasury bills of the Ministry of Finance, Sovereign bonds of the Republic of Kazakhstan, bonds of international financial organizations, Corporate bonds issued by Kazakhstani companies, and Municipal bonds.

As of December 31, 2003, KZT 1,087 million (2002 – nil, 2001 –KZT 150 million) were issued as inter-bank loans to six banks based in the CIS. As of December 31, 2003, inter-bank loans include KZT 4,906 million (2002 – nil, 2001 – nil) which were placed with three Kazakh banks.

As of December 31, 2002, an inter-bank time deposit amounting to KZT 623 million was placed with a bank based in the Commonwealth of Independent States (“CIS”) and KZT 752 million with two Kazakhstani banks.

(Millions of Kazakh Tenge)

Interest rates and maturities are the following:

	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Reverse repurchase agreements	2.0% - 8.0%	2004	3.0% - 7.0%	2003	–	–
Loans	4.0% - 12.0%	2004 - 2008	–	–	14.0%	2003
Time deposits of more than 90 days or overdue	–	–	6.0% - 12%	2003	–	–

## 8. Held-to-Maturity Investment Securities

Held-to-maturity investment securities comprise:

	2003		2002		2001	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
Bonds of international financial organizations	26,288	24,611	19,634	17,912	–	–

Included in bonds of international financial organisations 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”), European Association of Project Development (“EuroFIMA”) that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

As of December 31, 2002, bonds of international financial organizations amounting to KZT 5,938 million were pledged as security for borrowings under repurchase agreements with other banks. In 2003, these bonds were free from any encumbrances.

## 9. Loans to Customers

Loans to customers comprise:

	2003	2002	2001
Gross loans	255,118	137,913	117,193
Less allowances for impairment	(15,271)	(10,166)	(6,474)
<b>Loans to customers</b>	<b>239,847</b>	<b>127,747</b>	<b>110,719</b>

Loans are placed on non-accrual status as to contractual interest when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least thirty days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of timely repayment.

As of December 31, 2003, the total gross amount of impaired loans, on which interest was not accrued, was KZT 1,774 million (2002 – KZT 2,361 million, 2001 – KZT 492 million). Unrecognised interest related to such loans amounted to KZT 302 million (2002 – KZT 472 million, 2001 – KZT 118 million).

As of December 31, 2003, the Group had a concentration of loans represented by KZT 67,204 millions due from 10 borrowers that was 26.30% of total gross loan portfolio (2002 – KZT 22,871 million, 16.58%, 2001 – KZT 24,320 million, 20.75%). Allowances of KZT 2,657 million (2002 – KZT 345 million, 2001 – KZT 419 million) were made against these loans.

Gross loans have been extended to the following types of customers:

	2003	2002	2001
Private companies	219,838	121,186	98,405
Individuals	27,222	12,765	5,785
State companies	7,506	801	1,230
State budget or local authorities	518	706	815
Other	34	2,455	10,958
	<b>255,118</b>	<b>137,913</b>	<b>117,193</b>

(Millions of Kazakh Tenge)

Gross loans are made principally within Kazakhstan to the following sectors:

	<i>2003</i>	<i>2002</i>	<i>2001</i>
Wholesale trade	53,538	27,583	30,600
Agriculture	32,506	14,547	13,362
Food industry	30,350	11,661	9,997
Oil & Gas production	29,841	11,710	8,642
Individuals	27,222	12,765	5,785
Construction	17,863	8,495	3,177
Mining	15,242	6,124	1,633
Chemical industry	9,254	10,161	7,735
Real estate activities	7,173	5,602	11,262
Metallurgical industry	7,125	1,134	3,758
Telecommunication	4,612	335	1,007
Energy	3,558	3,061	3,522
Transport	3,541	10,400	9,024
Retail trade	1,480	6,303	2,553
Production of rubber and plastics articles	1,243	1,195	1,122
Light and leather industry	688	45	425
Other	9,882	6,792	3,589
	<b>255,118</b>	<b>137,913</b>	<b>117,193</b>

#### 10. Allowances for Losses and Provisions

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

	<i>Loans to customers</i>
<b>December 31, 2000</b>	2,905
Provision	5,838
Write-offs	(3,227)
Recoveries	958
<b>December 31, 2001</b>	6,474
Provision	7,184
Write-offs	(3,763)
Recoveries	271
<b>December 31, 2002</b>	10,166
Provision	10,391
Write-offs	(6,762)
Recoveries	1,476
<b>December 31, 2003</b>	15,271

The movements in allowances for other losses and provisions, were as follows:

	<i>Other assets</i>	<i>Letters of credit and guarantees</i>	<i>Total</i>
<b>December 31, 2000</b>	-	-	-
Provision	181	49	230
Write-offs	-	-	-
Recoveries	-	-	-
<b>December 31, 2001</b>	181	49	230
Provision	19	227	246
Write-offs	(91)	(32)	(123)
Recoveries	-	-	-
<b>December 31, 2002</b>	109	244	353
Provision	230	108	338
Write-offs	-	(33)	(33)
Recoveries	-	-	-
<b>December 31, 2003</b>	339	319	658

Allowances for impairment of assets are deducted from the related assets. Provisions for letters of credit and guarantees are recorded in other liabilities.

(Millions of Kazakh Tenge)

**11. Taxation**

The corporate income tax expense comprises:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current tax charge	266	–	–
Deferred tax charge	–	–	–
<b>Income tax expense</b>	<b>266</b>	<b>–</b>	<b>–</b>

The Bank and its subsidiaries, other than TuranAlem Finance B.V. (“TAF”), are subject to taxation in the Republic of Kazakhstan. TAF is subject to income tax in the Netherlands. The Bank had no current or deferred income tax liability at December 31 2003, 2002 and 2001.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Income tax computed at the statutory tax rate of 30%</b>	<b>1,454</b>	<b>1,509</b>	<b>477</b>
Non-deductible interest expenses	215	198	369
Non-deductible provisions for losses	165	–	–
Non-deductible business expenses	580	67	218
Non-deductible foreign exchange losses	–	–	114
Losses (income) of subsidiaries taxed at different rates	108	(38)	–
Non taxable income on government securities	(897)	(778)	(556)
Non taxable income on long-term loans granted for modernization of property and equipment	(1,230)	(883)	(580)
Non taxable foreign exchange gain	–	–	(245)
Change in unrecognised deferred tax assets	(129)	(75)	203
<b>Income tax expense</b>	<b>266</b>	<b>–</b>	<b>–</b>

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:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Deferred tax assets:</b>			
Allowance for losses	–	204	251
Property and equipment	–	4	32
Other	101	–	–
	<b>101</b>	<b>208</b>	<b>283</b>
<b>Deferred tax liabilities:</b>			
Property and equipment	(22)	–	–
<b>Net deferred tax assets</b>	<b>79</b>	<b>208</b>	<b>283</b>
<b>Unrecognised deferred tax assets</b>	<b>(79)</b>	<b>(208)</b>	<b>(283)</b>
	<b>–</b>	<b>–</b>	<b>–</b>

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take different positions with regard to interpretive issues.

(Millions of Kazakh Tenge)

**12. Property and Equipment**

The movements of property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture, fixtures and equipment</i>	<i>Construction-in- progress</i>	<i>Total</i>
<b>Cost or revaluation</b>				
<b>December 31, 2002</b>	5,289	2,794	–	8,083
Additions	572	1,097	245	1,914
Revaluation	959	(4)	–	955
Disposals	(642)	(1,377)	(230)	(2,249)
<b>December 31, 2003</b>	<b>6,178</b>	<b>2,510</b>	<b>15</b>	<b>8,703</b>
<b>Accumulated depreciation</b>				
<b>December 31, 2002</b>	(586)	(974)	–	(1,560)
Charge	(409)	(477)	–	(886)
Disposals	66	422	–	488
<b>December 31, 2003</b>	<b>(929)</b>	<b>(1,029)</b>	<b>–</b>	<b>(1,958)</b>
<b>Net book value:</b>				
<b>December 31, 2003</b>	<b>5,249</b>	<b>1,481</b>	<b>15</b>	<b>6,745</b>
<b>December 31, 2002</b>	<b>4,703</b>	<b>1,820</b>	<b>–</b>	<b>6,523</b>
<b>December 31, 2001</b>	<b>3,878</b>	<b>1,525</b>	<b>38</b>	<b>5,441</b>

During 2002, the Group commenced the process of revaluing its buildings. The revaluation process is planned to be completed during 2004 for all buildings. Certain buildings were revalued effective May 24, 2002 and December 2003, on the basis of independent appraisals using fair market values.

As of December 31, 2003, the resulting revaluation surplus of KZT 1,737 millions (2002 – KZT 854 million, 2001 – KZT 190) is recorded in the property and equipment revaluation reserve in shareholders' equity.

**13. Amounts Due to NBK and the Government**

Amounts due to the NBK and Government consist of the following:

	<i>2003</i>	<i>2002</i>	<i>2001</i>
Amounts due to the Government:			
Non Interest bearing	29	5	10
Interest bearing – KZT denominated	1,182	1,616	1,606
Interest bearing – USD denominated	204	197	148
Interest bearing – EUR denominated	504	454	207
Amounts due to NBK:			
Deposits	3,000	–	–
Loan	258	403	462
	<b>5,177</b>	<b>2,675</b>	<b>2,433</b>
Accrued interest	13	8	5
<b>Amounts due to NBK and the Government</b>	<b>5,190</b>	<b>2,683</b>	<b>2,438</b>

Interest bearing KZT amounts due to the Government at December 31, 2003, carry interest at rates ranging up to 12.5% per annum (2002 – from 5.00% to 10.00%, 2001 – from 2.50% to 9.50%) and mature between 2004 and 2010 (2002 – between 2003 and 2004, 2001 – in 2004). The USD amounts due to the Government carry interest at 1.27% (2002 and 2001 – 7.16%), per annum and mature in June 2011 (2002 and 2001 – June 2011). The EUR denominated amounts due to the Government carry interest at 5.00% per annum and mature in December 2010.

As of December 31, 2003, deposits with NBK carry interest at 6.50% per annum and mature in February 2004. The loan carries interest at 2.87% per annum (2002 – 4.20%, 2001 – 8.41%) and matures in June 2004 (2002 – August 2003, 2001 – July 2002).

(Millions of Kazakh Tenge)

**14. Amounts Due to Other Financial Institutions**

Amounts due to other financial institutions comprise:

	<i>2003</i>	<i>2002</i>	<i>2001</i>
Interest-bearing placement from an OECD based bank	–	–	4,055
Interest-bearing placements from non OECD banks	<b>288</b>	78	–
Interest-bearing placements from Kazakh banks	<b>8,490</b>	856	2,028
Correspondent loro accounts	<b>1,583</b>	694	559
	<b>10,361</b>	1,628	6,642
Pass-through loans	<b>3,856</b>	6,846	2,973
Loans from Kazakh banks and financial institutions	<b>3,402</b>	2,302	2,103
Loans from non-Kazakh banks and finance institutions	<b>49,893</b>	33,747	19,866
Syndicated bank loans	<b>48,168</b>	11,455	10,139
	<b>115,680</b>	55,978	41,723
Accrued interest	<b>1,371</b>	515	330
<b>Amounts due to other financial institutions</b>	<b>117,051</b>	56,493	42,053

Interest rates and maturity of amounts due to other financial institutions follow:

	<i>2003</i>		<i>2002</i>		<i>2001</i>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
Interest-bearing placement from an OECD based bank	–	–	–	–	0.5%	2002
Interest-bearing placements from non OECD banks	4.5%	2004	4%	2003	–	–
Interest-bearing placements from Kazakh banks	2.1% - 5.5%	2004	3.5%	2003	3% - 10%	2002
Correspondent loro accounts	0%	–	0% - 2%	–	0% - 2%	–
Pass-through loans	5% - 10.2%	2004 - 2006	5% - 10.5%	2003 - 2006	5% - 10.5%	2003 - 2006
Loans from Kazakh banks and financial institutions	3% - 5.2%	2004	5.7%-6.5%	2003	7.5% - 8.5%	2002
Loans from non-Kazakh banks and finance institutions	1.1% - 9.7%	2004 - 2009	1.5% - 7.7%	2002 - 2009	2.6% - 10.3%	2002 - 2006
Syndicated bank loans	3.3% - 3.7%	2004 - 2005	4.0%	2003	5.5%	2003

At December 31, 2003, pass-through loans represent credit lines provided to the Bank, through the Government of the Republic of Kazakhstan, by international financial organizations. At December 31, 2003, the Bank's interest spread on these loans ranged from 3.12% to 10.19% per annum (2002 – 3% to 13.4%, 2001 – 3% to 17%). Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. At December 31, 2003, 2002 and 2001 amounts received under pass-through loans had been advanced to borrowers and included within loans to customers in the accompanying consolidated balance sheets. Undrawn balances of credit lines at December 31, 2003 amounted to USD 4 million (2002 and 2001 - nil).

At December 31, 2003, amounts due to other financial institutions include EUR and USD denominated subordinated loans, that rank behind the claims from the Group's depositors and other unsecured, unsubordinated creditors. In accordance with the Convertible Subordinated Loan Agreement between Deutsche Investitions und Entwicklungsgesellschaft mbH ("DEG") and the Bank dated December 11, 2000, DEG had the right to convert any part or all of its subordinated loan into Convertible Preferred Shares ("CPS"), or preferred, or common shares. Provided that DEG exercised this right before December 31, 2002. During 2001, DEG converted a portion, KZT 735 million, its loan in exchange to CPS and waived any further conversion rights.

In accordance with the contractual terms of the syndicated bank loans, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. In addition, and in accordance with the terms of certain of those loans, the Bank is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than dividend shares.

(Millions of Kazakh Tenge)

**15. Amounts Due to Customers**

The amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and include the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current accounts	41,708	39,736	27,010
Time deposits	96,579	64,936	52,041
Guarantee and other deposits	937	1,085	1,957
	<u>139,224</u>	<u>105,757</u>	<u>81,008</u>
Accrued interest	1,094	1,053	964
<b>Amounts due to customers</b>	<b><u>140,318</u></b>	<b><u>106,810</u></b>	<b><u>81,972</u></b>

Interest rates and maturity of amounts due to customers follow:

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
Current accounts	0% - 1.0%	—	0% - 1.0%	—	0% - 1.0%	—
Time deposits	1.0% - 12.3%	2004 - 2010	1.0% - 13.5%	2003 - 2005	1.0% - 14.0%	2002 - 2004
Guarantee and other deposits	0% - 10.2%	2004 - 2020	0% - 9.0%	2003 - 2020	0% - 12.0%	2004 - 2021

Amounts due to customers include accounts with the following types of customers:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Individuals	68,385	52,898	36,132
Private enterprises	55,600	39,254	33,263
State and budgetary organisations	9,251	12,384	10,097
Employees	111	88	17
Other	5,877	1,133	1,499
	<u>139,224</u>	<u>105,757</u>	<u>81,008</u>
Accrued interest	1,094	1,053	964
<b>Amounts due to customers</b>	<b><u>140,318</u></b>	<b><u>106,810</u></b>	<b><u>81,972</u></b>

**16. Debt Securities Issued**

Debt securities issued consisted of the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
USD notes	61,294	31,170	15,038
USD and KZT subordinated notes	13,528	6,612	2,938
	<u>74,822</u>	<u>37,782</u>	<u>17,976</u>
Own USD notes held by the Group	(482)	(6,118)	(4,428)
Own USD and KZT subordinated notes held by the Group	(8)	(52)	(24)
	<u>74,332</u>	<u>31,612</u>	<u>13,524</u>
Less unamortized cost of issuance	(825)	(326)	(214)
	<u>73,507</u>	<u>31,286</u>	<u>13,310</u>
Interest accrued	667	235	156
<b>Debt securities issued</b>	<b><u>74,174</u></b>	<b><u>31,521</u></b>	<b><u>13,466</u></b>

The interest rates and maturities of these debt securities issued follow:

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
USD notes	7.875%-11.5%	2004 - 2010	10.0%-11.5%	2004 - 2007	11.5%	2004
USD and KZT subordinated notes	8.0%-12.0%	2009 - 2013	9.0%-12.0%	2009 - 2010	12.0%	2009

The subordinated notes at December 31, 2003, 2002, and 2001, 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.

In accordance with the terms of the USD Notes, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures.

(Millions of Kazakh Tenge)

## 17. Shareholders' Equity

Authorized share capital at December 31, 2003 consisted of 1,719,148 common shares and 569,997 Convertible Preferred Shares ("CPS") (2002 – 1,287,023 common and 426,722 CPS, 2001 – 1,287,023 common and 426,722 CPS). Issued share capital at December 31, 2003 consisted of 1,677,269 common shares and 484,215 CPS (2002 – 1,276,635 common shares and 426,722 CPS, 2001 – 1,287,023 common shares and 426,722 CPS). All shares are KZT denominated and have a nominal value of KZT 10,000 each. Share capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of Bank TuranAlem following the combination of Turan Bank and Alem Bank.

At December 31, 2003, the Group held 41,104 of the Bank's shares as treasury stock (2002 - 10,388, 2001 - nil).

During 2003, the Bank issued 57,493 CPS and 431,350 common shares at a premium of KZT 2,832.80 per share.

As of December 31, 2003, the following shareholders held the outstanding shares.

Shareholder	%
<b>Common shares:</b>	
Management	27.82
Bank of New York (nominee holder)	26.00
Central Securities Depository CJSC (nominee holder)	25.88
VALAXIS Asset Management SA	9.43
HAWSBROK	7.47
Others	3.40
	<b>100.00</b>
<b>Preferred shares:</b>	
Raiffeisen Zentralbank Osterreich ("RZB")	33.48
DEG	27.05
EBRD	15.18
IFC	15.18
FMO	9.11
	<b>100.00</b>

### Convertible Preferred Shares

During 2001, the Bank issued 426,722 CPS at nominal value and recognized the issued share capital in these consolidated 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. During 2003, the Bank issued 57,493 CPS at a premium of KZT 2,832.80.

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

At December 31, 2003, the CPS nominal value was KZT 10,000 (USD 69.34), the quoted market price per common share was KZT 12,900 (USD 89.45), and the net assets value per share (as measured by the underlying net asset value of the Group divided by the number of shares outstanding) was KZT 13,997 (USD 97.05).

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 USD 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 in cash. Management believes that the likelihood of those shares being redeemed is remote.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the USD equivalent of the CPS Purchase Price at the offer date (the "Purchase Price") if any person makes a Shareholder Protection Tender Offer ("Tender Offer"), 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 Tender Offer being made 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.

(Millions of Kazakh Tenge)

## 18. Commitments and Contingencies

### Operating Environment

The Kazakhstani economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The Group could be affected, in the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets and the ability of the Group to maintain or pay its debts as they mature.

### Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

### Financial Commitments and Contingencies

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

	<i>2003</i>	<i>2002</i>	<i>2001</i>
<b>Credit related commitments</b>			
Undrawn loan commitments	25,443	11,155	3,317
Letters of credit	45,141	26,507	15,730
Promissory notes guarantees	5,799	4,433	5,164
Guarantees	18,648	17,392	7,114
	<b>95,031</b>	59,487	31,325
Capital expenditure commitments	–	–	11,000
Less: cash collateral	(945)	(606)	(35)
	<b>94,086</b>	58,881	42,290
Less: provisions	(319)	(244)	(49)
<b>Financial commitments and contingencies</b>	<b>93,767</b>	58,637	42,241

At December 31, 2003, ten guarantees accounted for 28% (2002 - 28%, 2001 - 21%) of total financial guarantees and represented 20% (2002 - 68%, 2001 - 51%) of the Group'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 the bank, government securities, and other assets.

As of December 31, 2003, letters of credit of KZT 906 million (2002 - nil, 2001 - nil) were secured by clients' funds, and the Bank did not create any provisions against these commitments.

### Trust Activities

The Group provides custody services to third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at December 31, 2003 such securities not reported in the balance sheet amounted to KZT 40 million (2002 - KZT 55 million, 2001 - KZT 66 million).

### 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.

(Millions of Kazakh Tenge)

At December 31, the Group was a party to the following deliverable forward contracts, all of which mature in 2004:

	2003		2002		2001	
	Notional Amount	Unrealized Gains	Notional Amount	Unrealized Gains	Notional Amount	Unrealized Gains
Deliverable forward contracts:						
USD-KZT contracts with Kazakh counterparties	11,474	359	334	–	451	–
USD-EUR contracts with Kazakh counterparties	1,004	5	–	–	403	–

## 19. Fees and Commissions

Fee and commission income for the years ended December 31 was made from the following sources:

	2003	2002	2001
Letters of credit and guarantees issued	2,519	1,458	933
Settlement and cash operations	1,445	982	785
Transfer operations	1,158	667	541
Foreign currency trading	606	499	433
Custodian activity	28	14	45
Other	602	674	424
<b>Fee and commission income</b>	<b>6,358</b>	<b>4,294</b>	<b>3,161</b>

Fee and commission expense for the years ended December 31 was incurred from the following sources:

	2003	2002	2001
Foreign currency trading	(59)	(67)	(112)
Transfer operations	(48)	(41)	(52)
Custodian activity	(24)	(36)	(9)
Other	(6)	(25)	(111)
<b>Fee and commission expense</b>	<b>(137)</b>	<b>(169)</b>	<b>(284)</b>

## 20. Gains Less Losses From Trading Securities

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

	2003	2002	2001
Realized gains from sale of trading securities, net	3	1,552	287
Unrealized gains (losses) on trading securities	586	1,193	(164)
	<b>589</b>	<b>2,745</b>	<b>123</b>

## 21. Other Operating Income

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

	2003	2002	2001
Penalties	446	399	128
Rent	442	450	240
Currency transport	26	99	101
Other	186	217	181
	<b>1,100</b>	<b>1,165</b>	<b>650</b>

(Millions of Kazakh Tenge)

**22. Salaries and Administrative and Operating Expenses**

Salaries and benefits and administrative and operating expenses comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Salaries and bonuses	(2,845)	(2,505)	(1,923)
Social security costs	(545)	(489)	(358)
Other payments	(42)	(29)	(30)
<b>Salaries and benefits</b>	<b>(3,432)</b>	<b>(3,023)</b>	<b>(2,311)</b>
Taxes other than income taxes	(955)	(815)	(571)
Repair and maintenance of property and equipment	(754)	(646)	(760)
Marketing and advertising	(447)	(453)	(345)
Legal and consultancy	(388)	(209)	(192)
Other impairment and provisions	(338)	(246)	(230)
Occupancy and rent	(312)	(137)	(86)
Communications	(292)	(207)	(159)
Security	(279)	(183)	(91)
Business travel and related expenses	(180)	(194)	(102)
Transportation expenses	(158)	(146)	(70)
Data processing	(157)	(180)	(90)
Office supplies	(75)	(100)	(83)
Loss on property and equipment disposals	(63)	(2)	(52)
Charity	(54)	(26)	(20)
Custom duties	(53)	(253)	(524)
Other	(707)	(911)	(242)
<b>Administrative and operating expenses</b>	<b>(5,212)</b>	<b>(4,708)</b>	<b>(3,617)</b>

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2003 was KZT 290 million (2002 – KZT 248 million, 2001 – KZT 188 million).

**23. 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 Bank did not declare or pay any dividends to common shareholders during 2003, 2002 and 2001. During 2003, the Bank accrued dividends to the CPS shareholders amounting to KZT 487 million (2002 - KZT 508 million, 2001 – KZT 41 million) and paid dividends to the CPS shareholders amounting to KZT 475 million (2002 - KZT 503 million, 2001 – nil).

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had two types of dilutive 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 income.

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

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on CPS's (in KZT millions)	4,133	4,390	1,550
Net income attributable to common and potential common shareholders for diluted earnings per share (in KZT millions)	4,620	4,898	1,596
Weighted average number of common shares for basic earnings per share	1,273,425	1,272,373	1,273,236
Weighted average number of common and potential common shares for diluted earnings per share	1,702,195	1,699,095	1,313,696

(Millions of Kazakh Tenge)

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:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weighted average number of common shares at December 31 for basic earnings per share	1,273,425	1,272,373	1,273,236
Weighted average number of common shares resulting from the potential conversion of the DEG subordinated loan into common shares	–	–	4,900
Weighted average number of common shares resulting from the potential conversion of the preferred shares into common shares	428,770	426,722	35,560
Weighted average number of common and potential common shares at December 31	<u>1,702,195</u>	<u>1,699,095</u>	<u>1,313,696</u>

#### 24. Risk Management Policies

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

##### Credit Risk

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are established by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

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 favourable to the Group (i.e. 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 counter parties.

(Millions of Kazakh Tenge)

**Concentration**

The geographical concentration of financial assets and liabilities is set out below:

	2003				2002				2001			
	Kazakh- stan	OECD	CIS and other foreign banks	Total	Kazakh- stan	OECD	CIS and other foreign banks	Total	Kazakh- stan	OECD	CIS and other foreign banks	Total
<b>Assets:</b>												
Cash and cash equivalents	9,773	2,742	771	13,286	8,951	10,492	1,114	20,557	7,639	8,374	1,207	17,220
Obligatory reserves	3,706	–	–	3,706	2,731	–	–	2,731	4,684	–	–	4,684
Trading securities	23,486	38,105	–	61,591	21,942	10,139	–	32,081	17,142	689	–	17,831
Amounts due from other financial institutions	7,848	6,286	264	14,398	10,820	–	–	10,820	150	–	–	150
Held-to-maturity investment securities	–	26,288	–	26,288	–	19,634	–	19,634	–	–	–	–
Loans to customers	222,904	–	32,214	255,118	137,913	–	–	137,913	117,193	–	–	117,193
Other assets	7,542	–	–	7,542	5,508	–	–	5,508	1,473	–	–	1,473
	<b>275,259</b>	<b>73,421</b>	<b>33,249</b>	<b>381,929</b>	<b>187,865</b>	<b>40,265</b>	<b>1,114</b>	<b>229,244</b>	<b>148,281</b>	<b>9,063</b>	<b>1,207</b>	<b>158,551</b>
<b>Liabilities:</b>												
Amounts due to NBK and the Government	5,190	–	–	5,190	2,683	–	–	2,683	2,438	–	–	2,438
Amounts due to other financial institutions	12,131	102,887	2,033	117,051	4,868	50,293	1,332	56,493	3,952	37,559	542	42,053
Amounts due to customers	140,318	–	–	140,318	106,810	–	–	106,810	81,972	–	–	81,972
Debt securities issued	74,174	–	–	74,174	31,521	–	–	31,521	13,466	–	–	13,466
Other liabilities	4,318	–	–	4,318	7,220	–	–	7,220	1,757	–	–	1,757
	<b>236,131</b>	<b>102,887</b>	<b>2,033</b>	<b>341,051</b>	<b>153,102</b>	<b>50,293</b>	<b>1,332</b>	<b>204,727</b>	<b>103,585</b>	<b>37,559</b>	<b>542</b>	<b>141,686</b>
<b>Net balance sheet position</b>	<b>39,128</b>	<b>(29,466)</b>	<b>31,216</b>	<b>40,878</b>	<b>34,763</b>	<b>(10,028)</b>	<b>(218)</b>	<b>24,517</b>	<b>44,696</b>	<b>(28,496)</b>	<b>665</b>	<b>16,865</b>

The above tables do not include the effect of allowances for loans losses and other assets, which total KZT 15,610 million, KZT 10,275 million and KZT 6,655 million as of December 31, 2003, 2002 and 2001 respectively.

**Market Risk**

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

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

(Millions of Kazakh Tenge)

**Currency Risk**

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

	2003			2002				2001				
	KZT	Freely convertible	Non convertible	Total	KZT	Freely convertible	Non convertible	Total	KZT	Freely convertible	Non convertible	Total
<b>Assets:</b>												
Cash and cash equivalents	6,688	5,723	875	13,286	5,053	15,309	195	20,557	475	16,573	172	17,220
Obligatory reserves	3,706	–	–	3,706	2,731	–	–	2,731	4,684	–	–	4,684
Trading securities	11,648	49,943	–	61,591	12,925	19,156	–	32,081	13,519	4,312	–	17,831
Amounts due from other financial institutions	8,483	5,915	–	14,398	9,830	990	–	10,820	–	150	–	150
Held-to-maturity investment securities	3	26,285	–	26,288	–	19,634	–	19,634	–	–	–	–
Loans to customers	78,426	176,665	27	255,118	35,936	101,946	31	137,913	25,189	91,902	102	117,193
Other assets	7,175	346	21	7,542	4,981	506	21	5,508	932	525	16	1,473
	<b>116,129</b>	<b>264,877</b>	<b>923</b>	<b>381,929</b>	<b>71,456</b>	<b>157,541</b>	<b>247</b>	<b>229,244</b>	<b>44,799</b>	<b>113,462</b>	<b>290</b>	<b>158,551</b>
<b>Liabilities:</b>												
Amounts due to NBK and the Government	4,263	927	–	5,190	972	1,711	–	2,683	772	1,666	–	2,438
Amounts due to other financial institutions	4,390	112,618	43	117,051	2,185	54,308	–	56,493	844	41,209	–	42,053
Amounts due to customers	69,043	70,596	679	140,318	50,077	56,456	277	106,810	28,114	53,514	344	81,972
Debt securities issued	7,598	66,576	–	74,174	–	31,521	–	31,521	–	13,466	–	13,466
Other liabilities	3,982	324	12	4,318	5,041	2,179	–	7,220	1,757	–	–	1,757
	<b>89,276</b>	<b>251,041</b>	<b>734</b>	<b>341,051</b>	<b>58,275</b>	<b>146,175</b>	<b>277</b>	<b>204,727</b>	<b>31,487</b>	<b>109,855</b>	<b>344</b>	<b>141,686</b>
<b>Net balance sheet position</b>	<b>26,853</b>	<b>13,836</b>	<b>189</b>	<b>40,878</b>	<b>13,181</b>	<b>11,366</b>	<b>(30)</b>	<b>24,517</b>	<b>13,312</b>	<b>3,607</b>	<b>(54)</b>	<b>16,865</b>

The above tables do not include the effect of allowances for loans losses and other assets, which total KZT 15,610 million, KZT 10,275 million and KZT 6,655 million as of December 31, 2003, 2002 and 2001, respectively.

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

(Millions of Kazakh Tenge)

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

### Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group 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 reprising of assets and liabilities through risk management strategies.

The interest rates earned and incurred by the Group on its assets and liabilities are disclosed in the relevant notes to the financial statements.

A significant portion of the Group's assets and liabilities reprice within one year. In addition, in accordance with the contractual terms with its customers, the Group is entitled to reprice a significant portion of its assets and liabilities that mature after more than one year. Accordingly there is a limited exposure to interest rate risk. As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

	2003		2002		2001	
	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>
Trading securities	6.9%	7.7%	10.6%	9.9%	11.8%	9.1%
Amounts due from other financial institutions	2.7%	2.4%	4.4%	2.8%	7.3%	3.8%
Held-to-maturity investment securities	–	4.4%	–	2.3%	–	–
Loans to customers	16.7%	12.5%	18.8%	14.4%	24.7%	13.1%
Amounts due to NBK and the Government	6.5%	4.4%	9.0%	4.3%	8.7%	1.6%
Amounts due to other financial institutions	5.1%	4.2%	6.0%	4.5%	0.3%	6.1%
Amounts due to customers	9.4%	5.1%	12.5%	6.1%	16.5%	5.4%
Debt securities issued	1.6%	11.6%	–	12.2%	–	17.3%

The Group monitors its interest rate margins on a regular basis and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

### Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Millions of Kazakh Tenge)

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

## 2003

	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	13,162		124	–	–	–	–	13,286
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from other financial institutions	50	10,281	144	1,129	1,829	965	–	14,398
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	21,918	25,454	76,059	51,795	75,056	4,836	255,118
Other assets	4,539	152	294	295	2,262	–	–	7,542
	<b>79,342</b>	<b>32,351</b>	<b>26,016</b>	<b>77,483</b>	<b>59,592</b>	<b>102,309</b>	<b>4,836</b>	<b>381,929</b>
<b>Liabilities:</b>								
Amounts due to NBK and the Government	–	3,071	1	604	614	900	–	5,190
Amounts due to other financial institutions	1,533	21,394	10,023	47,591	22,648	13,862	–	117,051
Amounts due to customers	41,286	17,723	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	3,900	243	33	25	65	52	–	4,318
	<b>46,719</b>	<b>42,431</b>	<b>29,309</b>	<b>113,866</b>	<b>46,427</b>	<b>62,299</b>	<b>–</b>	<b>341,051</b>
<b>Net position</b>	<b>32,623</b>	<b>(10,080)</b>	<b>(3,293)</b>	<b>(36,383)</b>	<b>13,165</b>	<b>40,010</b>	<b>4,836</b>	<b>40,878</b>
<b>Accumulated gap</b>	<b>32,623</b>	<b>22,543</b>	<b>19,250</b>	<b>(17,133)</b>	<b>(3,968)</b>	<b>36,042</b>	<b>40,878</b>	

## 2002

	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	19,596	961	–	–	–	–	–	20,557
Obligatory reserves	–	–	–	–	2,731	–	–	2,731
Trading securities	32,081	–	–	–	–	–	–	32,081
Amounts due from other financial institutions	–	–	–	10,805	15	–	–	10,820
Held-to-maturity investment securities	–	–	–	–	–	19,634	–	19,634
Loans to customers	–	26,496	13,416	44,173	31,492	19,743	2,593	137,913
Other assets	1,866	99	169	169	3,205	–	–	5,508
	<b>53,543</b>	<b>27,556</b>	<b>13,585</b>	<b>55,147</b>	<b>37,443</b>	<b>39,377</b>	<b>2,593</b>	<b>229,244</b>
<b>Liabilities:</b>								
Amounts due to NBK and the Government	–	173	21	1,099	1,130	260	–	2,683
Amounts due to other financial institutions	694	15,029	1,904	15,642	10,804	12,420	–	56,493
Amounts due to customers	39,725	12,721	17,040	26,195	11,129	–	–	106,810
Debt securities issued	–	235	–	–	9,141	22,145	–	31,521
Other liabilities	2,164	4,501	434	21	100	–	–	7,220
	<b>42,583</b>	<b>32,659</b>	<b>19,399</b>	<b>42,957</b>	<b>32,304</b>	<b>34,825</b>	<b>–</b>	<b>204,727</b>
<b>Net position</b>	<b>10,960</b>	<b>(5,103)</b>	<b>(5,814)</b>	<b>12,190</b>	<b>5,139</b>	<b>4,552</b>	<b>2,593</b>	<b>24,517</b>
<b>Accumulated gap</b>	<b>10,960</b>	<b>5,857</b>	<b>43</b>	<b>12,233</b>	<b>17,372</b>	<b>21,924</b>	<b>24,517</b>	

(Millions of Kazakh Tenge)

2001

	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	<i>Total</i>
<b>Assets:</b>								
Cash and cash equivalents	10,412	6,704	50	54	–	–	–	17,220
Obligatory reserves	–	–	–	–	4,684	–	–	4,684
Trading securities	17,831	–	–	–	–	–	–	17,831
Amounts due from other financial institutions	–	–	–	150	–	–	–	150
Loans to customers	–	20,005	20,716	40,475	25,748	8,451	1,798	117,193
Other assets	–	–	110	256	1,107	–	–	1,473
	<u>28,243</u>	<u>26,709</u>	<u>20,876</u>	<u>40,935</u>	<u>31,539</u>	<u>8,451</u>	<u>1,798</u>	<u>158,551</u>
<b>Liabilities:</b>								
Amounts due to NBK and the Government	–	162	37	597	1,642	–	–	2,438
Amounts due to other financial institutions	559	16,414	1,018	16,248	7,814	–	–	42,053
Amounts due to customers	27,010	13,885	29,078	9,217	2,101	681	–	81,972
Debt securities issued	–	156	–	–	10,396	2,914	–	13,466
Other liabilities	–	652	98	702	305	–	–	1,757
	<u>27,569</u>	<u>31,269</u>	<u>30,231</u>	<u>26,764</u>	<u>22,258</u>	<u>3,595</u>		<u>141,686</u>
<b>Net position</b>	<u>674</u>	<u>(4,560)</u>	<u>(9,355)</u>	<u>14,171</u>	<u>9,281</u>	<u>4,856</u>	<u>1,798</u>	<u>16,865</u>
<b>Accumulated gap</b>	<u>674</u>	<u>(3,886)</u>	<u>(13,241)</u>	<u>930</u>	<u>10,211</u>	<u>15,067</u>	<u>16,865</u>	

The above tables do not include the effect of allowances for losses from loans and other assets, which total KZT 15,610 million, KZT 10,275 million and KZT 6,655 million as of December 31, 2003, 2002 and 2001, respectively.

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

## 25. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments.

### Amounts Due from and to Other Financial Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, applicable interest rates reflect market rates and, consequently, the fair value approximates the carrying amounts.

(Millions of Kazakh Tenge)

### Loans to Customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

### Investment Securities

Investment securities held-to-maturity include only securities with fixed interest rates which reflect market interest rates and, consequently, the fair value approximates the carrying amounts. Non-marketable available-for-sale securities are represented by corporate shares and shares of associates and subsidiaries held for disposal. The total carrying amount of these securities approximates their fair values.

### Amounts Due to Customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

### Debt Securities Issued

Debt securities are issued at interest rates approximate to market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2003		2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets</i>						
Loans to customers	255,118	256,986	137,913	135,140	117,193	114,708
<i>Financial liabilities</i>						
Amounts due to other financial institutions	117,051	113,161	56,493	55,574	42,053	38,905
Debt securities issued	74,174	78,456	31,521	32,937	13,466	13,310

## 26. Related Party Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counterparts that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. This includes holding companies, subsidiaries and fellow subsidiaries
- (b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

(Millions of Kazakh Tenge)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of December 31, the Group had the following transactions with related parties:

	2003			2002		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Loans to customers, gross	276	99.9%	232,349	143	100.0%	124,660
Amounts due to other financial institutions	1,508	100.0%	117,051	708	100.0%	56,493
Amounts due to customers	128	99.9%	140,318	129	99.9%	106,809
Commitments and guarantees issued	748	100.0%	18,648	919	100.0%	17,384
Interest income	71	99.9%	30,818	36	100.0%	22,368
Interest expense	113	100.0%	15,663	33	100.0%	10,527
Insurance expense	100	100.0%	145	1,079	100.0%	1,079

	2001		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Loans to customers, gross	2,344	97.8%	117,193
Amounts due to other financial institutions	588	98.6%	42,053
Amounts due to customers	2,274	97.0%	81,972
Commitments and guarantees issued	148	100.0%	22,874

## 27. Capital Adequacy

NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. In 2003, risk-weighted assets calculated in accordance with the NBK requirements were derived from the Bank's consolidated financial statements prepared in accordance with IFRS while in 2002 and 2001 risk weighted assets were derived from the Bank's stand-alone financial statements prepared in accordance with KAS. As of December 31, 2003, 2002 and 2001, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2003, 2002 and 2001, exceeded the minimum ratio of 8% recommended by the Basle Accord.

	<i>Balance Sheet</i> <i>Notional Amount</i>			<i>Risk Weighted</i> <i>Amount</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Total assets	482,835	295,204	195,176	308,124	182,869	142,614

	<i>Capital</i>			<i>BIS%</i>		
	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Tier 1 capital	25,948	15,595	10,682	8.42%	8.53%	7.49%
Tier 2 capital	21,561	13,573	9,445			
Gross available capital	47,509	29,168	20,127			
Less investments	(870)	(50)	(140)			
Tier 1 + Tier 2 capital	46,639	29,118	19,987	15.14%	15.92%	14.01%

## 28. Segment Information

The Group's operations are highly integrated and primarily constitute a single industry segment, banking, that accounts for more than 95% of the Group's business. Accordingly for the purposes of IAS 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.

# **Bank TuranAlem**

## **Condensed Interim Consolidated Financial Statements**

*June 30, 2004 and 2003*

*Together with Independent Accountants' Review Report*

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■ Ernst & Young Kazakhstan  
Furmanov Street, 240 G  
Almaty 480099, Kazakhstan  
Tel.: 7 (3272) 58-5960  
Fax: 7 (3272) 58-5961  
www.ey.com/kazakhstan

■ Эрнст энд Янг Казахстан  
Казахстан, 480099 Алматы  
ул. Фурманова, 240 Г  
Тел.: 7 (3272) 58-5960  
Факс: 7 (3272) 58-5961

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Board of Directors of JSC Bank TuranAlem –

We have reviewed the accompanying condensed consolidated balance sheet of JSC BankTuranAlem (the “Bank”) as of June 30, 2004 and the related condensed interim consolidated statements of income, changes in shareholders’ equity and cash flows for the six-month periods ended June 30, 2004 and 2003. These financial statements are the responsibility of the Bank’s management. Our responsibility is to issue a report on these financial statements based on our review.

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

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

We have previously audited, in accordance with International Standards on Auditing, the consolidated balance sheet of the Bank as of December 31, 2003, and the related consolidated statements of income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein), and in our report dated February 1, 2004, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived. We have not performed any auditing procedures since December 31, 2003.

October 8, 2004

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Millions of Kazakhstani Tenge)

	<i>Notes</i>	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
<b>Assets</b>			
Cash and cash equivalents	3	15,368	13,286
Obligatory reserves		4,886	3,706
Trading securities	4	92,002	61,591
Amounts due from credit institutions		5,008	14,398
Held-to-maturity investment securities	5	24,807	26,288
Loans to customers	6	289,579	239,847
Property and equipment		6,865	6,745
Other assets		9,555	7,203
<b>Total assets</b>		<b>448,070</b>	<b>373,064</b>
<b>Liabilities</b>			
Amounts due to the Government and the NBK	8	5,054	5,190
Amounts due to credit institutions	9	104,192	117,051
Amounts due to customers	10	181,268	140,318
Subordinated debt securities issued	11	112,009	74,174
Provisions	7	483	319
Other liabilities		8,057	3,999
<b>Total liabilities</b>		<b>411,063</b>	<b>341,051</b>
<b>Minority interest</b>		<b>1,165</b>	<b>1,330</b>
<b>Shareholders' equity</b>	12		
Share capital			
- common shares		16,249	16,244
- preferred shares		5,593	4,735
Treasury stock		(524)	(628)
Additional paid-in capital		1,687	1,413
Reserves		1,581	1,737
Retained earnings		11,256	7,182
<b>Total shareholders' equity</b>		<b>35,842</b>	<b>30,683</b>
<b>Total liabilities, shareholders' equity and minority interest</b>		<b>448,070</b>	<b>373,064</b>
<b>Commitments and contingencies</b>	13		

**Signed and authorized for release on behalf of the Board of the Bank**

Yerzhan N. Tatishev

Chairman of the Board

Akmaral N. Ablyazova

Chief Accountant

October 8, 2004

*The accompanying notes on pages 5 to 18 are an integral part of these condensed interim consolidated financial statements.*

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME**

(Millions of Kazakhstani Tenge, except for earnings per share)

	<i>Notes</i>	<i>Six-month periods ended June 30,</i>	
		<i>2004</i>	<i>2003</i>
		<i>unaudited</i>	<i>unaudited</i>
<b>Interest income</b>			
Loans		19,530	11,438
Securities		2,495	2,167
Deposits with other banks		352	173
		<u>22,377</u>	<u>13,778</u>
<b>Interest expense</b>			
Debt securities issued		(4,784)	(1,479)
Deposits from customers		(3,584)	(3,017)
Deposits and loans from credit institutions		(2,496)	(2,326)
		<u>(10,864)</u>	<u>(6,822)</u>
<b>Net interest income before impairment</b>		11,513	6,956
Impairment charge	7	(6,202)	(3,627)
<b>Net interest income</b>		<u>5,311</u>	<u>3,329</u>
Fee and commission income		3,896	2,776
Fee and commission expense		(135)	(72)
<b>Fees and commissions</b>		<u>3,761</u>	<u>2,704</u>
Gains less losses from trading securities		(2,296)	39
Gains less losses from foreign currencies:			
- dealing		442	1,500
- translation differences		2,814	(572)
Loss from insurance operations		(246)	(214)
Other income		596	697
<b>Non interest income</b>		<u>1,310</u>	<u>1,450</u>
Salaries and other employee benefits		(2,047)	(1,699)
Administrative and operating expenses		(1,995)	(1,762)
Depreciation and amortisation		(495)	(445)
Taxes other than income tax		(524)	(444)
Other		(808)	(434)
<b>Non interest expense</b>		<u>(5,869)</u>	<u>(4,784)</u>
<b>Income before income tax expense and minority interest</b>		4,513	2,699
Income tax expense		(370)	(158)
<b>Net income after income tax</b>		<u>4,143</u>	<u>2,541</u>
Minority interest in net loss		139	26
<b>Net income</b>		<u>4,282</u>	<u>2,567</u>
<b>Basic earnings per share (in Kazakhstani Tenge)</b>	14	2,388	1,838
<b>Diluted earnings per share (in Kazakhstani Tenge)</b>	14	1,902	1,481

*The accompanying notes on pages 5 to 18 are an integral part of these condensed interim consolidated financial statements.*

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Millions of Kazakhstani Tenge)

	Share Capital- Common Shares	Share Capital- Preferred Shares	Treasury Stock	Additional Paid-in Capital	Property and Equipment Revaluation Reserve	Retained Earnings	Total Shareholders' Equity
<b>December 31, 2002</b>	11,931	4,160	(195)	28	854	2,977	19,755
Release of property and equipment revaluation reserve on usage of previously revalued assets (unaudited)	-	-	-	-	(34)	34	-
Dividends – preferred shares (unaudited)	-	-	-	-	-	(271)	(271)
Net income (unaudited)	-	-	-	-	-	2,567	2,567
<b>June 30, 2003 (unaudited)</b>	11,931	4,160	(195)	28	820	5,307	22,051
Sale of common shares (unaudited)	4,313	-	-	1,222	-	-	5,535
Sale of preferred shares (unaudited)	-	575	-	163	-	-	738
Purchase of treasury shares (unaudited)	-	-	(433)	-	-	-	(433)
Dividends – preferred shares (unaudited)	-	-	-	-	-	(216)	(216)
Revaluation of property and equipment (unaudited)	-	-	-	-	955	-	955
Release of property and equipment revaluation reserve on usage of previously revalued assets (unaudited)	-	-	-	-	(34)	34	-
Release of property and equipment revaluation reserve on disposal of previously revalued assets (unaudited)	-	-	-	-	(4)	4	-
Net income (unaudited)	-	-	-	-	-	2,053	2,053
<b>December 31, 2003</b>	16,244	4,735	(628)	1,413	1,737	7,182	30,683
Sale of common shares (unaudited)	5	-	-	1	-	-	6
Sale of preferred shares (unaudited)	-	858	-	243	-	-	1,101
Sale of treasury shares (unaudited)	-	-	104	30	-	-	134
Dividends – preferred shares (unaudited)	-	-	-	-	-	(273)	(273)
Revaluation of property and equipment (unaudited)	-	-	-	-	(94)	-	(94)
Release of property and equipment revaluation reserve on usage of previously revalued assets (unaudited)	-	-	-	-	(60)	60	-
Release of property and equipment revaluation reserve on disposal of previously revalued assets (unaudited)	-	-	-	-	(2)	2	-
Other reserves (unaudited)	-	-	-	-	-	3	3
Net income (unaudited)	-	-	-	-	-	4,282	4,282
<b>June 30, 2004 (unaudited)</b>	16,249	5,593	(524)	1,687	1,581	11,256	35,842

*The accompanying notes on pages 5 to 18 are an integral part of these condensed interim consolidated financial statements.*

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****(Millions of Kazakhstani Tenge)**

	<i>Six-month periods ended June 30,</i>	
	<i>2004</i>	<i>2003</i>
	<i>unaudited</i>	<i>unaudited</i>
Cash flows from operating activities:		
Net income before minority interest and income taxes	4,513	2,699
Adjustments for:		
Depreciation and amortization	495	445
Impairment charge	6,825	3,875
Unrealised foreign exchange (gain) loss	(597)	4,868
Minority interest	139	26
Revaluation of fixed assets	94	–
Unrealised loss (gain) on trading securities	1,628	(1,440)
Loss from disposal of property and equipment	1	–
Operating income before changes in net operating assets	<u>13,098</u>	<u>10,473</u>
(Increase) decrease in operating assets:		
Obligatory reserves	(1,180)	246
Trading securities	(32,084)	(36,562)
Amounts due from credit institutions	11,373	7,811
Loans to customers	(58,553)	(42,607)
Other assets	(2,836)	(4,208)
Increase (decrease) in operating liabilities:		
Amounts due to the Government and the NBK	(114)	89
Amounts due to credit institutions	(12,859)	(780)
Amounts due to customers	43,661	29,780
Other liabilities	3,537	(1,018)
Net cash flows from operating activities before income taxes	<u>(35,957)</u>	<u>(36,776)</u>
Income tax paid	(150)	(150)
Net cash flows from operating activities	<u>(36,107)</u>	<u>(36,926)</u>
Cash flows from investing activities		
Purchase of property and equipment	(725)	(1,148)
Proceeds from sale of property and equipment	131	849
Purchase of held-to-maturity securities	–	(2,600)
Net cash flows from investing activities	<u>(594)</u>	<u>(2,899)</u>
Cash flow from financing activities:		
Sale of common shares	6	–
Sale of preferred shares	1,101	–
Sale of treasury shares	134	–
Subordinated debt securities issued	37,978	35,954
Net cash flows from financing activities	<u>39,219</u>	<u>35,954</u>
Effects of exchange rate changes on cash and cash equivalents	<u>(436)</u>	<u>(305)</u>
Net change in cash and cash equivalents	<u>2,082</u>	<u>(4,176)</u>
Cash and cash equivalents at the beginning of the period	<u>13,286</u>	<u>20,557</u>
Cash and cash equivalents at the end of the period	<u><u>15,368</u></u>	<u><u>16,381</u></u>
Supplementary information:		
Interest received	20,872	11,987
Interest paid	7,646	6,636

*The accompanying notes on pages 5 to 18 are an integral part of these condensed interim consolidated financial statements.*

(Millions of Kazakhstani Tenge)

## 1. Principal Activities

Bank TuranAlem and subsidiaries (the “Group”) provide retail and corporate banking services, insurance services, leasing and other financial and non financial services in Kazakhstan. The parent company of the Group is Bank TuranAlem (the “Bank”), an open joint stock company. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on September 26, 2003. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 2 lists the Bank’s subsidiaries.

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

The Bank’s primary business consists of originating loans and guarantees, attracting deposits from legal entities and individuals, trading with securities, foreign currency and derivative instruments, execution and arrangement of precious metals transactions, conducting credit card operations and sale of state saving bonds. In addition, the Bank is authorized to accept pension fund deposits. The Bank is the second largest bank in Kazakhstan in terms of total assets. The Bank has a primary listing in the Kazakhstani Stock Exchange (“KASE”). Certain of the Group’s debt securities are listed on the Luxemburg Stock Exchange with a secondary listing on the KASE. Its head office is located in Almaty, Kazakhstan. As of June 30, 2004, it had 22 regional branches and 185 cash settlement units (December 31, 2003 – 22 regional branches and 188 cash settlement units) located throughout Kazakhstan.

As of June 30, 2004, members of the Shareholders’ Council and Management Board controlled 475,226 shares (20.76% of share capital) (December 31, 2003 – 475,213 shares or 21.68%). The Group had 3,321 and 3,221 employees as of June 30, 2004 and December 31, 2003, respectively.

## 2. Basis of Preparation

### General

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in millions of Kazakhstani Tenge (“KZT”), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the management and the regulators measure the Bank’s performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

The accompanying condensed interim consolidated financial statements have been prepared in accordance with IFRS for interim financial information. Accordingly, they do not include all of the information required by IFRS for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

These condensed interim consolidated financial statements are in compliance with IAS 34 “Interim Financial Reporting”. The accounting policies and methods of computations adopted in the preparation of these condensed interim consolidated financial statements are principally the same as those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2003.

Income tax expense is recognized in each interim period using the tax rates by jurisdictions that would be applicable to the expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pretax income of the interim period.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all the information and notes required by IFRS for complete financial statements. These condensed interim consolidated financial statements should be read in conjunction with the complete financial statements as of December 31, 2003, along with the corresponding figures.

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

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### Consolidated Subsidiaries

The condensed interim consolidated financial statements include the following subsidiaries:

*June 30, 2004*  
(unaudited)

<i>Subsidiary</i>	<i> Holding, %</i>	<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Consumer Mortgage Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Pension Fund	16.09.98
JSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
Kazakhstan Pension Fund	87.75%	Kazakhstan	22.06.99	Pension Fund	06.07.99
KBS Garant	57.53%	Kazakhstan	12.01.99	Property and Casualty Insurance	04.04.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties Real Estate	–	Kazakhstan	17.02.99	Property Management	–
Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

On April 1, 2004, the Group's share in the paid-in share capital of Kurmet Pension Fund ("Kurmet") decreased from 72.47% to 66.00% as the minority shareholders have contributed additional capital into Kurmet.

During the period from January 1 until June 30 2004, the Group increased its share in the paid-in share capital of Kazakhstan Pension Fund from 65.97% to 87.75%.

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 SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries because the Bank controls and benefits directly from their operations.

### Recently issued International Financial Reporting Standards

Effective April 1, 2004, the International Accounting Standards Board enacted IFRS 3 Business Combinations, which replaced IAS 22 Business Combinations and SIC-9, SIC-22 and SIC-28. Application of IFRS 3 Business Combinations had no material effect on financial position of the Group.

Effective January 1, 2005, IFRS 2 Share-based Payment, IFRS 4 Insurance Contracts, IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as well as fifteen revised IASs are enacted. The Group has not determined the effect of the application of new standards on its financial statements. However, the impact of the application of the new standards on the Group's consolidated financial statements is not expected to be material, except as discussed below with regards to the revised IAS 32 and 39.

Revised IAS 32 and 39

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. Both standards are effective for financial years beginning on or after January 1, 2005, with earlier application of both standards together being permitted. Together, the two standards provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Bank decided to adopt these revised standards as of January 1, 2005. Therefore, comparative prior years 2004, 2003 and 2002 presented in the 2005 financial statements will be restated as if the revised standards had always been in effect. Except for the reduction in shareholders' equity and increase in liabilities resulting

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from the transfer of convertible preferred shares amounting to KZT 5,239 from equity to liabilities (see Note 13), the impact of the newly issued accounting guidance is currently not expected to have a material impact on the financial statements of the Bank.

### 3. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	<i>June 30, 2004</i> <i>(unaudited)</i>	<i>December 31, 2003</i>
Cash on hand	6,981	9,784
Current accounts with other financial institutions	5,449	2,734
Current accounts with the NBK	2,797	632
Time deposits with contractual maturity of less than 90 days	141	–
Loans to other Kazakh banks and credit institutions	–	136
<b>Cash and cash equivalents</b>	<b>15,368</b>	<b>13,286</b>

### 4. Trading Securities

Trading securities owned comprise:

	<i>June 30, 2004</i> <i>(unaudited)</i>	<i>December 31, 2003</i>
Bonds of international financial organizations	45,030	37,473
Notes of NBK	21,306	6,683
Treasury bills of the Ministry of Finance	12,933	3,800
Sovereign bonds of the Republic of Kazakhstan	8,263	9,605
Corporate bonds	3,313	3,555
Municipal bonds	1,067	33
Equity securities of Kazakhstani banks and financial institutions	90	442
<b>Trading securities</b>	<b>92,002</b>	<b>61,591</b>
Subject to repurchase agreements	12,497	15,773

Interest rates and maturity of these securities are:

	<i>June 30, 2004 (unaudited)</i>		<i>December 31, 2003</i>	
	%	Maturity	%	Maturity
Bonds of international financial organizations	2.4% - 7.1%	2005-2013	4.4% - 7.1%	2005 – 2013
Notes of NBK	4.9% - 5.2%	2005	5.0%-5.5%	2004
Treasury bills of the Ministry of Finance	5.8% - 8.3%	2004-2014	6.1% - 16.9%	2004 – 2008
Sovereign bonds of the Republic of Kazakhstan	11.1% - 13.6%	2004-2007	11.1% - 13.6%	2004 – 2007
Corporate bonds	7.4% - 11.5%	2005-2013	7.4% - 13.0%	2004 – 2013
Municipal bonds	8.5% - 8.6%	2005 - 2008	6.3% - 8.6%	2004 – 2006

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## 5. Held-to-Maturity Investment Securities

Held-to-maturity investment securities comprise:

	<i>June 30, 2004 (unaudited)</i>		<i>December 31, 2003</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Bonds of international financial organizations	24,807	23,285	26,288	24,611

Included in bonds of international financial organisations are securities of the International Bank of Reconstruction and Development (“IBRD”), Council of Europe Development Bank (“CEDB”), Asian Development Bank (“ADB”), Inter-American Development Bank (“IADB”) and European Association of Project Development (“EuroFIMA”) that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

## 6. Loans to Customers

Loans to customers comprise:

	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
Loans to customers	304,268	252,774
Financial leasing	2,916	1,718
Overdrafts	570	293
Factoring	493	278
Promissory notes	66	55
	<b>308,313</b>	255,118
Less – Allowance for loan impairment (Note 7)	<b>(18,734)</b>	(15,271)
<b>Loans to customers</b>	<b>289,579</b>	<b>239,847</b>

As of June 30, 2004, the annual interest rates charged by the Bank ranged from 16% to 33% per annum for KZT-denominated loans (December 31, 2003 – from 20% to 33%) and from 12% to 26% per annum for US Dollar-denominated loans (December 31, 2003 – from 12% to 26%).

Gross loans have been extended to the following types of customers:

	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
Private companies	275,423	219,838
Individuals	30,881	27,222
State companies	1,432	7,506
State budget or local authorities	351	518
Other	226	34
	<b>308,313</b>	255,118

As of June 30, 2004, the Group had a concentration of loans represented by KZT 60,450 due from the top 10 borrowers that was 20% of total gross loan portfolio (December 31, 2003 – KZT 67,204, 26.30%). Allowances of KZT 1,931 (2003 – KZT 2,657) were made against these loans.

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Loans are made to the following sectors:

	<i>June 30, 2004</i> <i>(unaudited)</i>	%	<i>December 31, 2003</i>	%
Wholesale trade	66,363	22%	53,538	21%
Construction	40,393	13%	17,863	7%
Agriculture	35,602	12%	32,506	13%
Individuals	28,794	9%	27,222	11%
Food industry	27,283	9%	30,350	12%
Mining	18,290	6%	15,242	6%
Oil & Gas production	17,175	6%	29,841	12%
Retail trade	11,728	4%	1,480	–
Transport	9,392	3%	3,541	1%
Chemical industry	8,951	3%	9,254	4%
Real estate activities	7,171	3%	7,173	3%
Telecommunication	4,472	1%	4,612	2%
Energy	4,176	1%	3,558	1%
Publishing	3,209	1%	549	–
Metallurgical industry	2,348	1%	7,125	3%
Machinery and equipment production	2,057	1%	1,991	1%
Production of rubber and plastic articles	1,358	–	1,243	–
Hospitality	1,213	–	362	–
Light and leather industry	811	–	688	–
Research and Development	618	–	432	–
Other	16,909	5%	6,548	3%
	<b>308,313</b>	<b>100%</b>	<b>255,118</b>	<b>100%</b>

## 7. Allowances for Losses and Provisions

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

	<i>Due from credit</i>		
	<i>institutions</i>	<i>Loans to customers</i>	<i>Total</i>
December 31, 2002	–	10,166	10,166
Impairment charge (unaudited)	–	3,627	3,627
Write-offs (unaudited)	–	(4,975)	(4,975)
Recoveries (unaudited)	–	1,286	1,286
June 30, 2003 (unaudited)	–	10,104	10,104
Impairment charge (unaudited)	–	6,764	6,764
Write-offs (unaudited)	–	(1,787)	(1,787)
Recoveries (unaudited)	–	190	190
December 31, 2003	–	15,271	15,271
<b>Impairment charge (unaudited)</b>	<b>136</b>	<b>6,066</b>	<b>6,202</b>
<b>Write-offs (unaudited)</b>	<b>–</b>	<b>(3,929)</b>	<b>(3,929)</b>
<b>Recoveries (unaudited)</b>	<b>–</b>	<b>1,326</b>	<b>1,326</b>
<b>June 30, 2004 (unaudited)</b>	<b>136</b>	<b>18,734</b>	<b>18,870</b>

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The movements in allowances for other losses and provisions were as follows:

	<i>Other assets</i>	<i>Other provisions</i>	<i>Total</i>
<b>December 31, 2002</b>	109	244	353
Provision (charge) (unaudited)	171	77	248
Write-offs (unaudited)	–	(33)	(33)
<b>June 30, 2003 (unaudited)</b>	280	288	568
Provision (charge) (unaudited)	59	31	90
<b>December 31, 2003</b>	339	319	658
Provision (charge) (unaudited)	459	164	623
Write-offs (unaudited)	(23)	–	(23)
Recoveries (unaudited)	19	–	19
<b>June 30, 2004 (unaudited)</b>	<b>794</b>	<b>483</b>	<b>1,277</b>

Allowances for impairment of assets are deducted from the related assets. Provisions for letters of credit and guarantees are recorded in other liabilities.

## 8. Amounts Due to the Government and the NBK

Amounts due to the NBK and Government consist of the following:

	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
Amounts due to the Government:		
Non-interest bearing	293	29
Interest bearing – KZT denominated	1,121	1,182
Interest bearing – USD denominated	147	204
Interest bearing – EUR denominated	430	504
Amounts due to NBK:		
Deposits	3,000	3,000
Loan	42	258
	<b>5,033</b>	<b>5,177</b>
Accrued interest	21	13
<b>Amounts due to NBK and the Government</b>	<b>5,054</b>	<b>5,190</b>

## 9. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
Interest-bearing placements from Kazakh banks	1,528	8,490
Interest-bearing placements from non OECD banks	341	288
Correspondent loro accounts	214	1,583
	<b>2,083</b>	<b>10,361</b>
Loans from non-Kazakh banks and financial institutions	56,787	49,893
Syndicated bank loans	39,502	48,168
Pass-through loans	3,894	3,856
Loans from Kazakh banks and financial institutions	926	3,402
	<b>103,192</b>	<b>115,680</b>
Accrued interest	1,000	1,371
<b>Amounts due to other financial institutions</b>	<b>104,192</b>	<b>117,051</b>

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Interest rates and maturity of amounts due to other financial institutions follow:

	<i>June 30, 2004 (unaudited)</i>		<i>December 31, 2003</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Interest-bearing placements from Kazakh banks	0.50%-7.00%	2004 – 2005	2.10% - 5.50%	2004
Interest-bearing placements from non OECD banks	4.50%	2004	4.50%	2004
Correspondent loro accounts	–	–	–	–
Loans from non-Kazakh banks and finance institutions	2.32% - 11.00%	2004 - 2010	1.10% - 9.70%	2004 – 2009
Syndicated bank loans	3.28% - 3.70%	2004 - 2005	3.30% - 3.70%	2004 – 2005
Pass-through loans	2.93% - 8.53%	2004 - 2007	5.00% - 10.20%	2004 – 2006
Loans from Kazakh banks and financial institutions	4.27% - 5.25%	2004	3.00% - 5.20%	2004

In accordance with the contractual terms of the syndicated bank loans, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. In addition, and in accordance with the terms of certain of those loans, the Bank is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than share dividend.

## 10. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts, time deposits, and certain other liabilities, and include the following:

	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
Current accounts	59,467	41,708
Time deposits	116,618	96,579
Guarantee and other deposits	3,458	937
	<b>179,543</b>	<b>139,224</b>
Accrued interest	1,725	1,094
<b>Amounts due to customers</b>	<b>181,268</b>	<b>140,318</b>

Interest rates and maturity of amounts due to customers follow:

	<i>June 30, 2004 (unaudited)</i>				<i>December 31, 2003</i>			
	<i>KZT</i>		<i>USD/EURO</i>		<i>KZT</i>		<i>USD/EURO</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Current accounts	up to 4%	–	up to 3.5%	–	up to 1.0%	–	up to 1.0%	–
Time deposits	0.1%-8.5%	August, 2004-2010	0.1%-6%	September, 2004-2008	1.0% – 12.3%	2004-2010	1%-12.0%	2004 - 2010
Guarantee and other deposits	–	December, 2004	–	December, 2004	–	2004-2020	up to 10.2%	2004-2020

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	<i>June 30, 2004 (unaudited)</i>	<i>December 31, 2003</i>
<b>Current accounts:</b>		
Commercial entities	42,354	29,576
Individuals	11,218	9,891
Governmental entities	5,895	2,241
<b>Term deposits:</b>		
Individuals	66,526	58,605
Commercial entities	49,408	26,024
Governmental entities	684	7,010
Other	3,458	5,877
	<b>179,543</b>	<b>139,224</b>
Accrued interest	1,725	1,094
<b>Amounts due to customers</b>	<b>181,268</b>	<b>140,318</b>

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An analysis of customer accounts by sector follows:

	<i>June 30, 2004</i> <i>(unaudited)</i>	%	<i>December 31,</i> <i>2003</i>	%
Individuals	77,744	43%	68,496	49%
Metallurgy	27,041	15%	14,759	11%
Oil and gas	22,262	12%	6,797	5%
Financial	10,396	6%	4,310	3%
Wholesale trading	8,090	5%	10,925	8%
Construction	7,042	4%	5,424	4%
Retail trade	4,058	2%	1,739	1%
Energy industry	3,278	2%	2,858	2%
Transportation	2,490	1%	1,428	1%
Agriculture	1,726	1%	2,727	2%
Mining	875	1%	404	1%
Communication	631	1%	432	-
Food industry	572	-	376	-
Entertainment	370	-	165	-
Machinery and equipment production	291	-	6,556	5%
Chemical processing	287	-	347	-
Hotel and hospitality	112	-	102	-
Light and leather industry	43	-	41	-
Other	12,235	7%	11,338	8%
	<b>179,543</b>	<b>100%</b>	<b>139,224</b>	<b>100%</b>

## 11. Subordinated Debt Securities Issued

Debt securities issued consisted of the following:

	<i>June 30, 2004</i> <i>(unaudited)</i>	<i>December 31, 2003</i>
USD notes	99,364	61,294
USD and KZT subordinated notes	13,176	13,528
	<b>112,540</b>	74,822
Own USD notes held by the Group	(361)	(482)
Own USD and KZT subordinated notes held by the Group	(8)	(8)
	<b>112,171</b>	74,332
Less unamortized cost of issuance	(3,791)	(825)
	<b>108,380</b>	73,507
Accrued interest	3,629	667
<b>Debt securities issued</b>	<b>112,009</b>	74,174

The interest rates and maturities of these debt securities issued follow:

	<i>June 30, 2004 (unaudited)</i>		<i>December 31, 2003</i>	
	%	Maturity	%	Maturity
USD notes	7.875%-10.000%	2007 - 2014	7.875%-11.500%	2004 - 2010
USD and KZT subordinated notes	8.000%-12.000%	2009 - 2013	8.000%-12.000%	2009 - 2013

The subordinated notes at June 30, 2004 and December 31, 2003, 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.

In accordance with the terms of the USD Notes, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures.

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## 12. Shareholders' Equity

Authorized share capital at June 30, 2004 consisted of 1,719,148 common shares and 569,997 Convertible Preferred Shares ("CPS") (December 31, 2003 – 1,719,148 common and 569,997 CPS). Issued and paid share capital at June 30, 2004 consisted of 1,688,144 common shares, 510,793 CPS and 59,204 non-convertible preferred shares (December 31, 2003 – 1,677,269 common shares and 484,215 CPS). All shares are KZT denominated and have a nominal value of KZT 10,000 each. Share capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of Bank TuranAlem following the combination of Turan Bank and Alem Bank.

At June 30, 2004, the Group held 30,716 of the Bank's shares as treasury stock (December 31, 2003 – 41,104).

During six-months period ended June 30, 2004, the Bank issued 26,578 CPS and 59,204 non-convertible preferred shares and 487 common shares at a premium of KZT 2,833 per share. (During 2003, the Bank issued 57,493 CPS and 431,350 common shares at a premium of KZT 2,833 per share).

The following shareholders held the outstanding shares.

Shareholder	June 30, 2004	December 31, 2003
	(unaudited)	%
<b>Common shares:</b>		
Management	27.65	27.82
Bank of New York (nominee holder)	25.84	26.00
Central Securities Depository CJSC (nominee holder)	26.34	25.88
VALAXIS Asset Management SA	9.38	9.43
HAWSBROK	7.42	7.47
Others	3.37	3.40
	<b>100.00</b>	100.00
<b>Preferred shares:</b>		
Raiffeisen Zentralbank Osterreich ("RZB")	28.44	33.48
DEG	22.98	27.05
EBRD	12.90	15.18
IFC	12.90	15.18
FMO	12.40	9.11
Others	10.38	–
	<b>100.00</b>	100.00

### Convertible Preferred Shares

The CPS Shareholders have the right at any time to convert all or any part of their CPS's into common shares of the Bank. At June 30, 2004, the CPS nominal value was KZT 10,000 (USD 73.21) (December 31, 2003 – KZT 10,000 (USD 69.34)), the quoted market price per common share was KZT 12,800 (USD 93.81) (December 31, 2003 – KZT 12,900 (USD 89.45)), and the net assets value per share (as measured by the underlying net asset value of the Group divided by the number of shares outstanding) was KZT 16,243 (USD 119.04) (December 31, 2003 – KZT 13,997 (USD 97.05)).

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 USD 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 in cash. Management believes that the likelihood of those shares being redeemed is remote.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the USD equivalent of the CPS Purchase Price at the offer date (the "Purchase Price") if any person makes a Shareholder Protection Tender Offer ("Tender Offer"), 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 Tender Offer being made is remote.

Based on the above, the likelihood of the CPS being redeemed is considered remote and, in accordance with International Accounting Standard No 32 "Financial Instruments: Disclosure and Presentation" that is currently in effect, the Convertible Preferred Shares are accounted for as equity.

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In December 2003, the IASB issued revised IAS 32 and IAS 39. Both standards are effective for financial years beginning on or after January 1, 2005. The revised Standards will restrict the classification of a financial instrument with contingent settlement provisions as equity thus increasing the likelihood of such instruments having to be classified as liabilities. The new standard will require the Bank to reclassify the CPS from equity to liabilities, resulting in a reduction in equity and an increase in liabilities of KZT 5,239. This may result in a reduction in the Bank's Capital adequacy ratios. Had the Bank applied the revised IAS 39 and IAS 32 from January 1, 2004, the Bank's key financial figures as of June 30, 2004, and for the six-month period then ended would have been as follows:

Total liabilities	KZT 416,302
Shareholders' equity	KZT 30,603
Net income	KZT 4,012

On June 10, 2004, the Shareholders have approved an increase in the Bank's share capital of KZT 13,632 via an issuance of common shares that is planned in late 2004.

#### *Dividends on Convertible Preferred Shares*

The CPS carry a dividend of 10.25% per annum. These dividends are cumulative.

### 13. Commitments and Contingencies

#### Financial Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	<i>June 30, 2004</i> <i>(unaudited)</i>	<i>December 31, 2003</i>
Credit related commitments		
Undrawn loan commitments	39,981	25,443
Commercial letters of credit	46,576	45,141
Promissory notes guarantees	11,316	5,799
Guarantees	34,907	18,648
Other contingencies	155	-
	<u>132,935</u>	<u>95,031</u>
Less: cash collateral	(972)	(945)
Less: provisions	(483)	(319)
	<u>131,480</u>	<u>93,767</u>
<b>Financial commitments and contingencies</b>	<b>131,480</b>	<b>93,767</b>

At June 30, 2004, the top ten letters of credit accounted for 36% of the Bank's total commercial letters of credit (December 31, 2003 – 31%) and represented 39% (December 31, 2003 – 46%) of the Bank's total shareholders' equity.

At June 30, 2004, the top ten guarantees accounted for 26% (December 31, 2003 - 28%) of total financial guarantees and represented 25% (December 31, 2003 – 20%) of the Group'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 the bank, government securities, and other assets.

#### Trust Activities

The Group provides custody services to third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these condensed consolidated financial statements. As at June 30, 2004 such held in this capacity were KZT 10,816 (December 31, 2003 – KZT 40).

#### 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.

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At June 30, 2004 the Group was a party to the following deliverable forward contracts, all of which mature in December 2004:

	<i>June 30, 2004 (unaudited)</i>		<i>December 31, 2003</i>	
	<i>Notional amount</i>	<i>Unrealized gains</i>	<i>Notional amount</i>	<i>Unrealized gains</i>
Deliverable forward contracts:				
USD-KZT contracts with Kazakh counterparties	3,606	194	11,474	359
USD-EUR contracts with Kazakh counterparties	—	—	1,004	5
USD contracts with OECD counterparties	6,548	—	—	—
EURO contracts with OECD counterparties	300	—	—	—

#### 14. Earnings per Share

The following reflects the income and share data used in the basic and diluted earnings per share computations for the six-month periods ended June 30:

	<i>2004 (unaudited)</i>	<i>2003 (unaudited)</i>
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on CPS's	4,009	2,296
Net income attributable to common and potential common shareholders for diluted earnings per share	4,282	2,567
Weighted average number of common shares for basic earnings per share	1,678,584	1,249,031
Weighted average number of common and potential common shares for diluted earnings per share	2,251,647	1,733,246

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at six-month periods ended June 30 is as follows:

	<i>2004 (unaudited)</i>	<i>2003 (unaudited)</i>
Weighted average number of common shares at June 30 for basic earnings per share	1,678,584	1,249,031
Weighted average number of common shares resulting from the potential conversion of the preferred shares into common shares	573,063	484,215
Weighted average number of common and potential common shares at June 30	2,251,647	1,733,246

#### 15. Risk Management Policies

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

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### Currency Risk

The Bank's exposure to foreign currency exchange rate risk follows:

	<i>June 30, 2004 (unaudited)</i>			<i>December 31, 2003</i>		
	<i>KZT</i>	<i>Other foreign currencies</i>	<i>Total</i>	<i>KZT</i>	<i>Other foreign currencies</i>	<i>Total</i>
<b>Assets:</b>						
Cash and cash equivalents	7,694	7,674	15,368	6,688	6,598	13,286
Obligatory reserves	4,886	–	4,886	3,706	–	3,706
Trading securities	34,738	57,264	92,002	11,648	49,943	61,591
Amounts due from credit institutions	1,195	3,949	5,144	8,483	5,915	14,398
Held-to-maturity investment securities	1,671	23,136	24,807	3	26,285	26,288
Loans to customers	99,569	208,744	308,313	78,426	176,692	255,118
Other assets	9,443	906	10,349	7,175	367	7,542
	<b>159,196</b>	<b>301,673</b>	<b>460,869</b>	<b>116,129</b>	<b>265,800</b>	<b>381,929</b>
<b>Liabilities:</b>						
Due to the Government and the NBK	4,477	577	5,054	4,263	927	5,190
Due to credit institutions	1,054	103,138	104,192	4,390	112,661	117,051
Due to customers	88,760	92,508	181,268	69,043	71,275	140,318
Subordinated debt securities issued	11,262	100,747	112,009	7,598	66,576	74,174
Dividends payable	–	273	273	–	–	–
Other liabilities	7,549	718	8,267	3,982	336	4,318
	<b>113,102</b>	<b>297,961</b>	<b>411,063</b>	<b>89,276</b>	<b>251,775</b>	<b>341,051</b>
Net balance sheet position	<b>46,094</b>	<b>3,712</b>	<b>49,806</b>	<b>26,853</b>	<b>14,025</b>	<b>40,878</b>

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 19,664 and KZT 15,610 as of June 30, 2004 and December 31, 2003, respectively.

### Interest Rate Risk

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

As of June 30, 2004 and December 31, 2003 the effective average interest rates by currencies and comparative market rates for interest earning/ bearing monetary financial instruments were as follows:

	<i>June 30, 2004 (unaudited)</i>		<i>December 31, 2003</i>	
	<i>KZT</i>	<i>Foreign currency</i>	<i>KZT</i>	<i>Foreign currency</i>
Trading securities	3.1%	5.9%	6.90%	7.70%
Amounts due from other financial institutions	5.3%	5.5%	2.70%	2.40%
Held-to-maturity investment securities	–	4.9%	–	4.40%
Loans to customers	16.8%	12.9%	16.70%	12.50%
Amounts due to NBK and the Government	5.9%	5.5%	6.50%	4.40%
Amounts due to other financial institutions	4.0%	3.8%	5.10%	4.20%
Amounts due to customers	7.1%	5.7%	9.40%	5.10%
Debt securities issued	8.1%	11.1%	1.60%	11.60%

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**Liquidity Risk**

The following tables provide an analysis of assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	<i>June 30, 2004 (unaudited)</i>							<i>Total</i>
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	
<b>Assets:</b>								
Cash and cash equivalents	11,796	3,451	121	–	–	–	–	15,368
Obligatory reserves	–	–	–	–	4,886	–	–	4,886
Trading securities	92,002	–	–	–	–	–	–	92,002
Amounts due from other financial institutions	85	1,203	686	210	95	2,865	–	5,144
Held-to-maturity investment securities	–	–	–	–	–	24,807	–	24,807
Loans to customers	2,352	20,088	31,565	68,975	58,839	122,224	4,270	308,313
Other assets	1,867	97	6,639	558	330	858	–	10,349
	<b>108,102</b>	<b>24,839</b>	<b>39,011</b>	<b>69,743</b>	<b>64,150</b>	<b>150,754</b>	<b>4,270</b>	<b>460,869</b>
<b>Liabilities:</b>								
Amounts due to NBK and the Government	161	–	3,022	565	556	750	–	5,054
Amounts due to other financial institutions	633	16,542	27,786	33,693	10,222	15,316	–	104,192
Amounts due to customers	59,480	18,200	40,166	49,250	12,388	1,784	–	181,268
Debt securities issued	352	–	1,171	2,458	15,305	92,723	–	112,009
Other liabilities	2,220	223	3,262	2,565	172	98	–	8,267
	<b>62,846</b>	<b>34,965</b>	<b>75,407</b>	<b>88,531</b>	<b>38,643</b>	<b>110,671</b>	<b>–</b>	<b>411,063</b>
Net position	<b>45,256</b>	<b>(10,126)</b>	<b>(36,396)</b>	<b>(18,788)</b>	<b>25,507</b>	<b>40,083</b>	<b>4,270</b>	<b>49,806</b>
<i>Accumulated gap</i>	<b>45,256</b>	<b>35,130</b>	<b>(1,266)</b>	<b>(20,054)</b>	<b>5,453</b>	<b>45,536</b>	<b>49,806</b>	

	<i>December 31, 2003</i>							<i>Total</i>
	<i>On demand</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>	<i>Past due</i>	
<b>Assets:</b>								
Cash and cash equivalents	13,162	–	124	–	–	–	–	13,286
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from other financial institutions	50	10,281	144	1,129	1,829	965	–	14,398
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	21,918	25,454	76,059	51,795	75,056	4,836	255,118
Other assets	4,539	152	294	295	2,262	–	–	7,542
	<b>79,342</b>	<b>32,351</b>	<b>26,016</b>	<b>77,483</b>	<b>59,592</b>	<b>102,309</b>	<b>4,836</b>	<b>381,929</b>
<b>Liabilities:</b>								
Amounts due to NBK and the Government	–	3,071	1	604	614	900	–	5,190
Amounts due to other financial institutions	1,533	21,394	10,023	47,591	22,648	13,862	–	117,051
Amounts due to customers	41,286	17,723	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	3,900	243	33	25	65	52	–	4,318
	<b>46,719</b>	<b>42,431</b>	<b>29,309</b>	<b>113,866</b>	<b>46,427</b>	<b>62,299</b>	<b>–</b>	<b>341,051</b>
Net position	<b>32,623</b>	<b>(10,080)</b>	<b>(3,293)</b>	<b>(36,383)</b>	<b>13,165</b>	<b>40,010</b>	<b>4,836</b>	<b>40,878</b>
<i>Accumulated gap</i>	<b>32,623</b>	<b>22,543</b>	<b>19,250</b>	<b>(17,133)</b>	<b>(3,968)</b>	<b>36,042</b>	<b>40,878</b>	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 19,664 and KZT 15,610 as of June 30, 2004 and December 31, 2003, respectively.

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## 16. Related Party Transactions

As of June 30, 2004 and December 31, 2003 the Bank had the following transactions with related parties:

	<i>June 30, 2004 (unaudited)</i>			<i>December 31, 2003</i>		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Loans to customers, gross	341	100.0 %	308,313	276	99.9%	255,118
Amounts due to other financial institutions	1,405	100.0 %	103,192	1,508	100.0%	115,680
Amounts due to customers	1,726	100.0 %	179,543	128	99.9%	139,224
Commitments and guarantees	1,150	100.0 %	34,907	748	100.0%	18,648

For the six-month period ended June 30, the Bank had the following transactions with related parties:

	<i>2004 (unaudited)</i>			<i>2003 (unaudited)</i>		
	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>	<i>Related party transactions</i>	<i>Percent on normal conditions</i>	<i>Total category</i>
Interest income	19	100 %	22,377	24	99.9%	13,778
Interest expense	11	100 %	10,864	65	100.0%	6,822

**REGISTERED OFFICE OF  
THE ISSUER**

**TuranAlem Finance B.V.**  
Schouwburgplein 30-34  
3012 CL Rotterdam  
The Netherlands

**REGISTERED OFFICE OF  
THE GUARANTOR**

**JSC Bank TuranAlem**  
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  
and Agents as to English law*

**Dewey Ballantine LLP**  
One London Wall  
London EC2Y 5EZ  
United Kingdom

*To the Managers  
as to Kazakh law*

**Aequitas LLC**  
Prospect Abaya 47/49  
Almaty 480091  
Kazakhstan

*To the Managers  
as to Dutch law*

**NautaDutilh N.V.**  
P.O. Box 1110  
3000 BC Rotterdam  
The Netherlands

*To the Issuer and the Guarantor as to Kazakh and United States law*

**Bracewell & Patterson L.L.P.**  
57 Amangeldy Street  
Almaty 480099  
Kazakhstan

**PRINCIPAL PAYING AGENT AND  
TRANSFER AGENT**

**JPMorgan Chase Bank, N.A.**  
Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
United Kingdom

**REGISTRAR AND TRANSFER AGENT**

**JPMorgan Chase Bank, N.A.**  
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

**LISTING AGENT**

**The Bank of New York Europe Limited**  
One Canada Square  
London E14 5AL  
United Kingdom

**TRUSTEE**

**J.P. Morgan Corporate Trustee Services Limited**  
Trinity Tower  
9 Thomas More Street  
London E1W 1YT  
United Kingdom



