КАЗКОММЕРЦБАНК

# U.S.$400,000,000

# KAZKOMMERTS INTERNATIONAL B.V.

## 7.875 per cent. Senior Notes due 2014
## Unconditionally and Irrevocably Guaranteed by

# JSC KAZKOMMERTSBANK

Kazkommerts International B.V. (the "Issuer"), a finance company incorporated in The Netherlands, is offering Notes which will bear interest at a rate of 7.875 per cent. per year. Interest on the Notes is payable on 7 April and 7 October of each year, beginning on 7 October 2004, and the Notes will mature on 7 April 2014. The Notes are not redeemable prior to maturity, other than following the occurrence of certain changes in applicable tax laws. The Issuer is wholly owned by JSC Kazkommertsbank (the "Bank" or the "Guarantor"), a joint stock company incorporated in the Republic of Kazakhstan.

The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes. The Notes and the Guarantee will not be secured by any collateral, and will rank equally in right of payment to all existing and future unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively. The Notes and Guarantee will be effectively subordinated to the Bank's obligations secured by assets.

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

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

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

**Price: 99.15 per cent. plus accrued interest, if any, from 7 April 2004.**

The Joint Lead Managers expect to deliver to purchasers book-entry interests in the Notes offered and sold pursuant to Regulation S through the facilities of Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and book-entry interests in the Notes offered and sold pursuant to Rule 144A through the facilities of the Depository Trust Company, in each case on or about 7 April 2004.

*Joint Bookrunners*

**Citigroup** **ING**

**Alpha Bank** **Parex Bank**

6 April 2004

**Prospective investors should rely only on the information contained in this offering memorandum. Neither the Bank nor the Issuer has authorised anyone to provide prospective investors with any information other than in this offering memorandum. The Bank and the Issuer are not, and managers named under "Subscription and Sale" (the "Managers") are not, making an offer of these securities in any jurisdiction where the offer is not permitted. Prospective investors should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.**

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

This offering memorandum has been prepared by the Bank and the Issuer solely for use in connection with the proposed offering of the securities described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Distribution of this offering memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of its contents, without the prior written consent of the Bank and the Issuer, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to in this offering memorandum. Notwithstanding the foregoing, the Luxembourg Stock Exchange is authorised to make copies of this offering memorandum and to distribute such copies.

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

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act of 1933 and the applicable state securities laws pursuant to registration or exemption therefrom. Prospective purchasers should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. See the sections in this offering memorandum entitled "Subscription and Sale" and "Form of Notes and Transfer Restrictions."

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

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

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

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OR, 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.**

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

## AVAILABLE INFORMATION

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

## THIRD PARTY INFORMATION

Market data and certain industry forecasts used throughout this offering memorandum were obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications prepared by third parties. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. The information contained herein under the headings "Industry Overview," "Regulation of the Banking Sector in Kazakhstan" and "Annex A—Republic of Kazakhstan" has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan; however, there is not necessarily any uniformity of view amongst such sources as to such information provided herein. In addition, internal surveys, estimates and market research, while believed to be reliable, have not been independently verified, and neither the Bank nor the Issuer makes any representation as to the accuracy of such information and they have not independently verified such information. The Bank and the Issuer do, however, accept responsibility for the correct reproduction of this information.

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

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Bank maintains its books of account in Tenge in accordance with the relevant laws in Kazakhstan and with the regulations of the National Bank of Kazakhstan (the "NBK"). Its consolidated financial statements as at and for the years ended 31 December 2003, 2002 and 2001 and its other financial information included in this offering memorandum have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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

Some financial information has been rounded and, as a result, the numerical figures shown as totals in this offering memorandum may vary slightly from the exact arithmetic aggregation of figures that precede them. Figures presented in parentheses in this offering memorandum are used to indicate negative numbers.

In this offering memorandum:

- "Bank" and "Guarantor" refer to JSC Kazkommertsbank and, where the context permits, its principal consolidated subsidiaries Kazkommerts International B.V., JSC Kazkommerts Securities, JSC Kazkommerts Policy, JSC Kazkommerts Invest and JSC Kazkommertsbank Kyrgyzstan and CB Moskommertsbank which is controlled by the Bank;
- "Basle Accord" refers to the 1988 Capital Accord adopted by the Basle Committee on Bank Regulations and Supervisory Practice;
- "CIS" refers to the Commonwealth of Independent States;
- "EBRD" refers to the European Bank for Reconstruction and Development;
- "EU" refers to the European Union;
- "Kazakhstani Practices" refers to financial reporting pursuant to NBK Regulations;
- "NBK" refers to the National Bank of Kazakhstan;
- "NBK Regulations" refers to the regulations published by the NBK;
- "NSA" refers to the Kazakhstan's National Statistical Agency;
- "OECD" refers to the Organisation for Economic Co-operation and Development;
- "Tenge" or "KZT" are to Kazakhstani Tenge, the official currency of Kazakhstan;
- "United States" or the "U.S." refers to the United States of America;
- "€" and "euros" refer to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; and
- "U.S.$" and "U.S. dollars" refer to the lawful currency of the United States of America.

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

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

## FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "are expected to," "intends," "will," "will continue," "should," "would be," "seeks," "approximately," or "anticipates," or similar expressions or the negative thereof or other variations thereof or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this offering memorandum and include statements regarding the Bank's intentions, beliefs or current expectations concerning, amongst other things, the Bank's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. You should be aware that forward-looking statements are not guarantees of future performance and that the Bank's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates may differ materially from those made in or suggested by the forward-looking statements contained in this offering memorandum. In addition, even if the Bank's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward-looking statements contained in this offering memorandum, those

results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

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

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

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

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

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

# SUMMARY

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

**The Bank**

Established in 1990, Kazkommertsbank is the largest private, full-service bank in Kazakhstan, measured by total assets as at 31 December 2003, providing corporate banking, retail banking and other financial services. As at and for the year ended 31 December 2003, the Bank had net income of KZT 8,761 million (U.S.$58.6 million), total assets of KZT 434,241 million (U.S.$3,011 million) and shareholders' equity of KZT 45,579 million (U.S.$316 million).

The Bank's principal activities traditionally have been the acceptance of deposits and the provision of loan and credit facilities in Tenge and foreign currencies. It also offers a wide-range of current account-related services, such as direct debit payments, and also retail (banking) loans. As at 31 December 2003, in addition to its head office, the Bank had 22 full-service branches throughout Kazakhstan, 67 settlement outlets and six dedicated retail outlets, although the Bank intends to reduce the number of settlement outlets as part of an ongoing rationalisation programme. The Bank also has a foreign representative office in London and a foreign subsidiary bank in Kyrgyzstan. As at 31 December 2003, it had total customer retail deposits of U.S.$530 million, a significant increase from the approximately U.S.$23 million in retail deposits held by the Bank at the end of 1999, and the Bank believes that it currently has the largest deposit base amongst Kazakhstani banks. From the end of 1999, the Bank's gross consumer loans have grown from approximately U.S.$10 million to approximately U.S.$165 million as at 31 December 2003.

The Bank issues both VISA and Europay/MasterCard credit cards and its debit and credit cards provide access to the Cirrus/Maestro system. As at 31 December 2003, the Bank had 249,015 cards in issue. The Bank is also an authorised agent for distribution of American Express and Diners Club cards and was the first bank in Kazakhstan to issue to its customers smart cards, which incorporate a chip as well as a magnetic strip for security, in 2001. In addition, the Bank has an established automatic teller machine (''ATM'') network, and, as at 31 December 2003, it operated 230 ATMs and 806 point-of-sale terminals. The Bank was also the first local bank to offer telephone banking and internet banking services to its customers.

Through its commercial banking business, the Bank provides products and services to predominantly medium- and large-sized Kazakhstani and international corporations operating in Kazakhstan, including trade and structured finance products, project finance, e-banking and asset management services, as well as short-term credit facilities and other general banking services. Consistent with the Bank's policy of maintaining high levels of liquidity, it typically provides loans with an average maturity of up to 18 months for its corporate clients, and provides long-term financing in accordance with current funding sources. The Bank also arranges syndicated loans to top corporate clients in Kazakhstan with foreign banks and provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 31 December 2003, the Bank's total gross customer loan portfolio amounted to KZT 302,132 million (U.S.$2.1 billion).

In addition to banking, the Bank offers other financial services. It is a major participant in the securities markets and the foreign currency markets in Kazakhstan and a major provider of cash management services to corporations, including payroll services. The Bank is authorised to engage in other activities, including the sale, purchase and safekeeping of precious metals, including gold and silver, under the Bank's general banking license. In 2001, the Bank began to offer trust services to its corporate and retail clients, which mostly relate to trust management over cash and assets.

**Strategy**

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

- *Increase its geographic presence*. The Bank seeks to increase its geographic presence, principally by expanding into other CIS countries. In September 2002, the Bank acquired a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan, a bank with offices in Bishkek and Osh, and, in conjunction with the EBRD, the Bank provides financings for small- and medium-sized enterprises in Kyrgyzstan. The Bank has operating control over, consolidates for financial reporting purposes and intends to purchase a controlling shareholding in, CB Moskommertsbank, a small Russian bank based in Moscow with which it currently has a strategic alliance. The Bank believes that expansion into other countries within the region will enable it to better serve clients active in those countries and to attract larger, corporate clients with regional operations.
- *Expansion of Banking Services.* The Bank will also focus on expanding its corporate and retail banking services:
  - Corporate banking services. The Bank intends to expand its corporate client base and improve the quality of its loan portfolio. In addition, it will seek to proportionately increase its lending to companies in the oil and gas, food processing, construction, telecommunication, mining and metallurgy and other sectors, identified by the Bank as sectors with the potential for growth. In order to diversify its portfolio, the Bank will seek to increase its lending to small- and medium-sized enterprises. To assist its risk assessment of various sectors, the Bank has established a market research group.
  - Retail banking services. The Bank will continue to seek to increase its retail banking business by targeting middle-income and high net worth individuals, a market segment the Bank believes continues to be underserved by its retail competitors. The Bank intends to attract and retain these clients by providing up-to-date products, such as money transfer services, direct debit payments, currency exchange facilities and a reliable ATM network, as well as a high level of personal customer service. The Bank believes that, by serving these more affluent clients, it is better able to sell higher-margin products and improve its cross-selling of non-banking products, such as insurance and pension products.
- *Improvement of management information systems and operating efficiencies.* The Bank has been working to improve operating efficiencies through organisational restructuring and investments in human resources and information technology. As part of this strategy, the Bank hired officers with experience with international banks. In 2002 the Bank fully implemented its unified information system, connecting all of its branches on a real-time basis. The Bank intends to continue to introduce more advanced information systems in the future, including a customer relationship management system based on CRM Siebel, a call centre system, an Oracle-based system for re-engineering business processes and internet banking systems.
- *Improvement of funding base.* The Bank intends to increase its capital markets funding, including subordinated and senior debt issues, asset securitisation programmes, co-operating with multilateral financial institutions and foreign export credit agencies and by increasing its market share in term deposits from corporate and, in particular, retail clients. The Bank also plans to undertake an international equity offering in the future. In doing so, the Bank will seek to diversify its funding sources, lower its overall funding costs and increase tenors to support its anticipated asset growth.
- *Expand into other financial services markets.* The infrastructure, including the legal framework, of the Kazakhstani securities market is still developing. To capitalise on expected opportunities in this market, the Bank is taking steps to further its expertise and position itself through, amongst other things, the operations of its subsidiaries such as JSC Kazkommerts Securities and JSC Kazkommerts Policy, which provides insurance services.

**The Issuer**

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

**Credit Ratings**

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

The Bank's current credit ratings are as follows:

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

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

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

**Recent Developments**

Simultaneous with the offering of the Notes, Citigroup Global Markets Deutschland AG & Co. KGaA (''CGMD'') is offering U.S.$100,000,000 7.375 per cent. Subordinated Loan Participation Notes due 2014 (the ''Subordinated Loan Participation Notes''). The purpose of issuing the Subordinated Loan Participation Notes is to finance a ten-year subordinated loan to the Bank pursuant to a Subordinated Loan Agreement dated 2 April 2004 (the ''Subordinated Loan Agreement''). CGMD will charge, by way of first fixed charge as security for its payment obligations in respect of the Subordinated Loan Participation Notes, its rights and interests as lender under a Subordinated Loan Agreement to The Law Debenture Trust Corporation p.l.c., as Trustee, for the benefit of the holders of the Loan Participation Notes and will assign its rights under the Subordinated Loan Agreement to the Trustee for the benefit of the noteholders.

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The Bank's address is 135 ''zh'' Gagarin Avenue, Almaty, 480060, Kazakhstan, and the Bank's telephone number is +7-3272-585-111. The Bank's website addresses are http://www.kkb.kz and http://www.kazkommertsbank.com. The contents of these websites are not part of this offering memorandum.

## SUMMARY TERMS AND CONDITIONS

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

| | |
|---|---|
| Issue: | U.S.$400,000,000 principal amount of 7.875 per cent. Notes due 2014. |
| Interest and Interest Payment Dates: | The Notes will bear interest at a rate of 7.875 per cent. per annum. Interest on the Notes will accrue from 7 April 2004 and will be payable semi-annually in arrear on 7 April and 7 October of each year, commencing on 7 October 2004. |
| Status: | The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See ''Terms and Conditions of the Notes—Status of Notes and Guarantee.'' |
| | The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Guarantor which rank and will rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Guarantor save only for such obligations as may be preferred by mandatory provisions of applicable law. |
| Guarantee: | The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums payable by the Issuer under the Notes. |
| Negative Pledge: | Each of the Issuer and the Guarantor agrees that, so long as any Notes remain outstanding, it shall not and shall not permit any of its Subsidiaries (as defined in Condition 4) (in the case of the Issuer) or Material Subsidiaries (as defined in Condition 4) (in the case of the Guarantor) to create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than in the case of the Guarantor, a Permitted Security Interest, as defined in Condition 4) upon the whole or any part of their respective undertakings, assets or revenues to secure any Indebtedness for Borrowed Money (as defined in Condition 4) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Indebtedness for Borrowed Money or are otherwise given the benefit of such security interest. See ''Terms and Conditions of the Notes—Negative Pledge.'' |
| Certain Covenants: | The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters:<br>(i) limitation on transactions at less than the fair market value and<br>(ii) limitation on payment of dividends. See ''Terms and Conditions of the Notes—Condition 5.'' |
| Taxation: | All payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. See ''Taxation—The Netherlands Taxation.'' |

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|---|---|
| | Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan-Netherlands Tax Treaty at a rate of 10 per cent. Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15 to 20 per cent. unless reduced by an applicable double taxation treaty. See "Taxation—Kazakhstan Taxation." |
| | In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee), the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required. See "Terms and Conditions of the Notes—Condition 9." |
| Governing Law: . . . . . | The Notes, the Guarantee and the Trust Deed will be governed by, and construed in accordance with, the laws of England. |
| Listing: . . . . . | Application has been made to list the Notes on the Luxembourg Stock Exchange. After issue, application will be made to list the Notes on the Kazakhstan Stock Exchange. |
| U.S. Transfer Restrictions: . . . . . | The Notes and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States other than to qualified institutional buyers in transactions exempt from registration under the Securities Act pursuant to Rule 144A. See "Form of Notes and Transfer Restrictions." |
| Use of Proceeds: . . . . . | The Issuer will use the proceeds from the issuance of the Notes to make a deposit with the Bank pursuant to a Deposit Agreement and the proceeds will be used by the Bank to fund loans to Kazakhstani corporate entities and for other general banking purposes. See "Use of Proceeds." |
| Payment and Settlement: . . . . . | The identification numbers for the Notes are as follows: |

| | |
|---|---|
| Regulation S Notes: | |
| ISIN Code. . . . . | XS0190240324 |
| CUSIP . . . . . | 52119M9C6 |
| Common Code . . . . . | 019024032 |
| Rule 144A Notes: | |
| ISIN . . . . . | US48666FAD24 |
| CUSIP . . . . . | 48666D AD 2 |

Prospective investors should carefully consider certain risks discussed under "Risk Factors" beginning on page 9.

## SUMMARY FINANCIAL INFORMATION

The following table contains summary historical financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2003, 2002 and 2001, which were audited by TOO Deloitte & Touche, Kazakhstan, the Kazakhstan national practice of Deloitte Touche Tohmatsu, referred to herein as DTT. DTT is a Swiss Verein and each of its national practices are separate and independent legal entities. The Bank's financial statements have been prepared in accordance with IFRS and are presented in Tenge.

Solely for the convenience of the reader, the Bank has translated the summary balance sheet information as at 31 December 2003 into U.S. dollars at the rate of U.S.$1.00 = KZT 144.22, and the summary income statement information for the year then ended into U.S. dollars at the rate of U.S.$1.00 = KZT 149.54.

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2003 | 2003 | 2002 Reclassified[1] | 2001 Reclassified[1] |
| | U.S.$ thousands | | KZT millions | |
| **Income Statement** | | | | |
| Interest income | 234,762 | 35,106 | 24,501 | 17,871 |
| Interest expense | (124,541) | (18,624) | (11,258) | (7,888) |
| Net interest income before provision for loan losses | 110,221 | 16,482 | 13,243 | 9,983 |
| Provision for loan losses | (39,372) | (5,887) | (7,342) | (4,572) |
| Net interest income | 70,849 | 10,595 | 5,901 | 5,411 |
| Net (loss)/gain on trading securities | (2,120) | (317) | 936 | 1,500 |
| Net gain on foreign exchange operations | 10,706 | 1,600 | 1,207 | 1,386 |
| Fee and commission income | 56,171 | 8,400 | 5,792 | 3,850 |
| Fee and commission expenses | (8,923) | (1,334) | (1,126) | (589) |
| Net (loss)/gain from investment securities | (317) | (47) | 3,916 | (55) |
| Dividends received | 2,557 | 382 | 447 | 38 |
| Other income | 8,288 | 1,239 | 433 | 283 |
| Net non-interest income | 66,362 | 9,923 | 11,605 | 6,413 |
| Operating income | 137,211 | 20,518 | 17,506 | 11,824 |
| Operating expenses | (59,978) | (8,969) | (7,956) | (6,120) |
| Operating profit | 77,233 | 11,549 | 9,550 | 5,704 |
| Provision for losses on other operations | (1,807) | (270) | (1,327) | (526) |
| (Expenses)/income from associates | (135) | (20) | 34 | 389 |
| Profit before taxation and minority interest | 75,291 | 11,259 | 8,257 | 5,567 |
| Income tax expense | (13,988) | (2,092) | (276) | (278) |
| Net profit before minority interest | 61,303 | 9,167 | 7,981 | 5,289 |
| Minority interest | (2,718) | (406) | (2) | — |
| Net profit | 58,585 | 8,761 | 7,979 | 5,289 |

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | 2003 | 2002 Reclassified[1] | 2001 Reclassified[1] |
| | U.S.$ thousands | | KZT millions | |
| **Balance Sheet** | | | | |
| **Assets:** | | | | |
| Cash and balances with the national (central) banks | 197,508 | 28,485 | 19,395 | 11,478 |
| Precious metals | 2,081 | 300 | — | — |
| Loans and advances to banks less allowance for loan losses | 267,528 | 38,583 | 43,451 | 17,613 |
| Trading securities | 493,696 | 71,201 | 21,279 | 13,395 |
| Securities purchased under agreement to resell, less allowance for losses | 18,086 | 2,608 | 2,267 | — |
| Derivative financial instruments | 107 | 15 | 7 | — |
| Loans to customers, net | 1,962,713 | 283,063 | 175,249 | 145,124 |
| Securities available for sale | 954 | 138 | 5,539 | 169 |
| Securities held-to-maturity | 225 | 32 | 17 | 331 |
| Investments into associates | 1,014 | 146 | 286 | 1,774 |
| Fixed assets, less accumulated depreciation | 40,687 | 5,868 | 3,448 | 2,344 |
| Intangible assets, less accumulated amortisation | 3,023 | 436 | 608 | 528 |
| Other assets, less allowance for losses | 23,342 | 3,366 | 3,215 | 1,588 |
| Total assets | 3,010,964 | 434,241 | 274,761 | 194,344 |
| **Liabilities and Shareholders' Equity:** | | | | |
| **Liabilities** | | | | |
| Loans and advances from banks | 528,511 | 76,222 | 54,663 | 43,191 |
| Securities sold under agreements to repurchase | 258,291 | 37,251 | — | 1,563 |
| Derivative financial instruments | 6 | 1 | 2 | — |
| Customer accounts | 1,051,098 | 151,589 | 141,372 | 111,007 |
| Debt securities issued | 681,136 | 98,233 | 30,317 | — |
| Other borrowed funds | 24,445 | 3,525 | 4,651 | 5,248 |
| Dividends payable | 3 | 1 | 1 | 1,236 |
| Other liabilities | 58,263 | 8,403 | 5,548 | 4,726 |
| Subordinated debt | 60,553 | 8,733 | 6,060 | 2,950 |
| Total liabilities | 2,662,306 | 383,958 | 242,614 | 169,921 |
| Minority interest | 32,621 | 4,704 | 81 | — |
| **Shareholders' Equity:** | | | | |
| Share capital | 27,867 | 4,019 | 3,500 | 3,498 |
| Share premium | 65,549 | 9,453 | 5,473 | 5,465 |
| Fixed assets revaluation reserve | 3,951 | 570 | 7 | 8 |
| Retained earnings | 218,670 | 31,537 | 23,086 | 15,452 |
| Total shareholders' equity | 316,037 | 45,579 | 32,066 | 24,423 |
| Total liabilities and shareholders' equity | 3,010,964 | 434,241 | 274,761 | 194,344 |

| | Year ended 31 December | | |
|---|---|---|---|
| | 2003 | 2002 Reclassified[1] | 2001 Reclassified[1] |
| **Combined Key Ratios:** | Per cent., unless otherwise noted | | |
| Return on average shareholders' equity[2] | 22.6 | 28.2 | 25.3 |
| Net earnings per common share (in Tenge) | 25.9 | 25.9 | 18.4 |
| Operating expenses/operating income before provisions for loan losses | 34.0 | 32.0 | 37.3 |
| Operating expenses/operating income after provisions for loan losses | 43.7 | 45.4 | 51.8 |
| Effective provisioning rate on customer loans | 6.3 | 7.4 | 7.4 |
| **Credit Quality Ratios:**[3] | | | |
| Non-performing loans as a percentage of total loans | 0.8 | 1.2 | 0.8 |
| Non-performing loans as a percentage of total cash and non-cash loans | 0.7 | 1.0 | 0.7 |
| Provisions for loan losses as a percentage of non-performing loans | 777.5 | 606.2 | 961.9 |

(1) The 2002 and 2001 consolidated financial statements have been reclassified to reflect subsequent changes to the accounting policies relating to the treatment of customer loans. Prior to 2003, Loans to customers, net, represented only the principal amount of such loans with accrued interest being recorded in Other assets. Beginning with the 2003 consolidated financial statements, the Bank includes accrued interest in Loans to customers, net, and provisions are accrued for the difference between the principal and interest accrued on such loans and the value of collateral securing these loans. The provisions are calculated using standard rates which vary based on the type of loan. The reclassification of the 2002 and 2001 consolidated financial statements was done in accordance with IFRS in order to present financial information on a basis comparable to that of the Bank's 2003 consolidated financial statements. See "Selected Statistical and Other Information—Non-Performing Loans and Provisioning Policy."

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

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

# RISK FACTORS

*Prospective investors should carefully consider all of the information in this offering memorandum, including the following risk factors associated with an investment in Kazakhstani entities generally, and in securities guaranteed by the Bank specifically, before making an investment decision regarding the Notes. The risks and uncertainties below are not the only ones the Bank faces. Additional risks and uncertainties not presently known to the Issuer or the Bank, or that they currently believe are immaterial, could also impair the Bank's business operations. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in Kazakhstan which, in some respects, may differ from that prevailing in other countries.*

**Risks Relating to the Republic of Kazakhstan**

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

***The Bank is subject to general political and regional risks.***

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

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

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

Like other countries in Central Asia, Kazakhstan could be affected by continued military operations taken in Afghanistan by the United States and an international coalition in response to the September 2001 terrorist attacks in the United States. In addition, the continuation of military operations by a United States and British-led coalition against the regime in Iraq could also affect the world economy and the political stability of other countries. In particular, countries in the Central Asian region, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil and oil products, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects, such as Turkey, which is a major infrastructure project contributor in the Central Asian region.

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

Since Kazakhstan is heavily dependent upon export trade and commodity prices, it was particularly affected by the Asian financial crisis in early 1998 and by the Russian crisis later that year, both of which exacerbated the problems associated with falling commodity prices. Because Kazakhstan is negatively affected by low commodity prices and economic instability elsewhere in the world, the Government of Kazakhstan has promoted economic reform, inward foreign investment and the diversification of the economy. Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect Kazakhstan's economy in the future.

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

The Tenge is convertible for current account transactions, although it is not a fully convertible currency outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. However, depressed export markets in 1998 and early 1999 caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and, in April 1999, floated the Tenge. The Tenge fell by 64.6 per cent. against the U.S. dollar in the year ended 31 December 1999, compared to a decline of 10.7 per cent. in the year ended 31 December 1998. The Tenge has been generally stable against the U.S. dollar during 2001 and 2002 with an annual depreciation of between 3.3 per cent. and 3.8 per cent. In 2003, the Tenge strengthened against the U.S. dollar and appreciated by 7 per cent. As at 1 March 2004, according to the NSA, the Tenge has experienced a slight increase, approximately 2.9 per cent., in 2004.

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

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

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

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

Although a large volume of legislation has come into force since early 1995, including a revised tax code, laws relating to foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan is at an early stage of development compared to countries with established market economies. In addition, 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. Further, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, making it difficult for companies to ascertain whether they are liable to additional taxes, penalties and interest. The Government of Kazakhstan 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, the Government of Kazakhstan may not continue such policy in the future, or such policy, if continued, may not ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business and prospects.

**Risks Relating to the Bank**

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

The Bank's net average loan portfolio increased by 24 per cent. in 2003 and was KZT 197.7 billion (U.S.$1.3 billion) compared to KZT 159.4 million (U.S.$1.0 billion) in 2002. Although the Bank has managed its growth to date, its significant increase in credit exposure will require continued emphasis on credit quality and the adequacy of its provisioning levels, as well as continued development of financial and management control. The Bank's continued ability to manage its growth will also depend upon its ability to attract and retain qualified personnel and to train new personnel.

***The concentration of the Bank's loan portfolio subjects it to risks from default by its largest borrowers.***

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

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

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

The Bank, in cooperation with other Kazakhstani commercial enterprises and Experian, an international credit reference agency, is currently assessing the feasibility of establishing a credit reference bureau in Kazakhstan to provide information about potential borrowers in that country. The

Bank may not be successful in this regard, in which case the Bank will continue to have limited information on which to base its lending decisions.

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

In common with other Kazakhstani banks, the Bank is subject to competition from both domestic and foreign banks. As at 31 December 2003, there were a total of 36 banks, excluding the NBK, in Kazakhstan, of which 16 were banks with foreign ownership, including subsidiaries of foreign banks. Although the Bank believes that it is well positioned to compete in the Kazakhstani banking sector due to its relatively large capitalisation and asset base, relatively low-cost deposit base and diversified client base, the Bank faces competition from a number of existing and prospective participants in the Kazakhstani banking sector. In particular, the Development Bank of Kazakhstan (''DBK''), was established in 2001, and had the largest equity base of any domestic bank in Kazakhstan. Although the DBK is not licensed to accept deposits or provide corporate settlement services, the Bank expects that the DBK may become an important competitor in the corporate lending sector. See ''Description of Business'' and ''Regulation of the Banking Sector in Kazakhstan.''

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

In September 1995, the NBK introduced strict rules and prudential requirements for the operations and the capital adequacy of banks in conformity with the recommendations of the NBK's Board of Directors. In addition, the NBK has adopted an institutional development plan for leading Kazakhstani banks, including the Bank. According to the plan, banks are required to prepare their accounts in accordance with IFRS and to start to apply the rules relating to Basle Accord within a period determined by the NBK on a case-by-case basis. Banks are also required to join a bank-funded deposit insurance scheme and be audited annually by a public accountancy firm approved by the NBK. See ''Regulation of the Banking Sector in Kazakhstan.'' In addition, the Government of Kazakhstan may implement additional regulations or policies, including with respect to taxation, interest rates, inflation, exchange controls or may otherwise take action that could have a material adverse effect on the Bank's financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Notwithstanding the NBK Regulations, prospective investors should understand that regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in countries with more highly developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries. See ''—Kazakhstan's legislative and regulatory framework is less developed than in many Western countries.''

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

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

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

The Bank's growth and development can be attributed, in particular, to the knowledge and experience of a small number of senior managers. The loss of services of these individuals for any reason could have a material adverse effect on the Bank's business, results of operations and financial condition. As the Bank's business grows, its success will depend, to a large extent, on its ability to

attract and retain additional employees who are skilled in its business. The Bank is continually seeking to attract and retain new key employees. The banking industry is relatively new in Kazakhstan and there are a limited number of experienced banking managers in that country. The Bank believes that there is also a high level of competition for the services of these individuals. While the Bank believes it has been successful in attracting skilled and motivated employees and officers, it may not be able to do so in the future.

**Risk Factors Relating to an Investment in the Notes**

***The Issuer is dependent on intercompany cash flow.***

The Issuer is a special purpose financing entity with no business operations other than the issuance of debt securities, including the Notes, and raising other types of financing in international financial markets. The intercompany deposit with the Bank of the proceeds of this offering (and similar arrangements to be concluded in the future) and payments by the Bank under the corresponding Deposit Agreement comprise the only significant assets of the Issuer. Accordingly, the Issuer will rely on the Bank fulfilling its obligations with respect to the Deposit Agreement to provide the necessary funds for it to pay principal and interest on the Notes and to pay its other expenses. Therefore, the Issuer is subject to all risks to which the Bank is subject, to the extent such risks could limit the Bank's ability to satisfy its obligations under the Deposit Agreement and perform its obligations under the Guarantee.

***The Guarantee and the intercompany deposit are subordinated to the Bank's secured obligations.***

The Guarantee and the intercompany deposit are effectively subordinated in right of payment to the Bank's existing and/or future secured indebtedness. Although, as at 31 December 2003, the Bank had no indebtedness secured by its assets, the terms and conditions of the Notes will permit the Bank to incur a limited amount of secured indebtedness under some circumstances. See "Terms and Conditions of the Notes." If an event of default occurs under any secured credit facility, the lenders may foreclose upon the respective collateral. Additionally, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding, the holders of any of the Bank's secured indebtedness will be entitled to proceed against the collateral that secures such indebtedness and such collateral will not be available for satisfaction of any amounts owed to the Issuer under the Deposit Agreement or payable pursuant to the Guarantee.

***The Bank will have the ability to incur more debt.***

The Bank may decide to incur substantial additional debt in the future. While the terms and conditions of the Notes contain certain restrictions on the Bank's ability to incur additional debt, they nonetheless permit the Bank to incur additional debt. In addition, debt permitted to be incurred by the Bank's subsidiaries, other than the Issuer, may be structurally senior to the Notes.

***Limitations on the Bank's ability to borrow and invest and to engage in certain transactions could impair the Bank's ability to expand or finance its future operations.***

The agreements that govern the Bank's debt instruments, including the terms and conditions of the Notes, contain certain restrictions limiting its flexibility in operating its business. In addition, the Bank is subject to other restrictions under the terms of its shareholders' agreement with the EBRD. See "Principal Shareholders—Shareholders' Agreement with the EBRD." These restrictions could hinder the Bank's ability to carry out its business strategy, its ability to meet its obligations with respect to the intercompany deposit or the Guarantee and the Issuer's ability to make payments of principal or interest on the Notes. In addition, a breach of the terms and conditions of the Notes or the terms of other debt instruments could cause a default under the terms of the Bank's other financing arrangements.

***Insolvency and other laws in Kazakhstan and The Netherlands could negatively affect the ability of Noteholders to enforce their rights.***

Kazakhstani bankruptcy law may prohibit the Bank from making payments pursuant to the Guarantee or the Deposit Agreement under certain circumstances. Contractual provisions, such as those contained in the terms and conditions of the Notes, which would accelerate the payment of the

debtor's obligations upon the occurrence of certain bankruptcy events, are not enforceable under Kazakhstani law. In addition, an administrator may apply to a court to set aside executory contracts, including the terms and conditions of the Notes.

The Issuer is incorporated under the laws of The Netherlands. Generally, insolvency and administrative laws in The Netherlands could negatively affect the ability of Noteholders to enforce their rights under the Notes and the Guarantee in a manner similar to the Kazakhstani laws described above.

***A court could invalidate or subordinate the Notes or the Guarantee pursuant to fraudulent conveyance laws.***

The offering and sale of the Notes and the implementation of the transactions described herein may be subject to review under Kazakhstani law if a bankruptcy or rehabilitation case is commenced by or on behalf of the Bank's unpaid creditors. If a court were to find that the Bank incurred indebtedness pursuant to this offering with the intent to hinder, delay or defraud such creditors, then the issuance of the Notes and the Guarantee could be declared void, but only with respect to the creditors involved in such action.

***There is no prior market for the Notes.***

An active trading market in the Notes may not develop or be maintained after listing. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and the trading price of the Notes.

***The trading price of the Notes may be volatile.***

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

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

# THE ISSUER

**History**

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

**Capitalisation and Indebtedness**

The Issuer is a wholly owned subsidiary of the Bank. The following table sets forth the capitalisation of the Issuer as at 31 December 2003:

| | As at 31 December 2003 |
|---|---|
| | euro thousands |
| **Long-Term debt:** | |
| Loans from third parties | 830,684 |
| **Shareholders' equity:** | |
| Share capital comprising 40 ordinary shares, par value €450 per share | 18 |
| Retained earnings | 1,531 |
| Total shareholders' equity | 1,549 |
| **Total Capitalisation** | 832,233 |

As at 31 December 2003, the Issuer's authorised share capital was €18,000, consisting of 40 ordinary shares, each with a nominal value of €450, all of which were issued and outstanding.

Except for the issue of the Notes, there has been no material change in the capitalisation of the Issuer since 31 December 2003. The total capitalisation of the Issuer has not been adjusted to reflect the issue and sale of the Notes.

**Business**

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

In 2002, the Issuer issued a total of U.S.$200 million 10.125 per cent. notes due 2007 in two tranches of U.S.$l50 million and U.S.$50 million. In 2003, the Issuer issued a total of U.S.$500 million 8.5 per cent. notes due 2013 in two tranches of U.S.$350 million and U.S.$150 million. In April 2003 the Issuer and the Bank entered into an agreement with a syndicate of banks to obtain a U.S.$45 million term loan for one year with a three-month roll-over option. Funds were raised for the purpose of on-lending them to Food Contract Corporation, a state owned company involved in grain transactions. On 19 December 2003, the Issuer and the Bank entered into a U.S.$300 million term loan facility, which has two tranches of one year and two years, respectively. All of these financings were unconditionally and irrevocably guaranteed by the Bank.

In addition, in December 2002, the Issuer received a payment of U.S.$33 million (KZT 5,143 million) from OJSC Central Asian Industrial Holdings N.V. (''CAIH'') (formerly Central Asian Industrial Investments N.V.), a Dutch Antilles company affiliated with the Bank, which was deposited with the Bank by the Issuer and pledged as collateral to secure a loan advanced by the Bank to Karakudukmunai, a Kazakhstani entity related to CAIH. The Issuer was used as a conduit for this deposit in order to comply with applicable Kazakhstani regulations. The Issuer has no direct liability with respect to the loan. To the extent that Karakudukmunai defaults on its payment obligations under the loan, the deposited funds will be applied in full satisfaction of those obligations. The Issuer receives interest from the Bank on the outstanding amount deposited at eight per cent. per annum, of

which it then pays approximately 7 per cent. to CAIH. Although the deposit is recorded as a loan from third parties on the Issuer's balance sheet, the Issuer is not obliged to make any payment to CAIH under this arrangement unless and until it has received the corresponding payment from the Bank. See "Transactions with Related Parties."

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

The Issuer is not involved in any legal or arbitration proceedings, including any such proceedings which are pending or, to the Issuer's knowledge, threatened, which may have, or have had since 31 December 2003, a significant effect on the financial position of the Issuer.

**Financial Statements**

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

**Management**

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

**General Information**

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

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

## USE OF PROCEEDS

The proceeds to the Issuer from the sale of the Notes are expected to be U.S.$396,600,000. In connection with the issue of the Notes, the Bank will pay fees and expenses of U.S.$2,129,850. Such proceeds will be deposited by the Issuer with the Bank and will be used by the Bank to fund loans to Kazakhstani corporate entities and for other general banking purposes.

## EXCHANGE RATES AND EXCHANGE CONTROLS

### Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system; however, in April 1999, the NBK and the Government of Kazakhstan publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. As a result, the Tenge depreciated from a pre-announcement rate of KZT 88 per U.S. dollar to a rate of approximately KZT 130 per U.S. dollar by May 1999. Since then, the Tenge generally has continued to depreciate in nominal terms against the U.S. dollar, although it has strengthened against the U.S. dollar in 2003.

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

| | Period end | Average[1] | High | Low |
|---|---|---|---|---|
| **Year ended 31 December** | | | | |
| 1999 | 138.25 | 120.09 | 142.21 | 84.20 |
| 2000 | 145.40 | 142.26 | 145.40 | 138.59 |
| 2001 | 150.94 | 146.92 | 150.94 | 145.05 |
| 2002 | 155.85 | 153.49 | 156.29 | 151.31 |
| 2003 | 143.33 | 149.45 | 155.89 | 143.33 |
| **Month** | | | | |
| January 2004 | 139.41 | 140.88 | 142.91 | 139.38 |
| February 2004 | 139.15 | N/A | 139.48 | 138.86 |

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

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

### Exchange Controls

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only outflowing capital account operations need to be licensed by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

Kazakhstan recently significantly liberalised its foreign exchange regulations. A law adopted in May 2003 provides for unlicensed investments in foreign investment-grade securities, unlicensed acquisition of more than 50 per cent. of voting interests in companies incorporated in the OECD countries and unlicensed openings by individuals of bank accounts with banks rated not below A by Standard & Poor's incorporated in the OECD countries, and extension of loans by banks to non-residents of Kazakhstan. The NBK intends to further liberalise licensing rules in the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of U.S. dollars into Kazakhstan due to high market prices for Kazakhstani export goods by directing export revenues abroad.

# CAPITALISATION

The following table sets forth the Bank's consolidated capitalisation as at 31 December 2003 and as adjusted to reflect the issue and sale of the Notes, the issue and sale of U.S.$100,000,000 7.375 per cent. Loan Participation Notes due 2014 and the Bank entering into the Subordinated Loan Agreement:

| | As at 31 December 2003 | | | |
|---|---|---|---|---|
| | Actual | | As adjusted | |
| | U.S.$ thousands[1] | KZT millions | U.S.$ thousands[1] | KZT millions |
| **Liabilities:** | | | | |
| Senior long-term debt[2] | 969,231 | 139,782 | 1,365,831 | 196,980 |
| Subordinated long-term debt[3] | 60,553 | 8,733 | 160,215 | 23,106 |
| Total liabilities | 1,029,784 | 148,515 | 1,526,046 | 220,086 |
| **Shareholders' equity:** | | | | |
| Common shares | 24,000 | 3,461 | 24,000 | 3,461 |
| Preference shares | 3,867 | 558 | 3,867 | 558 |
| Share capital | 27,867 | 4,019 | 27,867 | 4,019 |
| Share premium | 65,549 | 9,453 | 65,549 | 9,453 |
| Revaluation reserves | 3,951 | 570 | 3,951 | 570 |
| Revenue reserves | 218,670 | 31,537 | 218,670 | 31,537 |
| Total shareholders' equity | 316,037 | 45,579 | 316,037 | 45,579 |
| Total capitalisation | 1,345,821 | 194,094 | 1,842,083 | 265,665 |

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

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

(3) In December 2002, the Bank registered an issue of KZT 7.5 billion 8 per cent. subordinated notes due 2009. As at 31 December 2003, the Bank has sold U.S.$27.6 million of these notes primarily to pension funds on the domestic market. Subordinated long-term liabilities also include a subordinated loan from Deutsche Investitions-und-Entwicklungsgesellschaft mbH (DEG) in the amount of U.S.$12.6 million and U.S.$19.8 million of 11 per cent. coupon subordinated notes issued in 2000 and due 2007.

As at 6 February 2004, the Bank's authorised share capital was KZT 5 billion, consisting of 500 million shares with a nominal value of KZT 10 each, of which 375 million are common voting shares and 125 million are preferred, non-voting shares. As of the same date, the Bank's issued and paid-in share capital was KZT 4,018,929,630, comprising 346,129,779 common voting shares and 55,763,184 preferred non-voting shares, par value KZT 10 per share. Each preferred share entitles the holder to a fixed annual dividend of $0.04. If such dividends are not paid, holders of preferred shares are entitled to one vote per share voting together with the common shares as a class until all accrued and payable dividends are paid in full. None of the preferred shares are convertible into common shares.

There has been no material change in the Bank's capitalisation since 31 December 2003 other than the issue of the Notes and the Subordinated Loan Participation Notes.

For a description of the Issuer's capitalisation, see "The Issuer—Capitalisation and Indebtedness."

## SELECTED FINANCIAL AND OTHER INFORMATION

The following table contains summary historical financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2003, 2002, 2001, 2000 and 1999, which were audited by TOO Deloitte & Touche, Kazakhstan. The Bank's financial statements have been prepared in accordance with IFRS and are presented in Tenge.

Solely for the convenience of the reader, the Bank has translated the summary balance sheet information as at 31 December 2003 into U.S. dollars at the rate of U.S.$1.00 = KZT 144.22, and the summary income statement information for the year then ended into U.S. dollars at the rate of U.S.$1.00 = KZT 149.54.

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

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2003 | 2002 Reclassified[1] | 2001 Reclassified[1] | 2000 | 1999 |
| | U.S.$ Thousands | KZT millions | | | | |
| **Income Statement** | | | | | | |
| Interest income | 234,762 | 35,106 | 24,501 | 17,871 | 12,362 | 11,418 |
| Interest expense | (124,541) | (18,624) | (11,258) | (7,888) | (5,763) | (4,951) |
| Net interest income before provision for loan losses | 110,221 | 16,482 | 13,243 | 9,983 | 6,599 | 6,467 |
| Provision for loan losses | (39,372) | (5,887) | (7,342) | (4,572) | (1,334) | (5,318) |
| Net interest income | 70,849 | 10,595 | 5,901 | 5,411 | 5,265 | 1,149 |
| Net (loss)/gain on trading securities | (2,120) | (317) | 936 | 1,500 | 1,205 | 600 |
| Net gain on foreign exchange operations | 10,706 | 1,600 | 1,207 | 1,386 | 1,080 | 3,639 |
| Fee and commission income | 56,171 | 8,400 | 5,792 | 3,850 | 2,790 | 1,680 |
| Fee and commission expenses | (8,923) | (1,334) | (1,126) | (589) | (1,057) | (655) |
| Net (loss)/gain from investment securities | (317) | (47) | 3,916 | (55) | (1,464) | 903 |
| Dividends received | 2,557 | 382 | 447 | 38 | 135 | 73 |
| Other income | 8,288 | 1,239 | 433 | 283 | 816 | 98 |
| Net non-interest income | 66,362 | 9,923 | 11,605 | 6,413 | 3,505 | 6,338 |
| Operating income | 137,211 | 20,518 | 17,506 | 11,824 | 8,770 | 7,487 |
| Operating expenses | (59,978) | (8,969) | (7,956) | (6,120) | (5,276) | (4,091) |
| Operating profit | 77,233 | 11,549 | 9,550 | 5,704 | 3,494 | 3,396 |
| Provision for losses on other operations | (1,807) | (270) | (1,327) | (526) | 18 | (29) |
| (Expenses)/income from associates | (135) | (20) | 34 | 389 | 358 | 597 |
| Profit before taxation and minority interest | 75,291 | 11,259 | 8,257 | 5,567 | 3,870 | 3,964 |
| Income tax expense | (13,988) | (2,092) | (276) | (278) | 154 | (968) |
| Net profit before minority interest | 61,303 | 9,167 | 7,981 | 5,289 | 4,024 | 2,996 |
| Minority interest | (2,718) | (406) | (2) | — | — | — |
| Net profit | 58,585 | 8,761 | 7,979 | 5,289 | 4,024 | 2,996 |

| | As at 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2003 | 2003 | 2002 Reclassified[1] | 2001 Reclassified[1] | 2000 | 1999 |
| **Balance Sheet** | U.S.$ thousands | | | KZT millions | | |
| **Assets:** | | | | | | |
| Cash and balances with the national (central) banks | 197,508 | 28,485 | 19,395 | 11,478 | 5,012 | 2,472 |
| Precious metals | 2,081 | 300 | — | — | | |
| Loans and advances to banks less allowance for loan losses | 267,528 | 38,583 | 43,451 | 17,613 | 15,712 | 7,240 |
| Trading securities | 493,696 | 71,201 | 21,279 | 13,395 | 23,040 | 11,346 |
| Securities purchased under agreement to resell, less allowance for losses | 18,086 | 2,608 | 2,267 | — | 3,089 | 2,000 |
| Derivative financial instruments | 107 | 15 | 7 | — | — | — |
| Loans to customers, net | 1,962,713 | 283,063 | 175,249 | 145,124 | 67,080 | 48,339 |
| Securities available for sale | 954 | 138 | 5,539 | 169 | 1,219 | 665 |
| Securities held-to-maturity | 225 | 32 | 17 | 331 | 220 | 49 |
| Investments into associates | 1,014 | 146 | 286 | 1,774 | 2,047 | 1,572 |
| Fixed assets, less accumulated depreciation | 40,687 | 5,868 | 3,448 | 2,344 | 2,021 | 1,776 |
| Intangible assets, less accumulated amortisation | 3,023 | 436 | 608 | 528 | 478 | 240 |
| Other assets, less allowance for losses | 23,342 | 3,366 | 3,215 | 1,588 | 4,098 | 5,486 |
| Total assets | 3,010,964 | 434,241 | 274,761 | 194,344 | 124,016 | 81,186 |
| **Liabilities and Shareholders' Equity:** | | | | | | |
| **Liabilities:** | | | | | | |
| Loans and advances from banks | 528,511 | 76,222 | 54,663 | 43,191 | 23,363 | 22,699 |
| Securities sold under agreements to repurchase | 258,291 | 37,251 | — | 1,563 | — | — |
| Derivative financial instruments | 6 | 1 | 2 | — | — | — |
| Customer accounts | 1,051,098 | 151,589 | 141,372 | 111,007 | 54,139 | 22,076 |
| Debt securities issued | 681,136 | 98,233 | 30,317 | — | 14,900 | 14,821 |
| Other borrowed funds | 24,445 | 3,525 | 4,651 | 5,248 | 4,402 | 5,443 |
| Dividends payable | 3 | 1 | 1 | 1,236 | — | — |
| Other liabilities | 58,263 | 8,403 | 5,548 | 4,726 | 7,040 | 2,772 |
| Subordinated debt | 60,553 | 8,733 | 6,060 | 2,950 | 2,820 | — |
| Total liabilities | 2,662,306 | 383,958 | 242,614 | 169,921 | 106,664 | 67,811 |
| Minority interest | 32,621 | 4,704 | 81 | — | — | — |
| **Shareholders' Equity:** | | | | | | |
| Share capital | 27,867 | 4,019 | 3,500 | 3,498 | 2,932 | 2,942 |
| Share premium | 65,549 | 9,453 | 5,473 | 5,465 | 2,794 | 2,831 |
| Fixed assets revaluation reserve | 3,951 | 570 | 7 | 8 | 10 | 94 |
| Retained earnings | 218,670 | 31,537 | 23,086 | 15,452 | 11,616 | 7,508 |
| Total shareholders' equity | 316,037 | 45,579 | 32,066 | 24,423 | 17,352 | 13,375 |
| Total liabilities and shareholders' equity | 3,010,964 | 434,241 | 274,761 | 194,344 | 124,016 | 81,186 |

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 Reclassified[1] | 2001 Reclassified[1] | 2000 | 1999 |
| | Per cent., unless otherwise noted | | | | |
| **Combined Key Ratios:** | | | | | |
| Return on average shareholders' equity[2] | 22.6 | 28.2 | 25.3 | 26.2 | 25.3 |
| Net earnings per common share (in Tenge) | 25.9 | 25.9 | 18.4 | 14.1 | 10.5 |
| Operating expenses/operating income before provisions for loan losses | 34.0 | 32.0 | 37.3 | 52.2 | 31.9 |
| Operating expenses/operating income after provisions for loan losses | 43.7 | 45.4 | 51.8 | 60.2 | 54.6 |
| Effective provisioning rate on customer loans | 6.3 | 7.4 | 7.4 | 8.9 | 10.0 |
| **Profitability Ratios:**[3] | | | | | |
| Net interest income before provisions for loan losses as a percentage of average interest-earning assets | 5.2 | 7.2 | 8.0 | 9.0 | 12.3 |
| Net interest income as a percentage of average interest-earning assets | 3.3 | 3.2 | 4.4 | 7.2 | 2.2 |
| Operating expense as a percentage of net interest income before provisions for loan losses | 54.4 | 60.1 | 61.3 | 80.0 | 63.3 |
| Operating expense as a percentage of average total assets | 2.6 | 3.8 | 4.2 | 6.0 | 6.0 |
| Profit after taxation as a percentage of average total assets | 2.6 | 3.8 | 3.7 | 4.6 | 4.4 |
| Profit after taxation as a percentage of average shareholders' capital[3] | 22.9 | 27.6 | 28.2 | 29.7 | 24.5 |
| **Balance Sheet Ratios:** | | | | | |
| Customer accounts as a percentage of total assets | 34.9 | 51.5 | 57.1 | 43.7 | 27.2 |
| Total net loans to customers as a percentage of total assets | 65.2 | 63.8 | 74.7 | 54.1 | 59.5 |
| Total capital as a percentage of total assets | 11.6 | 11.7 | 12.6 | 14.0 | 16.5 |
| Liquid assets as a percentage of customer accounts[4] | 82.4 | 61.0 | 34.4 | 65.9 | 76.6 |
| Liquid assets as a percentage of liabilities of up to one month[4] | 110.4 | 130.6 | 63.8 | 90.3 | 76.8 |
| **Capital Adequacy Ratios:**[5] | | | | | |
| Total capital | 16.4 | 16.4 | 17.2 | 20.0 | 20.8 |
| Tier I capital | 13.5 | 14.0 | 11.1 | 12.3 | 15.0 |
| **Credit Quality Ratios:**[6] | | | | | |
| Non-performing loans as a percentage of total loans | 0.8 | 1.2 | 0.8 | 0.8 | 3.0 |
| Non-performing loans as a percentage of total cash and non-cash loans | 0.7 | 1.0 | 0.7 | 0.7 | 2.7 |
| Provisions for loan losses as a percentage of non-performing loans | 777.5 | 606.2 | 961.9 | 1,138.4 | 330.8 |
| **Exchange Rates Used in Financial Statements of the Bank: (KZT/U.S.$1.00)** | | | | | |
| Period end | 144.22 | 155.85 | 150.20 | 144.50 | 138.20 |
| Average for the period[7] | 149.54 | 153.41 | 146.74[8] | 142.13[8] | 119.53[8] |
| **Inflation:** | | | | | |
| CPI | 6.4 | 6.6 | 6.4 | 9.8 | 17.8 |
| **Real GDP (change)** | 9.2 | 9.5 | 13.5 | 9.8 | 2.7 |

(1) The 2002 and 2001 consolidated financial statements have been reclassified to reflect subsequent changes to the accounting policies relating to the treatment of customer loans. Prior to 2003, Loans to customers, net, represented only the principal amount of such loans with accrued interest being recorded in Other assets. Beginning with the 2003 consolidated financial statements, the Bank includes accrued interest in Loans to customers, net, and provisions are accrued for the difference between the principal and interest accrued on such loans and the value of collateral securing these loans. The provisions are calculated using standard rates which vary based on the type of loan. The reclassification of the 2002 and 2001 consolidated financial statements was done in

accordance with IFRS in order to present financial information on a basis comparable to that of the Bank's 2003 consolidated financial statements. See "Selected Statistical and Other Information—Non-Performing Loans and Provisioning Policy."

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

(3) Represents average amount based upon an analysis of average daily balances shown in the Bank's financial statements.

(4) Liquid assets include cash and balances with the NBK, loans and advances to banks (with maturity of less than one month), securities in the trading portfolio and securities sold under repurchase agreements.

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

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

(7) Average monthly rate is an average of the Bank's daily rates for the month, including rates valid for days-off and holidays. Average annual rate is the average of the 12 monthly average rates.

(8) Until year 2002 the Bank's financial statements were based on the NBK's officially published rates. Beginning in 2002, Kazakhstani commercial banks select the exchange rates to be used in the translation of their financial statements.

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

*The following discussion should be read in conjunction with the Bank's audited financial statements appearing elsewhere in this offering memorandum. This discussion includes forward-looking statements based on assumptions about the Bank's future business. The Bank's actual results could differ materially from those contained in such forward-looking statements.*

## Introduction

Established in 1990, Kazkommertsbank is the largest private, full-service bank in Kazakhstan, measured by total assets as at 31 December 2003, providing corporate banking, retail banking and other financial services. As at and for the year ended 31 December 2003, the Bank had net income of KZT 8,761 million (U.S.$58.6 million), total assets of KZT 434,241 million (U.S.$3,011 million) and shareholders' equity of KZT 45,579 million (U.S.$316 million).

The Bank's financial statements as at and for the years ended 31 December 2003, 2002 and 2001 were prepared in accordance with IFRS and audited by TOO Deloitte & Touche. These financial statements are consolidated and, for 2003, reflect the results of operations of the Bank and its subsidiaries, JSC Kazkommerts Securities, JSC Kazkommerts Policy, JSC Kazkommertsbank Kyrgyzstan, Kazkommerts International B.V., JSC Kazkommerts Invest and CB Moskommertsbank, which is controlled by the Bank.

The following discussion in relation to the Bank's financial statements as at and for the years ended 31 December 2003, 2002 and 2001 is, unless otherwise stated, based upon the Bank's consolidated financial statements as at and for the years ended on such dates. This discussion, in so far as it refers to average amounts, has been based upon an analysis of average daily balances shown in the Bank's financial statements prepared in accordance with IFRS.

## Critical Accounting Policies

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

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

### *Allowance for loan losses*

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

### *Financial instruments*

On 1 January 2001, the Bank adopted IAS 39 "Financial Instruments: Recognition and Measurement." This did not result in any major changes in accounting policies. However, as no readily available market exists for a large portion of the Bank's financial instruments, the Bank's

management is required to make judgements to determine the fair value of such instruments based on current economic conditions and specific risks attributable to the instrument.

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

- *Cash and balances with the NBK and loans and advances to banks*—for these short-term instruments, the carrying amount is a reasonable estimate of fair value.
- *Marketable securities*—such securities are stated at fair value.
- *Loans to customers*—the fair value of the Bank's loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the Bank's portfolio.
- *Securities available-for-sale*—such securities are initially recorded at cost, which approximates the fair value of the consideration given. Fair value is determined by reference to market prices or, in the event that such market prices are not available, at the management's discretion.
- *Securities held-to-maturity*—such securities are stated at cost and adjusted for accretion and amortisation of premiums and discounts to approximate fair value.
- *Investments*—investments in associates are recorded using the equity method.
- *Loans and advances from banks and customer accounts*—the carrying amount is a reasonable estimate of fair value.
- *Debt securities issued*—debt securities issued is stated at nominal value. Premium and discounts are amortised over the life of an instrument, whilst unamortised balances are offset and recorded in the other assets or other liabilities section.

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

**Off-Balance Sheet Arrangements**

In the normal course of its activity, the Bank enters into certain financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, which include guarantees, letters of credit, forward contracts and option contracts, involve varying degrees of credit risk and are not reflected in the balance sheet of the Bank. As at 31 December 2003 and 2002, the Bank had issued outstanding guarantees totalling KZT 22,769 million and KZT 18,951 million, respectively; had outstanding open letters of credit totalling KZT 23,409 million and KZT 18,466 million, respectively; and had open forward contracts (i.e., foreign exchange, repurchase and swap transactions) totalling KZT 17,193 million and KZT 3,604 million, respectively. The Bank's maximum exposure to credit losses for guarantees and letters of credit is reflected in the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total contractual amount does not necessarily represent future cash requirements.

As at 31 December 2003, provisions for losses for contingent liabilities were KZT 1,426 million, as compared to KZT 1,790 million as at 31 December 2002.

The following table sets forth the commitments and contingent liabilities of the Bank in Tenge, by maturity, as at 31 December 2003:

| | Up to one month | One month to three months | Three months to one year | One year to five years | Over five years | Total |
|---|---|---|---|---|---|---|
| Guarantees. . . . . | 631 | 5,776 | 7,637 | 5,547 | 3,178 | 22,769 |
| Letters of credit . . . . | 4,910 | 6,119 | 11,144 | 1,105 | 131 | 23,409 |
| Forward contracts . . | 17,193 | — | — | — | — | 17,193 |

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

**Consolidation of Financial Statements**

The Bank acquired JSC Kazkommerts Policy in 2000, and its results have been consolidated since the year of acquisition. In 2002, the Bank purchased a 73.97 per cent. holding in JSC Kazkommertsbank Kyrgyzstan and its financial statements have been consolidated with the Bank's since the date of acquisition. As the Bank coordinates and exercises significant influence over the business operations of CB Moskommertsbank, that entity was consolidated beginning in 2003. In addition, as a result of the Bank's investment, JSC Kazkommerts Invest was consolidated beginning in 2003. The discussion of the results of operations for the periods presented below reflects the post-consolidation activity of these consolidated entities. The financial figures of the Bank's subsidiaries Kazkommerts Capital 2 B.V. and Kazkommerts Finance 2 B.V. are not consolidated with the Bank's financial statements as they are inactive and are not considered to be material.

**Results of Operations for the Year ended 31 December 2003 Compared to the Year ended 31 December 2002 (Reclassified)**

*The discussion below includes numbers from the Bank's reclassified 2002 consolidated financial statements. The reclassification reflects changes in accounting policies for the treatment of accrued interest on customer loans. Prior to 2003, ''Loans to customers, net'' represented only the principal amount of such loans with accrued interest being recorded in ''Other assets.'' Beginning with the 2003 consolidated financial statements, the Bank includes accrued interest in ''Loans to customers, net'' and provisions are accrued for the difference between the principal and interest accrued on such loans and the value of collateral securing these loans. The reclassification of the 2002 consolidated financial statements was done in accordance with IFRS in order to present financial information on a basis comparable to the Bank's 2003 consolidated financial statements. See ''Selected Statistical and Other Information—Non-Performing Loans and Provisioning Policy.''*

***Net income***

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

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

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

***Interest income***

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

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

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

The following table sets out the average annual interest rates payable to the Bank on loans in its portfolio for the years 2003 and 2002:

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

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

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

The Bank's loan portfolio (net) increased by 61.6 per cent., from KZT 175.3 billion in 2002 to KZT 283.1 billion in 2003. Foreign currency-denominated loans continue to dominate in the structure of the Bank's loan portfolio (75.9 per cent. of these loans are U.S. dollar-denominated). The proportion of Tenge-denominated loans decreased slightly to 21.1 per cent. of the Bank's loan

portfolio in 2003, as compared to 24.4 per cent. in 2002. In 2003, 75.9 per cent. of the Bank's average foreign currency-denominated performing loans to customers were in U.S. dollars.

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

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

***Interest expense***

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

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

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

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

| | As at 31 December | |
|---|---|---|
| | 2003 | 2002 |
| **KZT deposits:** | Per cent. | |
| Time deposits | 10.5 | 9.6 |
| Demand deposits | 0.7 | 1.1 |
| **Foreign currency deposits:** | | |
| Time deposits | 6.2 | 7.8 |
| Demand deposits | 0.8 | 1.1 |

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

***Net interest income***

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

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

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

***Provision for loan losses***

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

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

***Net non-interest income***

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

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

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

*Gains on securities.* During 2003, the Bank increased its portfolio of marketable securities and, accordingly, entered into a greater volume of securities transactions than in 2002, representing a 3.3 times increase. The Bank's net profit from the sale of marketable securities was KZT 180 million in 2003. In 2002, the Bank realised a significant amount of net income from the sale of marketable securities which it was required to sell as a result of restrictions introduced that year by the NBK on operations with Russian sovereign paper.

As a result of a decrease in interest rates on international financial markets, the current yield on securities of foreign states was less than the coupon rate of these securities during 2003. Accordingly, the majority of foreign securities purchased by the Bank in 2003 reflected a premium over book value. Amortisation of these premiums during the year led to an unrealised loss upon the Bank's re-assessment of marketable securities in the amount of KZT 498 million.

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

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

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

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

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

*Other income.* In 2003 the Bank recognised KZT 1,239 million as other income, as compared to KZT 433 million in 2002, representing an increase of 186.1 per cent. Following the consolidation of JSC Kazkommerts Policy into the Bank's financial statements, insurance premiums of JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT 335

million in 2002 to KZT 1,049 million in 2003 (representing 3.1 times growth) which the Bank believes resulted from the continuing development of the insurance market in Kazakhstan.

***Operating expenses***

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

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

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

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

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

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

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

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

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

In 2003, taxes paid by the Bank, excluding corporate income tax and VAT, increased 30.6 per cent. This increase primarily related to the payment of auction duties due upon the sale of foreclosed

assets of pledged property. Auction duties comprised KZT 103 million in 2003 of the total KZT 182 million in total taxes paid by the Bank in that year.

***Taxation***

The statutory corporate tax in Kazakhstan is 30 per cent. In 2002, the effective tax expense incurred by the Bank was 3.3 per cent., compared to an effective tax expense in 2003 of 18.6 per cent. Effective tax rates are substantially lower than the statutory rate primarily as a result of certain income (including income from trading with state securities and long-term loans) being non-taxable under Kazakhstani tax legislation. The effective tax rate in 2003 was higher than in 2002, mainly as a result of changes in Kazakhstani tax law regarding the deductibility of provisions. There are also certain differences between IFRS and Kazakhstani practices in relation to accounting for the accrual of deferred taxes arising as a result of the difference between Kazakhstani and international provisioning standards.

**Results of Operations for the Year ended 31 December 2002 (Reclassified) Compared to the Year ended 31 December 2001 (Reclassified)**

*The discussion below includes numbers from the Bank's reclassified 2002 and 2001 consolidated financial statements. The reclassification reflects changes in accounting policies for the treatment of accrued interest on customer loans. Prior to 2003, ''Loans to customers, net'' represented only the principal amount of such loans with accrued interest being recorded in ''Other assets.'' Beginning with the 2003 consolidated financial statements, the Bank includes accrued interest in ''Loans to customers, net'' and provisions are accrued for the difference between the principal and interest accrued on such loans and the value of collateral securing these loans. The reclassification of the 2002 and 2001 consolidated financial statements was done in accordance with IFRS in order to present financial information on a basis comparable to the Bank's 2003 consolidated financial statements. See ''Selected Statistical and Other Information—Non-Performing Loans and Provisioning Policy.''*

***Net income***

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

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

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

***Interest income***

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

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

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

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

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

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

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

***Interest expense***

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

| | Year ended 31 December | | |
|---|---|---|---|
| | 2002 | 2001 | Growth |
| | KZT millions | | Per cent. |
| Interest expense on customer accounts | 6.880 | 4,521 | 52.2 |
| Interest expense on loans and advances from banks | 1,940 | 2,267 | (14.4) |
| Interest expense on debt securities issued | 2,083 | 763 | 173.2 |
| Interest expense on other liabilities | 355 | 337 | 5.2 |
| Total | 11,258 | 7,888 | 42.7 |

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

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

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

Whilst the Bank, through the Issuer, repaid its U.S.$100 million 11.25 per cent. notes due 2001 in May 2001 and repaid its U.S.$30 million 10.0 per cent. domestic notes due 2001 in September 2001, the Issuer issued U.S.$200 million 10.125 per cent. notes due 2007 in 2002, comprising a U.S.$150 million tranche issued in May and a U.S.$50 million tranche issued in December. As a result, interest expense on debt securities issued increased by 173.2 per cent. from KZT 763 million in 2001 to KZT 2,083 million in 2002. See "—Asset and Liability Management—Funding and Liquidity."

The following table sets out the average cost of deposits with the Bank for the years ended 31 December 2002 and 2001:

| | Year ended 31 December | |
|---|---|---|
| | 2002 | 2001 |
| **KZT deposits:** | Per cent. | |
| Time deposits | 9.6 | 11.7 |
| Demand Deposits | 1.1 | 1.5 |
| **Foreign currency deposits:** | | |
| Time deposits | 7.8 | 8.2 |
| Demand deposits | 1.1 | 1.6 |

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

***Net interest income***

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

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

Net interest income as a percentage of average interest-earning assets fell to 7.2 per cent. in 2002 from 8.0 per cent. in 2001 as a result of decreases in interest rates. In addition, as a result of the increase in the Bank's loan portfolio, provisions for possible loan losses were increased from KZT 4,572 million in 2001 to KZT 7,342 million in 2002. As a result, adjusted net interest income as a percentage of interest-earning assets fell to 3.2 per cent. in 2002 from 4.0 per cent. in 2001.

***Provision for loan losses***

The Bank's total loan portfolio increased by 20.7 per cent. in 2002 to KZT 189,265 million from KZT 156,796 million in 2001. Reflecting this, aggregate provisions for loan losses increased in 2002 by 69.8 per cent. to KZT 7,420 million in 2002 from KZT 4,370 million in 2001.

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

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

***Net non-interest income***

In 2002, net non-interest income increased by 80.9 per cent. to KZT 11,605 million from KZT 6,413 million in 2001. This increase was primarily due to the success of a marketing campaign in 2002 which targeted cross-selling of products offered by the Bank to medium-sized clients and high net-worth individuals, thereby increasing fees and commissions earned on the sale of financial products to such clients.

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

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

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

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

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

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

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

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

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

*Other income.* Other income grew by 53.0 per cent. from KZT 283 million in 2001 to KZT 433 million in 2002. Following the acquisition of JSC Kazkommerts Policy in 2000, JSC Kazkommerts Policy was consolidated with the Bank for the year ended 31 December 2001. Following the consolidation of JSC Kazkommerts Policy into the Bank's financial statements, insurance premiums of JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT 206 million in 2001 to KZT 335 million in 2002, a 62.6 per cent. increase, resulting from the continued development of the insurance market in Kazakhstan.

***Operating expenses***

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

compared to 51.8 per cent. in 2001. Operating expenses as a percentage of average assets also improved in 2002 to 3.8 per cent. from 4.3 per cent. in 2001.

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

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

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

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

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

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

In 1999, the Government of Kazakhstan introduced a customs duty of 1.0 per cent. on the import of all physical foreign banknotes. At the end of 2000, this duty was decreased to 0.4 per cent. and it was further decreased to 0.2 per cent. in 2002. As a result, the customs duty paid by the Bank on the import of foreign banknotes fell 54.2 per cent. from KZT 195 million in 2001 to KZT 89 million in 2002.

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

***Taxation***

The statutory corporate tax in Kazakhstan is 30 per cent. In 2002, the effective tax expense incurred by the Bank was 3.3 per cent., compared to an effective tax expense in 2001 of 5 per cent. Effective tax rates are substantially lower than the statutory rate primarily as a result of certain income, including income from changes in net unrealised gain on foreign exchange operations,

Government of Kazakhstan securities trading and long-term loans, being non-taxable under Kazakhstani tax legislation. There are also certain differences between IFRS and Kazakhstani Practices in relation to accounting for the accrual of deferred taxes arising as a result of the difference between Kazakhstani and international provisioning standards. See ''Selected Statistical and Other Information—Non-Performing Loans and Provisioning Policy.''

**Financial Condition as at 31 December 2003 Compared to Financial Condition as at 31 December 2002 (Reclassified)**

***Total assets***

During 2003, the Bank's total assets increased by KZT 159.4 billion, or 58 per cent., from KZT 274.8 billion (U.S.$1.8 billion) at the end of 2002 to KZT 434.2 billion (U.S.$3 billion) at the end of 2003. This growth was primarily attributable to a 61.5 per cent. increase in the Bank's loan portfolio. The total amount of outstanding loans was KZT 283.1 billion at the end of 2003, as compared to KZT 175.2 billion at the end of 2002. Marketable securities increased by KZT 44.5 billion (U.S.$322.7 million), or 2.7 times, and, at the end of 2003, the Bank had U.S.$494.9 million in marketable securities. During 2003, the Bank actively purchased notes of foreign corporations along with securities and notes issued by the Government of Kazakhstan. Cash and balances with the NBK, the National Bank of Kyrgyzstan and with the Central Bank of Russia increased by KZT 9.1 billion, or 46.9 per cent., from the end of 2002 to the end of 2003. At the end of 2003, the total assets of the Bank included KZT 300.2 million (U.S.$2.1 million) in refined precious metals held and KZT 2.6 million of securities held as part of a reverse repurchase transaction. The development and growth of the Bank, in terms of branches and employees, resulted in a period-to-period increase in the Bank's fixed assets of KZT 2.4 million, or 70.2 per cent.

Loans and advances to banks decreased by KZT 4.9 billion, or by 11.2 per cent., as a result of the reduction of funds held in correspondent accounts with banks in the amount of KZT 7.5 billion, representing a period-to-period decrease of 68.5 per cent. Inter-bank loans increased by KZT 2.9 billion, or 8.7 per cent., from 2002 to 2003.

The Bank's average assets increased by KZT 140 billion, or 66.5 per cent., from KZT 210.7 million in 2002 to KZT 350.8 billion in 2003. This increase was primarily attributable to additional customer loans, as the average customer loan portfolio increased by KZT 38.3 billion, or 24 per cent., In addition, the Bank's portfolio of marketable securities increased by KZT 53.3 billion from the end of 2002 to the end of 2003. The Bank's average interest-bearing assets increased 72 per cent. from period to period.

***Total liabilities***

During 2003, the Bank's liabilities increased by 58.3 per cent. to KZT 384 billion from KZT 242.6 billion at the end of 2002. The increase primarily resulted from the increase of interest-bearing liabilities. Issued debt notes increased 3.2 times due to additional note issues in the amount of U.S.$500 million due 16 April 2013 at an 8.5 per cent. coupon rate. These notes were issued in two tranches—U.S.$350 million in April 2003 and U.S.$150 million in May 2003. The Bank's liabilities as at 31 December 2003 included KZT 1.7 billion in Russian promissory notes issued by CB Moskommertsbank.

Subordinated notes and Tenge-denominated notes issued by the Bank in 2003 are classified in its balance sheet as subordinated debt. As at 31 December 2003, the Bank's subordinated debt was KZT 8.7 billion (U.S.$60.6 million), representing a 44.1 per cent. increase as compared to 31 December 2002. In December 2002 the Bank had undertaken a second issue of coupon-indexed notes in the amount of KZT 7.5 billion (U.S.$50 million), due 2009, with an interest rate of 8 per cent. These notes were offered to investors in January 2003.

Advances received from banks increased by 39.4 per cent. from KZT 54.7 billion (U.S.$350.7 million) at the end of 2002 to KZT 76.2 billion (U.S.$528.5 million) at the end of 2003. In December 2003 the Bank raised a syndicated loan in the amount of U.S.$300 million. The syndicated loan was issued in two tranches—U.S.$110 million due 2005 with a coupon rate of 2.61 per cent. and U.S.$190 million due 2004 with a coupon rate of 2.22 per cent.

Customer accounts increased by KZT 10.2 billion, or by 7.2 per cent., compared to 2002. As at the end of 2003 customer accounts were KZT 151.6 billion (U.S.$1.1 billion), as compared to KZT 141.4 billion (U.S.$0.9 billion) to the end of 2002.

The volume of securities sold under repurchase transactions as at 31 December 2003 was KZT 37.3 billion. To the end of the year 2002 the Bank had no liabilities with respect to repurchase transactions.

In 2003, the average liabilities of the Bank increased to KZT 309.2 billion (representing growth in comparison with 2002 of KZT127.4 billion, or 70.1 per cent.). The Bank's average interest-bearing liabilities increased by 69.4 per cent. compared to 2002, primarily as a result of the issuance of additional debt securities (an increase in average liabilities of 4.6 times), the growth in inter-bank borrowings (by 34.5 per cent.) and an increase in customer accounts by 32.9 per cent. During 2003, average time deposits and demand deposits increased by 32.0 per cent. and 35.0 per cent., respectively.

***Equity***

As at 31 December 2003, the Bank's equity capital had increased by 42.1 per cent. to KZT 45.6 billion, as compared to KZT 32.1 billion as at 31 December 2002. In 2003, the Board of Directors of the EBRD resolved to purchase shares of the Bank and, in August 2003, the EBRD acquired 15.0 per cent. of outstanding common shares of the Bank by way of subscription for newly issued shares. Since 2003, a representative of the EBRD has had a seat on the Board of Directors of the Bank for the stated purpose of improving the Bank's corporate governance and making more transparent its decision-making process. As at the end of 2003, the financial statements of CB Moskommertsbank were consolidated with the Bank's statements as, from that date, the Bank has coordinated and exercised significant influence over the business operations of CB Moskommertsbank, which currently acts as the Bank's strategic partner in Russia. Furthermore, the Bank applied to the NBK to obtain a license to acquire CB Moskommertsbank and intends to have seats on its Board of Directors. The Bank's average equity increased by 32.2 per cent. from 2002 to 2003.

As at 31 December 2003, the Bank's equity capital was KZT 60,643 million, including Tier I capital of KZT 49,714 million. As at 31 December 2003, the Bank's Tier I capital adequacy ratio and total capital adequacy ratio, each calculated in accordance with the Basle Accord as currently in effect, were 13.5 per cent. and 16.4 per cent., respectively.

The following table sets out the Bank's normative ratios calculated in accordance with the requirements of the NBK as at 31 December 2003 and 2002:

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

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

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

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

(4) Net currency position.

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

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

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

**Asset and Liability Management**

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

The Bank's placement during 2003 of U.S.$500 million Eurobonds due 2013 resulted in an increase of debt securities as a percentage of its interest liabilities to 26.1 per cent. as at the end of

2003, as compared to 12.8 per cent. as at the end of 2002. This also positively affected the tenor of the Bank's funding.

In connection with the increase of the overall tenor of funding, the Bank follows a policy aimed at lengthening maturities of its assets in accordance with maturities of its funds raised in debt capital markets to reduce the risks related to interest rate changes. As at 31 December 2003, the Bank's cumulative interest sensitivity gap was negative for the period of up to one month at KZT 30,845 million and positive overall at KZT 33,224 million. A positive gap by maturities means that an increase in interest rates would have a positive effect on net interest income. When practicable, the Bank also seeks to link loans to their underlying funding sources through participation in the special programmes sponsored by the NBK, the Ministry of Finance of Kazakhstan and international financial institutions. The Bank also endeavours to increase and extend the maturities of its retail time deposits.

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

**Maturities**

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

The following table summarises the Bank's assets and liabilities by maturity as at 31 December 2003 and contains certain information regarding interest rate sensitivity. The table assumes that the Bank is able to trade Kazakhstani and foreign government securities on the market and therefore lists them as liquid assets rather than long-term assets according to their maturity.

| | Up to one month | One to three months | Three months to one year | One to five years | Over five years | Provisions for losses | Total |
|---|---|---|---|---|---|---|---|
| | KZT millions, unless otherwise noted | | | | | | |
| Loans and advances to banks, net | 23,064 | 11,610 | 4,189 | — | — | (414) | 38,449 |
| Dealing securities | 31,092 | 11,976 | 14,783 | 9,153 | 3,422 | — | 70,426 |
| Loans to clients, net | 23,673 | 18,849 | 86,947 | 122,369 | 39,674 | (19,069) | 272,443 |
| Securities available-for-sale | — | — | 135 | 3 | — | — | 138 |
| Securities under repurchase agreements | 2,512 | 60 | 33 | — | — | — | 2,605 |
| Securities held-to-maturity | | 27 | 5 | — | — | — | 32 |
| Total interest earning assets | 80,341 | 42,522 | 106,092 | 131,525 | 43,096 | (19,483) | 384,093 |
| Cash and balances with the NBK | 28,481 | — | — | — | — | — | 28,481 |
| Derivatives | 15 | — | — | — | — | — | 15 |
| Precious metals | 300 | — | — | — | — | — | 300 |
| Investments in associates | — | — | — | — | 146 | — | 146 |
| Fixed assets, net | | — | — | — | 5,868 | — | 5,868 |
| Intangible assets, net | | — | — | — | 436 | — | 436 |
| Accrued interest | 4,680 | 1,573 | 3,089 | 1,911 | 283 | — | 11,536 |
| Other assets | 541 | 319 | 2,023 | 504 | 10 | (31) | 3,366 |
| Total assets | 114,358 | 44,414 | 111,204 | 133,940 | 49,839 | (19,514) | 434,241 |
| **Liabilities:** | | | | | | | |
| Loans and advances from banks | 9,649 | 310 | 39,912 | 26,136 | — | — | 76,007 |
| Debt securities issued | 137 | 1,039 | 541 | 25,838 | 69,046 | — | 96,601 |
| Customer accounts | 64,184 | 19,434 | 51,903 | 12,727 | 145 | — | 148,393 |
| Other borrowed funds | | 216 | 982 | 1,624 | 633 | — | 3,455 |
| Direct repurchase | 37,216 | — | — | — | — | — | 37,216 |
| Subordinated debt | — | — | — | 4,702 | 3,978 | — | 8,680 |
| Total interest expense liabilities | 111,186 | 20,999 | 93,338 | 71,027 | 73,802 | — | 370,352 |
| Derivatives | 1 | — | — | — | — | — | 1 |
| Other liabilities | 1,707 | 145 | 1,123 | 2,944 | — | 2,483 | 8,402 |
| Accrued interest | 251 | 822 | 3,386 | 743 | — | — | 5,202 |
| Dividends payable | | 1 | — | — | — | — | 1 |
| Total liabilities | 113,145 | 21,967 | 97,847 | 74,714 | 73,802 | 2,483 | 383,958 |
| Interest rate sensitivity gap | (30,845) | 21,523 | 12,754 | 60,498 | (30,706) | | |
| Cumulative interest rate sensitivity gap | (30,845) | (9,322) | 3,432 | 63,930 | 33,224 | | |
| Cumulative interest rate sensitivity gap as a percentage of total assets (per cent.) | (7.1) | (2.2) | 0.8 | 14.7 | 7.7 | | |

| | Up to one month | One to three months | Three months to one year | One to five years | Over five years | Provisions for losses | Total |
|---|---|---|---|---|---|---|---|
| **Off-balance sheet commitments:** | KZT millions, unless otherwise noted | | | | | | |
| Payable under forward contracts | (17,193) | — | — | — | — | — | (17,193) |
| Receivable under forward contracts | 17,208 | — | — | — | — | — | 17,208 |
| Interest rate sensitivity gap | 15 | — | — | — | — | | |
| Cumulative interest sensitivity gap | 15 | 15 | 15 | 15 | 15 | | |
| Aggregated cumulative interest rate sensitivity gap, balance sheet and off-balance sheet | (30,830) | (9,307) | 3,447 | 63,945 | 33,239 | | |

**Funding and Liquidity**

As at 31 December 2003, 60.7 per cent. of the Bank's liabilities had a maturity of less than one year, whilst the percentage of its assets with a maturity of less than one year was 62.2 per cent. in 2003, the Bank believes that loans with shorter or the same maturity as corresponding funding sources provide stability and flexibility to its funding. The Bank believes that its management of its assets and liabilities allowed the Bank to maintain prudent levels of liquidity through 2003.

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

Since 1994, the Bank has been participating in a number of special programmes, arranged and sponsored through the NBK and the Ministry of Finance of Kazakhstan, as well as international financial institutions, such as the EBRD, the International Bank for Reconstruction and Development (''IBRD''), the Islamic Development Bank (IDB), Kreditanstalt für Wiederaufbau (KfW) and the Asian Development Bank (ADB).

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

In May 1998, the Bank, through the Issuer, raised U.S.$l00 million by means of three-year eurobond with an interest rate of 11.25 per cent., which were repaid in May 2001. The issue was the first eurobonds issued by a non-sovereign corporate issuer from Kazakhstan. In September 1999, the Bank issued a U.S.$30 million domestic bond, which matured in September 2001. On 22 December 2000, the Bank issued U.S.$19.8 million of subordinated notes due 2007 with an 11 per cent. coupon. The issue was mainly placed with Kazakhstani pension funds.

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

In September 2002, the Bank signed a U.S.$50 million four-year term-loan agreement with the EBRD. The loan was effectively structured as two tranches: a U.S.$30 million loan for four years provided by the EBRD and a U.S.$20 million loan syndicated with commercial banks for four years

with a prepayment option at the EBRD's demand after two years. In addition to this facility, as of 31 December 2003, the EBRD had an aggregate of U.S.$53.8 million in different loans outstanding to the Bank.

In 2002, the Bank (through the Issuer) raised U.S.$200 million through the issue of its 10.125 per cent. notes due 2007 in two tranches of U.S.$l50 million and U.S.$50 million in May and December, respectively. In 2003, the Bank (through the Issuer) also raised U.S.$500 million in two tranches of U.S.$350 million and U.S.$150 million by placing 8.5 per cent. eurobonds. The notes were issued through the Issuer. The proceeds from the issue of these notes were placed by the Issuer with the Bank as a time deposit.

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

In April 2003 the Bank signed a U.S.$45 million term loan with ING providing finance to Food Contract Corporation. The proceeds were placed by the Issuer as a deposit with the Bank.

The Bank obtained its first syndicated loan in 1997. Since then, the Bank has been active in the syndicated loan market, and the Bank has obtained and repaid a total of 12 international syndicated loan facilities.

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

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

| | As at 31 December | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | Per cent. | |
| Liquid assets as a percentage of total assets | 28.8 | 31.4 | 19.6 |
| Liquid assets as a percentage of total deposits | 82.4 | 61.0 | 34.4 |
| Liquid assets/liabilities up to one month | 110.4 | 130.6 | 63.8 |
| Loans to customers, net, as a percentage of total assets | 65.2 | 63.8 | 74.7 |
| Loans to customers, net, as a percentage of customer accounts | 186.7 | 124.0 | 130.7 |
| Loans to customers, net, as a percentage of total equity | 562.9 | 545.1 | 594.2 |

The Bank's funding base consists largely (39.5 per cent.) of demand and time customer deposits. This structure positively affects funding costs and improves the Bank's liquidity.

The Bank managed substantially to increase its retail deposit base in 2003 as compared to 2002 and, over this period, total customer accounts grew from KZT 141,372 million to KZT 151,589 million, or by 7.2 per cent. The Bank intends further to increase its domestic funding through increased time deposits, which the Bank regards as a stable and relatively cheap source of short- and medium-term funding.

The Bank seeks to increase its share of retail deposits in the domestic market, which as at 31 December comprised 51.5 per cent. by increasing its geographical coverage, expanding the range of services it offers and increasing their quality. In accordance with its retail strategy, the Bank believes that, by offering a wider range of and more sophisticated services, such as electronic banking, credit and debit cards, payroll services, payments to utilities, account management, trust services and insurance products to individuals, it will be able to attract new customers and improve its ability to cross-sell products. See "Description of Business—Banking Services—Retail Banking."

**Foreign Currency Management**

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

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

| | As at 31 December | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | Per cent. | |
| Net long (short) position (millions of U.S. dollars) . . . . . | (65.6) | (1.2) | 67.1 |
| As a percentage of shareholders' equity (per cent.) . . . . . | (15.6) | (0.6) | 41.3 |
| As a percentage of total liabilities (per cent.) . . . . . | (2.5) | (0.1) | 7.4 |

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

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

**Treasury Operations**

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

As at the end of 2003, the size of the Bank's average trading portfolio increased by 235 per cent. to KZT 71,201 million, as compared to KZT 21,279 million in 2002. This increase was mainly due to temporary excess liquidity in the second half of 2003. The majority of the securities trading portfolio consists of highly liquid instruments of international and of the most established Kazakhstani issuers as well as Kazakhstani government paper.

# DESCRIPTION OF BUSINESS

Established in 1990, the Bank is the largest private, full-service bank in Kazakhstan, measured by total assets as at 31 December 2003, providing corporate banking, retail banking and other financial services. As at and for the year ended 31 December 2003, the Bank had net income of KZT 8,761 million (U.S.$58.6 million), total assets of KZT 434,241 million (U.S.$3,011 million) and shareholders' equity of KZT 45,579 million (U.S.$316 million).

The Bank's principal activities traditionally have been the acceptance of deposits and the provision of loan and credit facilities in Tenge and foreign currencies. It also offers a wide-range of current account-related services, such as direct debit payments, and also retail (banking) loans. As at 31 December 2003, in addition to its head office, the Bank had 22 full-service branches throughout Kazakhstan, 67 settlement outlets and six dedicated retail outlets, although the Bank intends to reduce the number of settlement outlets as part of an ongoing rationalisation programme. The Bank also has a foreign representative office in London and a foreign subsidiary bank in Kyrgyzstan. As at 31 December 2003, it had total customer retail deposits of U.S.$530 million, a significant increase from the approximately U.S.$23 million in retail deposits held by the Bank at the end of 1999, and the Bank believes that it currently has the largest deposit base amongst Kazakhstani banks. From the end of 1999, the Bank's gross consumer loans have grown from approximately U.S.$10 million to approximately U.S.$165 million as at 31 December 2003.

The Bank issues both VISA and Europay/MasterCard credit cards and its debit and credit cards provide access to the Cirrus/Maestro system. As at 31 December 2003, the Bank had 249,015 cards in issue. The Bank is also an authorised agent for distribution of American Express and Diners Club cards and was the first bank in Kazakhstan to issue to its customers smart cards, which incorporate a chip as well as a magnetic strip for security, in 2001.

The Bank has an established ATM network, and, as at 31 December 2003, it operated 230 ATMs and 806 point-of-sale terminals. In addition, customers of the Bank can use the ATM networks of other Kazakhstani banks for a small fee payable in connection with each withdrawal, which means that customers of the Bank have access to an even larger network of ATMs throughout Kazakhstan. The Bank was also the first local bank to offer telephone banking and internet banking services to its customers.

Through its commercial banking business, the Bank provides products and services to predominantly medium- and large-sized Kazakhstani and international corporations operating in Kazakhstan, including trade and structured finance products, project finance, e-banking and asset management services, as well as short-term credit facilities and other general banking services. Consistent with the Bank's policy of maintaining high levels of liquidity, it typically provides loans with an average maturity of up to 18 months for its corporate clients, and provides long-term financing in accordance with current funding sources. The Bank also arranges syndicated loans to top corporate clients in Kazakhstan with foreign banks. In addition, the Bank also provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 31 December 2003, the Bank's total gross loan portfolio amounted to KZT 302,132 million (U.S.$2.1 billion).

In addition to banking, the Bank offers other financial services. It is a major participant in the securities markets and the foreign currency markets in Kazakhstan and a major provider of cash management services to corporations, including payroll services. The Bank is authorised to engage in other activities, including the sale, purchase and safekeeping of precious metals, including gold and silver, under the Bank's general banking license. In 2001, the Bank began to offer trust services to its corporate and retail clients, which mostly relate to trust management over cash and assets.

**Strategy**

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

- *Increase its geographic presence*. The Bank seeks to increase its geographic presence, principally by expanding into other CIS countries. In September 2002, the Bank acquired a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan, a bank with offices in Bishkek and Osh, and, in conjunction with the EBRD, the Bank provides financings for

small- and medium-sized enterprises in Kyrgyzstan. The Bank has operating control over, consolidates for financial reporting purposes and intends to purchase a controlling shareholding in, CB Moskommertsbank, a small Russian bank based in Moscow with which it currently has a strategic alliance. The Bank believes that expansion into other countries within the region will enable it to better serve clients active in those countries and to attract larger, corporate clients with regional operations.

- *Expansion of Banking Services*. The Bank will also focus on expanding its corporate and retail banking services:
  - Corporate banking services. The Bank intends to expand its corporate client base and improve the quality of its loan portfolio. In addition, it will seek to proportionately increase its lending to companies in the oil and gas, food processing, construction, telecommunication, mining and metallurgy and other sectors identified by the Bank as sectors with the potential for growth. In order to diversify its portfolio, the Bank will seek to increase its lending to small- and medium-sized enterprises. To assist its risk assessment of various sectors, the Bank has established a market research group.
  - Retail banking services. The Bank will continue to seek to increase its retail banking business by targeting middle-income and high net worth individuals, a market segment the Bank believes continues to be underserved by its retail competitors. The Bank intends to attract and retain these clients by providing up-to-date products, such as money transfer payment services, direct debit payments, currency exchange facilities and a reliable ATM network, as well as a high level of personal customer service. The Bank believes that, by serving these more affluent clients, it is better able to sell higher-margin products and improve its cross-selling of non-banking products, such as insurance and pension products.
- *Improvement of management information systems and operating efficiencies*. The Bank has been working to improve operating efficiencies through organisational restructuring and investments in human resources and information technology. As part of this strategy, the Bank hired officers experienced in working with international banks and companies. In 2002 the Bank fully implemented its unified information system, connecting all of its branches on a real-time basis. The Bank intends to continue to introduce more advanced information systems in the future, including a customer relationship management system based on CRM Siebel, a call centre system, an Oracle-based system for re-engineering business processes and internet banking systems.
- *Improvement of funding base*. The Bank intends to increase its capital markets funding, including subordinated and senior debt issues, asset securitisation programmes, co-operating with multilateral financial institutions and foreign export credit agencies and by increasing its market share in term deposits from corporate and, in particular, retail clients. The Bank also plans to undertake an international equity offering in the future. In doing so, the Bank will seek to diversify its funding sources, lower its overall funding costs and increase tenors to support its anticipated asset growth.
- *Expand into other financial services markets*. The infrastructure, including the legal framework, of the Kazakhstani securities market is still developing. To capitalise on expected opportunities in this market, the Bank is taking steps to further its expertise and position itself through, amongst other things, the operations of its subsidiaries such as JSC Kazkommerts Securities and JSC Kazkommerts Policy, which provides insurance services.

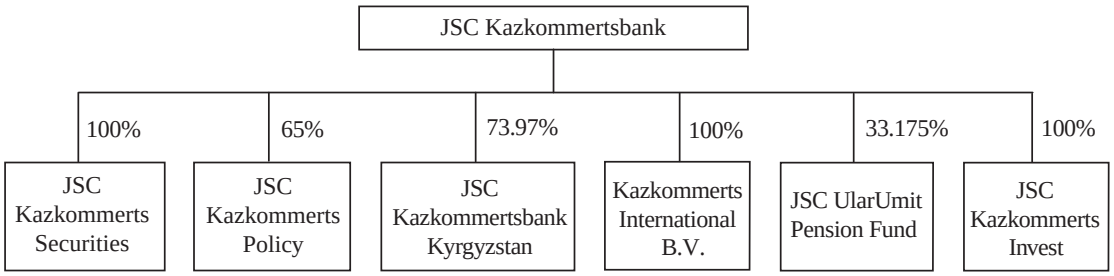
**History**

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

In April 1994, the Bank merged with Astana Holding Bank (''Astana Holding''), a commercial bank incorporated in Kazakhstan and, the same year, a management buy-out of the Bank was consummated. In June 2003, the EBRD entered into an agreement on equity participation with the Bank and subsequently purchased 15.0 per cent. of the outstanding common shares of the Bank. The Bank has a representative office in London and, since September 2002, a majority holding in JSC Kazkommertsbank Kyrgyzstan, a Kyrgyzstan bank.

**Corporate Structure**

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




The Bank's principal subsidiaries and entities over which it exercises management control are:

- *JSC Kazkommerts Securities*. Kazkommerts Securities, a wholly-owned, consolidated subsidiary of the Bank, was established to provide investment services both to foreign and domestic clients and to participate in privatisation projects and other transactions. The company is engaged in investment banking operations and is one of the major underwriters of corporate domestic bonds in Kazakhstan. Although the securities market in Kazakhstan is relatively small, the Bank believes that the establishment of this business will enable it to take advantage of the expected growth in this market as the country develops.
- *JSC Kazkommerts Policy*. Kazkommerts Policy is a leading insurance company in Kazakhstan acquired by the Bank in 2000. Kazkommerts Policy primarily underwrites property and casualty insurance policies for retail and commercial clients. The Bank seeks to cross-sell products of Kazkommerts Policy to its existing banking customers. The Bank currently holds 65 per cent. of the equity of Kazkommerts Policy.
- *JSC Kazkommertsbank Kyrgyzstan*. Kazkommertsbank Kyrgyzstan is a commercial bank with branches in Bishkek and Osh. The Bank currently holds 73.97 per cent. of the equity of Kazkommertsbank Kyrgyzstan.
- *JSC Kazkommerts Invest*. Kazkommerts Invest was established as a wholly owned subsidiary in July 2003 to engage in a wide-range of investment and advisory services. This subsidiary has been consolidated in the accounts of the Bank for the financial year ended 31 December 2003. The Bank believes that the provision of investment advisory services helps it to develop relationships with companies and to strengthen its relationship with existing clients.
- *CB Moskommertsbank*. The Bank holds an exclusive right to acquire the shares of CB Moskommertsbank. In 2002 the Bank signed a partnership agreement with the predecessor of CB Moskommertsbank's majority shareholder pursuant to which the Bank controls CB Moskommertsbank's operations. CB Moskommertsbank assists the Bank by introducing customers in Russia to whom the Bank provides services. It currently has no license for retail operations.
- *JSC UlarUmit Pension Fund*. The Bank owns a minority shareholding in the UlarUmit Pension Fund, which the Bank believes is the second-largest private pension fund in Kazakhstan, measured by managed assets. The Bank believes that its ownership in this fund presents additional cross-selling opportunities.

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

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

**Banking Services**

***Corporate banking***

The Bank provides commercial banking products and services to predominantly medium- and large-sized Kazakhstani and international corporations and multinational corporations operating in Kazakhstan. In 2001, the Bank developed a new method of classifying its corporate clients based on their annual volume of sales. Corporate clients with sales of U.S.$2.5 million or less are classified as ''small-sized,'' corporate clients with sales of between U.S.$2.5 million and U.S.$9 million as ''medium-sized'' and corporate clients with sales of over U.S.$9 million as ''large-sized.'' The principal services offered to corporate clients include trade and structured finance products, project finance, e-banking, asset management and short-term credit facilities denominated in Tenge and foreign currencies, predominantly U.S. dollars and euro, as well as other general banking services. The Bank typically provides loans with an average maturity of up to 18 months for corporate clients, and provides long-term financing in accordance with current funding sources ensuring that such loans allow early prepayment or interest rate adjustment. The Bank also arranges syndicated loans to large corporate clients in Kazakhstan with foreign banks.

The Bank's primary objective with respect to its lending activities is to diversify into different sectors of the economy in order to reduce its exposure to particular industries, which the Bank believes will enhance the quality of its loan portfolio. The main sectors served by the Bank are trade (which increased from KZT 33,289 million in 2002 to KZT 55,661 million in 2003 and comprised 18.4 per cent. of the Bank's total loan portfolio as at the end of 2003) and energy (which increased from KZT 46,190 million in 2002 to KZT 47,506 million in 2003 and comprised 15.7 per cent. of the Bank's loan portfolio as of the end of 2003). The Bank also increased its exposure to construction to 11.4 per cent. of its loan portfolio in 2003, compared to 7.3 per cent. in 2002, in each case before provisions. The Bank continues to seek to expand its market share in relation to medium-size borrowers, which it considers as having high growth potential. The Bank believes that these sectors have stronger growth prospects and involve a lower credit risk than other sectors included in its current loan portfolio. The Bank has a market research group within its Risk Management Department that performs sectoral risk assessments and actively pursues opportunities in targeted industries. The Marketing Department of the Bank is involved in market evaluation, monitoring product development and product marketing.

In addition, the Bank provides financing to large corporate clients in the neighbouring countries of Russia and Kyrgyzstan. As at 31 December 2003, the Bank's exposure, through CB Moskommertsbank and JSC Kazkommertsbank Kyrgyzstan, to Russian and Kyrgyzstani corporate clients as a percentage of its total gross loan portfolio, guarantees and letters of credit was 2.9 per cent. and 0.3 per cent., respectively.

In December 2003, the Bank received a license from the Central Bank of Cyprus allowing to open a branch in Cyprus. To date, the branch has no office or employees and has not yet commenced operations.

***Retail banking***

The Bank offers its retail customers traditional deposit accounts. In addition, the Bank offers lending products which are primarily mortgages relating to properties within Kazakhstan's largest

cities. Lending tends to be concentrated in these areas because their more established property markets make valuation easier. The Bank also provides other lending products to its retail customers, particularly automobile loans and personal loans for customers who meet certain income levels and other requirements. The Bank has six retail branches in Almaty, Astana, Atyrau and Karaganda. New branches will be introduced over a period of time and will primarily be in regions which the Bank believes have a high growth potential. In the longer term, the Bank expects that this strategy will increase its retail deposits and enhance cross-selling opportunities relating to insurance and pension products.

In 2003, the Bank continued its retail market strategy in developing a retail branch network in Kazakhstan. The network includes a "VIP Centre" targeting high net worth individuals, which the Bank defines as clients maintaining deposits of at least U.S.$50,000, holding secured loans of more than U.S.$100,000 or holding a gold-status credit card with turnover of more than U.S.$3,000 per month. The Bank is also targeting middle-income clients maintaining deposits of between U.S.1,000 to U.S.$50,000. Separate branches of the Bank serve mass retail customers; however, the Bank does not currently open new accounts for deposits of less than U.S.$500. As at 31 December 2003, approximately 53.2 per cent. of the Bank's deposits were attributable to high net worth individuals and approximately 44.0 per cent. of deposits were attributable to middle-income clients.

In 2003, the Bank continued its policy of cross-selling products to attract new customers. Payment cards are offered as supplementary services to all customers, in particular, Europay International and VISA credit cards, as well as Cirrus, Maestro and VISA Electronic debit cards. As at 31 December 2003, 249,015 credit and debit cards (of which approximately 40,000 were credit cards) had been issued, representing an increase of more than 35,000 cards as compared to the number issued as at 31 December 2002. AIG, a leading international insurance company, provides insurance services to the Bank's card holders in Kazakhstan and abroad. Although credit cards are not as heavily used in Kazakhstan as in some other countries, the Bank believes this market will continue to grow.

As at 31 December 2003, the Bank operated 230 ATMs in cities throughout Kazakhstan, and it intends to add 75 more ATMs in 2004. The Bank believes that its network is the second-largest in Kazakhstan. The Bank seeks to attract customers to its ATM network by locating machines in densely populated areas around cities and by maintaining a high proportion of operating machines. Accordingly, the Bank has a policy of operating ATMs only in areas which are accessible for maintenance on a 24-hour basis and it believes that, relative to competitors, it maintains a high ratio of machines to issued ATM cards to help ensure good service and available funds. The Bank charges fees for each ATM withdrawal, including on transactions by its accountholders. The Bank seeks to recoup the initial cost of its ATM machines within three years of installation, which the Bank believes is a relatively aggressive pay-back period.

In addition, the Bank operates 806 point of sale terminals, located at various retail stores, through which the stores' customers can pay for their purchases using bank cards.

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

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

***Other banking and financial services***

The Bank is authorised to engage in other transactions, including the sale, purchase and safekeeping of precious metals, including gold and silver, under the Bank's general banking license. In 2001, the Bank began to offer trust services to its corporate and retail clients, which mostly relate to trust management over cash and assets.

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

**Branch Operations and Technology**

***Branch operations***

As at 31 December 2003, the Bank's branch network comprised, in addition to its head office, of 22 branches in the main industrial cities of Kazakhstan, including Astana, Zhezkazgan, Ust-Kamenogorsk, Pavlodar and Karaganda. In connection with its plans to expand its network of branches and provide a full-range of services to its retail customers, the Bank intends to open six more branches in 2004 and to continue to convert its existing retail branches into full-service branches.

Apart from six retail-only branches, all branches provide both retail and corporate banking services. The operations of each branch are subject to internal regulations and to oversight by the Bank's head office. Each branch has limits on its lending authority and the branch directors and loan officers report regularly to the Bank's credit committee at the head office. All branches also undergo an annual internal audit. See "Selected Statistical and Other Information—Lending Policies and Procedures." The coordination and planning of the operations of the branches and internal controls are conducted by the Branch Banking Department, which monitors the operations and financial results of the branches and is responsible for the development of the regional policies and expansion strategies of the Bank.

In addition to the branch network, the Bank has settlement outlets in towns and villages near to cities in which branches operate. As at 31 December 2003, the Bank had 67 settlement outlets in Kazakhstan and six retail-only branches. To support the Bank's international activities, two representative offices were opened in London and in Bishkek, Kyrgyzstan in 1999. In addition, the Bank purchased a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan in September 2002, following which it closed its representative office in Bishkek.

The Bank has implemented an organisational restructuring programme at its head office and throughout its branch network, which is intended to increase operational efficiency and reduce over-staffing within the Bank. As part of this programme, the Bank expects to close 20 of its settlement outlets in 2004. Staffing guidelines and quotas under the programme and a new human resources management policy are being developed to improve the quality of the Bank's personnel. The Bank also holds internal and external training and staff rotation programmes designed to improve the skill base and cross-selling ability of employees. The Bank expects that these measures, combined with its Equation DBA information system which was activated in 2002, will assist it in expanding certain corporate and consumer banking products, such as credit cards, debit cards and the ATM network in some regions, which have historically suffered from a lack of sufficiently qualified staff and an insufficient computer network infrastructure.

***Security***

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

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

***Technology***

In 2002, the Bank introduced Equation DBA, a centralised, integrated banking information system of western standard, which connects the head office and branches, to service its corporate and retail banking operations. The Bank switched to full on-line utilisation of Equation DBA by the head office as well as all branches and settlement outlets by the end of 2002. The Bank believes that its full

introduction of the Equation DBA System has significantly improved the scope and efficiency of its information system with respect to risk management in treasury operations, assets and liabilities management and the management of loan transactions and liquidity, as well as financial reports prepared in accordance with IFRS.

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

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

The Bank is currently studying ways to automate its risk management systems and provide real-time monitoring of its risk exposures. The Bank may implement such an automated risk management software systems in the future as its business expands.

**Properties**

The Bank owns or leases premises in Kazakhstan where its head office, branches and settlement outlets and other facilities are located. In particular, the Bank owns an office building, with a total area of approximately 10,460 square meters, located at ul. Gagarin 135 "zh," Almaty. As at 31 December 2003, this building had a total book value of KZT 950.5 million and a net book value of KZT 890.0 million. In addition, the Bank owns or leases office premises, branches and settlements outlets, foreign exchange bureaus, ATMs, residential apartments, garages, warehouses and other facilities in Almaty and in 20 other cities and towns within Kazakhstan. The Bank owns the majority of these properties and leases the remaining sites. The Bank typically leases property for terms of between six months and seven years. As at 31 December 2003, the total net book value of the Bank's owned and leased premises, including its head office in Almaty, was KZT 2.2 billion and KZT 161.2 million, respectively.

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

**Competition**

The Bank believes that competition in its target markets is primarily driven by brand identity and quality of customer service. Although the Bank believes that it is well positioned to compete in the Kazakhstani banking sector, being the largest bank in Kazakhstan, based on total assets, and having a relatively low cost deposit base and diversified client base, the Bank faces competition from a number of existing participants in the banking sector in Kazakhstan. As at 31 December 2003, there were a total of 36 banks, excluding the NBK, operating in Kazakhstan. These can be divided into four groups: large local banks, including the Bank, Halyk Savings Bank and Bank TuranAlem; state-owned banks, including Eximbank Kazakhstan, Zhylstroysberbank and the Development Bank of Kazakhstan; banks with foreign ownership, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan; and smaller local banks.

Bank TuranAlem is considered by the Bank to be a major competitor. Bank TuranAlem resulted from a merger initiated by the Government of Kazakhstan between two state-owned banks, Turan Bank and Alem Bank, in April 1997. The State's interest in TuranAlem was sold by auction in March 1998 for U.S.$72 million to a group of Kazakhstani investors. As at 31 December 2003, TuranAlem was the second-largest private bank by assets and the third-largest in terms of equity in Kazakhstan after the Bank and the Development Bank of Kazakhstan ("DBK"). It had the second-largest market share of deposits.

The extensive branch network of the formerly state-owned Halyk Savings Bank of Kazakhstan, also known as People's Savings Bank or HSBK, makes it one of the Bank's major competitors with respect to retail banking. As of 31 December 2003, it was the third-largest deposit taker after the Bank and Bank TuranAlem. HSBK is also the leading participant in the primary domestic securities market. In November 2001, the Government of Kazakhstan sold its remaining one-third interest in HSBK bank to domestic investors.

In 2001, the Government of Kazakhstan established DBK to provide longer-term financing for projects within Kazakhstan. DBK was established with a charter capital of U.S.$200 million and was the largest bank in Kazakhstan in terms of equity until August 2003. Other than within the commercial banking sector, DBK is not considered to be a competitor of the Bank as it is not licensed to accept corporate or retail deposit or to provide corporate settlement services. The Bank plans to co-finance certain projects within the commercial banking sector with DBK.

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

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

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

**Employees**

As at 31 December 2003, the Bank had 3,044 full-time employees, of which approximately 2,263 were employed in its branches. The number of full-time employees as at 31 December 2002 and 2001 was 2,850 and 2,392, respectively.

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

**Litigation**

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

# INDUSTRY OVERVIEW

## 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. See "Annex A—Republic of Kazakhstan." In addition, the Government of Kazakhstan and the NBK have undertaken structural reforms in the banking sector aimed at promoting consolidation and improving the overall viability of the system.

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

## The National Bank of Kazakhstan

The NBK is the central bank of Kazakhstan. The NBK is an independent institution, but is subordinate to the President of Kazakhstan. The principal task of the NBK is to ensure the external and internal stability of the national currency in Kazakhstan. The NBK is also empowered to develop and conduct monetary policy, organise banking settlements and the foreign exchange system, with a view to the integration of Kazakhstan into the international economy, and ensure the stability of the financial system.

## Commercial Banks

As at 31 December 2003, there were 36 banks in Kazakhstan, excluding the NBK. Commercial banks operating in Kazakhstan can be divided into four groups: large local banks including the Bank, Halyk Savings Bank and Bank TuranAlem; state-owned banks, including Eximbank Kazakhstan, Zhylstroysberbank and the Development Bank of Kazakhstan; banks with foreign ownership, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC; and smaller local banks. The banking industry has been consolidating in recent years and the current number of banks operating in Kazakhstan represents a significant reduction from 210 banks in mid-1993. This decrease was largely a result of the NKB's stringent policy towards increased capitalisation and liquidity of the banking system. This general reduction in the number of banks has largely been at the expense of small- and medium-sized banks. However, in October 1996, Kramds Bank, the fifth-largest bank in Kazakhstan in terms of assets, was liquidated by a decision of the NBK due to its violation of prudential regulations, liabilities in excess of assets and an inability to meet its obligations.

For a foreign bank to establish a subsidiary or joint venture where it has more than a 50 per cent. interest, the foreign bank must initially maintain a representative office in Kazakhstan for at least one year. A number of foreign banks have opened representative offices in Kazakhstan, including Deutsche Bank AG, Dresdner Bank AG, Commerzbank AG, ING Bank, Société Générale, American Express Bank Ltd. and Bankgesellschaft Berlin. Whilst 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 have already become its main competitors in the corporate banking sector. Foreign banks also bring international experience in servicing customers and target the best corporate customers of Kazakhstani banks, as well as foreign companies.

## Industry Trends

In 2003, the Kazakhstani banking sector was developing stably, and its main indicators displayed positive dynamics. According to the NBK, the total capital of second-tier Kazakhstani banks increased 44.9 per cent. in 2003 and, as at 1 January 2004, totalled approximately U.S.$1.6 billion. During such period, the total assets of second-tier banks increased by 46.6 per cent. and, as at 1 January 2004, was approximately U.S.$11.6 billion. In 2003, the aggregate liabilities of such banks increased by 47.7 per cent. and totalled U.S.$10.3 billion as at 1 January 2004, whereas the aggregate net income of Kazakhstani second-tier banks increased 46.1 per cent. The share of the total assets of the second-tier banks in Kazakhstan's GDP as at 1 January 2004 amounted to 37.7 per cent., as compared to 30.6 per cent. during the comparable period in 2002.

# SELECTED STATISTICAL AND OTHER INFORMATION

*Unless otherwise noted, the information included in this section is derived from the average daily balances shown in the Bank's accounting records.*

**Average Balances**

The following table sets out the Bank's average balance sheets based upon: for the year ended 31 December 2002, the average of the daily balances of the Bank; for the year ended 31 December 2003, the average of the daily balances of the Bank and the average of the balances of Kazkommertsbank Kyrgyzstan and CB Moskommertsbank.

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | Average Balance | Average Interest Rate | Average Balance | Average Interest Rate |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| **Assets** | | | | |
| Loans to and deposits with other banks, net | 47,320 | 3.2 | 9,194 | 3.3 |
| **Loans to and deposits with other banks** | 47,628 | 3.1 | 9,426 | 3.2 |
| Tenge | 2,822 | 4.1 | 568 | 5.2 |
| Foreign currency | 44,806 | 3.1 | 8,858 | 3.1 |
| **Provisions** | (308) | | (232) | |
| Tenge | (6) | | (23) | |
| Foreign currency | (302) | | (209) | |
| **Correspondent account with NBK** | 3,122 | | 2,723 | |
| Tenge | 3,059 | | 2,674 | |
| Foreign currency | 63 | | 49 | |
| **Marketable securities** | 66,169 | 5.8 | 12,855 | 8.6 |
| Tenge | 31,454 | 5.1 | 2,880 | 6.2 |
| Foreign currency | 34,715 | 6.4 | 9,975 | 9.3 |
| **Loans to customers, net** | 197,709 | 15.0 | 159,439 | 14.5 |
| **Performing loans** | 205,881 | 14.4 | 165,599 | 13.9 |
| Tenge | 43,343 | 14.9 | 38,059 | 13.7 |
| Foreign currency | 162,538 | 14.3 | 127,540 | 14.0 |
| **Non-performing loans** | 4,394 | | 4,213 | |
| Tenge | 1,419 | | 670 | |
| Foreign currency | 2,975 | | 3,543 | |
| **Loan loss reserves** | (12,566) | | (10,373) | |
| Tenge | (3,689) | | (3,935) | |
| Foreign currency | (8,877) | | (6,438) | |
| **Cash** | 8,204 | | 6,430 | |
| Tenge | 3,579 | | 2,793 | |
| Foreign currency | 4,625 | | 3,637 | |
| **Correspondent accounts with other banks** | 5,882 | 0.5 | 2,842 | 1.6 |
| Tenge | 196 | — | 129 | — |
| Foreign currency | 5,686 | 0.6 | 2,713 | 1.7 |
| **Fixed and intangible assets, net** | 5,513 | | 3,614 | |
| Tenge | 5,367 | | 3,614 | |
| Foreign currency | 146 | | — | |
| **Investments** | 3,221 | | 2,731 | |
| Tenge | 3,000 | | 2,731 | |
| Foreign currency | 221 | | — | |
| **Other assets** | 13,614 | | 10,894 | |
| Tenge | 4,230 | | 6,865 | |
| Foreign currency | 9,384 | | 4,029 | |
| **Total** | 350,754 | 10.0 | 210,722 | 11.6 |
| Tenge | 94,774 | 8.6 | 57,024 | 9.5 |
| Foreign currency | 255,980 | 10.5 | 153,698 | 12.4 |

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | Average Balance | Average Interest Rate | Average Balance | Average Interest Rate |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| **Liabilities and shareholders' equity** | | | | |
| **Demand deposits** | 43,711 | 0.7 | 32,387 | 1.1 |
| Tenge | 23,566 | 0.7 | 17,173 | 1.1 |
| Foreign currency | 20,145 | 0.8 | 15,214 | 1.1 |
| **Time deposits** | 106,948 | 7.0 | 81,007 | 8.1 |
| Tenge | 18,234 | 10.5 | 12,041 | 9.6 |
| Foreign currency | 88,714 | 6.2 | 68,966 | 7.8 |
| **Correspondent accounts of other banks** | 1,656 | 1.8 | 674 | 1.6 |
| Tenge | 391 | 1.4 | 266 | 1.4 |
| Foreign currency | 1,265 | 1.9 | 408 | 1.8 |
| **Short-term interbank borrowings** | 9,021 | 2.6 | 3,844 | 7.0 |
| Tenge | 499 | 4.2 | 1,325 | 11.5 |
| Foreign currency | 8,522 | 2.5 | 2,519 | 4.6 |
| **Long-term borrowings** | 39,779 | 4.3 | 30,357 | 7.0 |
| Tenge | 52 | 9.7 | — | — |
| Foreign currency | 39,727 | 4.3 | 30,357 | 7.0 |
| **Other borrowed funds** | 4,238 | 7.1 | 5,221 | 6.8 |
| Tenge | 254 | 0.9 | 192 | — |
| Foreign Currency | 3,984 | 7.5 | 5,029 | 7.0 |
| **Debt securities issued** | 86,061 | 10.0 | 18,546 | 8.8 |
| Tenge | — | — | — | — |
| Foreign currency | 86,061 | 10.0 | 18,546 | 8.8 |
| **Other liabilities:** | 17,794 | — | 9,788 | — |
| Tenge | 3,601 | — | 3,581 | — |
| Foreign currency | 14,193 | — | 6,207 | — |
| **Total liabilities** | 309,208 | 6.0 | 181,824 | 6.2 |
| Tenge | 46,597 | 4.5 | 34,579 | 4.3 |
| Foreign currency | 262,611 | 6.3 | 147,245 | 6.6 |
| **Shareholders' equity and reserves** | 38,212 | — | 28,898 | — |
| Tenge | 38,212 | — | 28,898 | — |
| Foreign currency | 0 | — | — | — |
| **Minority Interest** | 3,334 | | | |
| Tenge | 0 | | | |
| Foreign currency | 3,334 | | | |
| **Total** | 350,754 | 5.3 | 210,722 | 5.3 |
| Tenge | 84,809 | 2.5 | 63,477 | 2.3 |
| Foreign currency | 265,945 | 6.2 | 147,245 | 6.6 |
| **Average Exchange Rate KZT/U.S.$** | 149.54 | | 153.41 | |

**Assets**

The total assets of the Bank were KZT 434,241 million as at 31 December 2003, reflecting an increase of 58.0 per cent. compared to 31 December 2002. The following table sets out the major asset groups of the Bank as at the indicated dates:

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| **Trading and investment portfolio:** | | | | |
| Tenge | 29,430 | 6.8 | 14,601 | 5.3 |
| Foreign currency | 42,087 | 9.7 | 12,520 | 4.6 |
| Total | 71,517 | 16.5 | 27,121 | 9.9 |
| **Cash and correspondent accounts with national (central) banks:** | | | | |
| Tenge | 22,315 | 5.1 | 8,613 | 3.1 |
| Foreign currency | 6,470 | 1.5 | 10,782 | 3.9 |
| Total | 28,785 | 6.6 | 19,395 | 7.0 |
| **Loans and advances to banks:** | | | | |
| Tenge | 1,790 | 0.4 | 122 | — |
| Foreign currency | 37,208 | 8.6 | 43,499 | 15.8 |
| Reserves for loan losses | (415) | (0.1) | (170) | (0.1) |
| Total | 38,583 | 8.9 | 43,451 | 15.7 |
| **Repurchase transactions:** | | | | |
| Tenge | 587 | 0.1 | 2,313 | 0.8 |
| Foreign currency | 2,021 | 0.5 | — | — |
| Reserves for losses | — | — | (46) | — |
| Total | 2,608 | 0.6 | 2,267 | 0.8 |
| **Loans and advances to customers:** | | | | |
| Tenge | 63,548 | 14.6 | 46,217 | 16.8 |
| Foreign currency | 238,584 | 55.0 | 143,048 | 52.1 |
| Reserves for loan losses | (19,069) | (4.4) | (14,016) | (5.1) |
| Total | 283,063 | 65.2 | 175,249 | 63.8 |
| **Other assets** | 9,685 | 2.2 | 7,278 | 2.6 |

In 2003 the Bank's securities and investments portfolio, as a percentage of its total assets, increased 6.6 per cent., from 9.9 per cent. in 2002 to 16.5 per cent. in 2003, and in 2003 there was a 6.9 per cent. decrease in loans and advances to banks from 15.8 per cent. in 2002 to 8.9 per cent. in 2003. Other items were not significantly changed year-on-year. The main item of the Bank's assets remains "Loans to customers," which, as a percentage of total assets, totalled 63.8 per cent. and 65.2 per cent. in 2002 and 2003, respectively (at the same time, average balance sheet loans decreased significantly to 56.4 per cent. in 2003 from 75.7 per cent. in 2002). Cash and balances with the NBK and the National bank of Kyrgyzstan, as well as with the Central Bank of the Russian Federation were 7.1 per cent. and 6.6 per cent. of total assets in 2002 and 2003, respectively. Due to significant growth of liquid assets in 2003, the liquidity ratio, calculated according to the NBK financial

reporting requirements, was 0.91 as at 31 December 2003, which was well above NBK's minimum requirement of 0.30.

The following table indicates the average net interest income, yield, margin and spread for the years ended 31 December 2003, 2002 and 2001.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2001 | 2002 | 2003 |
| | U.S. dollars millions, except percentages | | |
| Average interest-earning assets | 848 | 1,202 | 2,120 |
| Interest income | 122 | 160 | 235 |
| Net interest income | 68 | 86 | 110 |
| Yield (per cent.) | 14.4 | 13.3 | 11.1 |
| Margin (per cent.) | 8.0 | 7.2 | 5.2 |
| Spread (per cent.) | 6.8 | 6.3 | 4.7 |

**Trading and Investment Portfolio**

The size of the Bank's securities portfolio grew 2.7 times with respect to the previous year, and amounted to KZT 71.4 billion as at the end of 2003 compared to KZT 26.8 billion as at the end of 2002. Growth was mainly in the Bank's trading portfolio, which increased 3.3 times, or KZT 49.9 billion. This increase was primarily attributable to increased yields on new issues of Kazakhstani Treasury Bills, starting from 2002, in excess of the yield on interbank placements. Thus, as at 31 December 2003, the Bank's trading portfolio of NBK notes increased to U.S.$157.4 million from U.S.$37.7 million as at the end of 2002 (representing 4.2 times growth). The portfolio of Treasury Bills of the Ministry of Finance of the Republic of Kazakhstan increased to U.S.$42 million from U.S.$15.5 million as at the end of 2002 (representing 2.7 times growth); eurobonds issued by the Ministry of Finance of the Republic of Kazakhstan increased by 17 per cent. to U.S.$44.4 million. The Bank continued to invest in securities of prime Kazakhstani companies and Kazakhstani municipal bonds. Thus, the portfolio of corporate and municipal bonds increased by 71.3 per cent. to U.S.$68.5 million, as compared to U.S.$40.0 million as at the end of 2002. In 2003, the Bank began to actively participate in the international stock market and acquired foreign government securities as well as corporate bonds. The portfolio of securities available-for-sale decreased by 97 per cent. as a result of the sale, in 2003, of the shares of ABN AMRO Bank Kazakhstan and Air Kazakhstan for U.S.$20 million and U.S.$15.3 million, respectively.

The following table shows the composition of securities held by the Bank and its investments in associated companies as at the indicated dates:

| | As at 31 December | |
|---|---|---|
| | 2003 | 2002 |
| | KZT millions | |
| Securities | 71,371 | 26,835 |
| Marketable securities | 71,201 | 21,279 |
| Securities available-for-sale | 138 | 5,539 |
| Securities held to maturity | 32 | 17 |
| Investments in associated companies | 146 | 286 |
| Total securities and investments with associated companies | 71,517 | 27,121 |

The average portfolio of marketable securities increased 5.1 times to KZT 66.2 billion in 2003 from KZT 12.9 billion in 2002, whilst average interest rates decreased from 8.6 per cent. in 2002 to 5.8 per cent. in 2003

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Average interest rate, per cent. | KZT millions | Average interest rate, per cent. |
| Short-term bills MEKKAM and MEKKBM | 250 | 5.5 | 326 | 5.9 |
| Medium-term T-bills MEOKAM and MEAKAM | 4,387 | 6.0 | 1,119 | 6.9 |
| NBK notes | 26,817 | 5.0 | 1,435 | 5.8 |
| Corporate bonds | 11,725 | 9.8 | 4,711 | 11.0 |
| Eurobonds of the Ministry of Finance of the Republic of Kazakhstan | 6,458 | 3.0 | 3,766 | 6.0 |
| Domestic municipal bonds | 475 | 8.1 | 153 | 8.7 |
| Eurobonds of the Ministry of Finance of the Russian Federation | — | — | 1,108 | 11.0 |
| Eurobonds of foreign governments | 12,498 | 4.7 | — | — |
| Eurobonds of Kazkommerts International B.V. | 3,559 | 8.0 | 237 | 9.0 |
| Total | 66,169 | 5.8 | 12,855 | 8.6 |

**The Bank's Loan Portfolio**

***Loan portfolio monitoring***

The Bank's loan portfolio is monitored by a risk manager and a credit manager. The credit manager is responsible for a monthly classification of each borrower's financial strength. The credit manager is responsible for the preparation of a revision report once a year on each facility exceeding U.S.$1 million for head office loans and U.S.$100,000 for branch loans. In case of any problems or potential problems either with the borrower or with the credit, the borrower's case is forwarded to the Bank's Problem Loans Division, which independently reviews the credit quality of the borrower and develops a plan for the recovery of the problem loan. Once recovery is imminent, the borrower's case is returned to the credit manager. See "—Lending Policies and Procedures" and "—Non-Performing Loans and Provisioning Policy."

The following table sets forth information relating to the size of the Bank's loan portfolio as at 31 December 2003.

| | Total loan indebtedness | Principal amount due | Accrued interest | Percentage of total loan portfolio |
|---|---|---|---|---|
| | | U.S. dollars | | Per cent. |
| Greater than U.S.$10 million | 382,449,385 | 376,001,587 | 6,447,798 | 18.3 |
| From U.S.$5 to U.S.$10 million | 382,725,038 | 357,621,089 | 25,103,949 | 18.3 |
| From U.S.$1 to U.S.$5 million | 591,228,727 | 564,078,773 | 27,149,954 | 28.2 |
| Up to U.S.$1 million | 738,531,817 | 723,599,356 | 14,932,461 | 35.2 |
| Total | 2,094,934,967 | 2,021,300,805 | 73,634,162 | 100.0 |

***Loans and advances to banks***

As at 31 December 2003, loans and advances to banks, net of provisions, decreased by 11.3 per cent. to KZT 38.6 billion, as compared to KZT 43.5 billion as at 31 December 2002. At the same time, loans and advances to banks as a percentage of total assets fell from 15.8 per cent. as at the end of 2002 to 8.9 per cent. as at 31 December 2003. In general, loans and advances to banks were represented by short-term U.S. dollar accounts used for liquidity management. The Bank seeks to

undertake a conservative approach in its deposit funding activities. Funds are usually placed for a short-term with a maximum limit on the amount deposited, unless such loans are backed by state securities or cash deposits. In particular, the majority of loans and advances to banks had maturities of less than three months.

The reserves for possible losses on loans and advances to banks increased 2.4 times to KZT 414.6 million, as compared to KZT 170.2 million in 2002, as the Bank increased its exposure to non-OECD banks from 17.8 per cent. in 2002 to 51.3 per cent. in 2003.

Cash and balances with the NBK, the National Bank of Kyrgyzstan and the Central Bank of Russia increased by 46.9 per cent., from KZT 19.4 billion in 2002 to KZT 28.5 billion in 2003. This increase was mainly due to the Bank's obligation to maintain liquidity and reserves proportionate to its deposits, which increased from period to period.

The following table shows a breakdown by currency of loans and advances to banks and funds placed with correspondent banks as at 31 December 2003 and 2002:

| | As at 31 December | |
|---|---|---|
| | 2003 | 2002 |
| | KZT millions | |
| Correspondent accounts | 3,478 | 11,021 |
| Tenge | 8 | 22 |
| Foreign currency | 3,470 | 10,999 |
| Loans and advances to banks | 35,520 | 32,600 |
| Tenge | 1,782 | 100 |
| Foreign currency | 33,738 | 32,500 |
| Loan loss reserves | (415) | (170) |
| Loans and advances to banks, net | 38,583 | 43,451 |

***Loans, letters of credit and letters of guarantee***

The Bank offers a variety of corporate banking products including loans, trade financing, letters of credit and letters of guarantee. The following table sets out the composition of the Bank's loans and contingent liability exposure as at 31 December 2003 and 2002:

| | As at 31 December | |
|---|---|---|
| | 2003 | 2002 |
| | KZT millions | |
| **Loans:** | | |
| Loans and advances to customers | 302,132 | 189,265 |
| Provisions for losses for contingent liabilities | (19,069) | (14,016) |
| Loans and advances to customers, net | 283,063 | 175,249 |
| **Contingent liabilities:** | | |
| Letter of guarantee | 22,769 | 18,951 |
| Letter of Credit | 23,409 | 18,466 |
| Loan loss reserves | (1,426) | (1,790) |
| Total contingent liabilities | 44,752 | 35,627 |
| Total loans and contingent liabilities, net | 327,815 | 210,876 |

The following table sets forth information relating to the Bank's total guarantees of KZT 22,769 million as at 31 December 2003, expressed in U.S. dollars.

| | Amount | Percentage of total volume |
|---|---|---|
| | U.S. dollars | Per cent. |
| Greater than U.S.$10 million | 53,756,065 | 34.1 |
| From U.S.$5 to U.S.$10 million | 27,031,211 | 17.1 |
| From U.S.$1 to U.S.$5 million | 31,922,639 | 20.2 |
| Up to U.S.$1 million | 45,169,137 | 28.6 |
| Total | 157,879,052 | 100.0 |

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

In 2003, the average loan portfolio grew by 24 per cent., from KZT l59.4 billion to KZT 197.7 billion. As at 31 December 2003 the total loan portfolio (including letters of credit and letters of guarantee) rose by 55.5 per cent. and amounted to KZT 327.8 billion from KZT 210.9 billion at the end of 2002.

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

| | As at 31 December 2003 | |
|---|---|---|
| | KZT millions | Share, per cent. |
| Working capital finance | 118,094 | 39.1 |
| Fixed asset purchase | 44,285 | 14.7 |
| Construction repair | 36,896 | 12.2 |
| Real estate purchase | 27,914 | 9.2 |
| Equity investment in other enterprises | 21,815 | 7.2 |
| Trade finance | 14,253 | 4.7 |
| Other | 38,875 | 12.9 |
| Total | 302,132 | 100.0 |

***Loan portfolio structure by sector***

In 2003 the Bank increased its lending to export-related sectors of the economy, as well as to companies in the trade, construction, consumer lending, food industry, transport and communication, hotels and catering and mining and metallurgy industries. Additionally, the Bank expects new opportunities for expansion in the provision of financing to medium-sized companies engaged as sub-contractors or servicing companies for large international projects carried out in Kazakhstan.

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Share, per cent. | KZT millions | Share, per cent. |
| Trade | 55,661 | 18.4 | 33,289 | 17.6 |
| Energy | 47,506 | 15.7 | 46,190 | 24.4 |
| Agriculture | 34,469 | 11.4 | 28,846 | 15.2 |
| Construction | 34,567 | 11.4 | 13,756 | 7.3 |
| Consumer lending* | 31,791 | 10.5 | 12,234 | 6.5 |
| Food industry | 24,187 | 8.0 | 15,497 | 8.2 |
| Transport and communications | 14,765 | 4.9 | 7,701 | 4.1 |
| Hotels and catering | 14,128 | 4.7 | 4,790 | 2.5 |
| Mining/metallurgy | 10,261 | 3.4 | 6,133 | 3.2 |
| Real estate | 5,982 | 2.0 | 6,537 | 3.5 |
| Engineering | 4,940 | 1.6 | 2,350 | 1.2 |
| Finance** | 2,641 | 0.9 | 357 | 0.2 |
| Culture and arts | 2,336 | 0.8 | 2,110 | 1.1 |
| Other | 18,898 | 6.3 | 9,475 | 5.0 |
| Total | 302,132 | 100.0 | 189,265 | 100.0 |

*Consists mainly of loans to retail customers.

**Consists mainly of loans to financial services companies.

Whilst the Bank's total loan portfolio increased by 59.6 per cent. from 31 December 2002 to 31 December 2003, loans to trade companies increased by 67.2 per cent., resulting in an increase as a percentage of the Bank's total loan portfolio to 18.4 per cent., loans to the oil and gas sector increased by 2.8 per cent., but their share in the total loan portfolio decreased to 15.7 per cent. compared to 24.4 per cent. in 2002. The Bank considers the metallurgy and mining sector to be a sector that is expected to increase its borrowings in future years. Whilst loans to companies in the metallurgy and mining sector increased by 67.3 per cent., their share in the total loan portfolio remains small.

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

Whilst the total amount lent to companies in the agriculture sector increased by 19.5 per cent., as a percentage of the Bank's total loan portfolio such loans decreased from 15.2 per cent. in 2002 to 11.4 per cent. in 2003, as the growth in the Bank's total loan portfolio significantly exceeded the growth in loans to agricultural companies. Loans to agricultural companies are primarily provided to large integrated companies, which are involved in all stages of grain production and processing.

In connection with the development of large-scale construction projects in Astana, Almaty and Atyrau, the share of loans to the construction sector continued to increase, from 7.3 per cent. in 2002 to 11.4 per cent. in 2003, and their total amount increased 2.5 times.

Loans to companies in the financial sector increased and such loans as a portion of the Bank's total loan portfolio increased from 0.2 per cent. in 2002 to 0.9 per cent. in 2003.

Loans to the food industry fell from 8.2 per cent. of the Bank's total loan portfolio in 2002 to 8.0 per cent. in 2003, despite the 56.1 per cent. growth of the total amount of loans to this sector. Loans to companies in this sector are principally provided to large conglomerates with potential export capacity. The Bank seeks to limit its exposure to high-risk sectors of the economy and focuses

primarily in this sector on lending to private entities and individuals or to borrowers with Government of Kazakhstan guarantees.

***Loan portfolio structure by currencies***

In line with the Bank's policy to limit its foreign currency risk and open foreign currency positions, foreign-currency loans comprise the major part of the Bank's loan portfolio. As at 31 December 2003, U.S. dollar-denominated or indexed loans comprised 75.9 per cent. of the Bank's loan portfolio, compared to 72.5 per cent. in 2002. However, following domestic demand and due to an expanded funding base in Tenge, as well as relatively stable interest rates on Tenge loans, the Bank expanded its Tenge-denominated loans. However, such loans have a shorter-term maturity profile and usually contain provisions to allow the Bank to increase interest rates or demand early repayment in the event of a devaluation of the Tenge.

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| Tenge | 63,548 | 21.1 | 46,217 | 24.4 |
| U.S. dollars | 229,403 | 75.9 | 137,157 | 72.5 |
| euro | 6,704 | 2.2 | 5,798 | 3.1 |
| Other | 2,477 | 0.8 | 93 | — |
| **Total** | 302,132 | 100.0 | 189,265 | 100.0 |

**Maturity Profile of Loan Portfolio**

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

In 2003, the Bank increased its aggregate loans with maturities of one to five years from KZT 100,181 million to KZT 124,276 million, although the proportion of these loans within the Bank's total loan portfolio decreased from 52.9 per cent. to 41.1 per cent. This decrease resulted from an increase in loans with maturities over five years, from KZT 12,448 million to KZT 39,934 million and loans with maturity from three months to one year, from KZT 48,509 million to KZT 89,398 million.

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Share, per cent. | KZT millions | Share, per cent. |
| Up to one month | 28,254 | 9.4 | 11,876 | 6.3 |
| From one to three months | 20,270 | 6.7 | 16,251 | 8.6 |
| From three months to one year | 89,398 | 29.6 | 48,509 | 25.6 |
| From one to five years | 124,276 | 41.1 | 100,181 | 52.9 |
| Over five years | 39,934 | 13.2 | 12,448 | 6.6 |
| Total | 302,132 | 100.0 | 189,265 | 100.0 |

**Collateralisation of Loan Portfolio**

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

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

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

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Share, per cent. | KZT millions | Share, per cent. |
| Collateralised | 289,853 | 95.9 | 180,340 | 95.3 |
| Uncollateralised | 12,279 | 4.1 | 8,925 | 4.7 |
| Total loans | 302,132 | 100.0 | 189,265 | 100.0 |

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

**Lending Policies and Procedures**

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

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

- *Branch committees.* Each of the Bank's branches maintains a credit committee, although the authorisations of these committees are relatively conservative. Excluding the committee for the Almaty branch, each such committee is authorised to approve loans from U.S.$10,000 to U.S.$200,000, subject to an aggregate lending limit of between U.S.$350,000 and U.S.$12 million per branch, depending on the size of the branch and experience of its personnel. The Almaty branch is authorised to extend loans of up to U.S.$800,000, subject to an aggregate lending limit of U.S.$20 million.

- *Regional committees.* The regional credit committees cover the central, southern, western, eastern and northern regions of Kazakhstan. Within each region of Kazakhstan, there is a relatively high degree of concentration of particular industry sectors and, accordingly, the regional credit committees tend to specialise in those industries. For example, Region Central primarily serves the agricultural industry; Region East primarily services the heavy manufacturing industries; Region West primarily services the oil and gas industries; Region South primarily specialises in loans to the construction industry; and Region North primarily services the agricultural and construction industries. The regional committees are responsible for approving loans to medium-sized companies where the proposed loan exceeds the lending limit of a particular branch. Regional credit committees have a lending limit of U.S.$250,000 per borrower.
- *Head office committees.* The Bank's head office in Almaty has two credit committees:
  - *Head Office Credit Committee.* This committee is authorised to approve loans of up to U.S.$2 million which were originated by local branches but exceed such branches' individual lending authority.
  - *Commercial Directorate.* The Commercial Directorate is comprised of the Chairman of the Bank's Management Board, seven Managing Directors and an adviser to the Chairman of the Management Board, and is authorised to approve individual loans in an amount up to 25 per cent. of the total capital of the Bank.

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

- *Risk Management Department.* This department considers the loan in several respects. The analytic group, which is specialised by industry, prepares advice on commercial loans based on its assessment of the borrower's business and/or the project to which the loan relates. This assessment takes into account the required cash and anticipated return to determine the borrower's ability to repay the loan. The Risk Management Department also has portfolio managers, assigned by industry, who ensure that the procedures and guidelines of their department are followed.
- *Collateral Assessment Department.* The Bank requests collateral for almost all of its loans. The job of the Collateral Assessment Department is to create a valuation analysis with respect to the proposed collateral.
- *Legal.* The Bank obtains advice regarding the proposed loan including, in the case of commercial loans, confirmation as to the valid corporate existence of the borrower and its authority to enter into the loan transactions and grant collateral. Most of this work is prepared by the Bank's internal Legal Department.
- *Security Department.* The Security Department provides information on the assets, credit history and reputation of potential borrowers. Kazakhstan is not currently served by a central credit bureau, and this in-house department is designed to provide the Bank with similar credit information concerning potential borrowers.

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

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

- A — Customer is capable of repaying principal and interest on time and is financially robust;
- B — Customer's financial position is stable and there is a low risk expectation;
- C — Some negative financial aspects exist that might affect the customer's ability to repay debts;
- D — Serious and numerous financial aspects exist that affect the customer's ability to repay debts; and
- E — Financial position is so low that debt repayment is unlikely.

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

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

In this matrix:

- "Good debt service" means that interest and principal is paid timely and there are no signs that the remaining loan amount includes any capitalised amounts of previous re-borrowings. It also includes amounts less than seven days overdue.
- "Unsatisfactory debt service" means that payments of principal and interest are overdue for between seven and 30 days, or that interest or principal payment was extended.
- "Bad debt service" means that payment of principal or interest is overdue for more than 30 days or that interest and/or principal has been extended.

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

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

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

**Non-Performing Loans and Provisioning Policy**

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

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

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

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

The table below sets forth certain information relating to the Bank's provisions:

| | | As at 31 December | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2003 | | | 2002 | | |
| Risk category | Rate of provisioning | Total exposure | Total reserves | Reserves/ exposure | Total exposure | Total reserves | Reserves/ exposure |
| | Per cent. | KZT millions | KZT millions | Per cent. | KZT millions | KZT millions | Per cent. |
| Standard | 2.0 | 142,094 | 2,866 | 2.0 | 78,080 | 1,692 | 2.2 |
| Watch | 5.0 | 105,676 | 5,285 | 5.0 | 65,257 | 3,604 | 5.5 |
| Sub-standard | 20.0 | 27,364 | 1,764 | 6.5 | 38,201 | 4,431 | 11.6 |
| Doubtful | 50.0 | 10,805 | 2,627 | 24.3 | 1,440 | 386 | 26.8 |
| Loss | 100.0 | 16,193 | 6,526 | 40.3 | 6,287 | 3,903 | 62.1 |
| Total | | 302,132 | 19,069 | 6.3 | 189,265 | 14,016 | 7.4 |

The effective level of provisions fell from 7.4 per cent. in 2002 to 6.3 per cent. in 2003 as a result of the general improvement in the quality of the Bank's loan portfolio. ''Standard'' and ''Watch'' loans increased by 72.9 per cent. and amounted KZT 247.8 billion as at 31 December 2003, as compared with KZT 143.3 billion as at 31 December 2002. In connection with growth of these loans, the composition of the Bank's loan portfolio changed, and ''Standard'' and ''Watch'' loans increased from 75.7 per cent. in 2002 to 82.0 per cent. in 2003. At the same time, ''Sub-standard'' loans decreased by 28.4 per cent. to comprise 9.1 per cent. of the total loan portfolio as at 31 December 2003, as compared to 20.2 per cent. in 2002. ''Doubtful'' and ''Loss'' loans grew to 8.9 per cent. of all loans at the end of 2003 compared to 4.1 per cent. in 2002 as a result of the reclassification of ''Sub-standard'' loans. In 2003, the Bank wrote-off loans in the aggregate amount of KZT 2.2 billion, as compared to write-offs in 2002 of KZT 6.3 billion, which included the loan indebtedness of JSC ''Air Kazakhstan'' in the amount of KZT 2.4 billion (in accordance with the agreement reached with the Government of Kazakhstan related to the debt and the repurchase of pledged shares from the Bank for consideration of KZT 2,391 million.)

Previously under the NBK's regulations, loans were written-off when interest and principal were overdue for over 180 days. This instruction of the NBK was revoked early 2004 and, therefore, the Bank is now in the process of issuing an internal write-off procedure policy.

The Bank reduced the concentration of its 20 largest borrowers from 33.4 per cent. of the total loan portfolio at the end of 2002 to 30.3 per cent. as at 31 December 2003. The Bank expects to

further reduce the concentration of its loan portfolio by attracting new medium- and small-sized borrowers.

The following table provides information regarding the Bank's loan loss reserves for the years ending 31 December 2003, 2002 and 2001.

| | Year ended 31 December | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | U.S. dollars, thousands | | |
| Loan loss reserves at the beginning of period | 89,935 | 77,904 | 58,130 |
| Loan loss reserves at the end of period | 132,222 | 89,935 | 77,710 |
| Charge-offs | 15,486 | 40,552 | 16,550 |
| Recoveries | 11,004 | 7,795 | 9,240 |
| Net charge-offs | 4,482 | 32,757 | 7,310 |
| Ratio (per cent.) | 12.24 | 96.73 | 50.47 |
| Exchange rate | 144.22 | 155.85 | 150.2 |

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

| | As 31 December | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | U.S. dollars | | |
| Legal entities | 124,728,222 | 87,265,959 | 76,099,086 |
| Individuals | 7,493,925 | 2,669,120 | 1,804,709 |
| Total | 132,222,147 | 89,935,079 | 77,903,795 |

| | As at 31 December | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | Per cent. | | |
| Legal entities | 6.70 | 7.67 | 7.60 |
| Individuals | 3.19 | 3.51 | 4.06 |
| Total | 6.31 | 7.41 | 7.45 |

**Funding**

The significant portion of the Bank's funding base is represented by customer accounts, which the Bank's management believes to be relatively insensitive to short-term fluctuations in market rates of interest. Since 2001 the Bank has managed to increase the size of its retail funding base, having become an important source of funding which the Bank believes is more stable than corporate funding, although it is more costly. The share of customer accounts decreased from 58.3 per cent. in 2002 to 39.5 per cent. in 2003, mainly due to the increases in debt securities from 15 per cent. to 27.8 per cent. from period to period.

Debt securities became an important source of funding in 2003, when the Bank, through the Issuer, issued U.S.$500 million 8.5 per cent. notes due 2013. This positively affected the maturity of the Bank's funding, increasing significantly the maturity of the raised funds. Also, during 2003 the Bank issued U.S.$27.6 million seven year 8 per cent. subordinated notes in the internal Kazakhstan market.

In the composition of the Bank's funding base during 2003 the share of loans and advances from banks and increased from 22.5 per cent. to 29.6 per cent. (including amounts on repurchase transactions). In 2003, the average tenor of repurchase transactions was one month. The Bank took the advantage of lower international interest rates in 2003 and raised U.S.$300 million through

syndicated loan in December 2003. The loan consists of two tranches of one- and two-year maturities with an option to extend the loan for a period of 12 months. In 2003, the Bank continued to exploit bilateral credit lines from banks and international financial institutions. The Bank is engaged in special programmes sponsored by the Government of Kazakhstan and various international financial institutions such as the EBRD, Asian Development Bank, Islamic Development Bank and the IBRD.

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| Customer deposits | 151,589 | 39.5 | 141,372 | 58.3 |
| Loans and advances from banks | 76,222 | 19.9 | 54,663 | 22.5 |
| Securities sold under agreement to repurchase | 37,251 | 9.7 | — | — |
| Promissory notes issued | 1,717 | 0.4 | — | — |
| Debt securities issued | 96,516 | 25.1 | 30,317 | 12.5 |
| Subordinated debt | 8,733 | 2.3 | 6,060 | 2.5 |
| Other borrowed funds | 3,525 | 0.9 | 4,651 | 1.9 |
| Other liabilities | 8,404 | 2.2 | 5,550 | 2.3 |
| Dividends payable | 1 | — | 1 | — |
| Total liabilities | 383,958 | 100.0 | 242,614 | 100.0 |

As at 31 December 2003; time deposits remained at the level of the previous year despite the reduction of the concentration in the Bank's 20 largest depositors, and amounted to 65.5 per cent. of total customer accounts. The share of Tenge-denominated deposits increased from 25.4 per cent. of total deposits in 2002 to 32.5 per cent. in 2003. The increased demand for retail deposits was one of the major reasons for this increase. The interest rates on the Bank's deposits are close to average market rates, and the Bank offers interest rates which it believes are competitive with those of other institutions in Kazakhstan.

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| **Tenge:** | | | | |
| Demand deposits | 28,788 | 19.0 | 18,754 | 13.3 |
| Time deposits | 20,424 | 13.5 | 17,105 | 12.1 |
| | 49,212 | 32.5 | 35,859 | 25.4 |
| **Foreign currency:** | | | | |
| Demand deposits | 20,375 | 13.4 | 19,901 | 14.1 |
| Time deposits | 78,804 | 52.0 | 82,652 | 58.4 |
| | 99,179 | 65.4 | 102,553 | 72.5 |
| **Total customer accounts** | 148,391 | 97.9 | 138,412 | 97.9 |
| **Accrued interest** | 3,198 | 2.1 | 2,960 | 2.1 |
| **Total with accrued interest** | 151,589 | 100.0 | 141,372 | 100.0 |

As at 31 December 2003 the deposits of the 20 largest depositors accounted for 24.1 per cent. of total deposits, compared to 26.0 per cent. at the end of 2002. Although the concentration of deposits remains significant, the Bank reduced the general concentration of domestic funding by attracting

small- and medium-sized corporations and by a significant growth in retail deposits. As at 31 December 2003, the share of retail accounts was 51.5 per cent., representing a significant improvement compared to 43.2 per cent. in the previous year.

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

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2003 | | 2002 | |
| | KZT millions | Per cent. | KZT millions | Per cent. |
| **Loans and advances from banks:** | | | | |
| Correspondent accounts | 6,088 | 7.6 | 449 | 0.8 |
| Loans from banks | 12,488 | 15.7 | 12,323 | 20.8 |
| Deposits of banks | 2 | — | 6,499 | 11.0 |
| Loans from international financial institutions | 14,370 | 18.0 | 12,009 | 20.2 |
| Syndicated loan | 43,274 | 54.3 | 23,383 | 39.4 |
| Total loans and advances from banks | 76,222 | 95.6 | 54,663 | 92.2 |
| **Other borrowed funds:** | | | | |
| Due to Ministry of Finance | 913 | 1.1 | 1,609 | 2.7 |
| Due to the Fund of Small Business Support | 2,612 | 3.3 | 3,042 | 5.1 |
| Total other borrowed funds | 3,525 | 4.4 | 4,651 | 7.8 |
| Total borrowed funds | 79,747 | 100.0 | 59,314 | 100.0 |

# MANAGEMENT

**Management**

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

**Board of Directors**

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

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

*Nurzhan S. Subkhanberdin* (age 39) has served as a Chairman of the Board of Directors since September 2002. Mr. Subkhanberdin is a former Chairman of the Management Board of the Bank and held numerous other positions within the Bank prior to his appointment as Chairman of the Board. Mr. Subkhanberdin graduated from Moscow State University and has a degree in economics from Kazakhstani State University (''KSU'').

*Daulet H. Sembaev* (age 68) is Deputy Chairman of the Board of Directors and has been a member of the Board since April 2001. Before September 2002, Mr. Sembaev served as Chairman of the Board. Mr. Sembaev is a former Chairman of the NBK, President of the Kazakhstani Association of Financiers and a member of Parliament. He has also held other positions with different government bodies and private companies. Mr. Sembaev graduated as an engineer from the Kazakhstani Mining Institute in 1958.

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

*Askar M. Alshinbayev* (age 38) has been a member of the Board of Directors since 2003. He is the former Deputy Chairman of the Management Board of the Bank. Mr. Alshinbaev is a member of the Board of Directors of PetroKazakhstan Inc. He holds a degree in engineering from the Kazakhstani Polytechnic Institute.

*Gail Buyske* (age 49) has been a member of the Board of Directors since October 2003. Ms. Buyske acts as the EBRD's representative. Prior to joining Kazkommertsbank, she held the position of Senior Banker in EBRD. She also worked as a Consultant to the World Bank and a Vice President of Chase Manhattan Bank. Ms. Buyske holds a Ph.D. degree in political science from Columbia University, an MPA in international relations from Princeton University and a B.A. in Russian studies from Middlebury College.

**The Management Board**

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

The current members of the Management Board are as follows:

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

*Ludmila P. Vozlublennya* (age 46) has served as a Managing Director since 1998. Ms. Vozlublennya is a former Economic Analysis Manager of the Bank. She holds a degree in mathematics from Novosibirsk Electrical and Technical Institute and a Ph.D. in technical sciences from Karaganda Polytechnic Institute.

*Ermek N. Shamuratov* (age 46) supervises the Bank's IT and Banking Card Department and has served as a Managing Director since 1998. He is the former Deputy Chairman of Halyk Savings Bank and also held a number of positions within that organisation. He holds a degree in mathematics from KSU.

*Aidar B. Akhmetov* (age 35) supervises the Bank's Credit Department No. 1 and has served as a Managing Director since 1998. He is the former Chairman of the Board of ABN AMRO Asset Management. He holds a degree in English and German from Almaty Pedagogical Institute of Foreign Languages and a degree in economics from the Kazakhstani State Academy of Management.

*Nurzhan Kh. Bekshenov* (age 30) has served as a Managing Director since 1999. Mr. Bekshenov is also Director of the Legal Department of the Bank. He is a former Executive Director of the Bank and a former director of the law firm TOO Imashev and Partners. He holds a degree in law from Kazakhstani State National University.

*Alexander V. Yakushev* (age 43) has served as a Managing Director since 1999. He is also a Director of the Northern Regional Directorate. He is the former Director of the Bank's Correspondent Relationships with CIS and Baltic States Banks division. He graduated from Gorky's Institute of Foreign Languages and AINE.

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

*Almat K. Turtaev* (age 34) supervises the Bank's Credit Department No. 3 and has served as a Managing Director since June 2002. Before joining the Bank, Mr. Turtaev served as Deputy Chairman of EximBank of Kazakhstan and adviser to the Chairman of Development Bank of Kazakhstan. Mr. Turtaev holds a degree in economics from St. Petersburg's Institute for Trade and Economy.

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

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

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

*Erik Z. Balapanov* (age 35) supervises the Bank's Credit Departments No. 2 and No. 4 and has served as a Managing Director of the Bank since 2003. Mr. Balapanov formerly held senior positions in Bank TuranAlem, Almaty Commercial Bank and the Development Bank of Kazakhstan. He graduated from the Kazakhstani Institute of Market, which is affiliated with the Kazakhstani State Academy of Management.

*Azat B. Abishev* (age 38) supervises the Bank's Security Department and has served as an Executive Director since 1998. Mr. Abishev is the former Deputy Chairman of the Board of Managing Directors and its Senior Secretary. He holds a degree in economics from AINE and a degree in law from the Karaganda Higher Militia School.

*Georgy E. Gukasov* (age 38) supervises the Bank's Administration Department and has served as an Executive Director since 1998. Mr. Gukasov is the former Bank's Chief Administrative Manager. He was formerly General Director of Forex, a closed joint-stock company and director of cash operations of the Bank. He graduated from the Karaganda Polytechnic Institute.

The following table sets out the principal amounts of loans outstanding to, and outstanding guarantees issued on behalf of, members of the Board of Directors and Management Board as at 31 December 2003:

| | Principal amount outstanding | |
|---|---|---|
| | U.S. dollars | KZT thousands |
| Nurzhan Subkhanberdin | 3,460,000 | 499,001 |
| Alexander Yakushev | 3,207,608 | 462,601 |
| Azat Abishev | 1,936,467 | 279,277 |
| Georgi Gukasov | 1,591,900 | 229,584 |
| Askar Alshinbayev | 768,890 | 110,889 |
| Nurzhan Bekshenov | 681,197 | 98,242 |
| Beibit Apsenbetov | 236,500 | 34,108 |
| Aidar Akhmetov | 225,547 | 32,528 |
| Magzhan Auezov | 183,300 | 26,436 |
| Almat Turtayev | 22,244 | 3,208 |
| Lyudmila Vozlyublennaya | 38,500 | 5,552 |
| Andrey Timchenko | 3,583 | 517 |
| Nina Zhussupova | 2,621 | 378 |
| Ermek Shamuratov | 540 | 78 |
| Erik Balapanov | 186 | 27 |
| Total | 12,359,083 | 1,782,426 |

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

**Statutory Auditor**

The Bank is currently in the process of appointing a statutory auditor. The statutory auditor oversees financial control of the Bank's activities. The appointment of the statutory auditor is approved annually by the shareholders. Members of the Management Board cannot be appointed as the statutory auditor. The statutory auditor has the right to be present at meetings of the Board of

Managing Directors and to speak, but not vote, at such meetings. The statutory auditor has the right, as required, to convene an extraordinary general meeting of shareholders.

**Compensation of Directors and Senior Management**

In 2003, the total aggregate compensation paid to members of the Board of Directors was KZT 55.9 million (equivalent to U.S.$373,588), and the total aggregate compensation paid to members of the Management Board was KZT 217.8 million (equivalent to U.S.$1,457,000). Total aggregate compensation comprises salaries and bonuses. The Bank does not maintain any stock option or similar plans.

## TRANSACTIONS WITH RELATED PARTIES

Related parties include entities and natural persons that are shareholders, affiliates or entities under common management or control of the Bank.

The following table sets forth the total related party transactions of the Bank as at 31 December 2003 and 2002 and the total amounts of expenses and income in 2003:

| | As at 31 December 2002 | Issued in 2003 | Paid in 2003 | As at 31 December 2003 |
|---|---|---|---|---|
| | KZT millions | | | |
| Loans and advances | 1,626 | 3,911 | 2,918 | 2,619 |

| | As at 31 December 2002 | Total made during 2003 | Withdrawals during 2003 | As at 31 December 2003 |
|---|---|---|---|---|
| | KZT millions | | | |
| Deposits | 953 | 4,342 | 2,900 | 2,395 |

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

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

| | As at 31 December | |
|---|---|---|
| | 2003 | 2002 |
| | KZT thousands | |
| Interest income | 178,210 | 275,541 |
| Interest expense | 145,829 | 99,341 |

As at 31 December 2003, total guarantees issued for related parties amounted to KZT 27.1 million compared to KZT 27.3 million at the end of 2002. At the end of 2003 all letter of credit transactions with related parties had been completed. At the end of 2002 their total amount was KZT 5.5 million.

Total amount of transactions on purchase and sale of securities made by the Bank with related parties during 2003 amounted to KZT 391.9 million, while during 2002 it amounted to KZT 67.6 million.

The Bank's investments in shares of related companies as at 31 December 2003 equalled KZT 146.2 million, compared to KZT 285.9 million at the end of 2002.

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

# PRINCIPAL SHAREHOLDERS

**Introduction**

Since late 1994, a majority of the Bank's common shares have been owned and controlled by the Bank's senior management. As at 1 March 2004, the Bank's senior management beneficially owned 50.5 per cent. of the Bank's outstanding (issued and placed) common shares, of which 48.6 per cent. are held through OJSC Central Asian Investment Company ("CAIC"), a Kazakhstani company.

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

**Principal Shareholders**

The following table sets forth as at 6 February 2004 (the "Ownership Date") (unless a different date is noted) the beneficial ownership of the Bank's common shares by:

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

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

| | Beneficial Ownership | |
|---|---|---|
| **Name of Beneficial Owner** | **Shares** | **Percentage[1]** |
| **Major shareholders:** | | |
| CAIC[2] | 180,347,855 | 52.1 |
| EBRD | 51,921,189 | 15.0 |
| **Directors and senior managers:[2]** | | |
| Nurzhan Subkhanberdin | | |
| Shares held directly | 6,431,566 | 1.9 |
| Shares held through CAIC | 125,451,231 | 36.2 |
| Total | 131,882,797 | 38.1 |
| Nina Zhussupova | 13,186,317 | 3.8 |
| Askar Alshinbayev | 8,073,091 | 2.3 |
| Aidar Akhmetov | 5,920,098 | 1.7 |
| Nurzhan Bekshenov | 5,920,098 | 1.7 |
| Almat Turtayev | 5,920,098 | 1.7 |
| Azat Abishev | 4,036,726 | 1.2 |
| All directors and executive officers as a group (7 persons)[2] | 174,939,225 | 50.5 |

(1) Based on outstanding common shares. As at 6 February 2004, there were 346,129,779 common shares outstanding.

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

In addition to its common shares, as at 6 February 2004, the Bank had 55,763,184 preferred non-voting shares outstanding. See "Capitalisation." Each preferred share entitles the holder to a fixed annual dividend of $0.04. If such dividends are not paid, holders of preferred shares are granted voting rights until all accrued and payable dividends are paid in full. None of the preferred shares are

convertible into common shares. As at 1 March 2004, none of the preferred shares were held by any of the Bank's directors or senior managers.

**Shareholders' Agreement with the EBRD**

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

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

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

**Put Option Agreement**

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

# REGULATION OF THE BANKING SECTOR IN KAZAKHSTAN

**The National Bank of Kazakhstan**

The NBK is the central bank of Kazakhstan. The NBK is an independent institution, but is subordinate to the President of Kazakhstan. The President has the power, amongst other things, to appoint, with the approval of Parliament, and remove the NBK's Governor and deputy Governors, to confirm the annual report of the NBK on the recommendation of the Governor, to confirm the concept and design of the national currency, and to request information from the NBK. Grigori Marchenko was appointed Governor of the NBK in October 1999, replacing Kadyrzhan Damitov. In January 2004, Mr. Marchenko was appointed as a Vice Premier of the Government of Kazakhstan and Anvar Saidenov has replaced him as the NBK's Governor.

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

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

The NBK's reform of the banking sector started in 1996 with the introduction of international prudential standards such as capital adequacy requirements and liquidity ratios to regulate and protect the banking system, transparency requirements as to the auditing of banks by local and international auditors, bringing accounting practices closer to IFRS, and personnel training programmes.

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

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

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

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

In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 29 January 2004, 31 banks were covered by this scheme.

In March 2001, new legislation was introduced in relation to the holding of shares in a Kazakhstani bank. As a result, any shareholding of ten per cent. or more (whether held independently

or jointly with another legal entity) now requires the approval of the NBK. Furthermore, a foreign entity holding ten per cent. or more of a Kazakhstani bank must have a credit rating equal to or better than that of the Republic of Kazakhstan.

**Commercial Banks**

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

**Foreign Capital in the Banking Sector**

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and otherwise participating in the banking and financial services sector. A foreign bank may not open a branch in Kazakhstan. To operate as a bank, a Kazakhstan legal entity must be created; however, the bank may be a subsidiary or a joint venture.

Under relevant legislation, "a bank with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks. As at 31 December 2003 there were 16 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan.

For a foreign bank to establish a subsidiary or joint venture where it has more than a 50 per cent. interest, the foreign bank must initially maintain a representative office in Kazakhstan for at least one year. A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank AG, Deutsche Bank AG, American Express Bank Ltd., Commerzbank AG, Citibank N.A., ING Bank N.V., Bankgesellschaft Berlin and Société Générale.

# TERMS AND CONDITIONS OF THE NOTES

This Note is one of a duly authorised issue of U.S.$400,000,000 7.875 per cent. Notes due 2014, (the "**Notes**," which expression shall, unless the context otherwise so requires, be deemed to include a reference to any further notes issued pursuant to Condition 15 and forming a single series therewith) issued by Kazkommerts International B.V. (the "**Issuer**") and unconditionally and irrevocably guaranteed by JSC Kazkommertsbank (the "**Guarantor**") pursuant to a deed of guarantee (the "**Guarantee**") dated on or around 7 April 2004. The Notes are constituted by a trust deed (the "**Trust Deed**") dated on or around 7 April 2004 between the Issuer, the Guarantor and The Law Debenture Trust Corporation p.l.c. (the "**Trustee**," which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes. The Issuer and the Guarantor have entered into a Paying Agency Agreement (the "**Agency Agreement**") dated on or around 7 April 2004 with the Trustee, Citibank International plc as registrar (the "**Registrar**"), Citibank, N.A., as principal paying agent (the "**Principal Paying Agent**"), and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**") and the transfer agents (the "**Transfer Agents**") named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the "**Agents**," which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes and the Guarantee.

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

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

## 1. FORM, DENOMINATION AND TITLE

### 1.1 Form and Denomination

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

### 1.2 Title

Title to the Notes will pass by and upon registration in the Register. In these Conditions, "**Noteholder**" and "**holder**" mean the Person (as such term is defined below) in whose name a Note is registered in the Register (or, in the case of joint holders, the first-named thereof). The holder of any Note will (except as otherwise ordered by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or any interest therein, any writing thereon by any Person (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof, and no Person will be liable for so treating the holder.

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

### 1.3 Third Party Rights

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

## 2. TRANSFER OF NOTES AND ISSUE OF NOTES

### 2.1 Transfer

Subject to Conditions 2.4 and 2.5, a Note may be transferred in whole or in part in an authorised denomination upon the surrender of the Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the "**Transfer Form**") duly completed and executed, at the specified office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Transfer Forms are available from any Transfer Agent, the Registrar and the Issuer upon the request of any holder. In the case of a transfer of only a portion of the Notes represented by a Note Certificate, neither the portion transferred nor the balance thereof not transferred may be less than the applicable authorised denomination, and a new Note Certificate in respect of such balance not so transferred will be issued to the transferor.

### 2.2 Delivery

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

### 2.3 No Charge

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

### 2.4 Closed Periods

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

### 2.5 Regulations concerning Transfer and Registration

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

## 3. STATUS OF NOTES AND GUARANTEE

### 3.1 Status of the Notes

The Notes constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law.

### 3.2 Status of the Guarantee

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

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

## 4. NEGATIVE PLEDGE

### 4.1 Negative Pledge of the Issuer

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

### 4.2 Negative Pledge of the Guarantor

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

### 4.3 Certain Definitions

For the purposes of these Conditions:

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

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

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of

incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a ''with recourse'' basis) having the commercial effect of a borrowing.

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

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

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

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

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

contemplation of such acquisition), provided that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property, (ix) created or outstanding upon any property or assets (including current and/or future revenues, accounts receivables and other payments) of the Guarantor or any Material Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the primary source of payment of any obligations secured by such property or assets is the proceeds of such property or assets (or where the payment of such obligations is otherwise supported by such property or assets) and where recourse to the Guarantor and the Material Subsidiaries in respect of such obligations does not extend to defaults by the obligors in relation to such property or assets, provided that the aggregate amount of such obligations so secured pursuant to this clause (ix) at any one time (measured at the time of initial incurrence) shall not exceed an amount in any currency or currencies equivalent to 15 per cent. of loans to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with International Accounting Standards) and (x) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.$50,000,000 (or its equivalent in other currencies) at that time.

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

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

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

## 5. CERTAIN COVENANTS

For so long as any Note remains outstanding:

### 5.1 Limitations on Certain Transactions

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

### 5.2 Limitation on Payment of Dividends

The Guarantor will not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default (as defined in Condition 10) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default or (ii) at any time when no such Event of Default or event exists, (a) more frequently than once during any calendar year or (b) in an aggregate amount exceeding 50 per cent. of the Guarantor's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with International Accounting Standards, for which purpose, the amount of the Guarantor's net income shall be determined by reference to its audited financial statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to

(i) distributions by the Guarantor of its common shares in connection with an increase of capital permitted under Condition 5.1 or (ii) the payment of any dividends in respect of any preferred shares of the Guarantor.

### 5.3 Provision of Financial Information

For so long as any Notes are outstanding and are "**restricted securities**" within the meaning of Rule 144A(a)(3) under the Securities Act of 1933 (the "**Securities Act**"), each of the Issuer and the Guarantor will furnish upon the request of a holder of Notes or a beneficial owner of an interest therein to such holder or beneficial owner or to a prospective purchaser of Notes designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act and will otherwise comply with the requirements of Rule 144A under the Securities Act, if at the time of such request the Issuer or the Guarantor is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended, or exempt from reporting pursuant to Rule l2g3-2(b) thereunder.

For purposes of this Condition the term "**Fair Market Value**" of a transaction means the value that would be obtained in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer. A report of the Auditors or certificate of the Guarantor of the Fair Market Value of a transaction, shall, in the absence of manifest error, be conclusive and binding on all parties; and the Trustee shall be entitled to rely upon any such report prepared by such Auditors and shall not be responsible for any loss occasioned by acting on any such report or certificate.

## 6. INTEREST

Each Note bears interest from 7 April 2004 (the "**Issue Date**") at a rate of 7.875 per cent. per annum (the "**Rate of Interest**"), payable on 7 April and 7 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "**Interest Period**."

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

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

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

## 7. REDEMPTION, PURCHASE AND CANCELLATION

### 7.1 Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 7 April 2014, subject as provided in Condition 8.

### 7.2 Redemption for Tax Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the Notes (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) (i) the

Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Netherlands or any political subdivision or any authority thereof having power to tax therein, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 7 April 2004 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it or (b) (i) the Guarantor has or (if a demand was made under the Guarantee) would become obliged to pay Additional Amounts as provided or referred to in Condition 9 or the Guarantee, as the case may be, or the Guarantor has or will become obliged to make any such withholding or deduction of the type referred to in Condition 9 or in the Guarantee, as the case may be, from any amount paid by it to the Issuer in order to enable the Issuer to make a payment of principal or interest in respect of the Notes, in either case to any greater extent than would have been required had such a payment been required to be made on 7 April 2004 as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 7 April 2004, and (ii) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 7.2 the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers in form and substance satisfactory to the Trustee of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Amounts or (as the case may be) the Guarantor has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a)(i) and (a)(ii) above or (as the case may be) (b)(i) and (b)(ii) above, in which event they shall be conclusive and binding on the holders of the Notes. Upon the expiry of any such notice as is referred to in this Condition 7.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 7.2.

**7.3 Purchase**

The Issuer or the Guarantor may at any time purchase or procure others to purchase for its account the Notes at any price in the open market or otherwise. Notes so purchased may be held or resold (provided that such resale is outside the United States as defined in Regulation S under the Securities Act) or surrendered for cancellation, at the option of the Issuer or the Guarantor, as the case may be.

Any Notes so purchased, while held by or on behalf of the Issuer or the Guarantor, as the case may be, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

**7.4 Cancellation**

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

## 8. PAYMENTS

### 8.1 Principal

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

### 8.2 Interest

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

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

### 8.3 Payments Subject to Fiscal Laws

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

### 8.4 Payment on Business Days

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

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

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

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

### 8.5 Partial Payments

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

### 8.6 Agents

The names of the initial Agents and their initial specified offices are set forth at the end of this offering memorandum. Any of the Agents may resign in accordance with the provisions of the Agency Agreement and each of the Issuer and the Guarantor reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents provided that it will at all times maintain (i) a Registrar, (ii) a Paying Agent and (iii) a Paying Agent and a Transfer Agent having a specified office in Europe, which will be in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. In addition, the Issuer undertakes that, if the European Council Directive 2003/48/EC or any other Directive implementing the conclusion of the ECOFIN Council Meeting of 26-27 November 2000 is brought into force, it will ensure that it maintains a paying agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any such Directive. Notice of any such termination or appointment and of any change in the specified offices of the Agents will be published in accordance with Condition 14 below.

## 9. TAXATION

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

Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

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

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

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

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

## 10. EVENTS OF DEFAULT

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

10.1 *Non-payment*: the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or Additional Amounts on any of the Notes and such default in respect of interest or Additional Amounts continues for a period of 10 Business Days; or

10.2 *Breach of other obligations*: the Issuer or the Guarantor is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes, the Guarantee or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the Guarantor, as the case may be, by the Trustee; or

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

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

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

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

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

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

10.9 *Government Intervention*: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking,

assets, revenues and, following the occurrence of any of the events specified in this Condition 10.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

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

## 11. PRESCRIPTION

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

## 12. REPLACEMENT OF NOTE CERTIFICATES

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

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

### 13.1 Meetings of Noteholders

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

### 13.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any provision of the Trust Deed, the Guarantee or the Notes (including these Conditions) which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any provision of 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. Any such modification, waiver or authorisation shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

### 13.3 Substitution

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

## 14. NOTICES

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

## 15. FURTHER ISSUES

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

## 16. ENFORCEMENT

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

## 17. INDEMNIFICATION OF THE TRUSTEE

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

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

## 18. GOVERNING LAW, JURISDICTION AND ARBITRATION

### 18.1 Governing Law

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

### 18.2 Jurisdiction

Subject to Condition 18.6, each of the Issuer and the Guarantor has agreed that the courts of England shall have, subject as follows, exclusive jurisdiction to hear and determine any suit, action or proceedings which arise out of or in connection with the Notes or the Trust Deed (''Proceedings'') and, for such purposes, have irrevocably submitted to the jurisdiction of such courts. Nothing in this

Condition 18.2 shall limit the right of the Trustee or, as the case may be, a Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or, as the case may be, a Noteholder, in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

**18.3 Appropriate Forum**

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

**18.4 Process Agent**

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

**18.5 Consent to enforcement etc.**

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

**18.6 Arbitration**

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

*Fees*: Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar cost which shall be paid by such party) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgement upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the

arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

# FORM OF NOTES AND TRANSFER RESTRICTIONS

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

**Form of Notes**

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

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

**Transfer Restrictions**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Exchange of Interests in Global Notes For Note Certificates**

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

Registration of title to Notes initially represented by the Unrestricted Global Note in a name other than the nominee of the common depositary for the Euroclear Operator and Clearstream, Luxembourg will only be permitted (i) if the Euroclear Operator or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) following the failure to pay principal in respect of any Note at maturity or upon acceleration of any Note and the Registrar has received a notice from the registered holder (i.e. common depositary) of the Unrestricted Global Note requesting an exchange of the Unrestricted Global Note for individual Note certificates (the ''Unrestricted Note Certificates'' and, together with the Restricted Note Certificates, the ''Note Certificates'').

In such circumstances, the relevant Global Note shall be exchanged in full for Note Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under ''—Transfer Restrictions.''

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

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

**Euroclear, Clearstream, Luxembourg and DTC Arrangements**

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

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

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

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

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

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

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

***Trading between The Euroclear Operator and/or Clearstream, Luxembourg accountholders***

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

***Trading between DTC Participants***

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

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

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the

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

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

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

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

# SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and ING Bank N.V., London Branch, are acting as joint lead managers and joint bookrunners of the offering and as representatives of the managers named below (the "Managers"). Subject to the terms and conditions stated in the subscription agreement dated the date of this offering memorandum, each Manager named below has agreed to purchase, and the Issuer has agreed to sell to that Manager, the principal amount of the Notes set forth opposite the Manager's name.

| Manager | Principal amount |
|---|---|
| Citigroup Global Markets Limited | U.S.$198,000,000 |
| ING Bank N.V., London Branch | U.S.$198,000,000 |
| Alpha Bank A.E. | U.S.$2,000,000 |
| Parex Bank | U.S.$2,000,000 |
| Total | U.S.$400,000,000 |

The subscription agreement provides that the obligations of the Managers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Managers must purchase all the Notes if they purchase any of the Notes. Pursuant to the subscription agreement, the Managers are entitled to commissions and reimbursement of expenses.

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

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

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

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

**United Kingdom**

Each Manager has represented, warranted and agreed that:

- it has not offered or sold and, prior to the expiry of a period of six months from the issue date of such Notes, will not offer or sell any Notes included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of

their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

- it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (''FSMA'')) received by it in connection with the issue or sale of any Notes included in this offering in circumstances in which section 21(1) of the FMSA does not apply to the Issuer or the Bank; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes included in this offering in, from or otherwise involving the United Kingdom.

**United States of America**

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

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

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

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

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

**Kazakhstan**

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

**The Netherlands**

Each Manager has represented and agreed that (i) it has not offered, sold or transferred and will not offer, sell or transfer any Notes, directly or indirectly, to individuals or legal entities, whether

situated in or outside The Netherlands, other than those who or which trade or invest in securities in the conduct of their profession or trade (which includes banks, securities firms, investment institutions, insurance companies, pension funds, other institutional investors and commercial enterprises which regularly, as an ancillary activity, invest in securities) and (ii) it has mentioned and will mention the selling restriction to this effect in all offers, offer advertisements, publications and other documents in which an offer of the Notes is made or a forthcoming offer is announced.

**Germany**

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

**Italy**

Each Manager has represented, warranted and agreed that:

- the offering of the Notes has not been cleared by the Italian Securities Exchange Commission (*Commissione Nazionale per le Società e la Borsa*) (''CONSOB'') pursuant to the Italian securities legislation, it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in an investment solicitation (''*sollecitazione all'investimento*''), as defined in art 1.1. (t) of Legislative Decree No. 58 of 24 February 1998 (the ''Financial Services Act''), and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations;
- it will not offer, sell or deliver any Notes or distribute copies of the offering memorandum or any other document relating to the Notes in the Republic of Italy, except to Italian institutional investors (''*investitori istituzionali*''), as defined in Article 100 of the Financial Services Act by reference to Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998, as amended (''Regulation No. 11522'') and that, in any case, it will not place, sell or offer the Notes to individuals resident in the Republic of Italy either in the primary or in the secondary market; and
- any offer, sale or delivery of Notes or distribution of copies of this offering memorandum or any other document relating to the Notes in the Republic of Italy must be:
  - (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993 (''Decree No. 385''), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
  - (ii) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the amount of the issue and the characteristics of the securities, applies; and
  - (iii) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

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

these transactions. Citigroup may conduct these transactions in the over-the-counter market or otherwise. If Citigroup commences any of these transactions, it may discontinue them at any time.

The Joint Lead Managers have performed investment banking and advisory services for the Bank from time to time for which they have received customary fees and expenses. The Joint Lead Managers may, from time to time, engage in transactions with and perform services for the Bank in the ordinary course of their business.

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

# TAXATION

## Kazakhstan Taxation

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

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

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

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

## Dutch Taxation

### *General*

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

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

### *Withholding tax*

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

***Corporate income tax and individual income tax***

*Residents of The Netherlands*

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

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

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

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

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

*Non-residents of The Netherlands*

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

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

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

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

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

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

***Gift, estate or inheritance taxes***

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

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

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

***Other taxes and duties***

There is no Dutch registration tax, capital tax, stamp duty or any other similar tax or duty other than court fees and contributions for the registration with the Trade Register of the Chamber of Commerce, payable 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, with the exception of capital tax that may be due by the Issuer on capital contributions made or deemed to be made to the Issuer under the Guarantee.

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

***Proposed EU Directive on the Taxation of Savings Income***

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

**United States Federal Income Taxation**

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

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

For purposes of this summary, a ''U.S. Holder'' is a beneficial owner of Notes who, for U.S. federal income tax purposes, is (i) a citizen or resident of the United States; (ii) a corporation organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2) (a) over the administration of which a U.S. court can exercise primary

supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to its consequences. A ''Non-U.S. Holder'' is a beneficial owner of Notes other than a U.S. Holder.

***Interest***

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

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

***Sale, exchange or retirement***

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

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

***U.S. backup withholding tax and information reporting***

Backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation, and payments of the proceeds of the sale or redemption of an obligation, to certain noncorporate holders of Notes that are United States persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and payments of the proceeds from the sale or redemption of an obligation made within the United States to a holder (other than an exempt recipient, including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax from any such payment within the United States 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 incorrect. The backup withholding tax rate is 28 per cent. for years 2004 through 2010.

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

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

## ENFORCEMENT OF FOREIGN JUDGMENTS

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

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

## LEGAL MATTERS

Certain legal matters in connection with the offering of the Notes will be passed on for the Issuer and the Bank by Mayer, Brown, Rowe & Maw LLP, as to matters of English law. Certain legal matters in connection with the offering of the Notes will be passed on for the Managers by Baker & McKenzie, London, England and Baker & McKenzie CIS Ltd., Almaty, Kazakhstan, and NautaDutilh N.V., Rotterdam, The Netherlands.

## INDEPENDENT ACCOUNTANTS

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

# GENERAL INFORMATION

1. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems with a Common Code of 019024032 and an ISIN of XS0190240324. The Restricted Global Note issued in respect of the Notes has been accepted for clearance through DTC with a CUSIP number of 48666D AD 2 and an ISIN of US48666FAD24.

2. The Issuer and the Bank have obtained all necessary consents, approvals and authorisations in Kazakhstan and The Netherlands in connection with the transactions described herein and the issue and performance of the Notes. The issue of the Notes and the transactions described herein were authorised by duly adopted resolutions of the sole shareholder and the Managing Board of the Issuer dated 5 April 2004 and were approved by a duly convened meeting of the Board of Directors of the Bank held on 24 February 2004 and by a resolution of the General Meeting of Shareholders of the Bank held on 26 February 2004.

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

4. There has been no adverse change, or development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Bank or any of its subsidiaries since 31 December 2003 that is material in the context of the issue of the Notes.

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

   (a) the Agency Agreement;

   (b) the Deposit Agreement;

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

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

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

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

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

   (c) the statutory unaudited unconsolidated financial statements of the Issuer for the year ended 31 December 2003 and audited consolidated financial statements for the years ended 31 December 2002 and 2001; and

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

   The Issuer does not produce interim financial statements.

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

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

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

10. The Bank's principal subsidiaries and entities over which it exercises management control are:

- *JSC Kazkommerts Securities*, a wholly-owned subsidiary of the Bank, was established on 30 October 1997, with shareholders' equity of KZT 760 million to provide investment services both to foreign and domestic clients and to participate in privatisation projects and other transactions. The company is engaged in investment banking operations and is one of the major underwriters of corporate domestic bonds. In 2003, the net profit of Kazkommerts Securities totalled KZT 17.4 million compared to KZT 8.6 million in 2002. The address of its registered office is 500 Gornaya Street, Almaty 480020, Kazakhstan.

- *JSC Kazkommerts Policy.* Kazkommerts Policy is an insurance company established in December 1996 by the shareholders of the Bank. In 2000, due to a change in regulation that allowed for equity participation of banks in insurance companies, the Bank acquired the company, holding all of its capital. In 2002, the company's net income was KZT 136.3 million, while total equity capital was KZT 290.1 million. In December 2002, the common stock of JSC Kazkommerts Policy was increased from KZT 100 million to KZT 153.8 million. In February 2003, 53,846 shares were issued for sale to the EBRD for KZT 212.6 million, and, as a result, the Bank's ownership decreased to 65 per cent. In 2003, the net income of the company totalled KZT 272 million compared to KZT 136 million in 2002. The address of its registered office is 24 Satpayev Street, Almaty 480013, Kazakhstan.

- *JSC Kazkommertsbank Kyrgyzstan* was incorporated in 1989 as JSC Kyrgyzavtobank and in 2002 Kazkommertsbank acquired a 72.4 per cent. shareholding in this bank for KZT 244 million. The same year it was renamed as JSC Kazkommertsbank Kyrgyzstan. As at 31 December 2003, the Bank had increased its shareholding in Kazkommertsbank Kyrgyzstan to 73.97 per cent. Kazkommertsbank Kyrgyzstan has branches in Bishkek and Osh. As of 31 December 2003, its assets and shareholders' equity totalled KZT 1,565 million and KZT 315.4 million, respectively, compared to KZT 700 million and KZT 311 million, respectively, in 2002. In 2003, the net income of Kazkommertsbank Kyrgyzstan totalled KZT 16.7 million compared to KZT 9 million in 2002. It is planned to increase the assets of Kazkommertsbank Kyrgyzstan to U.S.$19.6 million, and capital to U.S.$2.8 million. The address of its registered office is 42 Isanov Street, Bishkek 720017, Kyrgyz Republic.

- *JSC Kazkommerts Invest.* This company was established in July 2003 with a registered capital of KZT 315 million. The loss of the company for the year 2003 totalled KZT 6.7 million. It is expected that the company will be focused on wide-range of investment and advisory services. The address of its registered office is 500 Gornaya Street, Almaty 480020, Kazakhstan.

- *CB Moskommertsbank.* In 2002 the Bank signed a Partnership agreement with the Inter-regional Bank for Business Development in Russia with a view to further acquisition. The bank was subsequently re-registered as CB Moskommertsbank. CB Moskommertsbank assists the Bank by introducing clients in Russia to the Bank. As of the date of the offering memorandum, Moskommertsbank had no license for retail operations. The net income of Moskommertsbank totalled U.S.$1.8 million in 2003. The total assets and capital of Moskommertsbank as at the end of 2003 equalled U.S.$118 million and U.S.$30 million, respectively. The address of its registered office is 1 Bolshoy Gnezdnikovsky Pereulok, Stroeinie 2, Moscow 125009, Russian Federation.

- *Kazkommerts International B.V.* The Issuer was established in 1997 and is the primary off-shore subsidiary of the Bank engaged in raising funds for the Bank outside Kazakhstan. The Issuer's accounts have been consolidated with the Bank's since its incorporation. The address of its registered office is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands.

- *JSC UlarUmit Pension Fund.* The Bank was one of four founders of the Umit pension fund. On 3 September 2001, Umit merged with the third largest private-sector pension fund UlarUmit. As at 31 December 2003, the Bank held 33 per cent. of the merged fund, and its shareholding totalled KZT 146 million. UlarUmit is the second-largest private pension fund in Kazakhstan. The address of its registered office is 115A Abay Avenue, Almaty 480008, Kazakhstan.

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of JSC Kazkommertsbank and its consolidated subsidiaries (the "Bank") as of 31 December 2003 and 2002, and the related consolidated profit and loss accounts, statements of cash flows and changes in equity for each of the three years ended 31 December 2003, 2002 and 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of 31 December 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years ended 31 December 2003, 2002 and 2001, in accordance with International Financial Reporting Standards.

TOO Deloitte & Touche

27 February 2004

Deloitte
Touche
Tohmatsu

## JOINT STOCK COMPANY KAZKOMMERTSBANK

### CONSOLIDATED PROFIT AND LOSS ACCOUNTS
### FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
***(in Kazakhstani tenge and in thousands, except per share earning amounts)***

| | Notes | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| Interest income | 4, 34 | 35,106,301 | 24,500,940 | 17,870,462 |
| Interest expenses | 4, 34 | (18,623,916) | (11,257,899) | (7,887,765) |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | 4 | 16,482,385 | 13,243,041 | 9,982,697 |
| Provision for loan losses | 5 | (5,887,610) | (7,341,589) | (4,572,275) |
| NET INTEREST INCOME | | 10,594,775 | 5,901,452 | 5,410,422 |
| Net (loss)/gain on trading securities | 6 | (316,992) | 935,993 | 1,500,266 |
| Net gain on foreign exchange operations | 7 | 1,600,977 | 1,207,409 | 1,385,827 |
| Fee and commission income | 8 | 8,399,779 | 5,791,790 | 3,850,309 |
| Fee and commission expense | 8 | (1,334,332) | (1,126,385) | (588,970) |
| Net (loss)/gain on investment securities | 9 | (47,397) | 3,916,126 | (55,486) |
| Dividends received | | 382,449 | 446,719 | 38,327 |
| Other income | 10 | 1,239,355 | 433,141 | 282,910 |
| NET NON-INTEREST INCOME | | 9,923,839 | 11,604,793 | 6,413,183 |
| OPERATING INCOME | | 20,518,614 | 17,506,245 | 11,823,605 |
| OPERATING EXPENSES | 11 | (8,969,071) | (7,955,983) | (6,119,370) |
| OPERATING PROFIT | | 11,549,543 | 9,550,262 | 5,704,235 |
| Provision for losses on other transactions | 5 | (270,312) | (1,327,071) | (525,862) |
| (Expenses)/income from associates | 22 | (20,249) | 33,869 | 389,083 |
| PROFIT BEFORE TAXATION AND MINORITY INTEREST | | 11,258,982 | 8,257,060 | 5,567,456 |
| Income tax expense | 12 | (2,091,667) | (276,067) | (278,555) |
| NET PROFIT BEFORE MINORITY INTEREST | | 9,167,315 | 7,980,993 | 5,288,901 |
| Minority interest | 13 | (406,554) | (2,230) | – |
| NET PROFIT | | 8,760,761 | 7,978,763 | 5,288,901 |
| **Earnings per share** | | | | |
| Basic and diluted (in tenge) | 14 | 25.89 | 25.94 | 18.37 |

On behalf of the Board:

**Zhussupova N.A.**
**Chairperson**

27 February 2004
Almaty

**Cheusov P.A.**
**Chief Accountant**

27 February 2004
Almaty

The notes on pages F-8 – F-44 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-2.

## JOINT STOCK COMPANY KAZKOMMERTSBANK

### CONSOLIDATED BALANCE SHEETS
### AS OF 31 DECEMBER 2003 AND 2002
***(in Kazakhstani Tenge and in thousands)***

| | Notes | 2003 | 2002 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and balances with national (central) banks | 15 | 28,484,613 | 19,394,771 |
| Precious metals | | 300,158 | – |
| Loans and advances to banks, less allowance for loan losses | 16 | 38,582,824 | 43,451,143 |
| Trading securities | 17, 34 | 71,200,859 | 21,279,111 |
| Securities purchased under agreement to resell, less allowance for losses | 18 | 2,608,318 | 2,266,775 |
| Derivative financial instruments | 19 | 15,399 | 7,000 |
| Loans to customers, net | 20, 34 | 283,062,443 | 175,248,585 |
| Investment securities: | | | |
| – securities available for sale | 21 | 137,554 | 5,539,019 |
| – securities held-to-maturity | 21 | 32,372 | 17,276 |
| Investments into associates | 22, 34 | 146,206 | 285,917 |
| Fixed assets, less accumulated depreciation | 23 | 5,867,947 | 3,447,613 |
| Intangible assets, less accumulated amortization | 24 | 436,051 | 608,577 |
| Other assets, less allowance for losses | 25 | 3,366,413 | 3,215,511 |
| TOTAL ASSETS | | 434,241,157 | 274,761,298 |
| **LIABILITIES AND SHAREHOLDER EQUITY** | | | |
| LIABILITIES: | | | |
| Loans and advances from banks | 26 | 76,221,919 | 54,662,867 |
| Securities sold under agreements to repurchase | | 37,250,675 | – |
| Derivative financial instruments | 19 | 801 | 2,203 |
| Customer accounts | 27, 34 | 151,589,416 | 141,371,975 |
| Debt securities issued | 28 | 98,233,366 | 30,316,786 |
| Other borrowed funds | 29 | 3,525,473 | 4,651,066 |
| Dividends payable | | 404 | 406 |
| Other liabilities | 30, 34 | 8,402,672 | 5,548,558 |
| | | 375,224,726 | 236,553,861 |
| Subordinated debt | 31 | 8,732,914 | 6,060,409 |
| Total liabilities | | 383,957,640 | 242,614,270 |
| Minority interest | 13 | 4,704,625 | 81,240 |
| FINANCIAL COMMITMENTS AND CONTINGENCIES | 33, 34 | – | – |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital | 32 | 4,018,930 | 3,499,688 |
| Share premium | | 9,453,411 | 5,473,313 |
| Fixed assets revaluation reserve | | 569,783 | 6,872 |
| Retained earnings | | 31,536,768 | 23,085,915 |
| Total shareholders' equity | | 45,578,892 | 32,065,788 |
| TOTAL LIABILITIES AND SHAREHOLDER EQUITY | | 434,241,157 | 274,761,298 |

**On behalf of the Board:**

**Zhussupova N.A.**
**Chairperson**

27 February 2004
Almaty

**Cheusov P.A.**
**Chief Accountant**

27 February 2004
Almaty

The notes on pages F-8 – F-44 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-2.

## JOINT STOCK COMPANY KAZKOMMERTSBANK

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
***(in Kazakhstani Tenge and in thousands)***

| | Share capital | Share premium | Fixed assets revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **31 December 2000** | **2,931,906** | **2,793,930** | **10,351** | **11,615,900** | **17,352,087** |
| Depreciation of fixed assets revaluation reserve | – | – | (2,226) | 2,226 | – |
| Share capital increase of: | | | | | |
| – ordinary shares | 1 | – | – | – | 1 |
| – preference shares | 555,901 | 2,632,594 | – | – | 3,188,495 |
| Sale of repurchased shares | 9,883 | 38,163 | – | – | 48,046 |
| Dividends declared | – | – | – | (1,454,502) | (1,454,502) |
| Net profit for the year | – | – | – | 5,288,901 | 5,288,901 |
| **31 December 2001** | **3,497,691** | **5,464,687** | **8,125** | **15,452,525** | **24,423,028** |
| Share capital increase of: | 1,731 | 8,273 | | | |
| – preference shares | – | – | 10,004 | | |
| Sale of repurchased shares | 266 | 353 | – | – | 619 |
| Depreciation of fixed assets revaluation reserve | – | – | (1,253) | 1,253 | – |
| Dividends declared preference shares | – | – | – | (346,626) | (346,626) |
| Net profit for the year | – | – | – | 7,978,763 | 7,978,763 |
| **31 December 2002** | **3,499,688** | **5,473,313** | **6,872** | **23,085,915** | **32,065,788** |
| Depreciation of fixed assets revaluation reserve | – | – | (14,233) | 14,233 | – |
| Fixed assets revaluation (less deferred income tax of KZT 228,917 thousand) | – | – | 577,144 | – | 577,144 |
| Share capital increase of: | | | | | |
| – ordinary shares | 519,212 | 3,979,934 | – | – | 4,499,146 |
| Sale of repurchased shares | 30 | 164 | – | – | 194 |
| Dividends declared on preference shares | – | – | – | (324,141) | (324,141) |
| Net profit for the year | – | – | – | 8,760,761 | 8,760,761 |
| **31 December 2003** | **4,018,930** | **9,453,411** | **569,783** | **31,536,768** | **45,578,892** |

**On behalf of the Board:**

**Zhussupova N.A.**
**Chairperson**

27 February 2004
Almaty

**Cheusov P.A.**
**Chief Accountant**

27 February 2004
Almaty

The notes on pages F-8 – F-44 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-2.

## JOINT STOCK COMPANY KAZKOMMERTSBANK

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
***(in Kazakhstani Tenge and in thousands)***

| | Notes | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| Profit before income tax and minority interest | | 11,258,982 | 8,257,060 | 5,567,456 |
| Adjustments for: | | | | |
| Provision for loan losses | | 5,887,610 | 7,341,589 | 4,572,275 |
| Provision for losses on other transactions | | 270,312 | 1,327,071 | 525,862 |
| Unrealised gain and amortisation of discounts on trading securities and securities available-for-sale | | (171,831) | (4,317,810) | (955,650) |
| Amortization of discount/premium on issued securities | | (1,467,824) | 185,746 | – |
| Depreciation and amortisation | | 978,832 | 625,058 | 516,347 |
| Decrease/(increase) in net interest accruals | | 377,057 | 1,465,157 | (2,958,124) |
| Expenses/(income) from associates | | 20,249 | (33,869) | (389,083) |
| Net change in recovery value of derivative financial instruments (net#) | | (9,801) | 249,036 | (230,316) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 17,143,586 | 15,099,038 | 6,648,767 |
| Changes in operating assets and liabilities | | | | |
| (Increase)/decrease in operating assets: | | | | |
| Minimum reserve deposit with the Central Bank of the Russian Federation | | (121,865) | – | – |
| Loans and advances to banks | | (12,151,488) | 5,409,000 | (9,164,838) |
| Precious metals | | (300,158) | – | – |
| Trading securities | | (49,174,659) | (6,764,553) | 13,863,820 |
| Securities available-for-sale | | 9,857,668 | (744,352) | 996,556 |
| Securities held-to-maturity | | (15,305) | 125,726 | (93,536) |
| Securities purchased under repurchase agreements | | (228,935) | (2,313,035) | – |
| Loans to clients | | (112,945,369) | (35,627,095) | (74,617,909) |
| Dividends received | | 382,449 | 380,121 | 541,498 |
| Other assets | | (487,380) | (2,879,510) | (1,130,365) |
| Increase/(decrease) in operating liabilities | | | | |
| Loans and advances from banks and repurchase agreements | | 58,144,477 | 10,065,523 | 21,099,758 |
| Customer accounts | | 9,438,227 | 29,436,987 | 54,836,729 |
| Other borrowed funds | | (1,025,302) | (674,626) | 819,954 |
| Other liabilities | | 958,337 | (714,835) | (1,790,940) |
| Cash (outflow)/inflow from operating activities before taxation | | (80,525,717) | 10,798,389 | 12,009,494 |
| Income tax paid | | (471,059) | (722,962) | (20,702) |
| Net cash (outflow)/inflow from operating activities | | (80,996,776) | 10,075,427 | 11,988,792 |

## JOINT STOCK COMPANY KAZKOMMERTSBANK

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001
*(in Kazakhstani Tenge and in thousands)*

| | Notes | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | | |
| Purchase of fixed assets (net) | | (2,612,818) | (1,587,635) | (743,816) |
| Sale-purchase of intangible assets (net) | | 81,839 | (196,711) | (146,177) |
| Sale/(acquisition) of investments into associates | | 119,462 | (55,800) | (74,560) |
| Acquisition of investments into subsidiaries | | – | (249,840) | – |
| Consolidation effect of Moskommertsbank | | 434,042 | – | – |
| Net cash outflow from investing activities | | (1,977,475) | (2,089,986) | (964,553) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | | |
| Issue of ordinary share capital | | 519,212 | – | 1 |
| Issue of preference share capital | | – | 1,731 | 555,901 |
| Proceeds from/(repayment of) debt securities issued | | 68,226,334 | 29,614,150 | (14,899,527) |
| Subordinated debt | | 2,667,928 | 1,773,864 | – |
| Sale of repurchased shares | | 30 | 266 | 9,883 |
| Share premium | | 3,980,098 | 8,626 | 2,670,757 |
| Dividends paid | | (324,141) | (347,473) | – |
| Net cash inflow/(outflow) from financing activities | | 75,069,461 | 31,051,164 | (11,662,985) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (7,904,790) | 39,036,605 | (638,746) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD | 15 | 55,226,912 | 16,190,307 | 16,829,053 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 15 | 47,322,122 | 55,226,912 | 16,190,307 |

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to KZT 17,185,965 thousand and KZT 34,110,598 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2002 amounted to KZT 9,822,159 thousand and KZT 21,985,172 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2001 amounted to KZT 6,597,635 thousand and KZT 12,953,470 thousand, respectively.

**On behalf of the Board:**

**Zhussupova N.A.**
**Chairperson**

27 February 2004
Almaty

**Cheusov P.A.**
**Chief Accountant**

27 February 2004
Almaty

The notes on pages F-8 – F-44 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-2.

## 1. ORGANISATION

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

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

Kazkommertsbank has 22 branches in the Republic of Kazakhstan and a representative office in London (Great Britain). In December 2002 Kazkommertsbank obtained a license for branch opening in the Republic of Cyprus.

The number of employees of the Bank at 31 December 2003 and 2002 was 3,044 and 2,850, respectively.

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

| Name | Country of operation | Kazkommerstbank ownership interest 2003 | 2002 | Type of operation |
|---|---|---|---|---|
| OJSC Kazkommerts Securities | Republic of Kazakhstan | 100% | 100% | Securities market transactions |
| JSC Kazkommerts Invest | Republic of Kazakhstan | 100% | – | Finance services to large corporate and private clients |
| OJSC IC Kazkommerts Policy | Republic of Kazakhstan | 65% | 100% | Insurance |
| Kazkommerts International B.V. | Netherlands | 100% | 100% | Capital borrowings on large international monetary markets |
| OJSC Kazkommertsbank Kyrgyzstan | Kyrgyz Republic | 73.97% | 73.84% | Commercial bank |

Kazkommert Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100%), subsidiaries, are not consolidated into the consolidated financial statements due to the immateriality of their financial statements.

In February 2003 53,846 ordinary shares of OJSC IC Kazkommerts-Policy of KZT 212,590 thousand were purchased by other shareholders which led to decrease of the Kazkommertsbank's ownership interest in the share capital of OJSC IC Kazkommerts Policy to 65%.

In June 2002 the Bank acquired 72.35% of outstanding common stock of Kyrgyzavtobank, a commercial bank operating in the Republic of Kyrgyzstan, and in December 2002 its investment was increased to 73.84%. On 5 December 2002 Kyrgyzavtobank was re-registered as OJSC Kazkommertsbank Kyrgyzstan. OJSC Kazkommertsbank Kyrgyzstan was consolidated into the

consolidated financial statements of the Bank from 30 June 2002. The Bank paid KZT 249,840 thousand for the shares of JSC Kyrgyzautobank. On 30 May 2003 the Bank acquired 250 shares in amount of KZT 461 thousand, which increased its share holding up to 73.97%.

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

These consolidated financial statements were authorized for issue by the Bank's Board of Managing Directors on 27 February 2004.

## 2. BASIS OF PRESENTATION

***Accounting basis*** — These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (''IFRS''). These financial statements are presented in thousands of Kazakhstani tenge (''KZT''), except for per share earning amounts and unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention, except for the buildings and constructions revaluation which was performed in 2003 to record their fair value and amounted to KZT 577,144 thousand and cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities held for trading, derivative financial instruments.

The Bank maintains its accounting records in accordance with IFRS, its foreign subsidiaries maintain accounting records in accordance with the requirements of their countries of residence where subsidiaries operate. These consolidated financial statements have been prepared based on accounting records of Kazkommertsbank and its foreign subsidiaries, and have been adjusted to conform to IFRS.

***Measurement currency*** — The measurement currency of these consolidated financial statements is KZT.

## 3. SIGNIFICANT ACCOUNTING POLICIES

***Principles of consolidation*** — The consolidated financial statements include the accounts of majority-owned subsidiaries, and MKB, operations of which are controlled by Kazkommertsbank.

All significant inter-company transactions and balances have been eliminated from the consolidated financial statements. The ownership interest of Kazkommertsbank and the proportion of voting power of the Bank in the significant subsidiaries as of 31 December 2003 and 2002 is presented in Note 1.

Enterprises acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority interests are shown separately in the balance sheets and profit and loss accounts, respectively.

In translating the financial statements of a foreign subsidiary into the measurement currency for incorporation in the financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 ''The Effects of Changes in Foreign Interest Rates (''IAS 21'').

***Equity accounting*** — The share of Kazkommertsbank in net assets and net income of entities, where Kazkommertsbank holds 20 to 50% of share capital and/or has the ability to exercise significant influence over their operating and financial policies (''associates'') is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition (Note 22). Equity accounting is discontinued when the carrying amount of

the investment in an associated undertaking reaches zero. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Bank.

***Recognition and measurement of financial instruments*** — The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

***Cash and cash equivalents*** — Cash and cash equivalents include cash on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and advances to banks in countries included in the Organization for Economic Co-operation and Development (''OECD'').

***Precious metals*** — Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

***Loans and advances to banks*** — In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

***Trading securities*** — Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

***Repurchase and reverse repurchase agreements*** — The Bank enters into sale and purchase back agreements (''repos'') and purchase and sale back agreements (''reverse repos'') in the normal course of its business. repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collaterized deposit received.

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

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense.

***Derivative financial instruments*** — The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps, foreign currency options.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of derivatives the Bank enters into are of short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

***Originated loans*** — Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account.

Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for loan losses.

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

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

***Allowance for losses*** — The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

***Securities held-to-maturity*** — Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment plus accrued coupon income. Amortized discounts are recognized in the interest income over the period to maturity.

***Securities available-for-sale*** — Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

***Fixed and intangible assets*** — Fixed and intangible assets are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by the independent appraiser. The basis for the determination of the fair market value is the real estate market. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

| | |
|---|---|
| Buildings | 2.5% |
| Furniture and equipment | 10 – 30% |
| Intangible assets | 15 – 33.3% |

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

***Taxation*** — Taxes on income are computed in accordance with the laws of the countries where the Bank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Countries where the Bank operates also have various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the profit and loss account.

***Deposits from banks and customers*** — Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

***Debt securities issued*** — Debt securities issued represent promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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

***Share capital and share premium*** — Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

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

***Recognition of income and expense*** — Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more then 30 days. Interest income also includes interest income earned on investment and trading securities. Other income are credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

***Foreign currency translation*** — Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

***Rates of exchange*** — The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

| | 31 December 2003 | 31 December 2002 |
|---|---|---|
| KZT/US Dollar | 144.22 | 155.85 |
| KZT/Euro | 180.23 | 162.46 |
| KZT/Gold (1ounce) | 60,031.58 | 53,417.88 |

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

***Fiduciary activities*** — The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

***Reclassifications*** — Certain reclassifications have been made to the financial statements as of 31 December 2002 and 2001 to conform to the presentation as of 31 December 2003.

## 4. NET INTEREST INCOME

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Interest income** | | | |
| Interest on loans to customers | 29,749,318 | 23,044,439 | 15,842,523 |
| Interest on debt securities | 3,774,899 | 1,110,697 | 1,316,069 |
| Interest on loans and advances to banks | 1,526,766 | 345,804 | 711,870 |
| Interest on reverse repurchase transactions | 55,318 | – | – |
| Total interest income | 35,106,301 | 24,500,940 | 17,870,462 |
| **Interest expense** | | | |
| Interest on debt securities issued | 8,577,577 | 2,083,414 | 762,717 |
| Interest on customer accounts | 7,773,268 | 6,880,159 | 4,521,120 |
| Interest on loans and advances from banks | 1,911,084 | 1,939,714 | 2,266,854 |
| Other interest expenses | 361,987 | 354,612 | 337,074 |
| Total interest expense | 18,623,916 | 11,257,899 | 7,887,765 |
| **Net interest income before provision for loan losses** | **16,482,385** | **13,243,041** | **9,982,697** |

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

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

| | Loans and advances to banks | Loans to customers | Securities under repurchase agreements | Total |
|---|---|---|---|---|
| 31 December 2000 | 93,122 | 8,399,789 | – | 8,492,911 |
| Provision | 202,038 | 4,370,237 | – | 4,572,275 |
| Write-off of assets | – | (2,485,805) | – | (2,485,805) |
| Recoveries of assets previously written off | – | 1,387,882 | – | 1,387,882 |
| 31 December 2001 | 295,160 | 11,672,103 | – | 11,967,263 |
| Acquisition of subsidiary bank | – | 29,047 | – | 29,047 |
| (Recovery)/Provision | (125,002) | 7,420,331 | 46,260 | 7,341,589 |
| Write-off of assets | – | (6,319,964) | – | (6,319,964) |
| Recoveries of assets previously written off | – | 1,214,865 | – | 1,214,865 |
| 31 December 2002 | 170,158 | 14,016,382 | 46,260 | 14,232,800 |
| Consolidation effect of MKB | 5,043 | 4,644 | – | 9,687 |
| Provision/(Recovery) | 239,385 | 5,694,485 | (46,260) | 5,887,610 |
| Write-off of assets | (2,233,398) | (2,233,398) | | |
| Recoveries of assets previously written off | – | 1,586,965 | – | 1,586,965 |
| 31 December 2003 | 414,586 | 19,069,078 | – | 19,483,664 |

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

| | Insurance reserves | Accounts receivable | Guarantees and other commitments | Total |
|---|---|---|---|---|
| 31 December 2000 | – | 3,017 | 287,156 | 290,173 |
| Acquisition of the subsidiary | 138,849 | – | – | 138,849 |
| Provision | 130,855 | 15,387 | 379,620 | 525,862 |
| Write-offs | – | (5,495) | – | (5,495) |
| Recoveries | – | 400 | – | 400 |
| 31 December 2001 | 269,704 | 13,309 | 666,776 | 949,789 |
| Provision | 150,800 | 52,840 | 1,123,431 | 1,327,071 |
| Write-offs | – | (16,364) | – | (16,364) |
| Recoveries | – | 3,300 | – | 3,300 |
| 31 December 2002 | 420,504 | 53,085 | 1,790,207 | 2,263,796 |
| Consolidation effect of MKB | – | 227 | – | 227 |
| Provision/(Recovery) | 636,240 | (2,011) | (363,917) | 270,312 |
| Write-offs | – | (89,595) | – | (89,595) |
| Recoveries | – | 68,814 | – | 68,814 |
| 31 December 2003 | 1,056,744 | 30,520 | 1,426,290 | 2,513,554 |

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

Net (loss)/gain on trading securities comprise:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Debt securities | (26,814) | 885,357 | 1,371,559 |
| Equity securities | (290,178) | 50,636 | 128,707 |
| **Total net (loss)/gain on trading securities** | **(316,992)** | **935,993** | **1,500,266** |

## 7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Dealing, net | 1,419,322 | 640,405 | 730,264 |
| Translation differences, net | 181,655 | 567,004 | 655,563 |
| **Total net gain on foreign exchange operations** | **1,600,977** | **1,207,409** | **1,385,827** |

## 8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Fee and commission income:** | | | |
| Cash operations | 2,094,290 | 1,634,263 | 1,327,706 |
| Settlements | 1,614,231 | 1,269,487 | 639,440 |
| Documentary operations | 1,614,916 | 1,215,418 | 480,819 |
| Foreign exchange and securities operations | 1,149,461 | 732,067 | 662,383 |
| Credit cards operations | 627,323 | 407,121 | 236,645 |
| Commission for the loan issuance | 605,881 | 110,428 | 158,622 |
| Insurance operations | 123,532 | 127,382 | – |
| Encashment operations | 112,115 | 79,431 | 86,179 |
| Commission for consulting | 10,930 | 2,923 | 13,051 |
| Other | 447,100 | 213,270 | 245,464 |
| **Total fee and commission income** | **8,399,779** | **5,791,790** | **3,850,309** |
| **Fee and commission expense:** | | | |
| Commission from loans | 395,761 | 489,254 | 141,050 |
| Bank cards services | 303,630 | 228,832 | 127,596 |
| Letters of credit and guarantees | 290,217 | 167,130 | 43,787 |
| Insurance operations | 132,652 | 55,626 | 15,292 |
| Correspondent bank services | 65,565 | 56,870 | 38,950 |
| Foreign currency and securities operations | 62,214 | 46,375 | 50,831 |
| Services of processing centre of the NBRK | 39,830 | 49,801 | 75,080 |
| Other | 44,463 | 32,497 | 96,384 |
| **Total fee and commission expense** | **1,334,332** | **1,126,385** | **588,970** |

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

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Unrealized gain/(loss) from revaluation of securities available-for-sale | 40,784 | 3,916,126 | (54,071) |
| Net loss on derecognition of securities available-for-sale | (88,181) | – | (1,415) |
| **Total net (loss)/gain on investment securities** | **(47,397)** | **3,916,126** | **(55,486)** |

On 29 January 2003 the shares of CJSC Air Kazakhstan were sold by the Bank to the Government of Kazakhstan for the amount of KZT 2,390,700 thousand.

On 24 June 2003 the Bank sold 29% of shares of CJSC ABN AMRO Bank Kazakhstan to the existing shareholders of ABN AMRO Bank Kazakhstan for KZT 2,949,051 thousand.

The value of CJSC ABN AMRO Bank Kazakhstan investments in 2002 was determined using the generally accepted methodology of equity evaluation, where a growing factor of 7% p.a. and a discount of 13.7% were used. Application of this method has led to the double proportion of the market value to the carrying amount and amounted to KZT 3,120,172 thousand. Actual value of the transaction turned out to be less for KZT 171,121 thousand, at the same time the Bank received dividends for 2002 in amount of KZT 369,947 thousand less withholding tax.

Unrealized income from securities available-for-sale in 2002 included a revaluation gain on the cost of investments in CJSC ABN AMRO Bank Kazakhstan and CJSC Air Kazakhstan for the amount of KZT 1,560,086 thousand KZT 2,390,700 thousand, respectively.

## 10. OTHER INCOME

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Insurance premiums of Kazkommerts Policy | 1,048,665 | 335,214 | 205,851 |
| Income from recovery of expenses paid | 74,358 | 609 | 1,819 |
| Proceeds from sale of fixed assets and fixed assets received free of charge | 22,281 | 12,192 | 345 |
| Fines and penalties received | 4,565 | 649 | 433 |
| Sale of low-value inventory and blanks | 1,234 | 7,180 | 9,082 |
| Other income | 88,252 | 77,297 | 65,380 |
| | **1,239,355** | **433,141** | **282,910** |

## 11. OPERATING EXPENSES

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Staff costs | 4,129,235 | 4,178,014 | 2,914,122 |
| Depreciation and amortization | 978,832 | 625,058 | 516,347 |
| Fixed assets maintenance (buildings, intangibles, etc.) | 442,558 | 242,499 | 132,128 |
| Advertising costs | 379,117 | 311,911 | 289,198 |
| Insurance of individual deposits | 310,419 | 352,755 | 141,154 |
| Business trip expenses | 269,753 | 252,806 | 203,718 |
| Communications | 261,981 | 220,203 | 223,479 |
| Value added tax | 253,133 | 233,676 | 256,004 |
| Lease | 206,609 | 159,584 | 121,792 |
| Membership fee | 203,357 | 12,904 | 808 |
| Taxes, other than income tax | 181,897 | 139,282 | 164,744 |
| Security | 145,681 | 102,290 | 113,149 |
| Vehicles maintenance | 140,502 | 109,885 | 89,777 |
| Charity and sponsorship expenses | 136,755 | 157,740 | 182,931 |
| Professional services | 97,431 | 96,221 | 126,925 |
| Training | 85,055 | 68,093 | 20,375 |
| Unused vacation and sick leave reimbursements | 72,251 | 31,679 | 41,329 |
| Cash collection expenses | 70,589 | 65,921 | 69,536 |
| Stationery | 60,116 | 52,411 | 32,639 |
| Representative expenses | 47,475 | 35,054 | 21,567 |
| Mail and courier expenses | 32,764 | 30,157 | 21,333 |
| Legal services | 27,821 | 25,888 | 40,648 |
| Custom duties for import of foreign currency | 20,433 | 89,420 | 195,443 |
| Other expenses | 415,307 | 362,532 | 200,224 |
| | **8,969,071** | **7,955,983** | **6,119,370** |

## 12. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003 and 2002 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003 and 2002 comprise:

| | 2003 | 2002 |
|---|---|---|
| Deferred assets: | | |
| Provisions under guarantees and letters of credit | – | 252,581 |
| Other assets | 398,466 | 219,278 |
| **Total deferred assets** | **398,466** | **471,859** |
| Deferred liabilities: | | |
| Loans to banks and customers | 3,005,134 | 341,910 |
| Provisions under guarantees and letters of credit | 92,916 | – |
| Investments in associates | 71 | 1,100,795 |
| Fixed and intangible assets | 245,292 | 243,562 |
| **Total deferred liabilities** | **3,343,413** | **1,686,267** |
| Net deferred liabilities | 2,944,947 | 1,214,408 |

Relationships between tax expenses and accounting profit for the years ended 31 December 2003, 2002 and 2001 are explained as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Profit before income tax and minority interest | 11,258,982 | 8,257,060 | 5,567,456 |
| Tax at the statutory tax rate | 3,357,404 | 2,477,118 | 1,670,237 |
| Tax effect of permanent differences | (1,265,737) | (2,201,051) | (1,391,682) |
| Income tax expense | 2,091,667 | 276,067 | 278,555 |
| Current income tax expense | 590,045 | 477,990 | 23,646 |
| Reversal of prior year tax | – | – | (153,085) |
| Deferred tax expense/(recovery) | 1,501,622 | (201,923) | 407,994 |
| Income tax expense | 2,091,667 | 276,067 | 278,555 |

| **Deferred income tax liabilities** | **2003** | **2002** | **2001** |
|---|---|---|---|
| At beginning of the period | 1,214,408 | 1,416,331 | 1,008,337 |
| Decrease of fixed assets revaluation reserve | 228,917 | – | – |
| Increase/(decrease) in the deferred income tax for the period | 1,501,622 | (201,923) | 407,994 |
| At end of the period | 2,944,947 | 1,214,408 | 1,416,331 |

## 13. MINORITY INTEREST

The movement in minority interest during 2003 and 2002 comprises:

| | |
|---|---|
| **31 December 2001** | – |
| Minority interest in the subsidiary purchased by the Bank | 79,010 |
| Minority interest in the net profit of the Bank for the year | 2,230 |
| **31 December 2002** | **81,240** |
| Consolidation effect of MKB | 4,220,116 |
| Minority interest in the net profit of the Bank for the year | 406,554 |
| Foreign exchange effect | (3,285) |
| **31 December 2003** | **4,704,625** |

## 14. EARNINGS PER SHARE

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Income:** | | | |
| Net income for the year | 8,760,761 | 7,978,763 | 5,288,901 |
| **Less:** | | | |
| Dividends on preference stock | (324,141) | (346,626) | – |
| Income less dividends on preference shares | 8,436,620 | 7,632,137 | 5,288,901 |
| **Weighted average number of common stock** for basic and diluted earnings per share (pieces) | 325,817,299 | 294,182,278 | 287,982,090 |
| **Earnings per share** — basic and diluted (KZT) | 25.89 | 25.94 | 18.37 |

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

The balance with the Central Bank of the Russian Federation as of 31 December 2003 included amounts of KZT 121,865 thousand represented by the balances with the Central Bank of the Russian Federation. The Bank is required to maintain the reserve balances at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Cash on hand | 10,352,004 | 10,135,899 | 5,822,268 |
| Balances with national (central) banks | 18,132,609 | 9,258,872 | 5,656,147 |
| Loans and advances to banks in OECD countries (Note 16) | 18,963,568 | 35,832,141 | 4,711,892 |
| | 47,448,181 | 55,226,912 | 16,190,307 |
| Less minimum reserve deposit with the Central Bank of the Russian Federation | (121,865) | – | – |
| Less accrued interest income on balances with NBRK | (4,194) | – | – |
| **Total cash and cash equivalents** | **47,322,122** | **55,226,912** | **16,190,307** |

## 16 LOANS AND ADVANCES TO BANKS

| | 2003 | 2002 |
|---|---|---|
| Loans and advances to banks | 35,385,911 | 32,554,375 |
| Correspondent accounts with other banks | 3,477,327 | 11,020,905 |
| Accrued interest income on loans and advances to banks | 134,172 | 46,021 |
| | 38,997,410 | 43,621,301 |
| Less allowance for loan losses | (414,586) | (170,158) |
| **Total loans and advances to banks** | 38,582,824 | 43,451,143 |

Movements in allowances for loan losses and advances to banks for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

On 31 December 2003 the Bank entered into short-term deposit transactions with two counter-parties totaling to KZT 12,979,800 thousand, which individually exceeded 10% of the Bank's equity. These transactions were closed on 5 January 2004.

## 17. TRADING SECURITIES

| | | | | |
|---|---|---|---|---|
| **Debt securities:** | | | | |
| Short-term NBRK notes | 1.96-5.11% | 22,700,525 | 5.35-5.89% | 5,879,159 |
| State bonds of the Federal Republic of Germany | 4.5%-5.25% | 7,731,347 | | – |
| Eurobonds of the Ministry of Finance of the Republic of Kazakhstan | 11.125-13.625% | 6,399,117 | 5.36-9.26% | 5,446,171 |
| Government treasury bills | 5.8-9.99% | 6,061,421 | 6.17-14.4% | 2,410,209 |
| Freddie MAC bonds | 9.28-15.29% | 3,909,001 | | – |
| The Netherlands state bonds | 3.75% | 3,676,560 | | – |
| Fannie MAE bonds | 2.0% | 3,605,301 | | – |
| Federal Home Loan Bank bonds | 2.18% | 3,579,163 | | – |
| Kaztransoil bonds | 8.5-9% | 2,649,512 | 9.72-10.12% | 586,425 |
| Eurobonds of TuranAlem Finance B.V. | 7.875-11.5% | 1,951,242 | 8.52-11.30% | 2,041,722 |
| Bonds of PetroKazakhstan Oil Products | 10.0% | 1,744,830 | 11.22% | 15,700 |
| US Treasury bills | 3.63% | 1,392,056 | | – |
| Bonds of Development Bank of Kazakhstan | 7.125-7.375% | 1,017,559 | | – |
| Bonds of Kazakhstani Mortgage Company | 8-8.6% | 767,742 | | – |
| Atyrau region's administration bonds | 8.5-8.6% | 468,790 | 6.39-8.6% | 6,466 |
| Kazakhtelecom bonds | 10.0% | 428,638 | 7.11-10.25% | 55,094 |
| Eurobonds of the Ministry of Finance of the Russian Federation | 12.75% | 360,521 | 12.75% | 571,093 |
| Astana municipality bonds | 8-8.5% | 352,098 | | – |
| Dalsvyaz bonds | 14.5% | 317,536 | | – |
| Nidan Foods bonds, 1st issue. | 17.0% | 248,911 | | – |
| Debt securities of Yaroslav Region | 13.76% | 168,345 | | – |
| KAZTRANSCOM bonds | 8.0% | 157,996 | | – |
| Avtovaz bonds | 15.25% | 151,400 | | – |
| East Kazakhstan regional administration bonds | 5.97-6.3% | 149,307 | 7.83-8.96% | 138,711 |
| KAZATOMPROM bonds | 8.5% | 95,544 | | – |
| Nevinnomisski Azot bonds | 18.0% | 69,351 | | – |
| VITA bonds | 8.6-14% | 66,863 | | – |
| Kaztransoil bonds | 8.5% | 20,094 | 7.76-13.36% | 2,229,652 |
| Almaty Kus bonds | 10.0% | 9,886 | 12.0-12.22% | 15,312 |
| Caspian Bank bonds | 9.5% | 3,008 | | – |
| Karazhanbasmunai bonds | – | – | 11-11.42% | 989,814 |
| Eurobonds of Hurricane Hydrocarbons Ltd | – | – | 12.0% | 157,470 |
| | | 70,253,664 | | 20,542,998 |

| | Ownership share | 2003 | Ownership share | 2002 |
|---|---|---|---|---|
| **Shares:** | | | | |
| Gazprom | 0.82% | 543,508 | – | – |
| Kazakhtelecom GDR | 0.54% | 219,209 | 1.62% | 247,904 |
| Kazakhmys | 0.11% | 83,649 | 0.11% | 348,008 |
| Ust-Kamenogorsk Titanium and Magnesium Plant | 0% | 56,474 | 0.96% | 140,201 |
| Mosenergo | 0.03% | 44,355 | – | – |
| | | 947,195 | | 736,113 |
| **Total trading securities** | | **71,200,859** | | **21,279,111** |

As of 31 December 2003 and 2002 included in trading securities is accrued interest income on debt securities amounting to KZT 773,634 thousand and KZT 245,773 thousand, respectively.

As of 31 December 2003 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, Notes of the National Bank of the Republic of Kazakhstan, securities of the Government of the USA, Germany, the Netherlands, and corporate bonds pledged under repurchase agreements with other banks amounting to KZT 37,250,675 thousand. All the agreements have maturity within 3 months.

## 18. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2003 and 2002 the Bank purchased securities amounting to KZT 2,608,318 thousand and KZT 2,313,035 thousand under agreements to resell them within 3 months. A coupon of 4-7% p.a. of the nominal value is payable on above mentioned securities.

| | 2003 | 2002 |
|---|---|---|
| Bonds of the Russian Federation institutions | 1,043,008 | – |
| Shares of the Russian Federation institutions | 945,128 | – |
| State mid-term obligations of the Ministry of Finance of the Republic of Kazakhstan | 487,548 | 309,693 |
| Notes of the National Bank of the Republic of Kazakhstan | 100,000 | 2,000,822 |
| Government treasury bills of the Ministry of Finance of the Kyrgyz Republic | 32,634 | – |
| Eurobonds of the Ministry of Finance of the Republic of Kazakhstan | – | 2,520 |
| | 2,608,318 | 2,313,035 |
| Less allowance for losses of repurchase agreements | – | (46,260) |
| **Total securities purchased under agreement to resell, net** | 2,608,318 | 2,266,775 |

Movements in allowances for loan losses under repurchase agreements for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Amount payable | Net fair value Asset | Liability | Amount payable | Net fair value Asset | Liability |
| ***Foreign currency contracts*** | | | | | | |
| Forwards | 4,407,171 | 15,399 | – | 3,117,000 | 7,000 | – |
| Swaps | 216,330 | – | (801) | 487,380 | – | (2,203) |
| ***Securities contracts*** | | | | | | |
| Forwards | 12,569,911 | – | – | – | – | – |
| | | 15,399 | (801) | | 7,000 | (2,203) |

## 20. LOANS TO CUSTOMERS

| | 2003 | 2002 |
|---|---|---|
| Originated loans | 291,512,002 | 179,018,399 |
| Accrued interest income on loans to customers | 10,619,519 | 10,246,568 |
| | 302,131,521 | 189,264,967 |
| Less allowance for loan losses | (19,069,078) | (14,016,382) |
| **Total loans to customers, net** | **283,062,443** | **175,248,585** |

| | 2003 | 2002 |
|---|---|---|
| Loans collateralized by combined collateral | 125,477,075 | 69,031,306 |
| Loans collateralized by real estate | 59,298,681 | 45,256,405 |
| Loans collateralized by guarantees of enterprises | 40,758,423 | 18,211,792 |
| Loans collateralized by inventories | 27,035,014 | 15,717,804 |
| Loans collateralized by shares of other companies | 13,444,865 | 10,650,747 |
| Loans collateralized by equipment | 10,959,952 | 12,086,239 |
| Loans collateralized by cash or Kazakhstani Government guarantees | 8,536,912 | 9,334,649 |
| Loans collateralized by guarantees of financial institutions | 4,341,365 | 50,975 |
| Unsecured loans | 12,279,234 | 8,925,050 |
| | 302,131,521 | 189,264,967 |
| Less allowance for loan losses | (19,069,078) | (14,016,382) |
| **Total loans to customers, net** | **283,062,443** | **175,248,585** |

Movements in allowances for loan losses for the years ended 31 December 2003 and 2002 are disclosed in Note 5

| | 2003 | 2002 |
|---|---|---|
| **Analysis by industry:** | | |
| Trade | 55,661,465 | 33,288,670 |
| Energy | 47,506,445 | 46,189,634 |
| Construction | 34,566,516 | 13,755,620 |
| Agriculture | 34,468,555 | 28,845,739 |
| Individuals | 31,790,749 | 12,234,452 |
| Food | 24,187,221 | 15,496,591 |
| Transport and communication | 14,764,673 | 7,701,327 |
| Hotel business | 14,128,249 | 4,789,925 |
| Mining and metallurgy | 10,261,097 | 6,133,103 |
| Real estate | 5,981,736 | 6,536,943 |
| Machinery construction | 4,940,297 | 2,350,152 |
| Finance sector | 2,640,527 | 357,184 |
| Culture and art | 2,335,968 | 2,110,036 |
| Other | 18,898,023 | 9,475,591 |
| | 302,131,521 | 189,264,967 |
| Less allowance for loan losses | (19,069,078) | (14,016,382) |
| **Total loans to customers, net** | 283,062,443 | 175,248,585 |

As of 31 December 2003 and 2002 included in loans to customers are non-accrual loans which amounted to KZT 2,452,768 thousand and KZT 2,312,351 thousand, respectively. As of 31 December 2003 and 2002 the total amount of interest on these loans non-recognized as income amounted to KZT 145,822 thousand and KZT 107,540 thousand, respectively.

As of 31 December 2003 and 2002 the Bank's loans to the clients, which individually exceeded 10% of the Bank's equity, are represented by the following enterprises and institutions:

| | 2003 | 2002 |
|---|---|---|
| Djeilan Holding | 10,330,813 | – |
| Food Contract Corporation | 9,127,803 | 4,844,632 |
| CNPC Aktobemunaigaz Holding | 8,292,792 | – |
| Alibi Holding | 7,852,305 | 3,745,787 |
| BIPEK Auto Holding | 6,771,643 | – |
| Tolkynneftegas Holding | 6,206,352 | 6,104,713 |
| GOLDEN GRAIN GROUP Holding | – | 5,103,966 |
| Kazpolmunai Holding | – | 4,580,200 |
| Ai-Dan Holding | – | 4,312,389 |
| Assets Ltd | – | 4,210,855 |
| Almaty International Airport Holding | – | 4,330,923 |
| Ordabasy Corporation Holding | – | 3,956,540 |
| Seymar Holding | – | 3,935,332 |
| Zangar Kazakhstan Trade House | – | 3,472,223 |
| | **48,581,708** | **48,597,560** |

Significant amount of loans is granted to companies operating in the Republic of Kazakhstan, which represents significant geographical concentration in one region.

## 21. INVESTMENT SECURITIES

**Securities available-for-sale**

| | Interest to nominal | 2003 | Interest to nominal | 2002 |
|---|---|---|---|---|
| **Debt securities** | | | | |
| JSC Almaty Merchant Bank | 8.6% | 2,860 | – | – |
| | | 2,860 | | – |
| | **Share, %** | | **Share, %** | |
| **Equity securities** | | | | |
| Bank CenterCredit | 1.9% | 86,000 | – | – |
| Aktubinsk chrome plant | 3.07% | 22,805 | 3.07% | 4,613 |
| Kazakhtelecom, including: | | | | |
| – ordinary shares | 0.04% | 15,164 | 0.04% | 12,779 |
| – preference shares | 0.01% | 2,149 | 0.01% | 2,657 |
| ABN AMRO Bank Kazakhstan | – | – | 29.0% | 3,120,172 |
| Air Kazakhstan Other | – | – | 50.0% | 2,390,700 |
| | 16.7% | 8,576 | 16.7% | 8,098 |
| | | 134,694 | | 5,539,019 |
| **Total securities available-for-sale** | | **37,554** | | **5,539,019** |

In September 2002 the Bank entered into an agreement with the Government of Kazakhstan related to the sale of the Bank's shares of Air Kazakhstan. On 29 January 2003 the shares of CJSC Air Kazakhstan were sold by the Bank at the value determined in the agreement between the Bank and the Government of the Republic of Kazakhstan in the amount of KZT 2,390,700 thousand.

On 24 June 2003 the Bank sold its holding of 29% of the shares of CJSC ABN AMRO Bank Kazakhstan to the existing shareholders of ABN AMRO Bank Group for KZT 2,949,051 thousand.

**Securities held-to-maturity**

Securities held-to-maturity are represented as follows:

| | Interest to nominal | 2003 | Interest to nominal | 2002 |
|---|---|---|---|---|
| Bonds of the Ministry of Finance of the Kyrgyz Republic | 0% | 32,372 | 0% | 35 |
| Kyrgyztelecom bonds | – | – | 9.0% | 17,241 |
| **Total securities held-to-maturity** | | **32,372** | | **17,276** |

## 22. INVESTMENTS INTO ASSOCIATES

The following enterprises were recorded in the financial statements using the equity method:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | % Held | Amount | % Held | Amount |
| UlarUmit Pension fund | 33.18% | 146,206 | 29.0% | 147,375 |
| ABN AMRO Asset Management | – | – | 48.88% | 82,742 |
| Sinooil | – | – | 33.33% | 55,800 |
| | | **146,206** | | **285,917** |

In 2003 Kazkommertsbank purchased shares of Ular Umit Pension Fund and as of 31 December 2003 the Bank's share in the equity of the Ular Umit Pension Fund increased by 4.18%.

The percentage held of the above associates represents both direct and indirect ownership of the Bank.

The movement of investments are accounted for in the financial statements using the equity method:

| | |
|---|---|
| **31 December 2000** | 1,947,368 |
| Purchase cost | 74,557 |
| Share of net income | 389,083 |
| Dividends from associates | (637,054) |
| **31 December 2001** | **1,773,954** |
| Purchase cost | 72,841 |
| Reclassification of securities | (1,150,756) |
| Share of net income | 33,869 |
| Dividends from associates | (443,991) |
| **31 December 2002** | **285,917** |
| Purchase cost 19,080 Investments sale | (138,542) |
| Share of net loss | (20,249) |
| **31 December 2003** | **146,206** |

In 2003 the Bank sold its shares of CJSC ABN AMRO Asset Management and OJSC Sinooil to third parties for KZT 173,759 thousand and KZT 62,951 thousand, respectively. Income from the sale of these investments amounted to KZT 98,168 thousand.

## 23. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Furniture and equipment | Other | Total |
|---|---|---|---|---|
| **At cost** | | | | |
| 31 December 2002 | 1,194,330 | 3,747,453 | 134,974 | 5,076,757 |
| Additions | 448,757 | 1,974,804 | 166,781 | 2,590,342 |
| Revaluation | 876,195 | – | – | 876,195 |
| Consolidation effect of MKB | – | 47,282 | 45,511 | 92,793 |
| Transfers | 8,119 | 4,123 | (12,242) | – |
| Disposals | (124,781) | (108,637) | (10,656) | (244,074) |
| 31 December 2003 | 2,402,620 | 5,665,025 | 324,368 | 8,392,013 |
| **Accumulated depreciation** | | | | |
| 31 December 2002 | 88,356 | 1,510,855 | 29,933 | 1,629,144 |
| Depreciation expense | 39,814 | 808,306 | 40,025 | 888,145 |
| Consolidation effect of MKB | – | 12,424 | 3,328 | 15,752 |
| Revaluation | 70,134 | – | – | 70,134 |
| Transfers | 44 | 3,079 | (3,123) | – |
| Disposals | (2,099) | (73,281) | (3,729) | (79,109) |
| 31 December 2003 | 196,249 | 2,261,383 | 66,434 | 2,524,066 |
| **Net book value** | | | | |
| 31 December 2003 | 2,206,371 | 3,403,642 | 257,934 | 5,867,947 |
| 31 December 2002 | 1,105,974 | 2,236,598 | 105,041 | 3,447,613 |

The Bank's office building in Almaty was appraised based on an independent expertise.

## 24. INTANGIBLE ASSETS

| | 2003 | 2002 |
|---|---|---|
| **At cost** | | |
| 1 January | 879,734 | 689,477 |
| Additions | 118,710 | 201,489 |
| Additions from acquired subsidiary bank | – | 2,776 |
| Consolidation effect of MKB | 842 | – |
| Disposals | (201,552) | (14,008) |
| 31 December | 797,734 | 879,734 |
| **Accumulated amortization** | | |
| 1 January | 271,157 | 161,420 |
| Amortisation charge | 90,687 | 118,306 |
| Additions from acquired subsidiary bank | – | 1,194 |
| Consolidation effect of MKB | 250 | – |
| Disposals | (411) | (9,763) |
| 31 December | 361,683 | 271,157 |
| **Net book value** | | |
| 31 December | 436,051 | 608,577 |

Intangible assets include software, patents and licenses.

## 25. OTHER ASSETS

| | 2003 | 2002 |
|---|---|---|
| Prepayments and other debtors | 1,856,938 | 1,459,044 |
| Insurance debtors | 792,492 | 647,565 |
| Prepaid expenses | 686,972 | 750,933 |
| Tax settlements, other than income tax | 60,531 | 411,054 |
| | 3,396,933 | 3,268,596 |
| Less allowance for losses on other assets | (30,520) | (53,085) |
| **Total other assets, net** | **3,366,413** | **3,215,511** |

## 26. LOANS AND ADVANCES FROM BANKS

| | 2003 | 2002 |
|---|---|---|
| Correspondent accounts of other banks | 6,087,644 | 449,085 |
| Loans from banks and financial institutions, including: | | |
| Syndicated loan from a group of banks (Deutsche Bank AG London) | | |
| Tranche due on 19.12.2004, coupon rate 2.22% | 27,401,800 | – |
| Tranche B due on 19.12.2005, coupon rate 2.61% | 15,864,200 | – |
| Syndicated loans from banks (ING Amsterdam) 4.02% | 6,489,900 | – |
| Syndicated loan from banks (due in December 2003, coupon rate 4.18% p.a.) | – | 23,377,500 |
| EBRD loan (due in 2003, coupon rate 1.5%-4.5% p.a.) | – | 10,557,278 |
| EBRD loan (due in 2006, coupon rate 2.72%-5.26% p.a.) | 7,757,044 | |
| Loans from NBRK | 358,098 | 724,895 |
| Loans from other banks and financial institutions | 12,047,117 | 12,960,479 |
| Deposits of banks | 1,875 | 6,459,019 |
| Accrued interest expenses | 214,241 | 134,611 |
| **Total loans and advances from banks** | **76,221,919** | **54,662,867** |

As of 31 December 2003 and 2002 loans from NBRK include advances received under the program of gold mining enterprises support and development in the amount of KZT 300,410 thousand and KZT 502,030 thousand, respectively, as well as advances from the European Bank for Reconstruction and Development under the program of industry development and construction in the amount of KZT 57,688 thousand and KZT 222,866 thousand as of 31 December 2003 and 2002, respectively.

## 27. CUSTOMER ACCOUNTS

| | 2003 | 2002 |
|---|---|---|
| Customer accounts comprise: | | |
| Time deposits | 99,227,367 | 99,757,812 |
| Repayable on demand | 49,163,891 | 38,654,476 |
| Accrued interest expense on customer accounts | 3,198,158 | 2,959,687 |
| **Total customer accounts** | **151,589,416** | **141,371,975** |

## 28. DEBT SECURITIES ISSUED

| | 2003 | 2002 |
|---|---|---|
| Eurobonds of Kazkommerts International B.V. due in April 2013 coupon rate 8.5%): | | |
| Tranche A issued in April 2003 at price of 97.548% | 50,477,000 | – |
| Tranche B issued in April 2003 and placed in May 2003 at price 99.00% | 21,633,000 | – |
| In May 2007 (coupon rate 10.125%): | | |
| Tranche A issued in May 2002 at price of 99.043% | 21,633,000 | 23,377,500 |
| Tranche B issued in November 2002 and allocated in December 2002 at price of 107.00% | 7,211,000 | 7,792,500 |
| | 100,954,000 | 31,170,000 |
| Including/(less): | | |
| (Discount)/premium on debt securities issued | (1,282,078) | 185,746 |
| Amounts of accrued interest on debt securities issued | 1,631,951 | 516,890 |
| Eurobonds repurchased by the Bank | (4,787,527) | (1,555,850) |
| Total issued Eurobonds of Kazkommerts International B.V. | 96,516,346 | 30,316,786 |
| Issued promissory notes | 1,717,020 | – |
| **Total debt securities issued** | **98,233,366** | **30,316,786** |

Eurobonds were issued by the Kazkommerts International B.V., a subsidiary of Kazkommertsbank, and guaranteed by the Kazkommertsbank. For Eurobonds with a maturity of May 2007 interest is paid semi-annually on 8 May and 8 November, while for those having a maturity of April 2013, interest is paid on 16 April and 16 October.

MKB issued promissory notes with a maturity of 6 months for the amount of KZT 1,048,359 thousand and with a maturity of 1 year for the amount of KZT 668,661 thousand.

## 29. OTHER BORROWED FUNDS

| | Interest rate | 2003 | Interest rate | 2002 |
|---|---|---|---|---|
| Funding by the Small Business Support Fund | 8.34% | 2,546,170 | 8.49% | 2,952,022 |
| Funding by the Ministry of Finance of the Republic of Kazakhstan | 4.92% | 909,395 | 5.41% | 1,594,937 |
| Accrued interest expenses | | 69,908 | | 104,107 |
| **Total other borrowed funds** | | **3,525,473** | | **4,651,066** |

Financing by the Small Business Support Fund is made from funds of EBRD and ADB and is represented as follows:

| | 2003 | 2002 |
|---|---|---|
| EBRD | 2,321,942 | 2,587,110 |
| ABD | 224,228 | 364,912 |
| | **2,546,1700** | **2,952,022** |

Funding from the Ministry of Finance of the Republic of Kazakhstan is provided under the Agriculture Industry Development Programme by funds of the Asian Development Bank, International Bank for Reconstruction and Development (IBRD), and Kreditanstalt fur Wideraufbau (''KFW'') and regional departments, and represented as follows:

| | 2003 | 2002 |
|---|---|---|
| ABD, IBRD and KFW | 764,330 | 1,464,393 |
| Regional departments | 145,065 | 130,544 |
| | **909,395** | **1,594,937** |

## 30. OTHER LIABILITIES

| | 2003 | 2002 |
|---|---|---|
| Deferred tax liabilities | 2,944,947 | 1,214,408 |
| Other creditors | 2,182,226 | 1,205,959 |
| Allowance for losses on guarantees and letters of credit | 1,426,290 | 1,790,207 |
| Insurance reserves | 1,056,744 | 420,504 |
| Accounts payable on re-insurers | 478,632 | 580,661 |
| Taxes payable, other than income tax | 313,833 | 336,819 |
| | **8,402,672** | **5,548,558** |

## 31. SUBORDINATED DEBT

| | Maturity date | Interest rate (%) | 2003 | 2002 |
|---|---|---|---|---|
| Indexed subordinated bonds | 2009 | 8.00% | 3,979,575 | – |
| Subordinated notes | 2007 | 11.00% | 2,844,149 | 3,062,997 |
| Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft | 2008 | 9.31-9.94% | 1,802,300 | 1,624,600 |
| International subordinated bonds | 2007 | 5.50% | 54,226 | 1,324,725 |
| Accrued interest expenses | 52,664 | 48,087 | | |
| | | | **8,732,914** | **6,060,409** |

Indexed subordinated bonds were issued in January 2003 in accordance with the decision of the General Shareholders Meeting and the Board of Directors Meeting for the total amount of KZT 7.5 billion and allocated for the amount of KZT 3,979,575 thousand as of 31 December 2003.

Subordinated bonds were issued in 2002 in US dollars and represent an equivalent of US dollars 20,000 thousand as of December 2003 and 2002.

Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft was received in 2002 in Euro and represents the KZT equivalent of 10,000 thousand Euro as of 31 December 2003 and 2002.

The international subordinated bonds were issued in April 2002 in accordance with a Decision of the Shareholders' Meeting. These bonds were issued in US dollars and represent the KZT equivalent of USD 376 thousand and US dollars 8,500 thousand at 31 December 2003 and 2002, respectively.

## 32. SHAREHOLDERS' EQUITY

As of 31 December 2003 the Kazkommertsbank's share capital comprised the following:

| | Authorized share capital | Unissued and unpaid share capital | Repurchased share capital | Total share capital |
|---|---|---|---|---|
| Ordinary shares | 3,750,000 | (288,587) | (115) | 3,461,298 |
| Preference shares | 1,250,000 | (692,368) | – | 557,632 |
| | **5,000,000** | **(980,955)** | **(115)** | **4,018,930** |

As of 31 December 2002 the Kazkommertsbank's share capital comprised the following:

| | Authorized share capital | Unissued and unpaid share capital | Repurchased share capital | Total share capital |
|---|---|---|---|---|
| Ordinary shares | 3,750,000 | (807,799) | (145) | 2,942,056 |
| Preference shares | 1,250,000 | (692,368) | – | 557,632 |
| | **5,000,000** | **(1,500,167)** | **(145)** | **3,499,688** |

**Ordinary shares:** 375,000,000 shares were authorized, 346,129,915 and 294,220,100 shares were issued and partially paid, 115 and 145 shares were repurchased with par value of KZT 10 at 31 December 2003 and 2002, respectively.

**Preference shares:** 125,000,000 shares were authorized and registered, 55,763,155 shares were partially paid with par value of KZT 10 each with dividend of up to USD 0.04 per share at 31 December 2003 and 2002, respectively.

JSC Kazkommertsbank and EBRD agreed on EBRD having a share holding in the share capital of Kazkommertsbank and the Board of Directors of EBRD approved on 5 March 2003 the purchase of 15% ordinary shares of JSC Kazkommertsbank in 2003.

## 33. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,426,290 thousand and KZT 1,790,207 thousand as of 31 December 2003 and 2002, respectively.

As of 31 December 2003 and 2002, the nominal or contract amounts and risk-weighted amounts were:

| | 31 December 2003 | | 31 December 2002 | |
|---|---|---|---|---|
| | Nominal Amount | Risk Weighted Amount | Nominal Amount | Risk Weighted Amount |
| **Contingent liabilities and credit commitments** | | | | |
| Guarantees issued and similar commitments | 22,769,317 | 22,769,317 | 18,951,094 | 18,951,094 |
| Letters of credit and other transaction related contingent obligations | 23,408,923 | 4,681,785 | 18,465,695 | 1,103,856 |
| Commitments on credits and unused credit lines | 15,866,353 | – | 20,065,094 | – |
| **Total contingent liabilities and credit commitments** | **62,044,593** | **27,451,102** | **57,481,883** | **20,054,950** |

| | Amount Payable | Risk Weighted Amount | Amount Payable | Risk Weighted Amount |
|---|---|---|---|---|
| **Derivative financial instruments** | | | | |
| Foreign currency forwards | 4,407,171 | 14,204 | 3,117,000 | 31,170 |
| Foreign currency swaps | 216,330 | – | 487,380 | – |
| Forwards with securities | 12,569,911 | – | – | – |
| **Total derivative financial instruments** | **17,193,412** | **14,204** | **3,604,380** | **31,170** |

***Capital commitments*** – The Bank had no material commitments for capital expenditures outstanding as of 31 December 2003 and 2002.

***Rental commitments*** – No material rental commitments were outstanding as of 31 December 2003 and 2002.

***Fiduciary activities*** – The Bank renders depositary services. As of 31 December 2003 the Bank had the following securities of clients at nominal account of the securities holder: Brokerage:

- dealing operations of 956,334,557 securities,
- custodian operations of 54,000,125 securities.

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

***Taxes*** – Due to the presence in commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance were made in the financial statements. Tax years remain open to review by the tax authorities for five years.

***Pensions and retirement plans*** – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2003 and 2002, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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

## 34. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates — enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | **Related party transactions** | **Total category as per financial statements caption** | **Related party transactions** | **Total category as per financial statements caption** |
| Loans to customers | 2,619,017 | 291,512,002 | 1,625,607 | 179,018,399 |
| Accrued interest on loans to customers | 150,067 | 10,619,519 | 83,010 | 10,246,568 |
| Allowance for loans | (70,647) | (19,069,078) | (100,875) | (14,016,382) |
| Customer accounts | 2,395,219 | 148,391,258 | 953,229 | 138,412,288 |
| Accrued deposit interest | 60,678 | 3,198,158 | 64,614 | 2,959,687 |
| Allowance for guarantees and letters of credit | 632 | 1,426,290 | 670 | 1,790,207 |
| Unused loan commitments | 27,057 | 15,866,353 | 32,729 | 20,065,094 |
| Letters of credit | – | 23,408,923 | 5,455 | 18,465,695 |
| Guarantees given | 27,057 | 22,769,317 | 27,274 | 18,951,094 |

The increase of loans to related parties and deposits from related parties occurred in 2003 in comparison with 2002 was mainly due to Bank's management and Ular Umit Pension Fund.

Transactions turnover on trading securities of the Bank with related parties in 2003 and 2002 amounted to KZT 391,909 thousand and KZT 67,573 thousand, respectively.

The Bank's investments into equity of related parties as of 31 December 2003 and 2002 amounted to KZT 146,206 thousand and KZT 285,917 thousand, respectively. The decrease was due to the sale of CJSC ABN AMRO Asset Management and CJSC Sinooil shares.

As of 31 December 2002 Central Asian Industrial Investments N.V. placed a deposit in Kazkommerts International B.V., a subsidiary of Kazkommertsbank, of KZT 5,143,050 thousand (equal to US dollars 33,000 thousand) recognized as customers accounts (see Note 27). This deposit later was pledged to secure a loan issued to Karakudukmunai Company.

Included in the profit and loss account for the years ended 31 December 2003, 2002 and 2001 are the following amounts which arose due to transactions with related parties:

| | 2003 | | 2002 | | | |
|---|---|---|---|---|---|---|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| Interest income | 178,210 | 35,106,301 | 275,541 | 24,500,940 | 215,720 | 17,870,462 |
| Interest expense | (145,829) | (18,623,916) | (99,341) | (11,257,899) | (46,384) | (7,887,765) |

In 2003 and 2002, dividends on preference shares were accrued and paid in the amount of KZT 324,141 thousand and KZT 346,626 thousand, respectively. Dividends for 2001 amounted to KZT 1,454,502 thousand.

## 35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation and IAS 39 "Financial Instruments: Recognition and Measurement. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

***Cash and balances with national (central) banks*** – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

***Loans and advances to banks*** – As of 31 December 2003 and 2002, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

***Trading securities*** – As of 31 December 2003 and 2002 trading securities are stated at fair value amounting to KZT 70,427,225 thousand and KZT 21,033,338 thousand, respectively, plus accrued interest income totalling KZT 773,634 thousand and KZT 245,773 thousand, respectively. The fair value of trading securities was determined with reference to an active market.

***Derivative financial instruments*** – As of 31 December 2003 and 2002 derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on quoted market prices.

***Securities purchased under repurchase agreements*** – As of 31 December 2003 and 2002, the carrying amount of securities purchased under repurchase agreements is a reasonable estimate of the fair value.

***Loans to customers*** – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of

loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

***Securities available-for-sale*** – As of 31 December 2003 and 2002 securities available-for-sale are stated at fair value amounting to KZT 137,431 thousand and KZT 5,539,019 thousand, respectively, plus accrued coupon income totalling KZT 123 thousand as of 31 December 2003. The fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with a similar credit risk and/or maturity, in other cases by reference to the share in estimated equity capital of the investee. If such quotes do not exist, management estimation is used (see Note 9).

***Securities held-to-maturity*** – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively. The fair value of securities held-to-maturity as of 31 December 2003 and 2002 was KZT 32,372 thousand and KZT 17,067 thousand, respectively, plus accrued interest income totalling KZT 209 thousand as of 31 December 2002. The fair value of securities held-to-maturity was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with similar credit risk and/or maturity.

***Deposits from banks*** – As of 31 December 2003 and 2002 the carrying amount is a reasonable estimate of their fair value.

***Customer accounts*** – As of 31 December 2003 and 2002 the carrying amount of deposits and current accounts of the Bank's customers is a reasonable estimate of their fair value.

***Securities sold under repurchase agreements*** – As of 31 December 2003 the carrying value of securities sold under agreement to repurchase amounting to KZT 37,250,675 thousand is a reasonable estimate of their fair value.

***Debt securities issued*** – Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value.

***Other borrowed funds*** – As of 31 December 2003 and 2002 the carrying amount of other borrowed funds is a reasonable estimate of the fair value.

***Subordinated debt*** – As of 31 December 2003 and 2002 the carrying amount of subordinated debt is a reasonable estimate of its fair value.

## 36. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

| Estimate | Description of position |
|---|---|
| 0% | Cash and balances with the National Bank of the Republic of Kazakhstan |
| 0% | State debt securities in Tenge |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans to customers |
| 100% | Guarantees |
| 100% | Obligations and commitments on unused loans with the initial maturity of over 1 year |
| 100% | Other assets |

The Bank's actual capital amounts and ratios are presented in the following table:

| Capital amounts and ratios | Actual Amount in KZT thousand | For Capital Adequacy purposes in KZT thousand | Ratio For Capital Adequacy purposes | Minimum Required Ratio |
|---|---|---|---|---|
| **As of 31 December 2003** | | | | |
| Total capital | 45,578,892 | 60,642,904 | 16.43% | 8% |
| Tier 1 capital | 49,713,734 | 49,713,734 | 13.47% | 4% |
| **As of 31 December 2002** | | | | |
| Total capital | 32,065,788 | 37,484,463 | 16.37% | 8% |
| Tier 1 capital | 32,059,916 | 32,059,916 | 14.00% | 4% |

As of 31 December 2003 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated loan received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this loan is subordinate to the repayments of the Bank's liabilities to all other creditors.

## 37. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals on the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**Interest rate risk**

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

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with the positive interest margin. The Department of Financial Control conducts monitoring of the current Bank's financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rates on financial assets and liabilities are disclosed in the corresponding Notes.

The analysis of interest rate and liquidity risk on balance sheet transaction is presented in the following table:

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Allowance for losses | 2003 Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Loans and advances to banks, net | 23,064,504 | 11,609,691 | 4,189,043 | – | – | (414,586) | 38,448,652 |
| Trading securities | 31,091,764 | 11,976,770 | 14,783,571 | 9,153,225 | 3,421,895 | – | 70,427,225 |
| Securities purchased under agreement to resell | 2,512,145 | 60,200 | 32,600 | – | – | – | 2,604,945 |
| Investment securities | – | 27,286 | 139,780 | 2,737 | – | – | 169,803 |
| Loans to customers | 23,672,832 | 18,849,182 | 86,946,870 | 122,369,177 | 39,673,941 | (19,069,078) | 272,442,924 |
| **Total interest bearing assets** | **80,341,245** | **42,523,129** | **106,091,864** | **131,525,139** | **43,095,836** | **(19,483,664)** | **384,093,549** |
| Cash and balances with national (central) banks | 28,480,419 | – | – | – | – | – | 28,480,419 |
| Precious metals | 300,158 | – | – | – | – | – | 300,158 |
| Derivative financial instruments | 15,399 | – | – | – | – | – | 15,399 |
| Investments into associates | – | – | – | – | 146,206 | – | 146,206 |
| Fixed assets, net | – | – | – | – | 5,867,947 | – | 5,867,947 |
| Intangible assets, net | – | – | – | – | 436,051 | – | 436,051 |
| Interest accrued on interest bearing assets | 4,680,285 | 1,571,893 | 3,088,830 | 1,911,285 | 282,722 | – | 11,535,792 |
| Other assets | 541,237 | 318,948 | 2,022,971 | 504,162 | 9,615 | (30,520) | 3,366,413 |
| **TOTAL ASSETS** | **114,358,743** | **44,413,970** | **111,203,665** | **133,940,586** | **49,838,377** | **(19,514,184)** | **434,241,157** |
| **LIABILITIES** | | | | | | | |
| Loans and advances from banks | 9,648,980 | 310,540 | 39,911,806 | 26,136,352 | – | – | 76,007,678 |
| Securities sold under agreements to repurchase | 37,216,263 | – | – | – | – | – | 37,216,263 |
| Customer accounts | 64,183,505 | 19,433,587 | 51,903,435 | 12,726,511 | 144,220 | – | 148,391,258 |
| Debt securities issued | 137,365 | 1,039,145 | 540,510 | 25,838,315 | 69,046,080 | – | 96,601,415 |
| Other borrowed funds | – | 216,330 | 982,450 | 1,623,628 | 633,157 | – | 3,455,565 |
| Subordinated debt | – | – | – | 4,702,161 | 3,978,089 | – | 8,680,250 |
| **Total interest bearing liabilities** | **111,186,113** | **20,999,602** | **93,338,201** | **71,026,967** | **73,801,546** | **—** | **370,352,429** |
| Derivative financial instruments | 801 | – | – | – | – | – | 801 |
| Other financial liabilities | 1,707,447 | 145,476 | 1,122,703 | 2,944,012 | – | (2,483,034) | 8,402,672 |
| Interest accrued on interest bearing liabilities | 250,893 | 821,695 | 3,385,874 | 742,872 | – | – | 5,201,334 |
| Dividends payable | 30 | 374 | – | – | – | – | 404 |
| **TOTAL LIABILITIES** | **113,145,284** | **21,967,147** | **97,846,778** | **74,713,851** | **73,801,546** | **(2,483,034)** | **383,957,640** |
| Interest sensitivity gap | (30,844,868) | 21,523,527 | 12,753,663 | 60,498,172 | (30,705,710) | | |
| Cumulative interest sensitivity gap | (30,844,868) | (9,321,341) | 3,432,322 | 63,930,494 | 33,224,784 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | (7.10%) | (2.15%) | 0.79% | 14.72% | 7.65% | | |

**Liquidity risk of derivative financial instruments**

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2003 is presented in the table below.

| OFF-BALANCE SHEET LIABILITIES | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Allowance for losses | Total |
|---|---|---|---|---|---|---|---|
| Accounts payable on forwards | (17,193,412) | – | – | – | – | – | (17,193,412) |
| Accounts receivable on forwards | 17,208,010 | – | – | – | – | – | 17,208,010 |
| Liquidity gap | 14,598 | – | – | – | – | | |
| Cumulative liquidity gap | 14,598 | 14,598 | 14,598 | 14,598 | 14,598 | | |

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Allowance for losses | 2002 Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Loans and advances to banks, net | 43,575,280 | – | – | – | – | (170,158) | 43,405,122 |
| Trading securities | 4,486,828 | 1,361,260 | 8,960,062 | 6,219,521 | 5,667 | – | 21,033,338 |
| Securities purchased under agreement to resell | 2,311,517 | – | – | – | – | (46,260) | 2,265,257 |
| Loans to customers, net | 9,175,553 | 13,923,107 | 46,547,690 | 97,214,900 | 12,157,149 | (14,016,382) | 165,002,017 |
| Investment securities | – | – | 5,556,086 | – | – | – | 5,556,086 |
| Total interest bearing assets | 59,549,178 | 15,284,367 | 61,063,838 | 103,434,421 | 12,162,816 | (14,232,800) | 237,261,820 |
| Cash and balances with national (central) banks | 19,394,771 | – | – | – | – | – | 19,394,771 |
| Derivative financial instruments | 7,000 | – | – | – | – | – | 7,000 |
| Investments into associates | – | – | – | – | 285,917 | – | 285,917 |
| Fixed assets, net | – | – | – | – | 3,447,613 | – | 3,447,613 |
| Intangible assets, net | – | – | – | – | 608,577 | – | 608,577 |
| Interest accrued on interest bearing assets | 2,849,254 | 2,455,656 | 1,975,563 | 2,968,701 | 290,915 | – | 10,540,089 |
| Other assets | 960,123 | 123,746 | 1,744,218 | 436,607 | 3,902 | (53,085) | 3,215,511 |
| **TOTAL ASSETS** | **82,760,326** | **17,863,769** | **64,783,619** | **106,839,729** | **16,799,740** | **(14,285,885)** | **274,761,298** |
| **LIABILITIES** | | | | | | | |
| Loans and advances from banks | 9,968,303 | 284,785 | 38,261,304 | 5,504,772 | 509,091 | – | 54,528,255 |
| Customer accounts | 54,531,114 | 23,753,871 | 40,408,715 | 19,718,545 | 43 | – | 138,412,288 |
| Debt securities issued | – | – | 185,746 | 29,614,150 | – | – | 29,799,896 |
| Other borrowed funds | 399 | 467 | 325,858 | 3,537,525 | 682,710 | – | 4,546,959 |
| Subordinated loan | – | – | – | 1,272,265 | 4,740,057 | – | 6,012,322 |
| Total interest bearing liabilities | 64,499,816 | 24,039,123 | 79,181,623 | 59,647,257 | 5,931,901 | – | 233,299,720 |
| Derivative financial instruments | 2,203 | – | – | – | – | – | 2,203 |
| Other liabilities | 1,194,695 | 233,946 | 356,924 | 337,874 | 1,214,408 | 2,210,711 | 5,548,558 |
| Interest accrued on interest bearing liabilities | 361,027 | 726,412 | 2,349,431 | 326,513 | – | – | 3,763,383 |
| Dividends payable | 406 | – | – | – | – | – | 406 |
| **TOTAL LIABILITIES** | **66,058,147** | **4,999,481** | **81,887,978** | **60,311,644** | **7,146,309** | **2,210,711** | **242,614,270** |
| Interest sensitivity gap | (4,950,638) | (8,754,756) | (18,117,785) | 43,787,164 | 6,230,915 | | |
| Cumulative interest sensitivity gap | (4,950,638) | (13,705,394) | (31,823,179) | 11,963,985 | 18,194,900 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | (1.80%) | (4.99%) | (11.58%) | 4.35% | 6.62% | | |

**Liquidity risk of derivative financial instruments**

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2002 is presented in the table below.

| OFF-BALANCE SHEET LIABILITIES | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Allowance for losses | 2002 KZT thousand |
|---|---|---|---|---|---|---|---|
| Accounts payable on forwards | (2,045,880) | (1,558,500) | – | – | – | – | (3,604,380) |
| Accounts receivable on forwards | 2,044,177 | 1,565,000 | – | – | – | – | 3,609,177 |
| Liquidity gap | (1,703) | 6,500 | – | – | – | | |
| Cumulative liquidity gap | (1,703) | 4,797 | 4,797 | 4,797 | 4,797 | | |

**Currency risk**

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of national (central) banks.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | KZT | USD USD1= KZT 144.22 | EUR USD1= KZT 180.23 | Other currency | Allowance for losses | 2003 Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with national (central) banks | 22,310,905 | 4,533,995 | 800,584 | 834,935 | – | 28,480,419 |
| Precious metals | – | – | – | 300,158 | – | 300,158 |
| Loans and advances to banks, net | 1,786,062 | 34,219,406 | 1,963,138 | 894,632 | (414,586) | 38,448,652 |
| Trading securities | 29,020,756 | 28,698,320 | 11,179,126 | 1,529,023 | – | 70,427,225 |
| Securities purchased under agreement to resell | 585,200 | – | – | 2,019,745 | – | 2,604,945 |
| Investment securities | 134,694 | 2,737 | – | 32,372 | – | 169,803 |
| Loans to customers, net | 58,616,965 | 223,933,230 | 6,492,375 | 2,469,432 | (19,069,078) | 272,442,924 |
| Derivative financial instruments | 15,399 | – | – | – | – | 15,399 |
| Investments into associates | 146,206 | – | – | – | – | 146,206 |
| Fixed assets, net | 5,718,297 | – | – | 149,650 | – | 5,867,947 |
| Intangible assets, net | 419,320 | – | – | 16,731 | – | 436,051 |
| Interest accrued on interest bearing assets | 5,067,997 | 5,981,428 | 442,368 | 43,222 | – | 11,535,015 |
| **TOTAL ASSETS** | **125,328,413** | **299,215,426** | **20,896,550** | **8,314,952** | **(19,514,184)** | **434,241,157** |
| **LIABILITIES** | | | | | | |
| Loans and advances from banks | 1,711,996 | 72,331,640 | 1,913,930 | 50,112 | – | 76,007,678 |
| Securities sold under agreements to repurchase | 6, 827, 000 | 19,634,063 | 10,755,200 | – | – | 37,216,263 |
| Customer accounts | 49,212,509 | 93,237,189 | 4,647,984 | 1,293,576 | – | 148,391,258 |
| Debt securities issued | – | 95,831,580 | – | 769,835 | – | 96,601,415 |
| Subordinated debt | – | 6,877,950 | 1,802,300 | – | – | 8,680,250 |
| Other borrowed funds | 145,065 | 2,680,657 | 629,843 | – | – | 3,455,565 |
| Derivative financial instruments | 801 | – | – | – | – | 801 |
| Dividends payable | 374 | – | – | 30 | – | 404 |
| Interest accrued on interest bearing liabilities | 361,032 | 4,742,751 | 96,575 | 976 | – | 5,201,334 |
| Other liabilities | 4,745,183 | 1,143,509 | 19,720 | 11,226 | (2,483,034) | 8,402,672 |
| **TOTAL LIABILITIES** | **63,003,960** | **296, 479,339** | **19,865,552** | **2,125,755** | **(2,483,034)** | **383,957,640** |
| **OPEN BALANCE SHEET POSITION** | **62,324,453** | **2,736,087** | **1,030,998** | **6,189,197** | | |

**Derivative financial instruments**

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2003:

| DERIVATIVE FINANCIAL INSTRUMENTS | KZT | USD USD1= KZT 144.22 | EUR USD1= KZT 180.23 | Other currency | Allowance for losses | 2003 Total |
|---|---|---|---|---|---|---|
| Accounts payable on forwards | (143,780) | (14,037,219) | – | (3,012,413) | – | (17,193,412) |
| Accounts receivable on forwards | 388,595 | 10,886,734 | 2,072,645 | 3,860,036 | – | 17,208,010 |
| **NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION** | **244,814** | **(3,150,485)** | **2,072,645** | **847,623** | **–** | |
| **TOTAL OPEN POSITION** | **62,569,268** | **(414,398)** | **3,103,643** | **7,036,820** | – | |

| | KZT | USD USD1= KZT 155.85 | EUR USD1= KZT 162.46 | Other currency | Allowance for losses | 2002 Total |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and balances with national (central) banks | 8,613,309 | 9,734,538 | 666,027 | 380,897 | – | 19,394,771 |
| Loans and advances to banks, net | 121,773 | 41,043,691 | 470,545 | 1,939,271 | (170,158) | 43,405,122 |
| Trading securities | 8,733,946 | 12,297,544 | 1,848 | – | – | 21,033,338 |
| Loans to customers, net | 41,681,084 | 131,649,095 | 5,595,330 | 92,890 | (14,016,382) | 165,002,017 |
| Investment securities | 5,539,019 | 17,031 | – | 36 | – | 5,556,086 |
| Securities purchased under agreement to resell | 2,311,517 | – | – | – | (46,260) | 2,265,257 |
| Derivative financial instruments | 7,000 | – | – | – | – | 7,000 |
| Investments in associates | 285,917 | – | – | – | – | 285,917 |
| Fixed assets, net | 3,428,847 | – | – | 18,766 | – | 3,447,613 |
| Intangible assets, net | 592,880 | – | – | 15,697 | – | 608,577 |
| Interest accrued on interest bearing assets | 4,578,959 | 5,757,876 | 202,733 | 521 | – | 10,540,089 |
| Other assets | 2,415,591 | 758,515 | 85,716 | 8,774 | (53,085) | 3,215,511 |
| **TOTAL ASSETS** | **78,309,842** | **201,258,290** | **7,022,199** | **2,456,852** | **(14,285,885)** | **274,761,298** |
| **LIABILITIES** | | | | | | |
| Loans and advances from banks | 1,191,548 | 48,712,442 | 3,055,794 | 1,568,471 | – | 54,528,255 |
| Customer accounts | 35,859,377 | 100,395,367 | 1,318,849 | 838,695 | – | 138,412,288 |
| Debt securities issued | – | 29,799,896 | – | – | – | 29,799,896 |
| Other borrowed funds | 130,544 | 3,733,705 | 682,710 | – | – | 4,546,959 |
| Derivative financial instruments | 2,203 | – | – | – | – | 2,203 |
| Dividends payable | 374 | – | – | 32 | – | 406 |
| Interest accrued on interest bearing liabilities | 792,656 | 2,914,725 | 52,724 | 3,278 | – | 3,763,383 |
| Other liabilities | 2,391,300 | 934,572 | 552 | 11,423 | 2,210,711 | 5,548,558 |
| Subordinated debt | – | 4,387,722 | 1,624,600 | – | – | 6,012,322 |
| **TOTAL LIABILITIES** | **40,368,002** | **190,878,429** | **6,735,229** | **2,421,899** | **2,210,711** | **242,614,270** |
| **OPEN BALANCE SHEET POSITION** | **37,941,840** | **10,379,861** | **286,970** | **34,953** | | |

### Derivative financial instruments

The fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2002:

| | KZT | USD USD1= KZT 155.85 | EUR USD1= KZT 162.46 | Other currency | Allowance for losses | 2002 Total |
|---|---|---|---|---|---|---|
| **DERIVATIVE FINANCIAL** | | | | | | |
| Accounts payable on forwards | – | (3,117,000) | (487,380) | – | – | (3,604,380) |
| Accounts receivable on forwards | 3,124,000 | 485,177 | – | – | – | 3,609,177 |
| **NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION** | **3,124,000** | **(2,631,823)** | **(487,380)** | **–** | | |
| **TOTAL OPEN POSITION** | **41,065,840** | **7,748,038** | **(200,410)** | **34,953** | | |

### Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its products which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

**Credit risk**

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Commercial Directorate. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than short-term commitments.

**Geographical concentration**

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Bank's Commercial Directorate sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

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

| | OECD countries | Other non-OECD countries | Allowance for losses | 2003 Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with national (central) banks | – | 28,484,613 | – | 28,484,613 |
| Precious metals | 300,158 | – | – | 300,158 |
| Loans and advances to banks, net | 18,975,185 | 20,022,225 | (414,586) | 38,582,824 |
| Trading securities | 25,748,751 | 45,452,108 | – | 71,200,859 |
| Investment securities | – | 169,926 | – | 169,926 |
| Securities purchased under agreement to resell | 538 | 2,607,780 | – | 2,608,318 |
| Loans to customers, net | 9,057,608 | 293,073,913 | (19,069,078) | 283,062,443 |
| Derivative financial instruments | – | 15,399 | – | 15,399 |
| Investments in associates | – | 146,206 | – | 146,206 |
| Fixed assets, net | – | 5,867,947 | – | 5,867,947 |
| Intangible assets, net | – | 436,051 | – | 436,051 |
| Other assets | 996,797 | 2,400,136 | (30,520) | 3,366,413 |
| **TOTAL ASSETS** | **55,079,037** | **398,676,304** | **(19,514,184)** | **434,241,157** |
| **LIABILITIES** | | | | |
| Loans and advances from banks | 47,533,427 | 28,688,492 | – | 76,221,919 |
| Securities sold under agreements to repurchase | 30,417,589 | 6,833,086 | – | 37,250,675 |
| Debt securities issued | 96,516,346 | 1,717,020 | – | 98,233,366 |
| Subordinated debt | 4,683,221 | 4,049,693 | – | 8,732,914 |
| Customer accounts | 7,970,186 | 143,619,230 | – | 151,589,416 |
| Other borrowed funds | – | 3,525,473 | – | 3,525,473 |
| Derivative financial instruments | – | 801 | – | 801 |
| Other liabilities | 100,815 | 5,818,823 | 2,483,034 | 8,402,672 |
| Dividends payable | – | 404 | – | 404 |
| **TOTAL LIABILITIES** | **187,221,584** | **194,253,022** | **2,483,034** | **383,957,640** |
| **NET BALANCE SHEET POSITION** | **(132,142,547)** | **204,423,282** | | |

| | OECD countries | Other non-OECD countries | Allowance for losses | 2002 Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with national (central) banks | 5,727,509 | 13,667,262 | – | 19,394,771 |
| Loans and advances to banks, net | 35,877,084 | 7,744,217 | (170,158) | 43,451,143 |
| Trading securities | 2,425,106 | 18,854,005 | – | 21,279,111 |
| Investment securities | – | 5,556,295 | – | 5,556,295 |
| Securities purchased under agreement to resell | – | 2,313,035 | (46,260) | 2,266,775 |
| Loans to customers, net | 206,583 | 189,058,384 | (14,016,382) | 175,248,585 |
| Derivative financial instruments | – | 7,000 | – | 7,000 |
| Investments into associates | – | 285,917 | – | 285,917 |
| Fixed assets, net | – | 3,447,613 | – | 3,447,613 |
| Intangible assets, net | – | 608,577 | – | 608,577 |
| Other assets | 2,592,837 | 675,759 | (53,085) | 3,215,511 |
| **TOTAL ASSETS** | **46,829,119** | **242,218,064** | **(14,285,885)** | **274,761,298** |
| **LIABILITIES** | | | | |
| Loans and advances from banks | 41,146,350 | 13,516,517 | – | 54,662,867 |
| Debt securities issued | 30,316,786 | – | – | 30,316,786 |
| Subordinated debt | 4,729,429 | 1,330,980 | – | 6,060,409 |
| Customer accounts | 6,118,270 | 135,253,705 | – | 141,371,975 |
| Other borrowed funds | – | 4,651,066 | – | 4,651,066 |
| Derivative financial instruments | – | 2,203 | – | 2,203 |
| Other liabilities | 95,855 | 3,241,992 | 2,210,711 | 5,548,558 |
| Dividends payable | – | 406 | – | 406 |
| **TOTAL LIABILITIES** | **82,406,690** | **157,996,869** | **2,210,711** | **242,614,270** |
| **NET BALANCE SHEET POSITION** | **(35,577,571)** | **84,221,195** | | |

# ANNEX A

# REPUBLIC OF KAZAKHSTAN

**Introduction**

Kazakhstan is a sovereign democratic republic and, after Russia, is the largest, in terms of landmass, of the nations formed upon the dissolution of the Soviet Union in 1991. The country is rich in natural resources, including oil, gas and minerals. Kazakhstan is a leading producer of copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country is also a significant exporter of oil, grain, wool and meat. Kazakhstan has relatively high levels of foreign direct investment, particularly in the oil and gas sector.

Economic and structural reforms undertaken since 1991 have helped to revive Kazakhstan's economy following several years of falling GDP after the dissolution of the Soviet Union. Real GDP in Kazakhstan grew by 9.8 per cent. in 2000, by 13.5 per cent. in 2001, by 9.5 per cent. in 2002 and by 9.1 per cent. in 2003. Further, year-on-year consumer price inflation in Kazakhstan decreased from 1,158.3 per cent. at the end of 1994 to 6.8 per cent. at the end of 2003.

Steps have been taken to put in place a legal framework for the development of a market-oriented economy, including tax, securities, bankruptcy, joint-stock company and auditing laws. In January 1998, a pension reform programme, the first of its type in the former Soviet Union, was commenced with the aim of transforming the historic ''pay as you go'' system into a ''fully funded'' private system, regulated by the State. To date, the pension reform programme is the most successful in the CIS.

**Area and Population**

Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China to the east, the Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea to the West. The capital, Astana, is located in central Kazakhstan but Almaty, in the southeast of the country, is the principal financial centre of the country and is by far its largest city. The country covers an area of 2,725 thousand square kilometres, approximately the same size as Western Europe, and spans three time zones from the Caspian Sea in the west to the Altai Mountains in the east. In terms of landmass, Kazakhstan is the ninth largest country in the world and the second largest country, after Russia, belonging to the CIS.

As of 31 December 2003, the population of Kazakhstan was approximately 14.9 million, making Kazakhstan one of the most sparsely populated countries in the world with an average population density of approximately 5.5 people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for 53 per cent. of the population, followed by Russians (31 per cent.), Ukrainians (4.4 per cent.), Tatars, Germans, Uzbeks, Poles and others. The relative size of the Kazakhstani ethnic group has increased since the country's independence, mainly because of the emigration of non-Kazakhstani ethnic groups and because of the return of many ethnic Kazakhs to the country.

Historically, Kazakhstan has belonged to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50 per cent. of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government.

Kazakhstan's adult literacy rate exceeds 97 per cent.

**Constitution, Government and Political Parties**

***Constitution***

Kazakhstan has been one of the most politically stable countries of the CIS. The country's current constitution (the ''Constitution''), adopted in August 1995, provides for a tripartite structure of government in which power is divided between the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President, the Parliament, the Government of Kazakhstan, the Constitutional Council and local governments and administrations and establishes an

independent judicial system. Under President Nazarbayev, the Presidency has dominated the other branches of government.

***Executive branch***

Under the Constitution, the President is the head of state and its highest official with primary responsibility for domestic and foreign policy and the function of representing Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has under certain circumstances the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss the Prime Minister and members of the Government of Kazakhstan without Parliamentary approval. In addition, the President has the power to appoint and remove the Chairman of Kazakhstan's central bank, the NBK, whose appointment is subject to the approval of Parliament. The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment.

The Government of Kazakhstan comprises the Prime Minister, as its executive head, and deputy prime ministers and ministers as members of the cabinet. The Government of Kazakhstan is formed by the President, based on recommendations of the Prime Minister, for a term of the President's office, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the President. Neither the Prime Minister nor the members of the cabinet are members of Parliament. The Government of Kazakhstan is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy, carrying out social policy and defending the rights and freedoms of citizens.

Mr Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President with the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency has been confirmed in referenda in December 1991 and April 1995. President Nazarbayev was re-elected in elections held in January 1999 and his current term of office expires in 2006. The President has indicated his intention to participate in the 2006 elections. President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country and, following two Parliamentary dissolutions, from December 1993 until April 1994 and from March 1995 through January 1996, legislative functions were vested solely in the President. During these periods, the President brought into effect over 100 ordinances and decrees representing a substantial part of the legislative framework for the economic and structural reforms which have been made in the country.

The President appointed the current Prime Minister, Daniyal Akhmetov, in June 2003.

***Legislative branch***

The legislative branch of the State is the Parliament, which consists of an upper chamber (the "Senate") of 39 deputies and a lower chamber (the "Majilis") of 77 deputies. The President appoints seven of the deputies in the Senate and the remainder is appointed by representative bodies of the regional and city authorities. The deputies in the Majilis are elected by direct popular vote.

***Judicial branch***

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairman of the Supreme Court, the chairpersons of the Supreme Court benches and judges of the Supreme Court are elected by the Senate from the candidacies submitted by the President based on the recommendations of the Supreme Judicial Council.

***Constitutional council***

The Constitution provides for a seven member Constitutional Council which is vested with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the constitution for the removal of the President from office and investigating claims brought under the Constitution in relation to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the Majilis appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairman.

***Local government***

Local government is effected through representative bodies (''maslikhats'') and executive bodies (''akimats'') for each of the country's 14 regions (''oblasts'') and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts (''rayons'') and a further 86 cities together make up the second tier of territorial administration. The maslikhats and akimats are responsible for collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

***Political parties***

Although the principle of political plurality is enshrined in the Constitution, political parties have not played a significant role to date. This is due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies, but also due to changing requirements in the laws relating to the registration of political parties. These have made it increasingly difficult to register a party for participation in the constitutional political process. Such changes have, generally, strengthened the President's position. As of February 2004, there were nine registered political parties in Kazakhstan.

**International Organisations and International Relations**

***Kazakhstan's position in the international community***

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (the ''IMF''), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the EBRD, the Asian Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation (the ''IFC''), the International Organisation of Securities Commissions and the Islamic Development Bank. Kazakhstan has observer status with the World Trade Organisation (''WTO'') and the Government of Kazakhstan is actively pursuing full WTO membership, expecting to achieve this within the next few years.

Kazakhstan has followed an economic stabilisation programme agreed with the IMF and has in the past been granted both standby and extended fund facilities. No drawings were made under the last extended fund facility, which expired in March 2003.

Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union (''EU''), which came into force in 1999 and cooperates with the EU in various scientific and environmental programmes. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme under which various exercises have taken place involving troops from the United States, Russia, Kazakhstan, Uzbekistan, the Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia. As part of coalition forces, in August 2003 Kazakhstan sent approximately 30 field engineers to Iraq with the main purpose of disarming land mines.

Along with Russia, China, Kyrgyzstan, Tajikistan and Uzbekistan, Kazakhstan is a member of the Shanghai Cooperation Organisation. Originally formed to deal with border issues, this organisation now deals with combating terrorism, drug and weapon smuggling and other matters.

As of 12 February 2004, Kazakhstan had signed double taxation treaties with 36 countries, of which 35 are in effect, including treaties with the United States, Russia, Germany, The Netherlands and the United Kingdom.

***Kazakhstan and CIS cooperation***

Kazakhstan, Russia and Belarus entered into a customs union in January 1995, which, amongst other things, provides for the removal of trade restrictions between the signatory countries and establishes a common external tariff. The Kyrgyz Republic joined in March 1996 and Tajikistan joined in February 1999. In October 2000, all five member states signed a treaty establishing a new Eurasian Economic Union. The Kazakhstan government advocates further economic co-operation with other CIS countries and, in June 1995, Kazakhstan ratified a treaty for the creation of a single economic zone between Kazakhstan, the Kyrgyz Republic and Uzbekistan (which has since been extended to Tajikistan) in order to promote free trade, movement of capital and workers and to harmonise credit, budget, tax, price, customs and currency policies. Another treaty on the creation of a single economic zone was signed by Kazakhstan, Russia, Belarus and Ukraine in September 2003 (it is not yet ratified by all member states). This treaty calls for creation of a free trade zone between the member countries and harmonisation of their macroeconomic policy.

Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan agreed with Russia that, in return for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, Kazakhstan waived all claims on former Soviet Union assets located outside its own territory. Kazakhstan and Russia have also settled mutual obligations and have reached agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations. On 9 January 2004 Kazakhstan and Russia signed a memorandum pursuant to which the term of lease by the Russian Federation of the Baikonur Space Centre was extended until 2050.

Kazakhstan and Russia have a general agreement regarding the division, on a sectoral basis, of mineral rights in the Kazakhstan-Russian part of the Caspian basin, which is estimated to contain significant liquid hydrocarbon deposits, and that these deposits would be exploited by them on a broadly simultaneous basis. In 2002 they agreed on the borders of their respective sectors in relation to subsurface usage rights and on the development of three major oil and gas deposits situated in the Caspian Sea. In 2003 Kazakhstan, Azerbaijan and Russia signed a trilateral agreement on delimitation of the borders of their respective sectors in the Caspian Sea. The Government of Kazakhstan has stated that it hopes to reach agreement on similar sectoral divisions with the other littoral states but the absence of such agreements is not anticipated to delay exploitation in the Kazakhstani or Russian sectors. Test drilling in both sectors started in August 1999. See "—Natural Resources – Oil and Gas." In addition, both countries have reached agreement relating to the long-term use by Kazakhstan of the Russian oil pipeline network.

**The Kazakhstan Economy**

***Overview***

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

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

***Gross domestic product***

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

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

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** | **1998** | **1997** |
| Nominal GDP (KZT millions) | 4,449,800 | 3,747,200 | 3,250,593 | 2,599,902 | 2,016,456 | 1,733,264 | 1,672,143 |
| Real GDP (per cent., change to the previous year) | 9.1 | 9.5 | 13.5 | 9.8 | 2.7 | (1.9) | 1.7 |
| Nominal GDP per capita (KZT) | 297,844 | 252,263 | 219,170 | 174,854 | 135,088 | 114,991 | 109,045 |
| Population (millions average annual) | 14.94 | 14.86 | 14.85 | 14.86 | 14.9 | 15.0 | 15.2 |

Source: NSA, NBK

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

***GDP by source***

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

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** | **1998** | **1997** |
| | **Per cent. share of GDP** | | | | | | |
| Industry | 29.5 | 29.3 | 30.7 | 31.9 | 28.2 | 24.4 | 21.4 |
| Construction | 6.2 | 6.1 | 5.5 | 5.3 | 4.8 | 4.9 | 4.2 |
| Agriculture | 7.3 | 7.9 | 8.7 | 8.7 | 9.9 | 8.6 | 11.4 |
| Transportation and Telecommunications | 12.1 | 11.5 | 11.2 | 12.0 | 12.0 | 13.9 | 11.7 |
| Trade | 12.1 | 12.0 | 12.1 | 12.6 | 3.6 | 15.2 | 15.6 |
| Other[(1)] | 32.8 | 33.2 | 31.8 | 29.5 | 31.5 | 33.0 | 35.7 |
| Total[(2)] | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: NSA

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

(2) Components of GDP by source are measured on the basis of factor cost, whereas total GDP is at market prices (including net taxes).

The composition of Kazakhstan's GDP has changed over recent years, with the shares of agriculture decreasing and those of transportation and telecommunications, trade, construction and industry increasing.

***Inflation***

The year-on-year rate of consumer price inflation has fallen from 1,158.3 per cent. at the end of 1994 to 6.8 per cent. as at the end of December 2003, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

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

| | 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** | **1998** | **1997** |
| Consumer Prices | 6.8 | 6.6 | 6.4 | 9.8 | 17.8 | 1.9 | 11.2 |
| Producer Prices | 5.9 | 11.9 | (14.1) | 19.4 | 57.2 | (5.5) | 11.7 |

Source: NSA, NBK

***Principal sectors of the economy***

Historically, metallurgy (including mining and mineral processing) was the main industrial activity in Kazakhstan, although oil- and gas-related industries are now the most important component of the country's industrial base. The mineral products sector is Kazakhstan's largest employer. See also ''—Natural Resources.''

Agriculture has traditionally been the second largest sector in the economy, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years due to reduced trade with the countries of the former Soviet Union, the breakdown of the agricultural credit system and a lack of vital components, such as fuel, fertilisers and spare parts for machinery. All agricultural production is now in the private sector and, generally, producer prices reflect world market prices. Cereals are an important component of agricultural output and Kazakhstan is a major producer of hard wheat, with production in 2003 estimated to be 11.5 million tonnes.

***Employment and wages***

In 2003, on average, 6.9 million people were employed in Kazakhstan, representing approximately 91.3 per cent. of the eligible workforce. In 2003, approximately 40.6 per cent. of the workforce were employed in the public sector and approximately 59.4 per cent. of the workforce were employed in the private sector.

At the end of 2003, the officially registered unemployment figure was 670,600, or 8.8 per cent. of those eligible to work, compared with 690,700 (9.6 per cent.) at the end of 2002. The decrease is primarily attributable to the fact that, since 2002, the NSA began using International Labour Organisation methods of calculating unemployment figures.

Average wages vary significantly from sector to sector. In 2003, the financial sector had the highest average wage (2.5 times the national average) while wages were lowest in the agricultural sector, nearly 2.5 times less than the national average. Wages in industry currently average 32.0 per cent. higher than the national average. In 2002, the average monthly wage was estimated as KZT 20,305, an increase of 10.1 per cent. in real terms and 16.6 per cent. in nominal terms compared with 2001. As at 31 December 2003, the average monthly wage was estimated at KZT 23,221, an increase of 7.6 per cent. in real terms and 14.5 per cent. in nominal terms compared with the same period in 2002.

***Social security system***

Although in the past there have been substantial arrears in State pensions, since 1999 the State has been current in payments.

The pension system in Kazakhstan has been the subject of one of the most radical reform programmes in the CIS. Pension reforms in 1997 established a legal framework for the transformation of the pension system from a State ''pay-as-you-go'' system to a ''fully-funded'' accumulative pension system. The object of the reforms is that private individual retirement accounts should be the main source of pensions, although individuals can still contribute towards a State-run accumulative pension scheme. Individual retirement accounts are maintained with pension funds managed by pension asset management companies licensed and supervised by the NBK. In 2002, Parliament adopted amendments to the pension laws which *inter alia*, abolished the privileged position of the State accumulative pension fund as a default fund and allowed pension funds to manage pension assets directly. Pension asset management companies are subject to regulations, including various financial ratios (such as capital adequacy requirements), similar to those imposed on banks, and investment

requirements. As at 1 January 2004, pension fund assets amounted to KZT 368.3 billion compared to KZT 269.8 billion as at 1 January 2003 and KZT 182.4 billion as at 1 January 2002. The assets of the State-run accumulative pension scheme amounted to 24.5 per cent. of total accumulated pension fund assets as at 1 January 2004 (compared to 28.05 per cent. as at 1 January 2003 and 32.3 per cent. as at 1 January 2002).

The pension reforms increased the pensionable age from 55 to 58 for women and from 60 to 63 for men. Although the changeover to a fully funded system will take many years to complete and, until then, the legacy of the old system will remain a burden on the State's resources, the introduction of a ''fully funded'' pension system has been successful and it has achieved significant results within its first six years.

Pensions are funded through a social tax (which is calculated based on regressive percentage rates of the payroll) paid by employers and a deduction of 10 per cent. of employees' salaries is paid into their pension fund. Additional contributions may also be made into private pension funds.

***Environment***

Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north-east Kazakhstan, has a military facility, which until 1990, was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in Kazakhstan were used by the Soviet Union for the testing of biological weapons and are as a result contaminated with various pathogens.

The former Soviet Union's ''Virgin Lands'' policy of the 1950s and 1960s, whereby large areas of Kazakhstan's steppe land were ploughed to increase Soviet grain production, has led to soil erosion on a wide scale and up to 66 per cent. of Kazakhstan's agricultural land is under threat of desertification. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan, exposing land which is unsuitable for agriculture. Further, the Caspian Sea suffers from serious pollution due to industrial dumping.

**Natural Resources**

***Introduction***

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and minerals are the most significant industries in the Kazakhstan economy. Exports of hydrocarbons and minerals accounted for 61.0 per cent. of total exports in January to November of 2002 and 65 per cent. of total exports in January to November 2003.

The actual recoverable level of Kazakhstan's significant oil and gas reserves has not yet been established.

***Oil and gas***

Kazakhstan's proven energy resources are estimated at 3.6 billion tonnes of oil and gas condensate and at 1.9 trillion cubic metres of gas. The largest deposits of explored oil reserves are located in the Tengiz, Zhetybai, Kalamkas and Uzen fields in the Caspian region, the Karachaganak and Zhanazhol fields in north-western Kazakhstan and the Kumkol field in central Kazakhstan. The reserves of the Tengiz field have been estimated at three billion tonnes (about 25 billion barrels). The Tengiz field produced 12.7 million tonnes of oil in 2003 compared to 13 million tones produced in 2002. Covering an area of over 450 square kilometers, the Karachaganak field is estimated to hold more than 1.2 billion tonnes of oil and gas condensate and over 1.35 trillion cubic metres of gas. According to Karachaganak Petroleum Operating B.V., during 2003, the Karachaganak field produced 5.9 million tonnes of gas condensate and 5.78 billion cubic metres of gas (up 19.4 per cent. from 2002 production). The liquid hydrocarbon reserves in the Kazakhstan sector of the Caspian Sea have been estimated at 12 to 17 billion tonnes. Here, following a prospecting programme in the northeastern part of the Caspian Sea which started in 1999, Agip KCO, the concessionaire, announced a discovery in East Kashagan, 75 kilometres south east of Atyrau. The Kashagan field is still being developed. Its oil reserves have been initially estimated at 1.7 billion tonnes (12.4 billion barrels).

Kazakhstan produced 51.2 million tonnes of oil and gas condensate in 2003, 8.5 per cent. more than in 2002, of which 42.16 million tonnes were exported.

The BP Statistical Review of World Energy of June 2003 estimated Kazakhstan's total reserves of natural gas in 2002 at approximately 1.84 trillion cubic metres, or 1.2 per cent. of world reserves. In 2003, Kazakhstan produced 16.2 billion cubic metres of gas compared to 14.1 billion cubic metres in 2002.

***Exports of oil and gas***

Despite Kazakhstan's substantial hydrocarbon resources, the production and export of hydrocarbons has been constrained by Kazakhstan's land-locked position and its significant dependence on Russia's transportation infrastructure for export routes. Until recently, there was only one pipeline connected to the Russian export network. Russia retains the right to suspend and impose restrictions on the flow of Kazakhstani oil from this pipeline into Russia's transportation network and Russian enterprises have priority access to Russian export terminals. In the past, Russia has imposed an annual quota on Kazakhstan's exports through Russia. However, a recently signed agreement between Russia and Kazakhstan on oil transportation has significantly improved Kazakhstan's export position. Starting from 2003, the agreement provides for an automatically renewable quota for the next 14 years of not less than 15 million tonnes through the Atyrau-Samara pipeline and 2.5 million tonnes through the Makhachkala–Tikhoretsk–Novorissiisk pipeline.

Nevertheless, other export outlets will be needed in order for Kazakhstan to realise the full economic potential of its oil and gas reserves and the Government of Kazakhstan is participating in several projects to diversify Kazakhstan's export routes and to expand its export capacity.

The principal of these projects is the Caspian Pipeline Consortium (the "CPC") which was established for the purpose of developing a 1,500 kilometre export pipeline from the Tengiz oil field to the Russian seaport of Novorossiysk on the Black Sea, together with oil pumping stations and oil storage and loading facilities. The CPC was formed in July 1992 and is currently owned by the Russian, Kazakhstani and Omani Governments and a number of Russian and international oil companies.

The first stage of construction, a pipeline with a capacity of 28 million tonnes (204 million barrels) per year, was completed in September 2001 at a cost of U.S.$2.6 billion. The CPC started commercial operations in November 2001. The second stage comprising reconstruction of existing systems and construction of new facilities has not started yet, but is expected to take up to three years. Upon completion of the second stage, the capacity of the pipeline is expected to be 67 million tones (490 million barrels) per year. Although no formal budget has been prepared, it is anticipated that the second stage will cost in the region of U.S.$500 million.

The Baku-Tbilisi-Ceyhan (BTC) oil pipeline is a U.S.$3.6 billion project, which will transport up to 50 million tonnes of crude oil per year from the Caspian basin across Azerbaijan, Georgia and Turkey to Ceyhan on the Turkish Mediterranean coast, thus bypassing both Russia and the Bosporus Straits. The 1,760 kilometre BTC pipeline is being developed by an international consortium of oil companies. In early 2004, the BTC consortium members signed a U.S.$1 billion package of credit agreements to fund the construction of the BTC oil pipeline. Construction of the BTC oil pipeline was launched in September of 2002 and it is expected to be completed by the end of 2004. Kazakhstan has indicated that the BTC oil pipeline will be an alternative export route for oil from the Kashagan region.

In June 2003, KazMunaiGaz and China National Petroleum Company agreed to the phased construction of a 3,000 kilometre oil pipeline running from western Kazakhstan to China. Construction of this pipeline, which is expected to cost approximately U.S.$3.5 billion, is scheduled to commence sometime in 2004.

***Foreign investment in oil and gas***

According to the NBK, during January to September 2003 foreign investors had invested approximately U.S.$3.3 billion in Kazakhstan, of which U.S.$1,591.8 million was invested in the oil and gas sector (compared to U.S.$4,098.7 million invested during 2002, of which U.S.$2,070.8 million was invested in the oil and gas sector). The most significant foreign investment thus far has been in

the Tengiz oil field where, under the terms of a 40-year joint-venture agreement, Tengizchevroil is expected to invest a total of approximately U.S.$20 billion in the field.

In addition to direct investment in transportation, exploration and production projects, there have also been significant purchases by foreign investors of State-owned oil and gas enterprises. In 1997, the Government of Kazakhstan sold 60 per cent. of JSC Mangistaumunaigas to Indonesia's Central Asian Petroleum (part of the Medco group) in a transaction valued at U.S.$4.4 billion (which includes a planned investment programme) and 60 per cent. of JSC Aktobemunaigas to China National Petroleum. China National Petroleum, as controlling shareholder in JSC Aktobemunaigas, has agreed to invest up to U.S.$4 billion over a period of 20 years in developing the Aktyubinsk field.

An international consortium of oil companies is party to a development agreement relating to the Karachaganak oil and gas fields. The agreement has a term of 40 years and provides for investments of U.S.$16 billion. It is anticipated that Kazakhstan will be paid approximately 80 per cent. of the shared income over the 40-year concession period. The consortium members plan to construct an oil pipeline connecting the Karachaganak fields to the CPCs pipeline. Another international consortium of oil companies, managed by Agip KCO, has a production-sharing agreement relating to the north Caspian Sea. This agreement also has a term of 40 years and provides that Kazakhstan will be paid approximately 80 per cent. of the shared income, including taxes and other payments to the budget, over the concession period and provides for certain investments.

***Mineral resources***

Despite being a major mineral producer with an annual production valued at over KZT 1,070 billion, Kazakhstan's mining output has been relatively modest in relation to its estimated reserves. Moreover, further reserves are known to exist which have not yet been fully surveyed. Although much of Kazakhstan's mineral production has historically been exported in unprocessed form, with a view to retaining domestically part of the value added by processing such minerals, it has recently started exporting a progressively greater proportion of semi-processed minerals. Significant investments will be required to take advantage of Kazakhstan's mineral resources.

According to the BP Statistical Review of World Energy of June 2003, Kazakhstan produced 37.6 million tonnes of coal in 2002, approximately 1.6 per cent. of total coal produced globally in 2002. According to Government of Kazakhstan estimates, less than 3 per cent. of the country's coal reserves have been mined so far.

Kazakhstan has uranium reserves estimated to be 900 thousand tonnes, of which reserves amounting to 469,777 tonnes have been prospected.

Kazakhstan produces a significant amount of precious metals. According to the Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tonnes and, according to the NSA, produced approximately 9.9 tonnes in 2003. Kazakhstan also produces a significant amount of the world's silver, producing approximately 740 tonnes during 2003 (which is 4.8 per cent. less than in 2002).

Kazakhstan has substantial reserves of non-ferrous minerals, including lead, zinc, copper and manganese. By reserves, Kazakhstan is ranked second in the world in lead, first in zinc, third in manganese and fifth in copper. Kazakhstan's manganese reserves are exceeded only by those of South Africa and Ukraine. In the eleven months to November 2003, Kazakhstan produced 104,630 tonnes of lead, 294,965 tonnes of zinc and 417,366 tonnes of copper.

**Balance of Payments and Foreign Trade**

***Current account***

Based on NBK data the current account deficit in 2002 was U.S.$695.8 million and U.S.$1,108.9 million in 2001 compared with a surplus of U.S.$674.7 million in 2000. According to NBK, there was a U.S.$508 million current account surplus after the first three quarters of 2003, which is mainly due to the increase of export proceeds for mineral resources.

***Capital and financial account***

The current account deficit has been offset by inflows of foreign direct investment. The capital and financial account surplus in 2000 was U.S.$1,032.2 million, resulting in a balance of payment surplus of U.S.$585.1 million. In 2001, foreign direct investments in the amount of U.S.$2,796.4 million resulted in a capital and financial account surplus of U.S.$2,415.9 million. In 2002, foreign direct investments for the year amounted to U.S.$2,157.1 million, which resulted in a capital and financial account surplus of U.S.$1,237.4 million. According to the NBK's preliminary figures for the first three quarters of 2003 the capital and financial account surplus of U.S.$1,742 million led to a balance of payment surplus of approximately U.S.$1,553 million.

***Foreign trade***

The following table sets out Kazakhstan's foreign trade for the periods indicated:

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** | **1998** | **1997** |
| | **U.S.$ millions** | | | | | | |
| Exports | 12,904.0 | 9,709.1 | 9,024.7 | 9,288.1 | 5,988.5 | 5,870.6 | 6,899.2 |
| Imports | (8,326.9) | (6,490.5) | (7.849.9) | (6.848.2) | (5,648.2) | (6,671.5) | (7,175.6) |
| Trade balance | 4,577.1 | 3,218.6 | 1,174.7 | 2,439.9 | 340.3 | (800.9) | (276.4) |

Source: NSA, NBK

General merchandise trade data are based on external trade statistics compiled by the NSA from customs declarations. The data are adjusted by the NBK in respect of coverage classification and valuation for balance of payments purposes. The main adjustments are to exclude the cost of freight and insurance from imports, to include "shuttle" and undeclared trade and to adjust for barter operations.

***Official international reserves***

Kazakhstan's international reserves are administered and controlled by the NBK, which is a separate legal entity. Kazakhstan law provides that such international reserves may not be pledged, nor may the NBK be required to make international reserves available to support the Government of Kazakhstan's borrowings. As at the end of 2003, Kazakhstan's net international reserves amounted to U.S$4,962 million. By the end of January 2004, due to high oil prices and a number of other factors, net international reserves amounted to U.S.$5,439 million.

Similar to the Norwegian model, the Government of Kazakhstan established the National Fund of Kazakhstan (the "National Fund") in August 2000 to accumulate state revenues earned from the sale of Kazakhstan's hydrocarbons and mineral resources and to use them in the event world market prices fall below a certain minimum threshold. By 1 January 2004, the National Fund had U.S.$3,603.1 million in assets.

The following table sets forth certain information regarding Kazakhstan's international reserves as at the dates indicated:

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** | **1998** | **1997** |
| | **U.S.$ millions** | | | | | | |
| Foreign exchange reserves | 4,236.2 | 2,548.3 | 1,990.0 | 1,594.0 | 1,479.9 | 1,460.2 | 1,767.4 |
| Gold[(1)] | 725.9 | 585.6 | 510.7 | 501.8 | 522.8 | 503.6 | 523.9 |
| Net international reserves | 4,962.1 | 3,141.0 | 2,507.7 | 2,095.8 | 2,002.7 | 1,963.8 | 2,291.2 |
| Import coverage (including gold) (months) | 4.8 | 3.5 | 3.6 | 3.0 | 3.6 | 3.1 | 3.3 |

Source: NBK

(1) Gold is valued at the market price prevailing at the beginning of the relevant period.

## Public Finance

### *Introduction*

Kazakhstan's fiscal policy since independence has been characterised by fiscal tightening in order to reduce inflation and limit expenditure. The general Government of Kazakhstan deficit as a percentage of GDP has been reduced sharply, from 7.2 per cent. of GDP in 1996 to a deficit of 1.2 per cent. in 2003. The Government of Kazakhstan has increasingly financed this deficit through sales of Treasury bills and foreign borrowings, although in the past it has used postponement of expenditures including wages and pensions. In 2003 the state budget was, broadly, in balance.

The following table sets forth information on certain trends in Kazakhstan's actual State revenues and expenditures (excluding quasi-fiscal operations) for the periods indicated:

| | Year ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** | **1998** | **1997** |
| | KZT millions[1] | | | | | | |
| Revenues | 1,022,256 | 821,153 | 746,612 | 598,746 | 430,900 | 379,623 | 405,623 |
| Expenditures | (1,062,611) | (834,166) | (759,610) | (602,024) | (498,978) | (451,594) | (469,622) |
| Budget surplus (deficit) | (40,355) | (13,013) | (12,998) | (3,278) | (68,078) | (72,074) | (63,998) |
| Surplus (deficit) as a percentage of GDP | (0.9) | (0.3) | (0.4) | (0.1) | (3.5) | (4.2) | (3.8) |

Source: Ministry of Finance

(1) Includes extra-budgetary funds.

### *Taxation*

Kazakhstan's tax system has been significantly reformed and simplified during recent years. A comprehensive reform of the tax system took place in 1995 and, as a result, the principal taxes are now corporate income tax ("CIT"), personal income tax ("PIT"), a value added tax on goods and services ("VAT") and various property taxes. The Government of Kazakhstan developed a new tax code, which came into effect on 1 January 2002 and which was intended to further simplify the tax structure and facilitate tax administration in order to improve the collection rate.

The CIT rate is currently 30 per cent., reduced to 10 per cent. for farming corporations. Dividends are subject to a 15 per cent. withholding of CIT. PIT is levied at progressive rates, ranging from 5 per cent. to 20 per cent. This maximum PIT rate was reduced, effective 1 January 2004, to 20 per cent. from a high of 40 per cent. in 1998.

In general, all business activity in Kazakhstan is subject to a flat-rate VAT of 15 per cent. (reduced from 16 per cent., effective 1 January 2004). Corporations and private enterprises are subject to property tax at the rate of one per cent. of the value of basic production and non-production assets. Certain fees to the Government of Kazakhstan relating to the extraction of oil, gas and other natural resources are established by individual agreements with the Government of Kazakhstan or its agencies.

In 1998, the Government of Kazakhstan amended the tax code to provide tax-free periods to foreign investors investing in designated priority sectors of the economy, which do not include the oil and gas sector. Eligible investors received exemptions on income, property and land taxes on an individual basis. In 2003 the tax legislation was amended to extend tax preferences to both foreign and domestic investors investing in designated priority sectors of the economy.

### *Revenues*

Primarily as a result of improved efficiency in tax administration, increases in property tax rates, the extension of excise tax to further products, including crude oil and gas condensate, and changes in the method of tax calculation revenues have increased from 16.4 per cent. of GDP in 1999 to 23 per cent. of GDP in 2003.

*Inter-enterprise arrears*

Although the level of inter-enterprise arrears (debts which are due but unpaid) is significant and has been so since independence, there has been a marked reduction in overdue inter-enterprise net debt (overdue debts payable minus overdue debts receivable) from KZT 241.0 billion (or 19.8 per cent. of GDP) at the end of 1997 to KZT 105.7 billion (or 4.2 per cent. of GDP) in December 2002. The Government of Kazakhstan has stated that it expects that the problem of inter-enterprise arrears will ultimately be resolved by the continuation of the privatisation process and the implementation of new bankruptcy legislation and banking reform.

**Monetary and Financial System**

*Overview*

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. At the end of 2003, the annualised rate of consumer price inflation was 6.8 per cent. There has been a significant overall decrease in the annualised rate of consumer price inflation over the last ten years, during which it fell from 1,158.3 per cent. at year end 1994, mainly as a result of co-ordinated policies by the Government of Kazakhstan and the NBK. The devaluation of the Tenge following its flotation in April 1999, however, caused inflation to rise in 1999 but since the end of 2000 the annualised rate of consumer price inflation has fallen.

The NBK has managed to keep the Tenge relatively stable and inflation on a slow trend of decline. This has resulted in the benchmark interest rate, the NBK's refinancing rate, falling to 7 per cent. in 2003.

*Monetary policy*

The main targets of the monetary policy of the NBK are low inflation rates, positive real interest rates and improvement of the quality of financial intermediation. The NBK has stated that it expects to continue policies aimed at financial stabilisation and long-term price- and exchange-rate stability, as well as sustainable economic growth.

Currently, the NBK implements monetary policy through instruments such as regulation of the volume of credits to commercial banks; determination of the refinancing rate; foreign exchange market interventions and Treasury bill operations, including repurchase and reverse repurchase operations. In addition to the refinancing rate, the NBK also maintains Lombard and overnight rates.

A repurchase rate is used by the NBK as a tool to regulate liquidity. The NBK currently establishes repurchase rate, weekly overnight, seven day, 14 day repurchase and reverse repurchase rates. On 31 December 2003 these rates were: 4.5 per cent. (repurchase rate); 8.0 per cent. (weekly overnight); 4.5 per cent. (seven day); 4.5 per cent. (14 day); and 4.5 per cent. (reverse repurchase rate).

*Money supply*

The exchange rate regime adopted in April 1999 positively affected money supply aggregates. The monetary base grew in 1999 by 55.7 per cent., as compared to the 1998 monetary base and amounted to KZT 126.7 billion. An increase in the NBK's net international reserves contributed to the expansion of the monetary base.

The following table presents the main monetary aggregates in Kazakhstan as at the dates indicated:

| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | KZT millions | | |
| Monetary base | 316,872 | 208,171 | 174,959 | 134,416 | 126,749 |
| M0 (cash in circulation) | 238,730 | 161,701 | 131,200 | 106,400 | 103,486 |
| M1 | 411,320 | 287,236 | 222,400 | 195,400 | 162,115 |
| M2 | 691,746 | 498,013 | 344,600 | 290,600 | 237,260 |
| M3 (money supply) | 969,897 | 764,954 | 569,100 | 397,000 | 273,880 |

Source: NBK

***Interest rates***

One of the objectives of the NBK's monetary policy has been to maintain a positive real refinancing interest rate to stimulate investments in the real economy and to promote an effective functioning of financial markets. The following table sets out the annual refinancing rates and average yields of Treasury bills and the NBK's own short-term notes as at the dates indicated:

| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | Per cent. | | |
| Refinancing | 7.00 | 7.50 | 9.00 | 14.00 | 18.00 |
| Treasury Bill Yields[(1)] | 5.90 | 6.67 | 5.40 | 6.75 | 16.57 |
| NBK Note Yields[(2)] | 5.18 | 5.93 | 5.80 | 7.87 | 14.28 |

Source: NBK

(1) Effective annual yield of three-month Treasury bills.

(2) Effective annual yield of short-term NBK Notes.

**Exchange Rates**

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate being limited to interventions in the internal currency market in order to prevent volatile exchange rate fluctuations caused by short-term changes in supply and demand. In 1995 and 1996, this resulted in a real appreciation of the Tenge against the U.S. dollar and a real depreciation against the U.S. dollar in 1997 and 1998.

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

In April 1999, the NBK and the Government of Kazakhstan publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. Such decision was supported by international financial organisations such as the IMF. As a result, the Tenge devalued from a pre-announcement rate of KZT 88 per U.S. dollar to a rate of about KZT 130 per U.S. dollar by May 1999. Subsequently, the Tenge declined in nominal terms against the U.S. dollar. However, in 2003 and the beginning of 2004, the Tenge has appreciated in nominal terms against the U.S. dollar, due partly to the unstable position of the U.S. dollar on international currency markets and due partly to a relatively large amount of export proceeds received by Kazakhstani residents in U.S. dollars. For information regarding historical exchange rates, see "Exchange Rates and Exchange Controls."

***Foreign exchange regulations***

Kazakhstan has accepted the conditions of paragraphs 2, 3 and 4 of Article VIII of the IMF Charter and, as a result, has agreed not to introduce or increase any exchange rate restrictions, introduce or modify any practice of multiple exchange rates, enter into any bilateral agreements violating Article VIII or impose any import restrictions. In accordance with Article VIII, a new law on currency regulation was adopted in 1996. According to this law, all current account operations, including transfers of dividends, interest and other investment income, may be made without restriction. Only outflowing capital account operations need to be licensed by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

Kazakhstan recently significantly liberalised its foreign exchange regulations. A law adopted in May 2003 provides for unlicensed investments in foreign investment-grade securities, unlicensed acquisition of more than 50 per cent. of voting interest in companies incorporated in the OECD countries and unlicensed openings by individuals of bank accounts in countries incorporated in the OECD countries. The NBK intends to further liberalise licensing rules in the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of dollars into Kazakhstan due to high market prices for Kazakhstani export goods by directing export revenues abroad.

**Public Debt**

As a percentage of GDP, total public debt decreased from 17.5 per cent. of GDP at 31 December 2001 to 15.5 per cent. of GDP at 31 December 2003. In nominal terms, Kazakhstan's total public debt has grown from KZT 139.6 billion at 31 December 1994 to KZT 690.0 billion at 31 December 2003. The growth in public debt has come primarily from external borrowing and has been used to finance budget deficits.

The following table sets forth data regarding Kazakhstan's nominal public debt (i.e., excluding private sector debt or State-guaranteed debt) as at the dates indicated:

| | 31 December | | | | |
|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** |
| Internal Public Debt (KZT millions) . . . . | 166,369 | 121,802 | 83,977 | 87,418 | 136,339 |
| As a percentage of GDP . . . . . | 3.7 | 3.3 | 2.6 | 3.4 | 6.8 |
| External Public Debt1 (KZT millions) . . . | 443,223 | 458,094 | 489,982 | 472,799 | 400,568 |
| As a percentage of GDP . . . . . | 9.9 | 12.2 | 14.9 | 18.2 | 19.9 |
| Total Public Debt (KZT million) . . . . . | 690,067 | 579,896 | 573,959 | 2,560,217 | 536,907 |
| As a percentage of GDP . . . . . | 15.5 | 15.5 | 17.5 | 21.6 | 26.7 |

Source: NSA, NBK

(1) External Public Debt comprises only debt of the Government of Kazakhstan and the NBK.

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# KAZKOMMERTS INTERNATIONAL B.V.

**7.875 per cent. Senior Notes due 2014**
**Unconditionally and Irrevocably Guaranteed by**

# JSC KAZKOMMERTSBANK

**OFFERING MEMORANDUM**

**6 April 2004**

**Citigroup** **ING**

**Alpha Bank** **Parex Bank**