BankTuranAlem

TuranAlem Finance BV

(incorporated with limited liability in The Netherlands)

U.S.$350,000,000
8.50% Notes due 2015

Guaranteed by
JSC Bank TuranAlem

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

Issue Price: 98.356%

The U.S.$350,000,000 8.50% Notes due 2015 (the ''Notes'') are issued by TuranAlem Finance BV (the ''Issuer'') and are guaranteed by JSC Bank TuranAlem (the ''Bank''). Interest on the Notes will accrue from 10 February 2005 and will be payable semi-annually in arrear on 10 February and 10 August of each year, commencing on 10 August 2005. The Bank will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes pursuant to a deed of guarantee (the ''Guarantee'') to be dated on or about 10 February 2005 (the ''Closing Date''). The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 10 February 2005 (the ''Trust Deed'') between the Issuer, the Bank and J.P. Morgan Corporate Trustee Services Limited, as trustee for the holders of the Notes (the ''Trustee'').

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

See ''Investment Considerations'' starting on page 13 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

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

Moody's Investors Service Limited (''Moody's'') and Standard & Poor's Ratings Services, a division of McGraw-Hill Companies Inc. (''Standard & Poor's''), have advised the Issuer and the Bank respectively that, on issue, the Notes will be assigned a Baa2 rating (by Moody's) and a BB- rating (by Standard & Poor's). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

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

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the ''Unrestricted Global Note'') in registered form, without interest coupons attached, which will be registered in the name of Chase Nominees Limited, as nominee for, and deposited on or about the Closing Date with JPMorgan Chase Bank, N.A., as common depositary (the ''Common Depositary'') for, Euroclear Bank S.A/N.V., as operator of the Euroclear System (the ''Euroclear Operator''), and Clearstream Bank, société anonyme (''Clearstream, Luxembourg''). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the ''Restricted Global Note'' and, together with the Unrestricted Global Note, the ''Global Notes'') in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, N.A., as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company (''DTC''). The Notes will be issued in denominations of U.S.$100,000 or any greater amount which is an integral multiple of U.S.$1,000. See ''Terms and Conditions of the Notes". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See ''Form of Notes and Transfer Restrictions". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, the Euroclear Operator and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

ING Financial Markets **JPMorgan**

The date of this Offering Circular is 9 February 2005.

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

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

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

No person is authorised to give any information or make any representation not contained in this Offering Circular in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Bank or any Manager or any of their respective directors, affiliates, advisers or agents. The delivery of this Offering Circular does not imply that there has been no change in the business and affairs of the Issuer or the Bank since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Offering Circular has been prepared by the Issuer and the Bank solely for use in connection with the proposed offering of the Notes described in this Offering Circular.

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

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

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

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

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

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forwardlooking terminology such as ''estimates'', ''believes'', ''expects'', ''may'', ''are expected to'', ''intends'', ''will'', ''will continue'', ''should'', ''would be'', ''seeks'', ''approximately'', or ''anticipates'', or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include, but are not limited to, statements relating to the Bank's strategic objectives, including the anticipated expansion of the Bank's corporate, retail and investment banking business and, in particular, diversification of its deposit base, expectations as to the impact of projects undertaken to improve cost efficiencies and enhance revenue growth, statements relating to a possible sale of an equity interest in the Bank, estimates and financial targets for increasing and diversifying the composition of the loan portfolio and statements regarding planned capital expenditures. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions; the demand for the Bank's services; competitive factors in the industries in which the Bank competes; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); results of litigation or arbitration; interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders; and the timing, impact and other uncertainties of future actions. See ''Investment Considerations''.

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

MARKET SHARE AND INDUSTRY DATA

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

TABLE OF CONTENTS

AVAILABLE INFORMATION

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

ENFORCEMENT OF FOREIGN JUDGMENTS

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

The Notes, the Guarantee, the Trust Deed and the Agency Agreement (as defined in ''Terms and Conditions of the Notes'') are governed by the laws of England and the Issuer and the Guarantor have agreed in the Notes or the Guarantee, as the case may be, and in the Trust Deed and the Agency Agreement that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder (as defined in ''Terms and Conditions of the Notes''), to arbitration in London, England. See ''Terms and Conditions of the Notes – Conditions 17 and 20''. Courts in Kazakhstan will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. However, each of Kazakhstan and England are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the ''Convention'') and English arbitration awards are generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

It should be noted that a new Law on International Commercial Arbitration was adopted by the Kazakhstan Parliament as of 28 December 2004. Such law is intented to resolve the uncertainty created by the prior decision of the Constitutional Council of Kazakhstan adopted as of 15 February 2002 as to how the provisions of the Convention were to be enforced in Kazakhstan, which uncertainty remained notwithstanding that this decision was later deemed by the Constitutional Council, pursuant to a further decision adopted as of 12 April 2002, not to apply to international arbitrations.

In addition, the Issuer is incorporated under the laws of The Netherlands and its managing directors are residents of The Netherlands and Kazakhstan, respectively. A substantial portion of the assets of the Issuer and of its managing directors are located in The Netherlands and Kazakhstan. As a result, it may not be possible for investors (a) to effect service of process upon the Issuer or any such person outside The Netherlands or Kazakhstan, as the case may be, (b) to enforce against any of them, in courts of jurisdictions other than The Netherlands or Kazakhstan, as the case may be, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or (c) to enforce against any of them, in the Courts of The Netherlands or Kazakhstan, as the case may be, judgments obtained in jurisdictions other than The Netherlands or Kazakhstan, respectively, including judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States. The Issuer has been advised by legal counsel in The Netherlands, NautaDutilh, that The Netherlands does not currently have a treaty with the United States providing for reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States federal securities laws, would not be directly enforceable in The Netherlands. However, if the party in whose favour such final judgment is rendered brings a new suit in a competent court in The Netherlands, such party may submit to a Dutch court the final judgment that has been rendered in the United States. If the Dutch court finds that the jurisdiction of the federal or state court in the United States has been based on grounds which are internationally acceptable and that proper legal procedures have been observed, the Dutch court will, in principle, give binding effect to the final judgment which has been rendered in the United States unless such judgment contravenes public policy in The Netherlands.

PRESENTATION OF CERTAIN INFORMATION

The Bank is required to maintain its books of account in Tenge in accordance with relevant laws and regulations in Kazakhstan, including the regulations of the NBK and, since January 2004, the regulations of the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of Kazakhstan (''FMSA''). For the purposes of the financial analysis and management discussions herein, the term ''the Group'' shall mean, unless otherwise specified, the Bank and its principal subsidiaries and affiliates whose accounts are consolidated with the Bank's accounts, including TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities), JSC BTA Leasing, LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce. Although the Bank does not own any shares in LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce, in accordance with International Financial Reporting Standards (''IFRS''), these entities are treated as subsidiaries because the Bank controls and benefits from their operations and, accordingly, the consolidated financial statements of the Group include their results. Banking operations account for more than 95% of the total income of the Group. The Group's annual consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003 were prepared in accordance with IFRS and have been audited by Ernst & Young Kazakhstan (''Ernst & Young''), whose audit report thereon is also included in this Offering Circular. The Group's interim condensed consolidated financial statements contained in this Offering Circular, including the notes thereto, as at and for the nine months ended 30 September 2003 and 2004 were also prepared in accordance with IFRS and have been reviewed by Ernst & Young, whose review report thereon is also included in this Offering Circular. The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003, which are contained in this Offering Circular, have been reclassified in accordance with IAS 1 to permit comparability with the Group's condensed interim consolidated financial statements, including the notes thereto, as at and for the nine-month periods ended 30 September 2003 and 2004, which are also contained in this Offering Circular. No change to amounts of net income or shareholders' equity have been made. See the financial statements included herein and ''Management's Discussion and Analysis of Results of Operations and Financial Condition''.

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

Solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relates, in each case, calculated in accordance with the official exchange rates for U.S. Dollars reported by the NBK.

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

	As at and for the nine-month period ended 30 September		As at and for the year ended 31 December	
	2004	**2003**	**2003**	**2002**
Average	137.58	150.54	149.58	153.28
Period-end	134.56	148.93	144.22	155.60

Source: National Bank of Kazakhstan

The Tenge/U.S. Dollar exchange rate reported by the NBK on 7 February 2005 was KZT 129.98 per U.S.$1.00.

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

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

Unless otherwise stated, macroeconomic data which appears in this Offering Circular has been derived from statistics published by the NSA.

SUMMARY

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

OVERVIEW OF THE ISSUER AND THE BANK

The Issuer

The Issuer is a wholly owned subsidiary of the Bank incorporated on 22 May 2001 under the laws of The Netherlands for the purpose of, amongst other things, raising funds in the international capital markets and lending such funds to the Bank.

The Bank

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

The Bank's head office is in Almaty. As at 31 December 2004, the Bank had 22 regional branches and 189 retail units throughout Kazakhstan and representative offices in Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyz Republic; and Shanghai, China. In addition, as at 31 December 2004, pursuant to permits obtained from the FMSA, the Bank had opened additional representative offices in Ekaterinburg, Russia; Baku, Azerbaijan; and Dushanbe, Tajikistan. These representative offices are not yet fully operational, however, pending the receipt of required approvals from local state agencies regulating financial markets and financial institutions, which the Bank expects to obtain by the end of the first quarter of 2005. The Bank has also obtained permits from the FMSA to open further representative offices in Chisinau, Moldova; Kazan, Tatarstan, Russia; and Tbilisi, Georgia. The Bank expects these representative offices to become fully operational by the end of 2005 after obtaining the required local state approvals. Although most branches only provide cash settlement services for individual customers, some branches provide a broad range of banking services. The Bank has eleven subsidiaries: TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities) and JSC BTA Leasing; and four affiliates, which in accordance with IFRS are treated as subsidiaries: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce. At meetings held in November 2004, the respective shareholders of JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund adopted resolutions approving the merger of these entities. As at 31 December 2004, the required approvals for the merger had been obtained from the FMSA and the Bank expects that the merger will be completed, through the registration of a newly-created entity, by the end of February 2005. See ''Presentation of Financial Information'' and ''Business – Subsidiaries and Affilites''.

In addition, as at 31 December 2004, the Bank owned a 15.63% ownership interest in Slavinvest Bank (Moscow) (''Slavinvest Bank''), a small Russian bank based in Moscow; an 8.75% ownership interest in JSCB Transbank, a small Ukrainian bank based in Kiev; and a 49.0% ownership interest in CJSC Astanaeximbank, a small bank based in Minsk, Belarus. The Bank intends to complete the acquisition of a 19.0% ownership interest in OJSC Omsk Bank (''Omsk Bank''), a small bank based in Omsk, Russia, in which Slavinvest Bank currently owns a 16.26% interest.

Credit Ratings

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

Moody's		Standard & Poor's	
Long-term bank deposits	Ba1	Certificate of deposit (long-term/short-term)	BB-/B
Bank financial strength	D-	Counterparty credit ratings	BB-/B
Outlook	Positive	Outlook	Positive

Moody's and Standard & Poor's have advised the Issuer and the Bank respectively that, on issue, the Notes will be assigned a Baa2 rating (by Moody's) and a BB- rating (by Standard & Poor's), which are the same ratings currently assigned by such rating agencies to Bank's other outstanding eurobond issues. See "Selected Statistical and Other Information – Funding Sources – Debt Securities". A security credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Bank's Business

The Bank is one of the leading commercial banks in Kazakhstan servicing private commercial enterprises, state-owned enterprises and individual customers. Its principal business areas include corporate banking, retail banking, trade finance, credit and debit card services and currency and securities trading. The Bank is expanding its business to other services such as payroll management and corporate cards.

As at 30 September 2004, based on published financial statements of the Bank and its principal competitors, the Bank was the second largest bank in Kazakhstan in terms of total assets (KZT 506,987 million), shareholders' equity (KZT 38,433 million), total loans (KZT 348,488 million, net of impairment charges of KZT 24,978 million) and total deposits. The Bank has a wide range of corporate customers, including many of the country's leading industrial companies. As at 30 September 2004, the Bank had a 24.0% share of the corporate lending market with over 44,276 corporate accounts, mostly in trade finance and medium-to-long term loans, and a 20.5% share of all corporate deposits.

As at 30 September 2004, the Bank had approximately 618,114 individual customer accounts, representing a 20.8% share of the market for term and demand retail deposits, as well as a leading market position in offering a wide range of card products, representing a 12.7% share of the market for these cards. The Bank offers 17 different types of cards to its customers. As at the date of this Offering Circular, the Bank has issued over 290,895 cards that are in circulation, 2,479 of which are credit cards. 259,874 of the Bank's cards are domestic cards, including 168,775 domestic VISA cards, 40,012 domestic Maestro cards and 51,087 Smart Alem cards, while the remaining 28,542 of the Bank's cards are international VISA cards and MasterCards, VISA and AmercianExpress cards. The Bank is also an authorised agent for the distribution of American Express cards. The Bank's card processing activities have been outsourced by the Bank to Alem Card Ltd., an affiliate of the Bank that provides card processing services to the Bank and other similarly-situated financial institutions.

During the first nine months of 2004, the Bank's subsidiary, JSC TuranAlem Securities, had the highest market share (38.4%) of aggregate trade volumes of non-government securities on the KASE. JSC TuranAlem Securities has also acted as an adviser for a number of corporate and municipal securities issues.

The Bank provides international trade services to many of Kazakhstan's leading exporters, such as Petrokazakhstan, Aktobemunaigas, Kazakhmys, Ispat-Karmet and Kazatomprom. The Bank is a leading provider of foreign exchange services and an active trader in the inter-bank OTC and official currency markets on behalf of customers. The Bank maintains correspondent banking relationships with many of the world's leading banks. As at 30 September 2004, the Bank's market share of off-balance sheet operations accounted for 38.0% in terms of volume.

Strategy

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

Generally, the Bank's strategy focuses on increasing its corporate, small and medium-sized enterprise ("SME") and retail market shares. The Bank also expects to increase its fee and commission income both as a result of the expansion of its business and by focusing on those activities that generate fees and commissions. The Bank is also focused on increasing revenue derived from its subsidiaries, namely in the capital markets and insurance industry sectors. In addition, part of the Bank's strategy is to expand its business activities in neighbouring countries, in particular in Russia and the CIS, in order to extend its base of operations to become one of the leading banks in the CIS offering a full range of banking products and services. As part of this strategy, the Bank intends to invest up to U.S.$100 million in Russia and the CIS during the five years from 2004 through 2008, inclusive. As at 31 December 2004, the Bank had invested approximately U.S.$35 million of this amount in operations in Russia and the CIS. See ''Strategy – New Markets''.

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

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

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

Management

On 19 December 2004, a fatal hunting accident resulted in the untimely death of Mr. Yerzhan Tatishev, the former Chairman of the Management Board of the Bank. Mr. Saduakas Mameshtegi, at the time a Deputy Chairman of the Bank, was promptly appointed as acting Chairman of the Management Board of the Bank pursuant to a unanimous resolution adopted at an extraordinary meeting of the Board of Directors of the Bank. Mr. Mameshtegi's appointment as the new Chairman of the Bank was approved at the General Meeting of Shareholders of the Bank held on 21 January 2005. Mr. Mameshtegi has announced that he will continue to follow the policies and strategic objectives promoted by the late Mr. Yerzhan Tatishev and the Bank's management believes that the transition in management will not adversely affect the on-going operations of the Bank or the Bank's strategic development, either in the short term or over a longer period.

At the same General Meeting, the Bank's shareholders confirmed the appointment of Mr. Yerkin Tatishev (the late Mr. Yerzhan Tatishev's younger brother) as First Deputy Chairman of the Management Board in charge of investment activities. In addition, in accordance with the Bank's Charter and the Law on Joint Stock Companies, the General Meeting of Shareholders accepted the resignation of two members of the Board of Directors, Mr. Mazhibayev and Mr. Abzhanov, and appointed four new members (in addition to Mr. Mameshtegi), including Mr. Yerlan Tatishev (the late Mr. Yerzhan Tatishev's older brother), M. Sarkytbayev, D. Dzhakishev and M. Zhaksylikova. Each of Mr. Ualiev, Mr. Aksambiyev, Mr. Iliyav and Mr. Tessyman who were initially elected in January 2002, were reconfirmed as members of the Board of Directors at the same General Meeting. Members of the Board of Directors are elected for an indefinite term by a resolution of a general shareholders meeting.

Summary Terms and Conditions of the Notes

The following is a summary of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. This summary is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular. See, in particular, ''Terms and Conditions of the Notes".

Issue:	U.S.$350,000,000 principal amount of 8.50% Notes due 2015.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 8.50% per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 10 February and 10 August of each year, commencing on 10 August 2005.
Maturity Date:	10 February 2015.
Status:	The Notes constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Issuer. The Notes rank and will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See ''Terms and Conditions of the Notes – Condition 3''.
Guarantee:	The Bank will, on or prior to the Closing Date, enter into the Guarantee (under a deed of guarantee) pursuant to which the Bank will unconditionally and irrevocably guarantee the due and punctual payment of all sums payable by the Issuer in respect of the Notes and under the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Guarantor, which rank and will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.
Negative Pledge:	Each of the Issuer and the Bank agree that, so long as any Notes remain outstanding, it shall not create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than, in the case of the Bank, a Permitted Security Interest, as defined in Condition 4) upon or with respect to any of their respective undertakings, assets or revenues to secure any Financial Indebtedness (as defined in Condition 4) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Financial Indebtedness or are otherwise given the benefit of such othe arrangements as shall be approved. See ''Terms and Conditions of the Notes – Condition 4''.
Certain Covenants:	The Issuer and the Guarantor will agree to certain covenants, including, without limitation, covenants with respect to limitations on merger and consolidation and limitations on transfers of interests in the Issuer by the Guarantor. See ''Terms and Conditions of the Notes – Condition 5''.
Taxation:	All payments of principal and interest in respect of the Notes will be made free and clear of any taxes imposed by or within The Netherlands or Kazakhstan or any jurisdiction from or through which payment is made, unless withholding or deduction thereof is required by law. ''Terms and Conditions of the Notes – Taxation''. In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as may be necessary in order that

	every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by The Netherlands or Kazakhstan upon or as a result of such payment, will not be less than the amount provided for in such Note to be then due and payable. See "Terms and Conditions of the Notes – Condition 9". Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15% to 20% unless reduced or made exempt by an applicable double taxation treaty. See "Taxation — Kazakhstan Taxation".
Tax Redemption:	The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Issuer, in the event of certain changes in taxation in The Netherlands or Kazakhstan. See "Terms and Conditions of the Notes — Condition 7.2".
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. In addition, the Bank will use its best endeavours to cause the Notes to be listed on the KASE. Neither the Issuer nor the Bank can give any assurance that either such listing will be obtained.
Selling Restrictions:	Neither the Notes nor the Guarantee has been or will be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in the United Kingdom, Kazakhstan and The Netherlands.

Use of Proceeds

The net proceeds to the Issuer from the sale of the Notes, after deduction of management and underwriting commissions but before payment of expenses, are expected to be approximately U.S.$343,021,000. The net proceeds will be deposited by the Issuer with the Bank and used by the Bank for its general corporate purposes. See "Use of Proceeds".

Investment Considerations

For a discussion of certain investment considerations relating to the Issuer, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "Investment Considerations".

SUMMARY FINANCIAL INFORMATION

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

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

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

	Nine-month period ended 30 September			Year ended 31 December			
	2004	2004	2003	2003	2003	2002	2001
	(U.S.$ millions, unaudited)(1)(2)	*(KZT millions, unaudited(2)*		*(U.S.$ millions, unaudited)(1)(2)*	*(KZT millions)(2)*		
INCOME STATEMENT DATA							
Interest income	261.0	35,912	21,943	206.0	30,818	22,368	15,645
Interest expense	(125.6)	(17,278)	(10,775)	(105.4)	(15,763)	(10,527)	(6,671)
Net interest income before impairment charge	135.4	18,634	11,168	100.6	15,055	11,841	8,974
Impairment charge	(90.1)	(12,394)	(6,375)	(69.4)	(10,391)	(7,184)	(5,838)
Net interest income after impairment charge	45.3	6,240	4,793	31.2	4,664	4,657	3,136
Non-interest income	71.5	9,849	5,692	68.2	10,203	10,231	5,367
Non-interest expense	(69.1)	(9,510)	(6,777)	(67.0)	(10,021)	(9,858)	(6,911)
Income before tax expense	47.7	6,579	3,708	32.4	4,846	5,030	1,592
Income tax expense	(3.9)	(535)	(235)	(1.8)	(266)	–	–
Income before minority interest	43.8	6,044	3,473	30.6	4,580	5,030	1,592
Minority interest in net loss (income)	1.0	133	35	0.3	40	(132)	(1)
Net income	44.8	6,177	3,508	30.9	4,620	4,898	1,591
Basic earnings per share (in KZT/U.S.$)	24.9	3,432	2,478	21.7	3,245	3,450	1,217
Diluted earnings per share (in KZT/U.S.$)	19.8	2,730	2,020	18.1	2,714	2,883	1,215
Basic weighted average number of shares		1,681,838	1,252,557		1,273,425	1,272,373	1,273,236

	As at 30 September 2004		As at 31 December			
	2004		2003	2003	2002	2001
	(U.S.$ millions unaudited)(1)	*(KZT millions, unaudited)*	*(U.S.$ millions unaudited)(1)*	*(KZT millions)*		
BALANCE SHEET DATA						
Assets						
Cash, cash equivalents, obligatory reserves and amounts due from other financial institutions	275.0	37,001	217.6	31,390	34,108	22,054
Securities	778.2	104,716	609.4	87,879	51,715	17,831
Loans to customers (including interest accrued thereon)	2,589.8	348,488	1,663.1	239,847	127,747	110,719
Property and equipment, net	54.7	7,356	46.8	6,745	6,523	5,441
Other assets	70.0	9,426	49.9	7,203	5,399	1,292
Total assets	**3,767.7**	**506,987**	**2,586.8**	**373,064**	**225,492**	**157,337**
Liabilities, shareholders' equity and minority interest						
Amounts due to the NBK, the Government and other financial institutions	955.9	128,630	847.6	122,241	59,176	44,491
Amount due to customers	1,591.7	214,174	972.9	140,318	106,810	81,972
Debt securities issued	866.5	116,600	514.3	74,174	31,521	13,466
Other liabilities	56.0	7,533	30.0	4,318	7,220	1,757
Total liabilities	3,470.1	466,937	2,364.8	341,051	204,727	141,686
Minority interest	12.0	1,617	9.2	1,330	1,010	809
Total shareholders' equity	285.6	38,433	212.8	30,683	19,755	14,842
Total liabilities, shareholders' equity and minority interest	**3,767.7**	**506,987**	**2,586.8**	**373,064**	**225,492**	**157,337**

Notes:

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

(2) Except share and per share data.

	As at and for the nine-month period ended 30 September	As at and for the year ended 31 December		
	2004	2003	2002	2001
	(unaudited)		*(unaudited)*	
FINANCIAL RATIOS AND ECONOMIC DATA[1]				
Profitability Ratios				
Return on average common shareholders' equity	27.6%[4]	24.3%	33.4%	15.8%
Return on average total shareholders' equity	25.1%[4]	21.8%	28.3%	13.4%
Return on average assets	1.7%[4]	1.5%	2.6%	1.3%
Net interest margin	6.0%[4]	5.5%	6.9%	8.6%
Net interest spread	5.1%	4.5%	5.5%	7.0%
Non-interest expense/net interest income before impairment charge plus non-interest income	33.1%	39.5%	44.3%	47.3%
Non-interest expense as a percentage of net interest income before impairment charge	51.0%	66.6%	83.3%	77.0%
Non-interest expense as a percentage of average total assets	3.0%[4]	3.4%	5.2%	6.1%
Loan Portfolio Quality				
Classified loans/gross loans	7.1%	7.2%	14.3%	14.6%
Non-performing loans/gross loans	0.9%	0.7%	1.8%	0.4%
Allowance for impairment/gross loans	6.7%	6.2%	7.5%	5.6%
Allowance for impairment/classified loans	93.8%	86.2%	52.8%	38.7%
Allowance for impairment/non-performing loans	768.6%	860.8%	431.0%	1,316.0%
Balance Sheet Ratios and Capital Adequacy				
Customer deposits as a percentage of total assets	42.2%	37.6%	47.4%	52.1%
Net loans as a percentage of total assets	68.7%	62.3%	55.3%	68.8%
Total shareholders' equity as a percentage of total assets	7.6%	8.2%	8.8%	9.4%
Liquid assets as a percentage of total assets[2]	28.0%	32.0%	38.1%	25.4%
Risk weighted capital adequacy ratio[3]	12.8%	15.1%	15.9%	14.0%
Economic Data				
Period end exchange rate (KZT/U.S.$)	134.56	144.22	155.85	150.20
Average exchange rate for period (KZT/U.S.$)	137.58	149.58	153.43	146.72
Number of employees (active workforce)	8,018.4	7,579.7	7,128.3	7,183.0
Inflation rate (CPI)	6.8%	6.8%	6.6%	6.4%
GDP growth (real)	9.4%	9.2%	9.5%	13.5%

Notes:

(1) For the definitions of certain ratios, see "Selected Financial Information – Selected Financial Ratios and Economic Data".

(2) Liquid assets comprise securities, cash or cash equivalents, obligatory reserves and amounts due from other banks.

(3) Calculated in accordance with the Bank for International Settlements ("BIS") standards.

(4) Annualized.

INVESTMENT CONSIDERATIONS

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

General

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

Investment Considerations Relating to Kazakhstan

Most of the Bank's operations are conducted, and substantially all of its customers are located, in Kazakhstan. Accordingly, the Bank's financial position, results of operations and ability to recover on its loans are substantially dependent on the economic and political conditions prevailing in Kazakhstan.

Political and Regional Considerations

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

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

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper, ferro-alloys, iron ore, alumina, coal, lead, zinc and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In addition to taking various steps to promote regional economic integration among neighbouring countries, Kazakhstan signed an agreement in September 2003 with Ukraine, Russia and Belarus for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The aim of the single economic zone is to create a free customs area within which member countries would enjoy free movement of goods, services, capital and labour. The member countries also intend to co-ordinate their fiscal, credit and currency policies. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, the economy of Kazakhstan could be adversely affected.

Like other countries in Central Asia, Kazakhstan could be affected by any further military action taken by the United States and an international coalition following the recent conflict in Iraq and continuing unrest in the region and the effect such military action may have on the world economy and political stability of other countries. Also, in common with other countries in Central Asia, Kazakhstan could be affected by military or other action taken against sponsors of terrorism in the region. In particular, countries in Central Asia, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil, oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects.

Macroeconomic Considerations and Exchange Rate Polices

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

The Government began implementing market-based economic reforms following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 12 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. Whilst GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5% in 2001, 9.5% in 2002 and 9.2% in 2003 and by a further 9.4% in the nine-month period ended 30 September 2004, there can be no assurance that GDP will continue to grow and any fall in GDP in subsequent periods could adversely affect Kazakhstan's economy.

The Tenge is convertible for current account transactions, although it is not fully convertible currency outside Kazakhstan. Depressed export markets in 1998 and early 1999 caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 64.9% against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.9% in the year ended 31 December 1998. In 2002, 2001 and 2000, the Tenge continued to depreciate in value against the U.S. Dollar, although at a much lower rate, depreciating by 5.2% in 2000, by 3.8% in 2001 and by 3.3% in 2002. The Tenge appreciated in value against the U.S. Dollar during 2003 to KZT 144.22 per U.S.$1.00 as at 31 December 2003 compared to KZT 155.85 per U.S.$1.00 as at 31 December 2002. The exchange rate was KZT 134.56 per U.S.$1.00 as at 30 September 2004 and KZT 129.98 per U.S.$1.00 as at 7 February 2005. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

Implementation of Further Market-Based Economic Reforms

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

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including an amended tax code in January 2002, laws relating to investments, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business and prospects.

Payments from Kazakhstan sources to non-residents not represented in Kazakhstan are subject to withholding tax at rates of between 15% and 20% on dividends, interest and other types of income, unless reduced by an applicable double taxation treaty. Moreover, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments making it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. Kazakhstan's tax system is still in a transitional phase and no assurance can be given that new taxes and duties or new tax rates will not be introduced during the tenor of the Notes. Any expansion of the circumstances in which withholding tax is applicable may give the Issuer the right to redeem the Notes prior to their stated maturity.

Less Developed Securities Market

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

Investment Considerations Relating to the Bank

Loan Portfolio Growth

The Bank's gross loan portfolio, (including accrued interest), has increased rapidly in recent years growing by 17.7% from KZT 117,193 million in 2001 to KZT 137,913 million in 2002, by an additional 85.0% to KZT 255,118 million in 2003 and by a further 46.4% to KZT 373,466 million in the first nine months of 2004. The growth in the gross loan portfolio is attributable to an overall increase in the growth rate of lending activity, especially to small and medium size businesses and retail customers. The increased levels of lending to small and medium size businesses as well as to retail customers may increase further the credit risk of the Bank. Small and medium size businesses and retail customers typically have less financial strength, and negative developments in the Kazakhstan economy could affect these borrowers more significantly than large companies. This could result in higher levels of classified and non-performing loans and, as a result, higher levels of provisioning, as well as implementation and application of credit policies and provisioning procedures that differ from those used for large corporations. The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels and continued and anticipated improvement in the Bank's credit risk management programme. Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain a significant number of qualified personnel and to train new personnel appropriately, not only to monitor asset quality but also to ensure access to appropriately flexible funding sources which do not impose inappropriate constraints on the Bank's future funding strategy. Furthermore, the development of relatively new products, such as fixed rate mortgages and financing packages for SMEs, require not only credit assessment skills and personnel, but also appropriate risk management systems, some of which are not currently in place at the Bank. For example, the Bank primarily relies on the relatively short average maturity of its loan portfolio to mitigate its interest rate risk. However, as the average maturity of its loan portfolio increases, it will need to introduce more sophisticated techniques to manage this risk and there can be no assurance that it will do so in a timely manner, if at all. Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's results of operations and financial condition.

Risk Management

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

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

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

Concentration of Lending

The Bank's loan portfolio shows relatively high industry and borrower concentration. As at 30 September 2004, the Bank's 10 major borrowers accounted for 18.3% of gross commercial loans and advances, compared to 26% as at 31 December 2003. The Bank will require continued emphasis on credit quality and the further development of financial and management controls to monitor this credit exposure. The failure to manage the Bank's credit concentrations could have a material adverse effect on the Bank's results of operations and financial condition.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakh economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to the Bank relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Bank ordinarily estimates the net realisable value of collateral in determining applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. NBK has established a central credit bureau in Kazakhstan to facilitate the collection of information and assessment of risk; this agency is at a preliminary stage of development and there can be no assurance that this resource will improve the Bank's ability to assess credit risk.

Competition

The Bank, in common with other Kazakhstan banks, is subject to competition from both domestic and foreign banks and other existing and prospective participants in the Kazakhstan banking sector. As at 30 September 2004, there were a total of 35 banks, excluding the NBK, licensed to operate in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. In particular, the Development Bank of Kazakhstan (''DBK''), established in 2001, has an equity base larger than any commercial domestic bank in Kazakhstan. Because DBK is not licensed to accept deposits or provide corporate settlement services, the Bank does not classify DBK as a commercial bank for purposes of calculating market share data or rankings in the banking sector. The Bank expects, however, that DBK may become an important competitor in the corporate lending sector. Kazkommertsbank, which is the largest bank in Kazakhstan in terms of both total assets and shareholders' equity, is the Bank's major competitor in the corporate and retail banking sectors. In addition, Halyk Savings Bank, which has the largest branch network in Kazakhstan, is one of the bank's major competitors in retail banking. Moreover, although foreign-owned banks do not currently provide significant domestic competition, these institutions have significantly greater resources and cheaper funding bases than the Bank. Foreign banks also have greater international experience, allowing them to target the best domestic corporate customers, as well as foreign companies operating in Kazakhstan. Accordingly, these entities are likely to become competitive with the Bank in the corporate banking sector in the longer term. See ''The Bank – Competition'' and ''The Banking Sector in Kazakhstan''.

According to the Bank's strategy, the Bank plans to expand its business activities into neighbouring countries, particularly in the CIS, including by increasing its shareholdings in Slavinvest Bank, Astanaeximbank and Transbank and acquiring an ownership interest in Omsk Bank. See ''Overview of the Bank – Strategy – New Markets''. The Bank's international presence exposes the Bank to risks the Bank would not face as a purely domestic bank, including certain regulatory risks, compliance risks, foreign currency exchange risk and the risk of failure to market adequately to potential customers in other countries. To the extent the Bank expands its international operations further, it will be exposed to additional risks. Any failure to manage such risks may cause the Bank to incur increased liabilities in respect of such operations. For more information on the recent acquisitions discussed above, see ''The Bank – Subsidiaries''.

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and capital adequacy of banks operating in Kazakhstan in conformity with the recommendations of the NBK's board of directors. In addition, an institutional development plan was prepared for leading Kazakh banks, including the Bank. According to the plan, the NBK has required banks operating in Kazakhstan, including the Bank, to prepare their accounts in accordance with IFRS and to apply the Basle Committee accords. The Bank has maintained its daily accounting records in accordance with IFRS since January 2003. In order to accept deposits, banks are required to join the Fund for Guaranteeing Deposits, which was established in December 1999, and are required to be audited annually by a public accountancy firm approved by the NBK, which should be one of the leading international firms. Following legislative changes in July 2003, the FMSA was formed and, on 1 January 2004, took responsibility for most of the supervisory and regulatory functions in the financial sector, which had previously been performed by the NBK. The FMSA's main task is to regulate and supervise the financial markets and financial institutions. See ''The Banking Sector in Kazakhstan''. Regulatory standards applicable to banks in Kazakhstan, and the oversight and enforcement thereof by the regulators, may differ from those applicable to banking operations in more highly developed regulatory regimes. See ''Investment Considerations Relating to Kazakhstan — Underdevelopment and Evolution of Legislative and Regulatory Framework''. There can be no assurance that the Government will not implement regulations or policies, including new regulations or policies or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation or exchange controls, or otherwise take action that could have a material adverse effect on the Group's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Reform of the International Capital Adequacy Framework

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

Change of Control and CPS

The Bank's management and current shareholders have expressed an interest in selling, an equity interest of at least 55% in the Bank by 31 December 2006 to an OECD-based bank with total assets greater than U.S.$60 billion and with a financial strength of not less than D+ (or its equivalent) as measured by any of Moody's, Standard & Poor's or Fitch IBCA. See ''Management and Share Ownership — Principal Shareholders — The Bank's CPS''. The Bank has been in negotiations with Raiffeisen Zentralbank Oesterreich AG (''RZB'') to increase its current 7.1% equity interest in the Bank. The Bank has declined an initial offer from RZB and the parties are at present unable to agree on terms. There can be no assurance that the Bank, its shareholders and RZB will, ultimately, agree on terms. In the event that the Bank and its shareholders do not reach agreement with RZB or another suitable strategic partner by 31 December 2006 in compliance with the CPS agreements, the Bank may be obliged to redeem the CPS at cost if the holders of such CPS so request. In addition, the Bank may also be obliged to offer to redeem the CPS if a person makes a tender offer to purchase 30% or more of the Bank's common share capital and the tender offer price for each share is less than the original purchase price. The Bank's management believes that, on the basis of the current market price for its shares, it is unlikely that it would be profitable for a holder to require such redemption and that the likelihood of a tender offer is remote. The holders of the CPS have the right to convert all or any part of the CPS held by them into common shares of the Bank at any time up to 31 December 2006.

Failure To Meet Financial Ratios

Under various financing agreements, the Bank is obliged to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. As at 30 June 2004, the Bank failed to meet the liquidity ratio required under the 2003 EBRD Facility (as defined below), but, having been informed of the failure, EBRD (as defined below) did not take any action and, subsequently, delivered a waiver to the Bank in respect of such failure. The failure to meet this liquidity ratio was a temporary result of the Bank's repayment of the 2004 Notes (as defined below) on 28 June 2004, when the measurement date under the covenants immediately followed the payment date on 30 June 2004. While management believes that the failure was a one-off occurrence, the Bank is negotiating with its lenders to increase the flexibility of the financial tests imposed under certain of its financial agreements (including with EBRD under the 2003 EBRD Facility). Among other things, the Bank has requested that investments in securities of supranational financial institutions be counted as liquid assets, although they have medium or long-term maturities. There can be no assurance that such negotiations will be successful and a subsequent failure by the Bank to meet its financial ratio tests could result in a default under the Bank's financing agreements, which could, in turn, have a material adverse effect on the Group's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes. The Bank measures its compliance with its debt covenant ratios on a quarterly basis after the Bank's quarterly consolidated financial statements are prepared. As at 31 December 2004, the Bank was in compliance with all financial ratios and other covenants imposed on it under any financing agreement under which it is a borrower or guarantor and the Bank is not aware of any incidents or cases of breach of any debt covenants to which it is subject as at the date of this Offering Circular.

Investment Considerations Relating to the Notes

Emerging Market Risks

The markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan.

Financial instability in Kazakhstan and other emerging market countries following the 1997 Asian and the 1998 Russian crises adversely affected market prices in the world's securities markets for the debt and equity securities of companies that operate in those countries. Financial stability in emerging market countries other than Kazakhstan could adversely affect the market price of the Notes, even if the economy in Kazakhstan remains relatively stable. Accordingly, the Notes may be subject to fluctuations which may not necessarily be related to the financial performance of the Bank or economic conditions in Kazakhstan.

Central Asia and Regional Risks

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

Credit Rating

As at the date of this Offering Circular, outstanding eurobonds of the Republic of Kazakhstan are rated Baa3 by Moody's and BBB- by Standard & Poor's and the Bank's outstanding eurobonds are rated Baa2 by Moody's and BB- by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. Any change in the credit rating of either the Bank or the Republic of Kazakhstan could affect the trading price of the Notes.

Absence of Trading Market for the Notes

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

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a duly authorised issue of U.S.$350,000,000 8.50% Notes due 2015 (the ''**Notes**'', which expression shall, unless the context otherwise so requires, be deemed to include a reference to any further notes issued pursuant to Condition 16 and forming a single series therewith) issued by the Issuer and guaranteed by the Guarantor pursuant to a deed of guarantee dated 10 February 2005 (the ''**Guarantee**''). The Notes are constituted by a trust deed dated 10 February 2005 (the ''**Trust Deed**'') between the Issuer, the Guarantor and J.P. Morgan Corporate Trustee Services Limited (the ''**Trustee**'', which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes. The Issuer and the Guarantor have entered into a Paying Agency Agreement (the ''**Agency Agreement**'') dated 10 February 2005 with the Trustee, JPMorgan Chase Bank, N.A., as registrar (the ''**Registrar**''), as principal paying agent (the ''**Principal Paying Agent**'') and as transfer agent (a ''**Transfer Agent**''), and the other paying agents named therein (together with the Principal Paying Agent, the ''**Paying Agents**'') and the other transfer agents named therein (together with the Transfer Agent named above, the ''**Transfer Agents**''). The Registrar, Paying Agents and Transfer Agents are together referred to herein as the ''**Agents**'', which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes and the Guarantee.

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

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

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

1. Form, Denomination and Title

1.1 Form and Denomination

The Notes are in definitive, fully registered form, without interest coupons attached, in a minimum denomination of U.S.$100,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (each, an ''authorised denomination''). A certificate (each a ''**Note Certificate**'') will be issued to each Noteholder in respect of its registered holding or holdings of Notes. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the register (the ''**Register**'') that the Issuer shall procure to be kept 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.

2. Transfer of Notes and Issue of Notes

2.1 Transfer

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

2.2 Delivery

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

2.3 No Charge

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

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 out in a schedule to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be sent, free of charge, by the Registrar or any Transfer Agent to any Noteholder who so requests in writing to the specified office of the Registrar or any Transfer Agent.

3. Status of Notes and Guarantee

3.1 Status of the Notes

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

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 under the Trust Deed. The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and (subject to Condition 4) unsecured obligations of the Guarantor which rank and will at all times rank at least pari passu with all other present and future unsecured obligations of the Guarantor, save only for such obligations as may be preferred by mandatory provisions of applicable law.

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

4. Negative Pledge

4.1 Negative Pledge of the Issuer

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

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 Financial Indebtedness of the Guarantor, any such Subsidiary or any other Person unless, at the same time or prior thereto, the Guarantor's obligations under the Trust Deed and the Guarantee to the satisfaction of the Trustee are secured equally and rateably therewith or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

4.3 Certain Definitions

For the purposes of these Conditions:

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

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

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

"*Indebtedness for Borrowed Money*" means any Indebtedness of any Person for or in respect of (i) monies borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) amounts raised pursuant to any issue of shares of any Person, which are expressed to be redeemable (other than the Bank's convertible preferred shares issued on or before 31 December 2006 and having the same terms as to redemption as the Bank's convertible preferred shares issued and outstanding on the issue date of the Notes), (v) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (vi) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vii) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables on a "with recourse" basis) having the commercial effect of a borrowing.

"*Development Organisation*" means any of Asian Development Bank, European Bank for Reconstruction and Development, International Bank for Reconstruction and Development, International Finance Corporation, Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. or Deutsche Investitions und Entwicklungsgesellschaft mbH or any other development finance institution established or controlled by one or more states and any other person which is a, or controlled by a, Kazakhstan governmental body acting on behalf of or funded in relation to the relevant Financial Indebtedness by one or more of the foregoing development finance institutions.

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

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

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

"*Permitted Security Interest*" means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary to secure Financial Indebtedness owed by such entity to the Guarantor, (ii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, 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, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Guarantor held by financial institutions, (iv) arising in the ordinary course of the Guarantor's or a Subsidiary's business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers, (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, (vi) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary other than on a short-term basis as part of the Guarantor's liquidity management activities), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (vii) 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 Financial Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property, (viii) created or outstanding upon any property or assets of the Guarantor or any 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 recourse in relation to the Financial Indebtedness secured by such property or assets is limited to such property or assets, provided, however, that the amount of Financial Indebtedness so secured pursuant to this clause (viii) at any one time shall not exceed an amount in any currency or currencies equivalent to 15% of the Guarantor's loans and advances 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 Financial Reporting Standards), (ix) granted by the Guarantor or any Subsidiary in favour of a Development Organisation to secure Financial Indebtedness owed by the Guarantor or such Subsidiary to such Development Organisation pursuant to any loan agreement or other credit facility entered into between the Guarantor or any Subsidiary and such Development Organisation, provided, however, that the amount of Financial Indebtedness so secured pursuant to this clause (ix) shall not exceed in aggregate an amount in any currency or currencies equivalent to 7% of the Guarantor's loans and advances 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 Financial Reporting Standards), (x) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest, and (xi) not included in any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding U.S.$55,000,000 (or its equivalent in other currencies) at that time.

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

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

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

5. Certain Covenants

For so long as any Note remains outstanding:

5.1 Merger and Consolidation

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

5.2 Limitations on Transfers of Interest in the Issuer by the Guarantor

The Guarantor will not sell or otherwise dispose of any of its interest in the capital, voting stock or other right of ownership in the Issuer other than to a wholly owned subsidiary 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 12g3 2(b) thereunder.

6. Interest

Each Note bears interest from and including 10 February 2005 at the rate of 8.50% per annum. Interest is payable semi-annually in arrear on 10 February and 10 August in each year commencing on 10 August 2005 (each an "**Interest Payment Date**") until maturity, unless any such date is not a Business Day (as defined in Condition 8.4), in which case the relevant Interest Payment Date shall be the first following day that is a Business Day unless that day falls in the next calendar month, in which case that Interest Payment Date shall be the first preceding day that is a Business Day.

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

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

7. Redemption, Purchase and Cancellation

7.1 Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 10 February 2015, 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 10 February 2005 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 10 February 2005, as a result of any change in, or amendment to, the laws or regulations 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 10 February 2005, 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 in form and substance satisfactory to the Trustee of independent legal advisers 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 expiry of any such notice as 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. Any Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.

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

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 by uninsured mail at the risk of the Noteholder to the relevant Noteholder at the address appearing in the Register as provided below. For the purposes of Condition 8.1 and this Condition 8.2, the Noteholder will be deemed to be the person shown as the holder (or the first-named of joint holders) on the Register on the fifteenth day before the due date for such payment.

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

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

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

In these Conditions (other than Condition 2.2, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business (including dealings in foreign currencies) in London and New York City and, in the case of the surrender of a Note Certificate, in the place where the Note Certificate is surrendered.

8.5 Partial Payments

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

8.6 Agents

The names of the initial Agents and their initial specified offices are set out below. Any of the Agents may resign in accordance with the provisions of the Agency Agreement and each of the Issuer and the Guarantor reserves the right at any time with the approval of the Trustee (such consent not to be unreasonably withheld or delayed) to vary or terminate the appointment of any Agent and appoint additional or other Agents provided that it will at all times maintain (i) a Registrar, (ii) a Paying Agent and (iii) a Paying Agent and a Transfer Agent having a specified office in Europe, which will be in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. In addition, the Issuer and the Guarantor undertake that, if Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 is brought into force, the Issuer will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to 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 15 below.

9. Taxation

All payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee and any payments by the Issuer or Guarantor under the Trust Deed) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges (each a "**Tax**", collectively "**Taxes**") imposed, levied, collected, withheld or assessed by or in The Netherlands, Kazakhstan or any other jurisdiction from or through which payment is made, or, in any case, any political subdivision or any authority thereof or therein having power to tax (each, a "**Taxing Jurisdiction**") unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations set out below, pay such additional amounts (the "**Additional Amounts**") to the holder of any Note as may be necessary in order that every net payment of the principal of and interest on such Note, after withholding for or on account of such tax imposed by any Taxing Jurisdiction upon or as a result of such payment, will not be less than the amount such holder would have received without such withholding or deduction. However, neither the Issuer nor the Guarantor will be required to make any payment of Additional Amounts to any such holder for or on account of any such Taxes which would not have been so imposed (i) but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership or a corporation) and the relevant Taxing Jurisdiction, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein other than the mere holding of the Note; (ii) but for the presentation by the holder of any such Note for payment on a date more than 30 days after the date (the "**Relevant Date**") which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days or (iii) where such Taxes are imposed on a payment to an individual and are required to be made pursuant to Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, or any law implementing or complying with, or introduced in order to conform to, any such Directive; nor shall Additional Amounts be paid with respect to any payment on a Note or under the Guarantee to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

In addition, the Issuer and the Guarantor will indemnify and hold harmless each holder of a Note (subject to the exclusions set out in (i), (ii) and (iii) above) and will, upon written request of each holder (subject to the exclusions set out in (i), (ii) and (iii) above), and provided that reasonable supporting documentation is provided, reimburse each such holder for the amount of any Taxes levied or imposed by any Taxing Jurisdiction and paid by the holder as a result of payments made under or with respect to the Notes or the Guarantee, so that the net amount received by such holder after such reimbursement would not be less than the net amount the holder would have received if such Taxes would not have been imposed or levied.

The Issuer and the Guarantor, as the case may be, will pay any stamp, administrative, court, documentary, excise or property Taxes arising in any Taxing Jurisdiction in connection with the Notes and the Guarantee and will indemnify a holder for any such Taxes paid by the holder. Any payment made pursuant to this paragraph shall be considered an Additional Amount.

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

If the Issuer or (as the case may be) the Guarantor becomes generally subject at any time to any Taxing Jurisdiction other than The Netherlands or Kazakhstan, respectively, references in these Conditions to The Netherlands or (as the case may be) Kazakhstan shall be read and construed as a reference to 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 if any of the following events (each, an "**Event of Default**") occurs:

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

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

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

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

(e) *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

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

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

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

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

11. Warranties

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

12. Prescription

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

13. Replacement of Note Certificates

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

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

14.1 Meetings of Noteholders

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

14.2 Modification and Waiver

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

14.3 Substitution

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

15. Notices

15.1 To Noteholders

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

15.2 To the Issuer and the Guarantor

Notices to the Issuer or the Guarantor will be deemed to be validly given if delivered to the Guarantor at 97, Zholdasbekov Street, ''Samal-2'' microdistrict, Almaty 050051, Kazakhstan and clearly marked on their exterior ''Urgent – Attention: Chairman'' (or at such other address and for such other attention as may have been notified to the holders in accordance with Condition 15.1) with a copy to the Issuer at Schouwburgplein 30-34, 3012 Rotterdam, The Netherlands, and will, be deemed to have been validly given at the opening of business on the next day on which the Guarantor's principal office, as applicable, is open for business.

15.3 To the Trustee and Registrar

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

16. Further Issues

The Issuer may from time to time without the consent of the Noteholders 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 issues shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed.

17. Enforcement

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

18. Indemnification of the Trustee; the Agents

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit. The Trustee is not responsible for the validity, sufficiency or enforceability of the Guarantee, the Trust Deed and the Notes nor obliged to take any action unless indemnified to its satisfaction. The Trustee is also entitled to be paid its costs and expenses in priority to the claims of the Noteholders.

In the exercise of its powers and discretion under these Conditions and the Trust Deed (including but not limited to those referred to in this Condition), the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence of such exercise for individual holders of Notes as a result of such holders being connected in any way with a particular territory or Taxing Jursidiction or otherwise, 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.

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

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

19. Contracts (Rights of Third Parties) Act 1999

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

20. Governing Law and Jurisdiction

20.1 Governing Law

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

20.2 Jurisdiction

Subject to Condition 20.7, the courts of England shall have, subject as follows in this Condition 20.2, non-exclusive jurisdiction to hear and determine any suit, action or proceedings, which may arise out of or in connection with the Notes, the Trust Deed or the Guarantee (respectively, "Proceedings") and, for such purposes, the Issuer and the Guarantor irrevocably submits to the jurisdiction of such courts. Nothing in this Condition 20.2 shall limit the right of the Trustee or the Noteholders to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee or the Noteholders in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or the Noteholders in any other jurisdiction (whether concurrent or not) if and to the extent permitted by law.

20.3 Appropriate forum

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

20.4 Process agent

Each of the Issuer and the Guarantor has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Bracewell & Patterson LLP at 1 Cornhill, London EC3V 3ND or, if different, its registered office for the time being. If for any reason the Issuer or the Guarantor, as the case may be, does not have such an agent in England, it will promptly appoint a substitute process agent and notify in writing the Trustee of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

20.5 Consent to enforcement, etc.

Each of the Issuer and the Guarantor has consented generally in respect of any Proceedings (or arbitration in accordance with Condition 20.7) to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration, including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be given in such Proceedings.

20.6 Waiver of immunity

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

20.7 Arbitration

(a) *Disputes*: Each of the Issuer and the Guarantor has agreed that the Trustee or, if the Trustee, having become bound to take proceedings, fails to do so, a Noteholder may elect, by notice in writing to the Issuer or the Guarantor, to refer such claim to arbitration in accordance with the provisions of this Condition 20.7 any claim, dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a claim, dispute or difference as to the breach, existence or validity of the Notes) or the Trust Deed (each a "Dispute").

(b) *UNCITRAL Arbitration Rules:* Each of the Issuer and the Guarantor has agreed, and hereby agrees, that (with respect to any Dispute subject to a notice of election in accordance with Condition 20.7(a)), such Dispute may be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the "Rules") as at present in force (which are deemed incorporated into this Condition 20.7)) by a panel of three arbitrators appointed in accordance with the Rules. The seat of arbitration shall be in London, England. The procedural law of any reference shall be English law. The Issuer and/or the Guarantor, as the case may be, shall appoint one arbitrator and the Trustee shall appoint one arbitrator and the two arbitrators thus appointed shall appoint the third arbitrator who shall be chairman of the arbitral tribunal. The language of any arbitral proceedings shall be English. The appointing authority for the purposes of the Rules shall be the London Court of International Arbitration. Sections 45 and 69 of the Arbitration Act 1996 shall not apply to any arbitration proceedings pursuant to this Condition 20.7.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

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

1. Meetings

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

2. Cancellation

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

3. Payment

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

4. Notices

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

5. Registration of Title

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

(a) in the case of the Restricted Global Note, DTC or any successor depositary on behalf of which the Notes evidenced by the Restricted Global Note may be held notifies the Issuer and the Guarantor that it is no longer willing or able to discharge its responsibilities as depositary with respect to the Notes, ceases to be a clearing agency registered under the Exchange Act or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depositary; or

(b) in the case of the Unrestricted Global Note, either the Euroclear Operator or Clearstream, Luxembourg or any successor depositary on behalf of which the Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so; or

(c) an Event of Default occurs as set out in Condition 10; or

(d) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form on an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for definitive Notes.

6. Transfers

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

USE OF PROCEEDS

The net proceeds to the Issuer from the sale of the Notes, after deduction of management and underwriting commissions but before payment of expenses, are expected to be approximately U.S.$343,021,000. Such net proceeds will be deposited by the Issuer with the Bank and used by the Bank to fund the Bank's loan portfolio and for other general corporate purposes, including liquidity management.

THE ISSUER

History

The Issuer is a Dutch company whose statutory seat is in Rotterdam and it was incorporated on 22 May 2001. Its number in the commercial register is 24321412. The Issuer is a direct, wholly owned subsidiary of the Bank.

Capitalisation

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

	Actual		**As adjusted[1]**	
	(U.S.$, unaudited)[2]	*(Euro, unaudited)*	*(U.S.$, unaudited)[2]*	*(Euro, unaudited)*
Senior long-term liabilities[3]	725,000,000	582,972,500	1,075,000,000	864,407,500
Total shareholders' equity	22,385	18,000	22,385	18,000
Total shareholders' equity and long term liabilities	**725,022,385**	**582,990,500**	**1,075,022,385**	**864,425,500**

Notes:

(1) Adjusted to reflect the issue and sale of the Notes.

(2) U.S. Dollars amounts have been translated from the Euro amounts at the rate of Euro 0.8041 = U.S.$1.00, which is the rate published by Bloomberg L.P. on 30 September 2004.

(3) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated and comprise U.S. Dollar medium-term notes.

The authorised share capital of the Issuer is €90,000, divided into ordinary shares with a par value of €100 each. As of the date of this Offering Circular, the Issuer's total capitalisation is €18,000, consisting of 180 ordinary shares which have been issued and fully paid at par and are directly owned by the Bank.

Except for the issue of the Notes, and as described below, there has been no material adverse change in the capitalisation, financial position or prospects of the Issuer since the date of its incorporation (22 May 2001). On 30 November 2004, the Issuer issued U.S.$375,000,000 7.875% Notes due 2010, which were consolidated and form a single series with the Issuer's U.S.$225,000,000 7.875% Notes due 2010 and the proceeds of which were deposited by the Issuer with the Bank and used by the Bank to fund the Bank's loan portfolio and for other general corporate purposes.

Business

As set out in Article 2 of its Articles of Association, the Issuer was incorporated for the purpose of, among other things, raising funds in the international capital markets and lending such funds to the Bank or its subsidiaries. See ''Use of Proceeds''. The Issuer has no employees or subsidiaries.

In June 2001, the Issuer issued U.S.$100 million 11.5% Notes due 2004 (the ''2004 Notes''), which matured and were fully repaid in accordance with their terms in June 2004. In September 2001, the Issuer arranged a U.S.$67,500,000 syndicated loan facility that was later increased to U.S.$73,500,000 and repaid in 2003. In May 2002, the Issuer issued U.S.$100 million 10% Notes due 2007. In May 2003, the Issuer issued the U.S.$225,000,000 7.875% Notes due 2010. On 24 March 2004, the Issuer issued U.S.$300,000,000 8% Notes due 2014. On 2 April 2004, the Issuer issued U.S.$100,000,000 8% Notes due 2014, which were consolidated and form a single series with the Issuer's U.S.$300,000,000 8% Notes due 2014 and the proceeds of which were used to repay the 2004 Notes in full in June 2004. As noted above, on 30 November 2004, the Issuer issued U.S.$375,000,000 7.875% Notes due 2010, which were consolidated and form a single series with the Issuer's U.S.$225,000,000 7.875% Notes due 2010 and the proceeds of which were deposited by the Issuer with the Bank and used by the Bank to fund the Bank's loan portfolio and for other general corporate purposes.

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

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

Financial Statements

The Issuer publishes annual financial statements in accordance with Dutch law. To comply with an NBK requirement (which came into effect in June 2000) that the accounts of overseas subsidiaries of Kazakhstan banks must be independently audited, the Issuer has engaged Mazars Paardekooper Hoffman, Rotterdam, The Netherlands, to conduct annual audits of its statutory financial statements. Copies of the Issuer's audited statutory financial statements as at and for the years ended 31 December 2003 and 2002, including the notes thereto and together with the auditors' report relating thereto, are contained elsewhere in this Offering Circular. The Issuer does not produce interim financial statements. The Issuer's results are consolidated in the Group's consolidated financial statements contained in this Offering Circular.

Management

The Issuer currently has two managing directors, Ms Zhamilya Sarsembayeva, age 35, who is an Executive Vice President of the Bank, and Equity Trust Co. N.V., a company incorporated with limited liability in The Netherlands.

General Information

The business address of the Issuer is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The business address of Ms Sarsembayeva is 97, Zholdasbekov Street, ''Samal-2'' microdistrict, Almaty 050051, Kazakhstan. Administrative services are provided to the Issuer by Equity Trust Co. N.V., whose business address is Schouwburgplein 30-34, 3012 CL Rotterdam, The Netherlands. The Issuer has obtained all necessary consents, approvals and authorisations in The Netherlands in connection with the issuance of the Notes and the performance of its obligations in relation thereto.

OVERVIEW OF THE BANK

History

General

The Bank was incorporated on 15 January 1997 as a closed joint stock company as a result of the restructuring and merger of two state-owned banks, Alem Bank and Turan Bank, pursuant to a decision of the Government and the NBK. Having been recapitalised by the Government, the Bank was fully privatised at a competitive auction in March 1998 and reorganised from a closed joint stock company to an open joint stock company on 17 December 1998. On 26 September 2003, the Bank completed its reregistration as a joint stock company and adopted a new charter, each in accordance with the Law on Joint-Stock Companies in Kazakhstan adopted on 13 May 2003. Management believes that there has been no material effect on the operations of the Bank as a result of such change. On 30 December 2003, the NBK issued to the Bank its current banking licence (No. N242).

The Bank is registered with the Ministry of Justice under certificate number N3903-1900-AO. The registered office and the head office of the Bank are at 97 Zholdasbekov Street, ''Samal-2'' microdistrict, Almaty 050051, Kazakhstan.

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

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

Incorporation of the Bank and Recapitalisation

Whilst by 1996 each of Alem Bank and Turan Bank had been reorganised into two separate joint stock companies, the Government continued to own the majority of shares in both banks. During the period of economic decline following the collapse of the USSR, a number of large industrial enterprises were unable to repay bank debts. As a result, by the end of 1996, Alem Bank and Turan Bank had a combined negative net equity position. In the circumstances, the Ministry of Finance of Kazakhstan was required by law to take control of the two banks, which were then merged and, on 15 January 1997, the Government incorporated the Bank as their successor. Upon incorporation, the Bank became the sole legal successor to both predecessor banks and inherited all their assets and liabilities, staff, technological infrastructure and customer banking relationships.

Following the merger, in 1997, the Government initiated a U.S.$152 million financial restructuring programme, providing for a capital injection of approximately U.S.$90 million and the purchase by the Rehabilitation Bank of certain non-performing loans inherited by the Bank in the principal amount of approximately U.S.$62 million. As a result of these measures, the Bank's financial position and operating results improved.

Expansion of the shareholder base

Following a resolution of the Cabinet of Ministers of the Government in January 1998, the MOF carried out a closed auction whereby a number of private sector local companies purchased all of the Bank's shares for U.S.$72 million. Following this sale, the Bank increased its share capital and expanded its shareholder base. Between 2001 and 2004, the Bank issued CPS in the amount of KZT 5,239 million, which constituted approximately 13.6% of the Group's equity as at 30 September 2004. The CPS are currently held by a number of development finance institutions, namely: Deutsche Investitions and Entwicklungsgesellschaft MBH (''DEG''), European Bank for Reconstruction and Development (''EBRD''), International Finance Corporation (''IFC'') and Nederlandse Financierings Maatschappij

Voor Ontwikkelingslanden N.V. (''FMO''), and one commercial bank, RZB. See ''Capitalisation of the Bank'' and ''Management and Share Ownership – Principal Shareholders''.

Overview of Business

The Bank is one of the leading commercial banks in Kazakhstan servicing private commercial enterprises, state-owned enterprises and individual customers. As at 31 December 2004, the Bank had 22 regional branches and 189 retail units throughout Kazakhstan and representative offices in Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgyz Republic; and Shanghai, China. In addition, as at 31 December 2004, pursuant to permits obtained from the FMSA, the Bank had opened additional representative offices in Ekaterinburg, Russia; Baku, Azerbaijan; and Dushanbe, Tajikistan. These representative offices are not yet fully operational, however, pending the receipt of required approvals from local state agencies regulating financial markets and financial institutions, which the Bank expects to obtain by the end of the first quarter of 2005. The Bank has also obtained permits from the FMSA to open further representative offices in Chisinau, Moldova; Kazan, Tatarstan, Russia; and Tbilisi, Georgia. The Bank expects these representative offices to become fully operational by the end of 2005 after obtaining the required local state approvals. Although most branches only provide cash settlement services for individual customers, some branches provide a broad range of banking services. The Bank has eleven subsidiaries: TuranAlem Finance B.V., JSC TuranAlem Securities, LLP TuranAlem Finance (Russia), LLP TuranAlem Capital (Russia), JSC Dynasty Life Insurance Company, JSC Insurance Company KBS Garant, JSC Insurance Company BTA, JSC Kurmet Pension Fund, JSC Kazakhstan Pension Fund, JSC BTA Ipoteka (indirectly owned through JSC TuranAlem Securities) and JSC BTA Leasing; and four affiliates, which in accordance with IFRS are treated as subsidiaries: LLP Kazco Construction Industrial Ltd, LLP Samal Properties, LLP Force Technology and LLP Real Estate Commerce. At meetings held In November 2004, the respective shareholders of JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund adopted resolutions approving the merger of these entities. As at 31 December 2004, the required approvals for the merger had been obtained from the FMSA and the Bank expects that the merger will be completed, through the registration of a newly-created entity, by the end of February 2005. See ''Presentation of Financial Information'' and ''Business – The Bank's Subsidiaries and Affiliates – Affiliates''.

In addition, as at 31 December 2004, the Bank owned a 15.63% ownership interest in Slavinvest Bank, a small Russian bank based in Moscow; an 8.75% ownership interest in JSCB Transbank, a small Ukrainian bank based in Kiev; and a 49.0% ownership interest in CJSC Astanaeximbank, a small bank based in Minsk, Belarus. The Bank intends to complete the acquisition of a 19.0% ownership interest in Omsk Bank, a small bank based in Omsk, Russia, in which Slavinvest Bank currently owns a 16.26% interest.

Under the terms of the Bank's licences, the Bank is currently authorised to offer a full range of traditional corporate and retail banking products and services, including deposit-taking, lending, the issuance of letters of credit, funds transfers, custodial services, the issuance of payment cards and related services, foreign currency exchange, the issuance of guarantees, cash operations, trust operations, collection operations, transactions with precious metals, leasing, broker-dealer transactions, clearing operations and safe keeping operations. The Bank also provides pension fund services and is engaged in certain insurance activities.

Since its privatisation in 1998, as at 30 September 2004, based on published financial statements of the Bank and its principal competitors, the Bank had become the second largest bank in Kazakhstan in terms of total assets (KZT 506,987 million), shareholders' equity (KZT 38,433 million), total loans (KZT 348,488 million, net of impairment charges of KZT 24,978 million) and total deposits. As at 30 September 2004, the Bank had a 24.0% share of the corporate lending market, mostly in trade finance and medium-to-long term loans, a 20.5% share of all corporate deposits and a 20.8% share of the retail deposit market.

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

The Bank has been able to achieve substantial growth over the last three years and has adequately maintained its risk weighted capital adequacy through the issuance of common shares and CPS and retained earnings. The Bank constantly monitors its capital adequacy ratios. The Bank's risk weighted Tier I + Tier II capital adequacy ratio according to BIS (Tier I + Tier II capital divided by total risk weighted assets) was 12.78% as at 30 September 2004, while the BIS Tier I ratio as at that date (Tier I capital divided by total risk weighted assets) was 6.71%. In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's shareholders have approved an increase in the Bank's authorised share capital by KZT 13,632 million, consisting of 615,287 common shares (75.1%) and 204,004 CPS (24.9%) which are being placed principally among the Bank's existing shareholders. As at 31 December 2004, all of such new common shares had been subscribed for an aggregate amount of KZT 10,238 million and 32,277 of the CPS had been subscribed for a total of KZT 537 million. It is expected that the balance of the CPS will be subscribed by the end of February 2005. The management of the Bank believes that this additional capital increase shall enable the Bank to continue the growth of its business in the future.

During the first nine months of 2004, the Bank's subsidiary, JSC TuranAlem Securities, had the highest market share (38.4%) of aggregate trade volumes of non-government securities on the KASE. JSC TuranAlem Securities has also acted as an adviser for a number of corporate and municipal securities issues and offers investment and financial consulting services and brokerage and trust services both to domestic and foreign customers.

Strategy

As the Kazakhstan economy continues to grow and the private sector to expand, the Bank expects there will be continued strong demand for financing from private sector companies. At the same time, the banking sector is expanding significantly as a result of the NBK's efforts to develop and stabilise the banking system and thereby develop public confidence in banks. The Bank is a member of the Fund for Guaranteeing Deposits, which has been a major factor in increasing public confidence in the banking sector and, in turn, increasing the level of retail deposits.

Generally, the Bank's strategy focuses on increasing its corporate, SME and retail market shares. The Bank also expects to increase its fee and commission income both as a result of the expansion of its business and by focusing on those activities that generate fees and commissions. The Bank is also focused on increasing revenue derived from its subsidiaries, namely in the capital markets and insurance industry sectors.

In addition, part of the Bank's strategy is to expand its business activities in neighbouring countries, in particular in Russia and the CIS, in order to extend its base of operations to become one of the leading banks in the CIS offering a full range of banking products and services. As part of this strategy, the Bank intends to invest up to U.S.$100 million in Russia and the CIS during the five years from 2004 through 2008, inclusive. As at 31 December 2004, the Bank had invested approximately U.S.$35 million of this amount in operations in Russia and the CIS. See "New Markets" below.

Expansion of Corporate Banking

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

- *Increase its trade finance lending*. The rapid and continuing economic growth in Kazakhstan has led to significant increases in trade activity. To maintain its status as the market leader in trade finance, the Bank has increased and intends to expand further its established trade finance facilities for major customers in support of their import and export activities and plans to establish new facilities with other foreign correspondent banks.
- *Expand and enhance its project finance loan programmes*. The Bank aims to become a leading provider of financing for oil and gas-related infrastructure projects that are needed in western Kazakhstan, especially in the Caspian Sea region. The Bank is developing a plan to combine its local expertise with that of international lenders in order to enable it to capitalise on this opportunity.
- *Increase its construction loans*. Kazakhstan is undergoing a significant infrastructure development programme to construct, improve and develop further its highway and road transportation system. The Bank believes it is well positioned to capitalise on this segment of the market and is developing a specific loan funding campaign to do so.
- *Develop new customers*. The Bank plans to attract new large corporate customers by offering products such as payroll services, salary payment programmes and cash and asset management services and to market these products to its existing customers, which do not currently use them.

- *Expand its SME loan portfolio*. Historically, the SME sector has been of primary importance to the Bank; this focus has been further encouraged by a speech given by the President of Kazakhstan in 2003 emphasising the need to focus on developing the SME market in Kazakhstan. The Bank intends to increase substantially its SME loan portfolio, in terms of value and number of clients, and establish a leading position in this market, as it believes this sector will represent one of the most important areas of growth in the Kazakhstan banking system.
- *Increase fee and commission income*. Management believes that the planned increase in the Bank's trade finance documentary business will result in increased fee and commission income that will allow the Bank to provide further pricing flexibilities. The Bank believes that its market share and pricing flexibility provide it with a significant competitive advantage in this business.

Expansion of Retail Services

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

- *Expand and develop further its existing high net-worth individual marketing programme*. In the past, the Bank has targeted high net-worth individuals and now also intends to focus on the growing middle class segment of the market. The Bank intends to expand its existing account relationship officer programme and to develop cross-selling initiatives that will enable it to bundle together its product offerings, including new deposit products, insurance products, credit and debit card services, consumer loans, mortgages and pension fund services. The Bank believes the mortgage, automobile and personal lending markets will be high growth areas.
- *Expand and improve further its significant retail branch network*. The Bank intends to continue to modernise and expand its retail network on an ongoing basis, with a special focus over the next three years, to enhance its reputation and to make such facilities more attractive to its customers in order to permit the Bank to take advantage of growing market demand for retail banking services.
- *Increase the number of ATMs*. The Bank plans to increase the number of its ATMs through cooperation with other local banks and by placing ATMs at low-cost, attractive and convenient retail locations, such as supermarkets.
- *Offer new products and services*. The Bank has recently introduced and plans to develop further a new system of express money transfers, CREDO revolver cards, mortgage loan crediting, automobile loans and personal loans.
- *Expand on-line Internet banking services*. The Bank offers fee-based Internet banking services through which Bank customers can review their accounts on-line. Currently, the Bank is upgrading the functional capabilities of its Internet banking to offer transfers, payment services and on-line account functions. The Bank intends to promote Internet banking in both the corporate and retail markets through various educational awareness initiatives.

Development of Credit Card Business

The Bank has placed and continues to place significant emphasis on its credit and debit card business. Alem Bank, one of its predecessor banks, was the first bank in Kazakhstan to introduce such services. The credit and debit card business is a growing area in retail banking in Kazakhstan and, as a part of its business development plan, the Bank intends to pursue an increasing share of this business.

Securities, Insurance and Pensions Operations

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

Currently, the Bank has three insurance subsidiaries, Dynasty Life Insurance, BTA Insurance Company and KBS Garant, offering the most extensive range of insurance products in the market, including medical, car, property, freight, accident and illness coverage, to both corporate and individual customers. During 2003, the Bank increased its shareholding in certain of these subsidiaries and now has controlling interests in all of them. Accordingly, the Bank is considering various restructuring plans that will improve its efficiency and enable its insurance companies to continue to offer a wide range of insurance services to its customers. The Bank believes the insurance sector will be a high growth area and is positioning itself to capitalise on this opportunity.

The Bank believes that private pension funds in Kazakhstan will also provide strong revenue growth as the sector continues to grow. As at 31 December 2004, the Bank owned two pension funds, JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund (66.0% and 87.75%, respectively). While not currently profitable, the Bank anticipates that future growth in pension assets will generate additional fees enabling these operations to become profitable.

New Markets

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

As at 31 December 2004, the Bank had representative offices in Moscow, Russia; Kiev, Ukraine; Bishkek, Kyrgystan; Minsk, Belarus; and Shanghai, China. In addition, as at 31 December 2004, pursuant to permits obtained from the FMSA, the Bank had opened additional representative offices in Ekaterinburg, Russia; Baku, Azerbaijan; and Dushanbe, Tajikistan. These representative offices are not yet fully operational, however, pending the receipt of required approvals from local state agencies regulating financial markets and financial institutions, which the Bank expects to obtain by the end of the first quarter of 2005. The Bank has also obtained permits from the FMSA to open further representative offices in Chisinau, Moldova; Kazan, Tatarstan, Russia; and Tbilisi, Georgia. The Bank expects these representative offices to become fully operational by the end of 2005 after obtaining the required local state approvals.

The Bank is exploring other investment opportunities in Russia and the CIS (particularly Ukraine) in an attempt to diversify its revenue sources and spread its geographical risk and the Bank intends to make additional investments if management believes the potential for reward exceeds the risk. Generally, management believes that the acquisition of existing small, local franchises, which are already established in their home markets, will enable the Bank to expand its client base and gain access to other potentially larger markets and, in particular, to extend its trade finance activities into Russia and the CIS without excessive expense and exposure to other start-up risks. The Bank has developed a specific policy relating to regional target investments, which requires (among other things) that all investments initiate as minority positions with an option to acquire a controlling interest within five years and that investments be made within specified limits for particular investments in a single target (U.S.$10,000,000), total investments in any one country (U.S.$50,000,000) and total investments in any one year (U.S.$90,000,000). Morevover, the Bank will undertake thorough due diligence and apply strict ''know-your-client'' parameters in considering any potential investment.

Pursuant to this stated policy, as at 31 December 2004, the Bank had acquired a 15.63% ownership interest in Slavinvest Bank, a small Russian bank based in Moscow; an 8.75% ownership interest in JSCB Transbank, a small Ukrainian bank based in Kiev; and a 49.0% ownership interest in CJSC Astanaeximbank, a small bank based in Minsk, Belarus. The Bank intends to complete the acquisition of a 19.0% ownership interest in Omsk Bank, a small bank based in Omsk, Russia, in which Slavinvest Bank currently owns a 16.26% interest.

The Bank has also entered into strategic cooperation agreements with Omsk Bank, Transbank and Astanaeximbank. The target banks are small, local banks with the potential, in particular, to develop trade finance businesses. Pursuant to the respective strategic cooperation agreements with these entities, the Bank is working with the local banks to develop and harmonize their credit policies and risk management and operating systems. While management is considering increasing the Bank's ownership interests in the target banks, there are no immediate plans for increasing any particular investment.

Enhanced Management

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

Improving Funding Base

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

Domestic deposits are an important and attractive source of low cost funding for the Bank. As indicated above, the Bank's strategy is to ensure that it utilises effectively its competitive advantages in the retail banking market. The Bank also believes that its international credit ratings will permit it to continue to access the international capital markets, while also enhancing its reputation in the domestic market and, in turn, allowing it to maintain its strong market share in providing retail banking services.

Competition

Although the Bank believes that it is well positioned to compete in the Kazakhstan banking sector due to its relatively large capitalisation and asset base, relatively low cost deposit base, relatively large and diversified customer base, professional management, transparent and consistent business practices, strong branch network and infrastructure and up-to-date IT system, the Bank faces competition from both domestic and foreign banks, as well as a number of other existing and prospective participants in the banking sector in Kazakhstan. As at 31 December 2004, there were 35 banks operating in Kazakhstan, excluding NBK and the Development Bank of Kazakhstan ("DBK"), compared to 44 as at the end of 2001. Of these, 15 were banks under foreign ownership, including subsidiaries of foreign banks. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank and its principal competitors, Kazkommertsbank and Halyk Savings Bank; banks under foreign ownership, such as ABN AMRO Bank Kazakhstan, HSBC Bank Kazakhstan and Citibank Kazakhstan; and smaller local banks. The decrease in the number of banks from the end of 2001 to 31 December 2004 is primarily attributable to the effect of stricter requirements set by the NBK as to capital adequacy, provisioning, maximum single-counterparty exposure, accounting and information disclosure.

The Bank's principal competitors are Kazkommertsbank and Halyk Savings Bank. Kazkommertsbank was established in July 1990 and as, at 30 September 2004, was the largest banking group in Kazakhstan in terms of assets and shareholders' equity with a focus on the corporate and retail banking sectors. The extensive branch network of Halyk Savings Bank makes it one of the Bank's major competitors in the retail banking market. As at 30 September 2004, Halyk Savings Bank was the third largest bank in Kazakhstan in terms of total assets. It is also a leading participant in the primary domestic securities market.

In 2001, the Government established DBK to provide longer term financing and otherwise facilitate complex industrial and infrastructure projects within Kazakhstan. DBK was established with a charter fund of KZT 30 billion. Inside the commercial banking sector, DBK is not considered to be a competitor of the Bank as, on the one hand, DBK is not licensed to accept corporate or retail deposits or to provide corporate settlement services and, on the other hand, the Bank does not intend to finance complex industrial or infrastructure projects. Accordingly, DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Offering Circular. The Bank expects, however, that DBK may become an important competitor in the corporate lending sector.

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

Citibank Kazakhstan was established in 1998 and has been aggressively increasing its market share in corporate banking. Citibank Kazakhstan is one of the ten largest banks in Kazakhstan in terms of shareholders' equity and is expected to become a major long-term competitor of the Bank, particularly with respect to corporate lending. ABN AMRO Bank Kazakhstan is the second largest bank under foreign ownership in terms of equity. The Bank believes that ABN AMRO Bank Kazakhstan will also become a major competitor of the Bank in the future, particularly with respect to corporate banking and capital markets activities.

The following table sets out certain financial information relating to the Bank and the largest local and foreign banks which the Bank considers to be its major competitors in the Kazakhstan banking sector as at 30 September 2004:

	As at 30 September 2004			
	Total Assets	Total Gross Loans	Customer Deposits	Shareholders' Equity
	(KZT millions)			
Kazkommertsbank	540,348	408,170	168,617	53,415
Bank TuranAlem	**506,987**	**373,466**	**214,174**	**38,433**
Halyk Savings Bank	336,979	223,329	193,797	33,850
Citibank Kazakhstan	31,696	14,448	17,655	5,065
ABN AMRO Bank Kazakhstan	45,336	16,989	38,022	5,094

Source: Based on figures published on the KASE, competitor web-sites and estimates from the Bank's own sources.

CAPITALISATION OF THE BANK

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

	Nine-month period ended 30 September 2004			
	Actual		As adjusted(1)	
	(U.S.$ millions, unaudited(2)	*(KZT millions, unaudited)*	*(U.S.$ millions, unaudited)(2)*	*(KZT millions, unaudited)*
Short-term debt (maturing within a year)	**602**	**81,022**	**602**	**81,022**
Senior long-term liabilities(3)	871	117,170	1,221	164,298
Subordinated long-term liabilities(4)	157	21,059	157	21,059
Total long-term liabilities	**1,028**	**138,229**	**1,378**	**185,357**
Share capital(5)	159	21,357	159	21,357
Additional paid-in capital	13	1,697	13	1,697
Retained earnings(6)	114	15,379	114	15,379
Total shareholders' equity	**286**	**38,433**	**286**	**38,433**
Total shareholders' equity and long-term liabilities	**1,314**	**176,662**	**1,664**	**223,790**

Notes:

(1) Adjusted to reflect the deposit of the net proceeds from the issue and sale of the Notes by the Issuer with the Bank.

(2) See "Presentation of Certain Information" for the method of calculation and presentation of U.S. Dollar amounts.

(3) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated.

(4) Subordinated long-term liabilities consist of principally of U.S. dollar and Tenge-denominated subordinated notes issued by the Bank.

(5) Share capital less shares held in treasury.

(6) Includes premises and equipment revaluation reserve of KZT 1,551 million.

As at 30 September 2004, the Bank's authorised share capital consisted of 1,719,148 common shares and 569,997 preferred shares. Issued and paid share capital as at 30 September 2004 consisted of 1,688,432 common shares, 510,793 CPS and 59,204 preferred shares convertible into common shares, compared to 1,677,269 common shares and 484,215 CPS issued and paid as at 31 December 2003. As at 30 September 2004, the Group held 30,716 of the Bank's common shares as treasury stock, compared to 41,104 common shares held as treasury stock as at 31 December 2003. All common shares, CPS and preferred shares of the Bank are denominated in Tenge with a nominal value of KZT 10,000 each.

On 30 November 2004, the Issuer issued U.S.$375,000,000 7.875% Notes due 2010, which were consolidated and form a single series with the Issuer's U.S.$225,000,000 7.875% Notes due 2010 and the proceeds of which were deposited by the Issuer with the Bank and used by the Bank to fund the Bank's loan portfolio and for other general corporate purposes.

In December 2004, the Bank finalised the issue of the fourth tranche of its subordinated notes in an aggregate nominal amount of KZT 14,000 million. These notes bear interest at an annual rate of 8.00% and mature in 2014. The Bank's subordinated notes are treated as Tier II capital to the extent that the nominal amount thereof does not exceed total Tier I capital.

In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's shareholders have approved an increase in the Bank's authorised share capital by KZT 13,632 million, consisting of 615,287 common shares (75.1%) and 204,004 CPS (24.9%), which are being placed principally among the Bank's existing shareholders. As at 31 December 2004, all of such new common shares had been subscribed for an aggregate amount of KZT10,238 million and 32,277 of the CPS had been subscribed for a total of KZT 537 million. It is expected that the balance of the CPS will be subscribed by the end of February 2005.

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

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

	As at and for the nine-month period ended 30 September 2004
	(restated) *(KZT millions, unaudited)*
Total liabilities	472,176
Shareholders' equity	33,194
Net income	5,792
Capital Adequacy	
Tier I capital	30,510
BIS Tier I capital adequacy ratio	6.71%(1)
Tier I + Tier II capital less investments	52,843
BIS Tier I + Tier II capital adequacy ratio	11.62%(1)

Note:

(1) Compared to BIS minimum required ratios of 4.00% and 8.00%, respectively.

The above *pro forma* calculation of the Bank's capital adequacy ratios as at 30 September 2004 as if revised IAS 32 and IAS 39 had been applied from 1 January 2004 does not take into account the issuance by the Bank of additional subordinated debt in December 2004 or the issuance of the additional 615,287 common shares comprising a portion of the Bank's eighth issue of share capital. If these issuances of common shares and subordinated debt were also included in Tier I capital and Tier II capital, respectively, the Bank's capital adequacy ratios would be higher than those reflected in the table above.

SELECTED FINANCIAL INFORMATION AND OTHER DATA

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

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

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

	For the nine-month period ended 30 September			For the year ended 31 December			
	2004		2003	2003	2003	2002	2001
	(U.S.$ millions, unaudited)[1]	*(KZT millions, unaudited)*	*(KZT millions, unaudited)*	*(U.S.$ millions, unaudited)*[1]	*(KZT millions)*		
INCOME STATEMENT DATA							
Interest income							
Loans	230.4	31,702	18,237	175.5	26,263	19,178	14,004
Securities	27.0	3,718	3,275	28.5	4,257	2,818	1,422
Deposits with other banks	3.6	492	431	2.0	298	372	219
Total interest income	**261.0**	**35,912**	**21,943**	**206.0**	**30,818**	**22,368**	**15,645**
Interest expense	(125.6)	(17,278)	(10,775)	(105.4)	(15,763)	(10,527)	(6,671)
Net interest income before impairment charge	**135.4**	**18,634**	**11,168**	**100.6**	**15,055**	**11,841**	**8,974**
Impairment charge	(90.1)	(12,394)	(6,375)	(69.4)	(10,391)	(7,184)	(5,838)
Net interest income after impairment charge	**45.3**	**6,240**	**4,793**	**31.2**	**4,664**	**4,657**	**3,136**
Non-interest income							
Fee and commission income, net	43.7	6,011	4,193	41.6	6,221	4,125	2,877
Gains less losses from trading securities	(7.6)	(1,041)	446	3.9	589	2,745	123
Gains less losses from foreign currencies	33.3	4,584	730	17.0	2,553	1,583	1,678
Underwriting income (loss)	(2.1)	(286)	(224)	(1.7)	(260)	613	39
Other operating income	4.2	581	547	7.4	1,100	1,165	650
Total non-interest income	**71.5**	**9,849**	**5,692**	**68.2**	**10,203**	**10,231**	**5,367**
Non-interest expense							
Salaries and benefits	(22.7)	(3,122)	(2,544)	(22.9)	(3,432)	(3,023)	(2,311)
Depreciation and amortization	(5.4)	(746)	(656)	(6.2)	(926)	(786)	(667)
Insurance	(0.1)	(11)	(61)	(1.0)	(145)	(1,079)	(49)
Deposit insurance	(2.0)	(278)	(240)	(2.0)	(306)	(262)	(267)
Administrative and operating expenses, taxes other than income tax and other	(38.9)	(5,353)	(3,276)	(34.9)	(5,212)	(4,708)	(3,617)
Total non-interest expense	**(69.1)**	**(9,510)**	**(6,777)**	**(67.0)**	**(10,021)**	**(9,858)**	**(6,911)**
Income before income taxes	47.7	6,579	3,708	32.4	4,846	5,030	1,592
Income tax expense	(3.9)	(535)	(235)	(1.8)	(266)	–	–
Income before minority interest	43.8	6,044	3,473	30.6	4,580	5,030	1,592
Minority interest	1.0	133	35	0.3	40	(132)	(1)
Net income	**44.8**	**6,177**	**3,508**	**30.9**	**4,620**	**4,898**	**1,591**

Note:

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

	As at 30 September 2004		As at 31 December			
			2003	2003	2002	2001
	(U.S.$ millions, unaudited)(1)	*(KZT millions, unaudited)*	*(U.S.$ millions, unaudited)(1)*	*(KZT millions)*		
BALANCE SHEET DATA						
Assets						
Cash, cash equivalents, obligatory reserves and amounts due from other financial institutions	275.0	37,001	217.6	31,390	34,108	22,054
Securities	778.2	104,716	609.4	87,879	51,715	17,831
Loans to customers (including interest accrued thereon)	2,589.8	348,488	1,663.1	239,847	127,747	110,719
Property and equipment, net	54.7	7,356	46.8	6,745	6,523	5,441
Other assets	70.0	9,426	49.9	7,203	5,399	1,292
Total assets	**3,767.7**	**506,987**	**2,586.8**	**373,064**	**225,492**	**157,337**
Liabilities, shareholders' equity and minority interest						
Amounts due to the NBK, the Government and other financial institutions	955.9	128,630	847.6	122,241	59,176	44,491
Amount due to customers	1,591.7	214,174	972.9	140,318	106,810	81,972
Debt securities issued	866.5	116,600	514.3	74,174	31,521	13,466
Other liabilities	56.0	7,533	30.0	4,318	7,220	1,757
Total liabilities	**3,470.1**	**466,937**	**2,364.8**	**341,051**	**204,727**	**141,686**
Minority interest	12.0	1,617	9.2	1,330	1,010	809
Total shareholders' equity	**285.6**	**38,433**	**212.8**	**30,683**	**19,755**	**14,842**
Total liabilities, shareholders' equity and minority interest	**3,767.7**	**506,987**	**2,586.8**	**373,064**	**225,492**	**157,337**

Note:

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

	As at and for the nine-month period ended 30 September 2004	As at and for the year ended 31 December		
		2003	2002	2001
	(unaudited)		*(unaudited)*	
SELECTED FINANCIAL RATIOS AND ECONOMIC DATA				
Profitability Ratios[(1)]				
Return on average common shareholders' equity	27.6%[(10)]	24.3%	33.4%	15.8%
Return on average total shareholders' equity	25.1%[(10)]	21.8%	28.3%	13.4%
Return on average assets[(2)]	1.7%[(10)]	1.5%	2.6%	1.3%
Net interest margin[(3)]	6.0%[(10)]	5.5%	6.9%	8.6%
Net interest spread[(4)]	5.1%[(10)]	4.5%	5.5%	7.0%
Non-interest expense/net interest income before impairment charge plus non-interest income	33.1%	39.5%	44.3%	47.3%
Non-interest expense as a percentage of net interest income before impairment charge	51.0%	66.6%	83.3%	77.0%
Non-interest expense as a percentage of average total assets	3.0%[(10)]	3.4%	5.2%	6.1%
Loan Portfolio Quality[(5)]				
Classified loans/gross loans[(6)]	7.1%	7.2%	14.3%	14.6%
Non-performing loans/gross loans[(7)]	0.9%	0.7%	1.8%	0.4%
Allowance for impairment/gross loans	6.7%	6.2%	7.5%	5.6%
Allowance for impairment/classified loans[(8)]	93.8%	86.2%	52.8%	38.7%
Allowance for impairment/non-performing loans[(7)]	768.6%	860.8%	431.0%	1,316.0%
Balance Sheet Ratios and Capital Adequacy				
Customer deposits as a percentage of total assets	42.2%	37.6%	47.4%	52.1%
Net loans as a percentage of total assets	68.7%	62.3%	55.3%	68.8%
Total shareholders' equity as a percentage of total assets	7.6%	8.2%	8.8%	9.4%
Liquid assets as a percentage of total assets[(8)]	28.0%	32.0%	38.1%	25.4%
Risk weighted capital adequacy ratio[(9)]	12.8%	15.1%	15.9%	14.0%
Economic Data				
Period-end exchange rate (KZT/U.S.$)	134.56	144.22	155.85	150.20
Average exchange rate for period (KZT/U.S.$)	137.58	149.58	153.43	146.72
Number of employees (active workforce)	8,018.4	7,579.7	7,128.3	7,183.0
Inflation rate (CPI)	6.8%	6.8%	6.6%	6.4%
GDP growth (real)	9.4%	9.2%	9.5%	13.5%

Notes:

(1) Based on average balances for each period calculated by adding the opening and closing balances and dividing by two, except on average common shareholders' equity and average total shareholders' equity, which were calculated using monthly averages for 2003 due to the issuance of common and preferred shares in November and December 2003.

(2) Return on average assets comprises net income less dividends on preferred shares divided by average period assets.

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

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

(5) Calculated using gross loan balances, excluding accrued interest.

(6) Classified loans comprise loans that are classified as ''unsatisfactory'', ''doubtful'' (whether or not they are non–performing) or ''loss'' as described in ''Asset and Liability management – Lending Policies and Procedures''.

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

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

(9) Calculated in accordance with BIS standards.

(10) Annualized.

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

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

Introduction

The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2003, 2002 and 2001, which are included on pages F-16 to F-48 of this Offering Circular, were audited by Ernst & Young, whose audit report thereon is also included on page F-15 of this Offering Circular. The Group's interim condensed consolidated financial statements, including the notes thereto, as at and for the nine months ended 30 September 2004 and 2003, which are included on pages F-52 to F-70 of this Offering Circular, were reviewed by Ernst & Young, whose review report thereon is also included on page F-51 of this Offering Circular. All of the Group's financial statements included in this Offering Circular were prepared in accordance with IFRS and are consolidated and include the financial statements of the Bank, its subsidiaries and certain affiliates as set out in ''Presentation of Certain Information''. The Group's annual consolidated financial statements, including the notes thereto, as at and for the years ended 31 December 2001, 2002 and 2003, which are contained in this Offering Circular, have been reclassified in accordance with IAS 1 to permit comparability with the Group's condensed interim consolidated financial statements, including the notes thereto, as at and for the nine-month periods ended 30 September 2003 and 2004, which are also contained in this Offering Circular. No changes to amounts of net income or shareholders' equity have been made.

Critical Accounting Policies and Estimates

The Group's accounting policies are integral to understanding the results of operations and financial condition presented in the consolidated financial statements and notes thereto. The Group's significant accounting policies are described in Note 3 to the annual consolidated financial statements appearing elsewhere in this Offering Circular. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the relevant period. On an on-going basis, management evaluates its estimates and judgments, including those related to impairment charges, reserves for insurance claims, the carrying values of property and investments, income taxes and deferred taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

The Group's critical accounting policies include:

Allowances for Impairment of Financial Assets

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

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset, such as loans and held-to-maturity securities, may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised in the consolidated statement of income. A financial asset is considered to be impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. The amount of the impairment loss for assets measured at fair value is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. To the extent that the estimates and assumptions used in determining impairment values vary from actual results, such values may not be indicative of future impairment values, which the Group may be required to recognise.

Preferred Shares

The Bank classifies as equity preferred shares that are either non–redeemable or redeemable only upon the occurrence of an unlikely event. Under local rules for regulatory capital, no distinction is made among preferred shares and, accordingly, under Kazakh accounting standards, the CPS are classified as equity in any event. The holders of the CPS issued by the Bank have the right to convert all or any part of their CPS into common shares of the Bank at any time. The Bank is obliged to redeem the CPS at the request of the holders in the event that the Bank fails to sell 55% of the Bank's issued common shares to an OECD-based bank meeting certain criteria by 31 December 2006. The Bank is also obligated to offer to redeem the CPS in the event a person makes a tender offer to purchase 30% or more of the Bank's common share capital and the tender offer price for each CPS is less than the original purchase price. The Bank's management believes that, on the basis of the current market price for its shares, it is unlikely that it would be profitable for a holder to require such redemption and that the likelihood of a tender offer is remote; accordingly, the CPS are accounted for as equity.

In December 2003, the International Accounting Standards Board issued revised IAS 32 and IAS 39. Both standards are effective for financial years beginning on or after January 1, 2005. The revised standards will restrict the classification of a financial instrument with contingent settlement provisions as equity thus increasing the likelihood of such instruments having to be classified as liabilities. The new standards will require the Bank to reclassify the CPS from equity to liabilities, resulting in a reduction in equity and an increase in liabilities by KZT 5,239 million, which may in turn, result in a reduction in the Bank's capital adequacy ratios. See "Capitalization of the Bank."

Reserves for Insurance Losses

The Group provides a reserve for insurance losses and loss adjustment expenses that is included in other liabilities. The reserve is based on an estimate of the amount payable on claims, which have been reported prior to the relevant balance sheet date, but which have not yet been settled. A reserve is also established based on the amount of incurred claims, which have not been reported as at the relevant date. Because the Group does not have prior experience in this respect, the reserve established for incurred but unreported claims is equal to the expected loss ratio for each insured category multiplied by the value of coverage, less losses actually reported. Due to the absence of any significant prior experience, the reserve estimates are regularly reviewed and updated. Any adjustments to the reserves for insurance losses are reflected in current income for the period.

Financial Instruments

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

However, as no readily available market exists for a large portion of the Bank's financial instruments, the Bank's management is required to make judgments to determine the fair value of such instruments, based on current economic conditions and specific risks attributable to the instrument. Because of the nature of the judgments made by management, the actual realization of the fair value of the Bank's financial instruments could differ from the estimates and assumptions relied upon. Accordingly, the estimates presented in the Bank's financial statements are not necessarily indicative of the amounts the Bank could realize in a market exchange from its sale of its full holding of a particular instrument.

Results of Operations for the Nine-Month Period ended 30 September 2004 and 2003 and the Years ended 31 December 2003, 2002 and 2001

Summary

For the nine months ended 30 September 2004, the Group reported net income of KZT 6,177 million, or KZT 2,730 per diluted share, compared to net income of KZT 3,508 million, or KZT 2,020 per diluted share, for the first nine months of 2003. The increase in net income for the first nine months of 2004, compared to the first nine months of 2003, reflected primarily the growth in the Group's assets over the same period. See " – Financial Condition – Total Assets", below.

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

The return on average common shareholders' equity was 27.6% for the nine months ended 30 September 2004, as compared to 24.2% for the nine months ended 30 September 2003. The return on average common shareholders' equity was 24.3%, 33.4% and 15.8% in 2003, 2002 and 2001, respectively. The decrease in return on equity from 2002 to 2003 was due to increase in the Bank capital.

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

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

	Nine-month period ended 30 September		Year ended 31 December		
	2004	**2003**	**2003**	**2002**	**2001**
	(KZT millions, unaudited)		*(KZT millions)*		
Interest on loans to customers	31,702	18,237	26,263	19,178	14,004
Interest on securities	3,718	3,275	4,257	2,818	1,422
Interest on deposits with other banks	492	431	298	372	219
Total interest income	**35,912**	**21,943**	**30,818**	**22,368**	**15,645**
Interest expense	**(17,278)**	**(10,775)**	**(15,763)**	**(10,527)**	**(6,671)**
Net interest income before impairment charge	18,634	11,168	15,055	11,841	8,974
Impairment charge	(12,394)	(6,375)	(10,391)	(7,184)	(5,838)
Net interest income after impairment charge	**6,240**	**4,793**	**4,664**	**4,657**	**3,136**

Total Interest Income

Total interest income increased by 63.7% to KZT 35,912 million for the nine months ended 30 September 2004 from KZT 21,943 million for the nine months ended 30 September 2003, largely as a result of the 67.7% period-to-period increase in average interest-earning assets to KZT 413,586 million as at 30 September 2004 from KZT 246,634 million as at 30 September 2003. Total interest income increased by 37.8% to KZT 30,818 million in 2003 from KZT 22,368 million in 2002, reflecting a 59.2% year-on-year increase in average annual interest-earning assets to KZT 273,626 million as at 31 December 2003 from KZT 171,915 million as at 31 December 2002. Interest income in 2002 had increased by 43% to KZT 22,368 million from KZT 15,645 million in 2001, similarly as a result of an increase in average interest-earning assets over the year, partially offset by a decline in average annual yields.

The average yield on total interest-earning assets decreased to 11.3% in 2003 from 13.0% in 2002 and 15.0% in 2001. For the nine months ended 30 September 2004, the average yield on total interest-earning assets was 11.58%, compared to 11.86% for the same period in 2003.

Interest income on loans to customers increased by 73.8% to KZT 31,702 million for the nine months ended 30 September 2004, compared to KZT 18,237 million for the nine months ended 30 September 2003, as the average balance of outstanding loans in the Group's loan portfolio rose by 86.7% between the periods to KZT 304,540 million for the nine months ended 30 September 2004 from KZT 163,118 million for the nine-months ended 30 September 2003.

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

The higher loan balances were offset, however, by decreases in the average yield earned on loans in each period. As at 30 September 2004, interest rates charged to borrowers ranged from 16.0% to 33.0% on Tenge-denominated loans with the weighted average interest rate on Tenge-denominated loans being 15.17%, while interest rates charged on U.S. Dollar loans ranged from 12.0% to 24.0%, with the weighted average interest rate on U.S. dollar-denominated loans being 12.45%. The overall average yield earned on loans in the nine months ended 30 September 2004 was 13.9%, compared to 14.9% in the same period in 2003. The average yield fell to 13.7% in 2003 from 15.4% in 2002 and 16.3% in 2001. This decrease in 2003, compared to 2002, largely reflected declining interest rates and competitive price pressures, while the decrease in 2002, compared to 2001, resulted from a higher level of non–performing loans in the later period, as well as a slight decline in rates charged by the Group for loaned funds.

Interest income on the Group's securities portfolio also increased over the relevant periods. In the nine months ended 30 September 2004, interest income earned on securities increased by 13.5% to KZT 3,718 million from KZT 3,275 million for the same period in 2003. Interest income on securities was KZT 4,257 million for the year ended 31 December 2003, KZT 2,818 million for the year ended 31 December 2002 and KZT 1,422 million for the year ended 31 December 2001, reflecting year-on-year increases of 51.1% and 98.2%, respectively. In each case, the higher levels of interest income on securities largely resulted from the continued growth in the Group's securities portfolio over the period, reflecting the Bank's objective to improve its liquidity position, which was only partially offset by declining average rates.

For the nine months ended 30 September 2004, the average annual balance of the Group's securities portfolio, including trading, available-for-sale and held-to-maturity securities, was KZT 95,394 million, compared to KZT 73,092 million for the nine months ended 30 September 2003, reflecting an increase of 30.5%. The average annual balances of the Group's securities portfolio was KZT 69,797 million for 2003, compared to KZT 34,773 million for 2002 and KZT 13,002 million for 2001, reflecting year-on-year increases of 100.7% and 167.4%, respectively. Average interest rates earned on the securities portfolio were 10.9%, 8.1% and 6.1% for 2001, 2002 and 2003, respectively, and 5.98% and 5.20% for the nine months ended 30 September 2003 and 2004, respectively.

Interest earned on bank deposits increased by 14.2% to KZT 492 million for the first nine months of 2004 from KZT 431 million for the first nine months of 2003. Conversely, interest earned on bank deposits had decreased by 19.9% to KZT 298 million for 2003 from KZT 372 million for 2002, after having increased by 69.9% from KZT 219 million in 2001. The decrease in interest earned on bank deposits in 2003, compared to 2002, was primarily attributable to the Group's allocation of higher levels of cash to other short-term earning asset categories. The increase in 2002, compared to 2001, was largely due to higher average balances maintained with banks during the later year, partially offset by the decline in average rates earned to 3.0% from 3.9% over the period. The increase in interest earned on bank deposits for the first nine months of 2004, compared to the first nine months of 2003, was primarily attributable to the Group's allocation of higher levels of cash to longer term investments.

Interest Expense

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

	Nine-month period ended 30 September		Year ended 31 December		
	2004	2003	2003	2002	2001
	(KZT millions, unaudited)		*(KZT millions)*		
Interest on amounts due to NBK, the Government and credit institutions	410	655	408	150	77
Interest on loans and advances from banks	3,632	1,795	3,467	2,386	1,740
Interest on customer accounts	5,979	4,565	6,177	5,274	3,701
Interest on debt securities issued	7,257	3,760	5,711	2,717	1,153
Total	**17,278**	**10,775**	**15,763**	**10,527**	**6,671**

For the nine months ended 30 September 2004, interest expense increased by 60.4% to KZT 17,278 million from KZT 10,775 million for the nine months ended 30 September 2003. Interest expense increased by 49.7% in 2003 to KZT 15,763 million from KZT 10,527 million in 2002, after having increased by 57.8% in 2002 from KZT 6,671 million in 2001. The increases in interest expense over each period were largely due to the growth in the Group's deposit base, increased bank borrowings and the issuances of debt securities in 2004, 2003 and 2002, partially offset by reductions in average rates paid on customer accounts and in average rates paid on bank borrowings and debt securities.

Average balances of the Group's interest-bearing customer deposits (including both corporate and retail deposits) were KZT 137,897 million for the first nine months of 2004, compared to KZT 106,435 million for the nine months ended 30 September 2003, reflecting an increase of 29.6% between the periods. Such average annual balances were KZT 90,878 million in 2003, compared to KZT 66,192 million in 2002 and KZT 44,669 million in 2001, reflecting year-on-year increases of 37.3% and 48.2%, respectively. The higher balances for each period were largely attributable to the generally improved economic conditions in Kazakhstan and the related improvement in the level of customer confidence in Kazakhstan banks.

Average interest rates paid on interest-bearing customer deposits for 2001, 2002 and 2003 were 8.3%, 8.0% and 6.8%, respectively. Average interest rates paid on interest-bearing customer deposits for the nine-month periods ended 30 September 2004 and 2003 were 5.8% and 6.7%, respectively. The period-to-period decreases in the average rates paid primarily reflected the declining rate environment globally as most of the Group's term deposits bear rates prescribed by the Fund for Guaranteeing Deposits, which continually lowered rates throughout the period in line with movements in global rates.

For the nine months ended 30 September 2004, interest expense paid on issued debt securities increased by 93.0% to KZT 7,257 million from KZT 3,760 million for the nine months ended 30 September 2003. Interest on debt securities issued increased by 110.2% in 2003 to KZT 5,711 million from KZT 2,717 million in 2002 and by 135.6% in 2002 from KZT 1,153 million for 2001. In each case, the primary reason for the increase was the higher average balances of debt securities outstanding. See "Selected Statistical and other Information – Funding Sources – Bank Loans and Similar Financings".

Net Interest Income before Impairment Charge

For the nine months ended 30 September 2004, net interest income before impairment charge increased to KZT 18,634 million from KZT 11,168 million for the nine-months ended 30 September 2003, reflecting an increase of 66.9%. Net interest income before impairment charge increased for the year ended 31 December 2003 to KZT 15,055 million from KZT 11,841 million for the year ended 31 December 2002, after having increased by 31.9% from KZT 8,974 million for the year ended 31 December 2001.

The Bank's net interest margin, defined as net interest income before impairment charge as a percentage of average interest-earning assets, was 6.0% for both the nine-month periods ended 30 September 2004 and 2003, while net interest margin was 5.5% for the year ended 31 December 2003, 6.9% for the year ended 31 December 2002 and 8.6% for the year ended 31 December 2001. The period-to-period decreasing margins, in each case, were primarily attributable to decreases in the average interest rate received on interest-earning assets, partially offset by a decrease in rates paid on interest-bearing liabilities, as lending rates decreased over the period at a more rapid pace than the cost of funds. Currently, there is excess liquidity in the Kazakh banking industry that has led to loan pricing pressures. The Bank constantly monitors its interest rate margins and spreads. While no assurance can be given, despite the declining margins, the Bank believes that it will be able to maintain an adequate spread between its cost of funds and the rates earned on its loans.

Impairment Charge

The Group's impairment charge for the nine months ended 30 September 2004 increased by 94.4% to KZT 12,394 million from KZT 6,375 million for the nine months ended 30 September 2003, with two-thirds of this increase in the impairment charge being attributable to a single borrower who defaulted on amounts due to the Bank during the third quarter of 2004. Impairment charges for the years ended 31 December 2003, 2002 and 2001 were KZT 10,391 million, KZT 7,184 million and KZT 5,838 million, respectively, reflecting year-on-year increases of 44.6% and 23.1%. The period-to-period increases, in each case, primarily reflected growth in the Group's loan portfolio, which rose 46.4% to KZT 373,466 million as at 30 September 2004 from KZT 255,118 million as at 31 December 2003, after having grown 85.0% from KZT 137,913 million as at 31 December 2002 and 17.7% from KZT 117,193 million as at 31 December 2001. As a result, the allowance for loan impairment as a percentage of total loans increased to 6.9% as at 30 September 2004, compared to 6.2% as at 31 December 2003, 7.5% as at 31 December 2002 and 5.6% as at 31 December 2001. See ''Asset and Liability Management — Lending Policies and Procedures''.

For the first nine months of 2004, net write-offs were KZT 2,453 million (representing KZT 4,878 million in gross write-offs less KZT 2,425 million in recoveries), compared to net write-offs of KZT 4,301 million (representing KZT 5,687 million in gross write-offs less KZT 1,386 million in recoveries) for the first nine months of 2003. For 2003, net write-offs were KZT 5,286 million (representing gross write-offs of KZT 6,762 million less KZT 1,476 million in recoveries), compared to KZT 3,492 million for 2002 (representing gross write-offs of KZT 3,763 million less KZT 271 million in recoveries) and KZT 2,269 million for 2001 (representing gross write–offs of KZT 3,227 million less KZT 958 million in recoveries). See ''Asset and Liability Management – Write-off Policy.''

Non–Interest Income

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

	Nine-month period ended 30 September		Year ended 31 December		
	2004	**2003**	**2003**	**2002**	**2001**
	(KZT millions, unaudited)		*(KZT millions)*		
Fees and commissions, net	6,011	4,193	6,221	4,125	2,877
Trading securities gains, net	(1,041)	446	589	2,745	123
Foreign exchange gains, net	4,584	730	2,553	1,583	1,678
Underwriting income (loss)	(286)	(224)	(260)	613	39
Other income	581	547	1,100	1,165	650
Total	**9,849**	**5,692**	**10,203**	**10,231**	**5,367**

Fees and Commissions

Fee and commission income for the first nine months of 2004 increased by 43.4% to KZT 6,011 million from KZT 4,193 million for the same period in 2003. This increase in fee and commission income was largely attributable to increases in fees for guarantees issued and commissions earned on cash receipts and money orders. Fee and commission income in 2003 increased by 50.8% to KZT 6,221 million from KZT 4,125 million in 2002, which in turn represented an increase of 43.4% from KZT 2,877 million in 2001. The increases in 2003 and 2002 are principally attributed to the growth in documentary fees related to trade financing activities and fees and commissions earned on credit and debit card transactions.

Gains and Losses from Trading Securities

For the first nine months of 2004, the Group had a net loss on trading securities of KZT 1,041 million, compared to a net gain of KZT 446 million for the first nine months of 2003. This change in income (loss) on trading securities was principally attributable to the decrease over the period in the fair market value of bonds issued by supranational financial organizations and held in the Bank's investment portfolio. The Group's trading loss for the nine months ended 30 September 2004 reflected a reduction in the amount of the loss, which was KZT 2,296 million for the six months ended 30 June 2004.

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

Gains and Losses from Foreign Currencies

Gains and losses arising from the translation of foreign currency–denominated assets and liabilities, which are reported in the income statement as gains less losses from foreign currencies, increased by 527.9% to KZT 4,584 million for the first nine months of 2004, compared to KZT 730 million for the first nine months of 2003, due, in large part, to the appreciation of the Tenge against the U.S. Dollar and application of the Bank's policy on hedging currency risks.

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

Underwriting Income (Loss)

The Group reported net underwriting losses of KZT 286 million and KZT 224 million for the nine months ended 30 September 2004 and 2003, respectively. The increase in insurance losses by 27.7% in the 2004 period, compared to the same period in 2003, resulted principally from an increase in the reserve for insurance losses due to an increase in claims paid and reported in the first nine months of 2004, as well as competitive pressures in the industry that led to pricing limitations and higher marketing costs.

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

Other Income

Other income increased by 6.2% to KZT 581 million for the nine months ended 30 September 2004, compared to KZT 547 million for the nine months ended 30 September 2003, largely due to increases in income from charges (fines) and other income from non-banking activities.

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

Non-interest Expense

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

	Nine-month period ended 30 September		Year ended 31 December		
	2004	2003	2003	2002	2001
	(KZT millions, unaudited)		*(KZT millions)*		
Salaries and benefits	3,122	2,544	3,432	3,023	2,311
Depreciation and amortisation	746	656	926	786	667
Insurance	11	61	145	1,079	49
Deposit insurance	278	240	306	262	267
Administrative and operating expenses	5,353	3,276	5,212	4,708	3,617
	9,510	**6,777**	**10,021**	**9,858**	**6,911**

Non-interest expense for the first nine months of 2004 increased by 40.3% to KZT 9,510 million from KZT 6,777 million for the first nine months of 2003, while non-interest expense increased by 1.7% for 2003 to KZT 10,021 million from KZT 9,858 million for 2002 and by 42.6% in 2002 from KZT 6,911 million for 2001.

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

Salaries and Benefits

Salaries and benefits for the first nine months of 2004 increased by 22.7% to KZT 3,122 million from KZT 2,544 million for the first nine months of 2003, largely as a result of higher salaries paid coupled with an increase in the number of employees. Salaries and benefits increased by 13.5% in 2003 to KZT 3,432 million from KZT 3,023 million in 2002, after having increased by 30.8% in 2002, compared to 2001. The increase in 2003, compared to 2002, was largely attributable to salary increases, while the increase in 2002, compared to 2001, was primarily due to increases in the number of personnel and, to a lesser extent, salary raises.

Depreciation and Amortisation

Depreciation and amortization expenses for the first nine months of 2004 increased by 13.7% to KZT 746 million from KZT 656 million for the first nine months of 2003, while depreciation and amortisation rose by 17.8% in 2003 to KZT 926 million from KZT 786 million for 2002 and by 17.8% in 2002 from KZT 667 million for 2001. The period-to-period increases were, in each case, due to a higher carrying amount of fixed assets.

Insurance Expense

Insurance expense of KZT 11 million for the first nine months of 2004 was 82.0% lower than insurance expense of KZT 61 million for the first nine months of 2003. The lower expense for the 2004 period, compared to the 2003 period, was principally due to a decrease in insurance premiums paid on third party liability insurance, as well as to a reduction in the number of property insurance policies held by the Bank in the later period.

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

Deposit Insurance

Deposit insurance expenses increased by 15.8% in the first nine months of 2004 to KZT 278 million, compared to KZT 240 million for the first nine months of 2003. Deposit insurance expense increased by 16.8% in 2003 to KZT 306 million from KZT 262 million in 2002, after decreasing by 1.9% in 2002 from KZT 267 million in 2001. The period-to-period changes in deposit insurance expense were, in each case, primarily attributable to increases or decreases, as the case may be, in the level of deposit balances covered by insurance in the relevant periods.

Other Administrative and Operating Expenses

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

	Nine-month period ended 30 September		Year ended 31 December		
	2004	**2003**	**2003**	**2002**	**2001**
	(KZT millions, unaudited)		*(KZT millions)*		
Taxes other than income taxes	969	555	955	815	571
Repairs and maintenance	168	123	754	646	760
Advertising	457	303	447	453	345
Legal and consultancy fees	271	188	388	209	192
Other loss provision	1,306	282	338	246	230
Occupancy costs	354	209	312	137	86
Security	261	189	279	183	91
Communications	171	180	292	207	159
Custom duties	1	42	53	253	524
Other	1,395	1,205	1,394	1,559	659
	5,353	**3,276**	**5,212**	**4,708**	**3,617**

Other administrative and operating expenses increased by 63.4% to KZT 5,353 million for the first nine months of 2004, compared to KZT 3,276 million for the first nine months of 2003. Legal and consultancy fees, occupancy fees (i.e., rental charges), advertising expenses and taxes other than income taxes represented the largest contributing factors to this increase.

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

Legal and consultancy fees increased by 44.1% to KZT 271 million for the nine months ended 30 September 2004, compared to KZT 188 million for the nine months ended 30 September 2003, and by 85.7% to KZT 388 million for the year ended 31 December 2003, compared to KZT 209 million for the year ended 31 December 2002, after having increased by 8.9% in the year ended 31 December 2002, compared to KZT 192 million for the year ended 31 December 2001. In each case, these increases were largely a result of new borrowings and increased levels of other business activity within the Group during the respective later period.

Occupancy costs rose by 69.4%, or KZT 145 million, for the first nine months of 2004, compared to the same period in 2003, by 127.7%, or KZT 175 million, for the year ended 31 December 2003, compared to the year ended 31 December 2002, and by 59.3% to KZT 137 million for the year ended 31 December 2002, compared to KZT 86 million for the year ended 31 December 2001, in each case, largely as a result of the acquisition of interests in additional facilities to accommodate the expansion of the Group's business.

Taxes other than income taxes were KZT 969 million for the nine months ended 30 September 2004, compared to KZT 555 million for same period in 2003, reflecting an increase of 74.6% primarily as a result of higher VAT payments. Taxes other than income taxes increased by 17.2%, or KZT 140 million, to KZT 955 million for 2003, compared to 2002, principally as a result of higher VAT payments on services provided by companies that were divested from the Group. Taxes other than income taxes increased in 2002 to KZT 815 million from KZT 571 million in 2001 largely as a result of increased VAT payments on services that were outsourced by the Group.

Repairs and maintenance expenses increased by 36.6% to KZT 168 million for the first nine months of 2004, compared to KZT 123 million for the same period in 2003. This increase was principally due to increases in expenses for computer equipment and software transport and cash equipment.

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

Custom duties decreased by 97.6%, or KZT 41 million, to KZT 1 million for the nine months ended 30 September 2004, compared to KZT 42 million for the same period in 2003, largely as a result of the elimination of custom duties on the import of foreign currency. Custom duties decreased by KZT 271 million to KZT 253 million for 2002, compared to KZT 524 million for 2001. This decrease resulted solely from the impact of a 1.0% reduction in the duty on the import of cash from abroad for the full year in 2002, compared to only part of the year in 2001.

Advertisement expenses for the first nine months of 2004 increased by 50.8% to KZT 457 million from KZT 303 million for the first nine months of 2003, primarily due to increased advertising following the expansion of the Bank's business and the launch of new products. Advertisement expenses for 2003 decreased by 1.3% to KZT 447 million from KZT 453 million for 2002, primarily due to a decrease in advertisement expenses of subsidiaries. Advertisement expenses rose by 31.3% to KZT 453 million for 2002 from KZT 345 million for 2001, as the Group engaged in more advertising in response to the more favourable business environment prevailing during 2002, compared to 2001.

Other expenses increased by 15.8%, or KZT 190 million, to KZT 1,395 million for the nine months ended 30 September 2004 from KZT 1,205 million for the nine months ended 30 September 2003, largely reflecting cost increases associated with the Group's growth from period-to-period. Other expenses decreased by 10.6%, or KZT 165 million, to KZT 1,394 million for 2003, compared to 2002, largely as a result of the divestiture by the Group of certain service companies. Other expenses for 2002 increased by 136.6% to KZT 1,559 million from KZT 659 million for 2001, primarily due to a decrease in transportation and other costs related to business trips.

Taxation

Kazakhstan tax regulations do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. In the past, due to beneficial tax regulations (such as those in relation to the tax–exempt status of interest income on government securities), the Bank did not incur any income tax liability. In 2003, the Group reported income tax expense of KZT 266 million or an effective tax rate of 5.5%, while the Group's effective tax rate for the nine-month period ended 30 September 2004 rose to 8.0%, largely as a result of a tax assessment imposed by the State during the period and a relative decrease in non-taxable income for the nine-month period ended 30 September 2004, compared to the same period in 2003. The current statutory income tax rate applicable to the Group is 30%. While the operations of the Bank and its subsidiaries are expanding, management believes that the effective tax rate on any future taxable income will remain below the statutory rate.

Financial Condition

Total Assets

As at 30 September 2004, the Group's total assets were KZT 506,987 million, compared to KZT 373,064 million as at 31 December 2003, KZT 225,492 million as at 31 December 2002 and KZT 157,337 million as at 31 December 2001, reflecting increases of 35.9%, 65.4% and 43.3%, respectively.

The increase in total assets as at 30 September 2004, compared to 31 December 2003, was primarily due to the growth in the Bank's loan portfolio (including accrued interest) by 46.4%, or KZT 118,348 million, to KZT 373,466 million and an increase in the Bank's securities portfolio by 19.2%, or KZT 16,837 million. The higher total assets as at 31 December 2003, compared to 31 December 2002, was primarily due to increases in the loan portfolio by 85.0%, or KZT 117,205 million, and in the securities portfolio by 69.9%, or KZT 36,164 million. The increase as at year-end 2002, compared to year-end 2001, was primarily attributable to growth in net loans by 17.7%, or KZT 20,720 million, and increases in the amount of securities held by the Group by 190%, or KZT 33,884 million, and in the Group's cash balances (comprising cash and cash equivalents and obligatory reserves) by 6.3%, or KZT 1,384 million. The increases in both loans and trading securities were in conformity with the Bank's strategy and related budgeted figures.

Other assets increased by 30.9% to KZT 9,426 million as at 30 September 2004, from KZT 7,203 million as at 31 December 2003, after having increased by 33.4% from KZT 5,399 million as at 31 December 2002 and by 317.9% from KZT 1,292 million as at 31 December 2001. The increase as at 30 September 2004, compared to 31 December 2003, was related to the increase in the volume of interest-bearing assets other than loans. The higher amount of other assets as at year-end 2003, compared to year-end 2002, primarily reflected increases of KZT 955 million in accrued interest receivable on interest-earning assets other than loans and of KZT 820 million in investments in associates. The increase as at year-end 2002, compared to year-end 2001, primarily related to the growth in the Group's insurance operations.

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

	As at 30 September 2004			As at 31 December 2003			2002			2001		
	KZT	Foreign Currency	Total	KZT	Foreign Currency	Total	KZT	Foreign Currency	Total	KZT	Foreign Currency	Total
		(KZT millions, unaudited)					(KZT millions)					
Cash and cash equivalents	7,733	10,014	17,747	6,688	6,598	13,286	5,053	15,504	20,557	475	16,745	17,220
Obligatory reserves	2,445	4,037	6,482	3,706	–	3,706	2,731	–	2,731	4,684	–	4,684
Due from other banks	6,559	6,447	13,006	8,483	5,915	14,398	9,830	990	10,820	–	150	150
Trading securities	39,144	39,932	79,076	11,648	49,943	61,591	12,925	19,156	32,081	13,519	4,312	17,831
Available-for-sale securities	–	25,640	25,640	–	–	–	–	–	–	–	–	–
Held-to-maturity securities	–	–	–	3	26,285	26,288	–	19,634	19,634	–	–	–
Loans to clients	99,484	273,982	373,466	78,426	176,692	255,118	35,936	101,977	137,913	25,189	92,004	117,193
Other assets	16,882	613	17,495	13,920	367	14,287	11,504	527	12,031	6,373	541	6,914
Total assets (less allowances)	**172,247**	**360,665**	**532,912**	**122,874**	**265,800**	**388,674**	**77,979**	**157,788**	**235,767**	**50,240**	**113,752**	**163,992**

Total Liabilities

As at 30 September 2004, the Bank's total liabilities of KZT 466,937 million were 36.9%, or KZT 125,886 million, higher than total liabilities of KZT 341,051 million as at 31 December 2003, which had, in turn, increased from KZT 204,727 million as at 31 December 2002 and from KZT 141,686 million as at 31 December 2001, or 66.6% and 44.5%, respectively. The increase in total liabilities as at 30 September 2004, compared to 31 December 2003, was primarily attributable to the increase by KZT 42,426 million in debt securities issued by the Bank and the increase by KZT 73,856 million in deposits held by the Bank. The increase in total liabilities as at year-end 2003, compared to year-end 2002, primarily consisted of an increase of KZT 60,558 million in bank borrowings, an increase of KZT 42,653 million in debt securities issued and an increase of KZT 33,508 million in deposits held by the Bank. The increase in total liabilities as at 31 December 2002, compared to 31 December 2001, primarily reflected growth of KZT 24,838 million in customer deposits, an increase of KZT 14,440 million in foreign currency and domestic bank borrowings and an increase of KZT 18,055 million in debt securities issued.

As at 30 September 2004, other liabilities were KZT 7,533 million, reflecting an increase of 74.5%, or KZT 3,215 million, from other liabilities of KZT 4,318 million as at 31 December 2003, which were, in turn, 40.2% lower than other liabilities of KZT 7,220 million as at 31 December 2002. Other liabilities as at year-end 2002 were, however, 310.9% higher than other liabilities of KZT 1,757 million as at 31 December 2001. The increase in other liabilities as at 30 September 2004, compared to 31 December 2003, primarily reflected higher balances due to a number of creditors in connection with the Bank's non-banking activities. The decrease in other liabilities as at year-end 2003, compared to year-end 2002, was primarily attributable to decreases of KZT 2,092 million in year-end settlements and of KZT 470 million in unearned insurance premiums, while the increase in other liabilities as at year-end 2002, compared to year-end 2001, was primarily attributable to growth in the Group's insurance operations and higher levels of payables at year-end 2002.

Shareholders' Equity

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

	As at 30 September 2004	As at 31 December 2003	Amount of Change	Percent of Change
	(KZT millions, unaudited)	*(KZT millions)*	*(KZT millions, unaudited)*	*(%, unaudited)*
Shareholders' Equity:				
Charter capital:	21,845	20,979	866	4
Common shares	16,252	16,244	8	0
Preferred shares	5,593	4,735	858	18
Treasury shares	(488)	(628)	140	(22)
Revaluation reserve	2,330	1,737	593	34
Retained earnings	13,049	7,182	5,867	82
Additional paid-in capital	1,697	1,413	284	20
Total shareholders' equity	**38,433**	**30,683**	**7,750**	**25**

Total shareholders' equity as at 30 September 2004 amounted to KZT 38,433 million (7.6% of total assets), compared to total shareholders' equity of KZT 30,683 million (8.2% of total assets) as at 31 December 2003, KZT 19,755 million (8.8% of total assets) as at 31 December 2002 and KZT 14,842 million (9.4% of total assets) as at 31 December 2001.

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

Off-Balance Sheet Arrangements

The Group enters into certain financial instruments with off–balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include guarantees, letters of credit, forward contracts and option contracts, involve varying degrees of credit risk and are not reflected in the Group's balance sheet.

As at 30 September 2004, the Group had issued letters of credit totalling KZT 55,489 million, guarantees totalling KZT 37,802 million and commercial letters of credit (aval) totalling KZT 11,050 million and had open forward contracts outstanding for a total amount of KZT 2,000 million. As at 31 December 2003, the Group had issued commercial letters of credit totalling KZT 45,141 million, guarantees totalling KZT 18,648 million and guarantees of third party promissory notes totalling KZT 5,799 million and had open forward contracts outstanding for a total amount of KZT 12,478 million. The Group's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

As at 30 September 2004, the Group had recorded an impairment charge for contingent liabilities of KZT 814 million, compared to KZT 319 million as at 31 December 2003, KZT 244 million as at 31 December 2002 and KZT 49 million as at 31 December 2001.

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

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

Capital Adequacy

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

	As at 30 September 2004	**As at 31 December**		
		2003	**2002**	**2001**
	(KZT millions, unaudited)		*(KZT millions)*	
Tier I capital	30,510	25,948	15,595	10,682
Tier I capital adequacy ratio	6.71%	8.42%	8.53%	7.49%
Tier II capital	28,860	21,561	13,573	9,445
Gross available capital	59,370	47,509	29,168	20,127
Less: Investments	(1,288)	(870)	(50)	(140)
Tier I + Tier II capital	58,082	46,639	29,118	19,987
Total risk weighted assets	454,596	308,124	182,869	142,614
Risk weighted capital adequacy (Tier I + Tier II capital) ratio	12.78%	15.14%	15.92%	14.01%

Using ratios established by the BIS to monitor capital adequacy, the Bank had a Tier I capital adequacy ratio of 6.71% as at 30 September 2004, compared to 8.42% as at 31 December 2003, and a risk weighted capital adequacy ratio (comprising Tier I + Tier II capital divided by total risk weighted assets) of 12.78% as at 30 September 2004, compared to 15.14% as at 31 December 2003. For purposes of the foregoing calculations the Bank's CPS constitute Tier II capital; but see "Capitalization of the Bank" and "Management and Share Ownership – Principal Shareholders – The Bank's CPS".

In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's shareholders have approved an increase in the Bank's authorised share capital by KZT 13,632 million, consisting of 615,287 common shares (75.1%) and 204,004 CPS (24.9%), which are being placed principally among the Bank's existing shareholders. As at 31 December 2004, all of such new common shares had been subscribed for an aggregate amount of KZT10,238 million and 32,277 of the CPS had been subscribed for a total of KZT 537 million. It is expected that the balance of the CPS will be subscribed by the end of February 2005.

ASSET AND LIABILITY MANAGEMENT

Introduction

The Bank monitors its interest rate and exchange rate exposure and the maturities of its financial instruments in order to minimise the effect of market changes on the Bank's profitability and liquidity. The Bank has a relatively liquid asset base, including substantial Tenge and U.S. Dollar demand deposits, comprised, as at 30 September 2004, 61.3% by corporate deposits and 38.7% by retail deposits, and other short-term assets, comprised primarily of commercial loans and advances and securities. In addition, as at 30 September 2004, 73.4% of the Bank's loans were denominated in foreign currencies or indexed to the U.S. Dollar and the majority of the loans in the Bank's loan portfolio had short-term maturities. Accordingly, the Bank's interest rate risk is relatively low and, despite the size of the portfolio, adjusting the profile of the portfolio is relatively straightforward.

Asset and Liability Management Committee

The overall asset and liability position of the Bank is monitored by the Bank's Asset and Liability Management Committee (''ALCO''), which reports directly to the Management Board with respect to issues relating to the day-to-day operations of the Bank or, in the case of matters relating to the Group's strategy, directly to the Board of Directors. ALCO is chaired by a Deputy Chairman and comprises one other Deputy Chairman, the Finance Director, the Treasurer, the Head of the Retail Business Department, the Head of the Risk Management Department, the Head of the Financial Institutions Department, the Head of the Corporate Department, the Head of the Analytical Centre and the Head of the International Department. ALCO meets on a weekly basis to review the Bank's asset and liability position by reference to the following criteria, based on information provided by the Analytical Centre:

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

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

Maturities

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

	As at 30 September 2004							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Past due**	**Total**
	(KZT millions, unaudited)							
Assets								
Cash and cash equivalents	16,226	269	37	1,215	–	–	–	17,747
Obligatory reserves	–	–	–	–	6,482			6,482
Trading securities	79,076	–	–	–	–	–	–	79,076
Amounts due from other financial institutions	48	6,551	74			6,333	–	13,006
Available-for-sale investment securities	25,640	–	–	–	–	–	–	25,640
Loans to customers	–	26,648	30,053	83,127	86,246	140,703	6,689	373,466
Other assets	3,167	57	5,340	870	599	106	–	10,139
	124,157	**33,525**	**35,504**	**85,212**	**93,327**	**147,142**	**6,689**	**525,556**
Liabilities								
Amounts due to NBK and the Government	–	3,090	527	193	470	748	–	5,028
Amounts due to other financial institutions	1,674	13,129	4,537	76,824	15,268	12,170	–	123,602
Amounts due to customers	65,030	26,913	36,662	56,162	26,822	2,585	–	214,174
Debt securities issued	–	3,655	–	–	28,038	84,907	–	116,600
Other liabilities	3,209	218	2,844	758	346	158	–	7,533
	69,913	**47,005**	**44,570**	**133,937**	**70,944**	**100,568**	**–**	**466,937**
Net position	**54,244**	**(13,480)**	**(9,066)**	**(48,725)**	**22,383**	**46,574**	**6,689**	**58,619**
Accumulated gap	**54,244**	**40,764**	**31,698**	**(17,027)**	**5,356**	**51,930**	**58,619**	

Notes:

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

(2) The maturity amount is based on the contractual maturity date. The actual maturity may differ as the maturities may be extended or rolled over to update interest rates and facilitate longer-term financing for the borrower.

	As at 31 December 2003							
	On demand	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Past due**	**Total**
	(KZT millions)							
Assets								
Cash and cash equivalents	13,162		124	–	–	–	–	13,286
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from other financial institutions	50	10,281	144	1,129	1,829	965	–	14,398
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	21,918	25,454	76,059	51,795	75,056	4,836	255,118
Other assets	4,539	152	294	295	2,262	–	–	7,542
	79,342	**32,351**	**26,016**	**77,483**	**59,592**	**102,309**	**4,836**	**381,929**
Liabilities								
Amounts due to NBK and the Government	–	3,071	1	604	614	900	–	5,190
Amounts due to other financial institutions	1,533	21,394	10,023	47,591	22,648	13,862	–	117,051
Amounts due to customers	41,286	17,723	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	3,900	243	33	25	65	52	–	4,318
	46,719	**42,431**	**29,309**	**113,866**	**46,427**	**62,299**	**–**	**341,051**
Net position	**32,623**	**(10,080)**	**(3,293)**	**(36,383)**	**13,165**	**40,010**	**4,836**	**40,878**
Accumulated gap	**32,623**	**22,543**	**19,250**	**(17,133)**	**(3,968)**	**36,042**	**40,878**	

Notes:

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

(2) The maturity amount is based on the contractual maturity date. The actual maturity may differ as the maturities may be extended or rolled over to update interest rates and facilitate longer-term financing for the borrower.

Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the frequency with which the Bank is able to reprice its assets and liabilities. Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. Many short-term credits, however, are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented in the tables above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. While these balances are included in amounts due in less than one month in the tables above, their actual liquidation has historically taken place over a longer period. Conversely, while trade and available-for-sale securities are shown as on demand, realising such assets upon demand is dependent upon financial market conditions.

Treasury Operations

The Bank's Treasury Department is responsible for the efficient management of the Bank's funds on a daily basis by using foreign exchange and money markets to reduce foreign currency exposure and funding costs and maximise investment returns. The Bank is one of the leading traders of government debt securities such as Treasury bonds, NBK notes and municipal bonds. The Treasury Department also executes foreign exchange and currency swap transactions, repurchase agreements, reverse repurchase agreements and forward, futures and options contracts. The Group also engages in proprietary trading of derivatives and provides such services to its clients, although the volume of these activities has been insignificant due to the under-development of the local market.

Liquidity

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

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

	As at 30 September 2004	**As at 31 December**		
		2003	**2002**	**2001**
	(%, unaudited)		*(%)*	
Net loans (excluding accrued income)/assets	66.37	62.28	55.28	68.81
Net loans (excluding accrued income)/deposits (excluding accrued interest)	158.16	166.89	117.87	133.66
Net loans (excluding accrued income)/ shareholders' equity	875.50	757.26	631.03	729.54
Liquid assets[1]/total assets	27.95	31.97	38.06	25.35
Liquid assets/total amounts owed to customers (excluding accrued interest)	66.61	85.70	81.15	49.23

Notes:

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

Foreign Currency Management

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

	As at 30 September 2004			As at 31 December 2003		
	KZT	**Other foreign currencies**	**Total**	**KZT**	**Other foreign currencies**	**Total**
	(KZT millions, unaudited)			*(KZT millions)*		
Assets						
Cash and cash equivalents	7,733	10,014	17,747	6,688	6,598	13,286
Obligatory reserves	2,445	4,037	6,482	3,706	-	3,706
Trading securities	39,144	39,932	79,076	11,648	49,943	61,591
Amounts due from credit institutions	6,559	6,447	13,006	8,483	5,915	14,398
Available-for-sale securities	–	25,640	25,640	–	–	–
Held-to-maturity investment securities	–	–	–	3	26,285	26,288
Loans to customers	99,484	273,982	373,466	78,426	176,692	255,118
Other assets	9,526	613	10,139	7,175	367	7,542
	164,891	**360,665**	**525,556**	**116,129**	**265,800**	**381,929**
Liabilities						
Amounts due to the Government and NBK	4,450	578	5,028	4,263	927	5,190
Due to credit institutions	5,369	118,233	123,602	4,390	112,661	117,051
Due to customers	102,023	112,151	214,174	69,043	71,275	140,318
Debt securities issued	17,560	99,040	116,600	7,598	66,576	74,174
Other liabilities	6,798	735	7,533	3,982	336	4,318
	136,200	**330,737**	**466,937**	**89,276**	**251,775**	**341,051**
Net balance sheet position	**28,691**	**29,928**	**58,619**	**26,853**	**14,025**	**40,878**

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

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

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

	As at 30 September 2004	As at 31 December 2003	2002	2001
	(unaudited)			
Net long/(short) position (U.S.$ millions)	(19)	18	71	21
Net position as a percentage of risk weighted capital	(4%)	5%	38%	16%
Net position as a percentage of foreign currency liabilities	(1%)	1%	8%	3%

The Bank is a party to a number of deliverable forward contracts providing for the purchase or sale of a specified amount of foreign currency (typically U.S. Dollars) or precious metals at an agreed-upon price in Tenge with delivery and settlement at a specified future date, which are used for hedging purposes to manage currency risks. As at 30 September 2004, the aggregate amount outstanding under such contracts, which mature in 2004, was KZT 2,000 million, compared to KZT 12,478 million as at 31 December 2003.

Interest Rate Risk

The following table sets out the effective average interest rates by currencies and comparative market rates for interest earning/bearing monetary financial instrucments as at the dates indicated:

	As at 30 September 2004		As at 31 December 2003	
	KZT	Foreign currency	KZT	Foreign currency
	(%, unaudited)		*(%)*	
Trading securities	3.60	6.16	6.90	7.70
Amounts due from other financial institutions	2.86	7.18	2.70	2.40
Available for sale securities	–	5.10	–	–
Held-to-maturity investment securities	–	–	–	4.40
Loans to customers	18.81	11.95	16.70	12.50
Amounts due to NBK and the Government	5.71	5.33	6.50	4.40
Amounts due to other financial institutions	3.14	4.33	5.10	4.20
Amounts due to customers	6.27	5.45	9.40	5.10
Debt securities issued	7.38	10.64	8.22	11.60

The Bank believes that its sensitivity to interest rate changes is largely reduced because it has the ability to re-price a substantial portion of its loans that mature within one year and to re-price loans maturing after one year under certain circumstances. In addition, a significant percentage of its loan portfolio maturing after one year is funded by fixed rate long-term funds. However, if the average maturity of the Bank's loan portfolio increases, without a matching increase in the average maturity of its liabilities, the Bank will be exposed to increasing interest rate risk. At such time, the Bank may be obliged to introduce new risk management techniques.

Lending Policies and Procedures

General

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

All applications for credit by corporate and retail customers must be submitted to the Bank on its standard forms. Depending on the type of borrower and industry sector, the application is reviewed by one of the Bank's eight corporate business departments, each of which is responsible for a certain industry sector, or the Project Finance Department or the SME Department, as appropriate. The relevant reviewing department undertakes a thorough analysis of the credit applicant, including carrying out feasibility studies and analysis of the financial standing, reputation and experience of the potential borrower, and then prepares a credit dossier for each applicant, based upon the results of such analysis. Information is obtained from various external sources, including the state taxation authorities, where appropriate. The Bank's Security Department, if required by the Bank's policy, also carries out a confidential investigation and appraisal of the applicant by obtaining references from other banks and information from criminal records and the Interior Ministry. The Bank's Problem Debts Department, if required by the Bank's policy, obtains information from the FMSA's list of previous defaulting borrowers. If the loan is collateralised, as required by the Bank's policy, the Bank's Security Appraisal Group or an outside firm makes an independent assessment of the collateral being offered, including valuation, legality and enforceability. The Bank also employs independent legal advisers, from time to time, to review the forms of loan agreements and other legal documentation involved in the lending process.

All corporate customers of the Bank are required to have an internal credit rating assigned by the Bank's Risk Management Department. See ''— Non-Performing Loans and Impairment Assessment Policy'' below. The Risk Management Department is also responsible for the assessment on a systematic basis of all on and off-balance sheet credit risks. All risk assessments of borrowers are submitted to the appropriate credit committees and the Management Board of the Bank, where necessary, to ensure appropriate lending decisions are taken.

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

- the Credit Committee of each branch is authorised to take decisions within lending limits established for each branch by the Management Board; this authority ranges up to U.S.$300,000 (or the equivalent) depending on the size of the branch and its underwriting capabilities, as assessed by the Management Board;
- the Retail Loans Credit Committee is responsible for improving the Bank's retail loan portfolio structure and is authorised to take decisions on retail loan recovery measures; it considers applications by individuals for short- and long-term financing up to U.S.$300,000 (or the equivalent);
- the SME Credit Committee is authorised to take decisions on loans and guarantees to SMEs up to U.S.$500,000 (or the equivalent);
- the Branch Network Committee is authorised to take decisions on loans and guarantees in excess of U.S.$300,000 but less than U.S.$2,000,000 (or the equivalent); and
- the Head Office Credit Committee is authorised to take decisions on loans and guarantees in excess of U.S.$1,500,000 (or the equivalent).

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

Maturity Limit

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

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

Notes:

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

Collateralisation

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

The following table sets out the loan amount as a percentage of collateral value based on the type of collateral:

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

The Bank believes that it has a satisfactory record in enforcing its security and attempts to resolve security enforcement without resort to court action or arbitration where possible. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any pledged collateral either in reliance on its legal rights or with the co-operation of the borrower. If necessary, the Bank will seek to obtain repayment or sequestration of a debtor's property or funds held in accounts with other banks in a court of law.

Loan Supervision and Monitoring

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

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

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

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

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

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

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

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

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

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

The functions of the Risk Management Department are split between the Bank's corporate banking activities and SME and retail operations. With respect to corporate banking, each account is subject to an individual review, while the SME and retail accounts are assessed by reference to branch and product limits. The Risk Management Department provides weekly and monthly reports to the Bank's management detailing all aspects of the Bank's credit activity. Senior management pays strict attention to the timeliness of debt repayments and the classified loans and contingent liabilities as reported by the Risk Management Department. Immediate action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. The Bank's determination of whether a repayment problem has arisen is based on a number of objective and subjective criteria, including changes to the borrower's turnover in accounts held by the Bank, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfil the terms and conditions of its loan agreement and refusal of a borrower to cooperate in supplying current information.

The Bank's Risk Management Department is also involved in overseeing the risk management activities of the target banks in which the Group holds investments, including Slavinvest Bank, Omsk Bank, Transbank and Astanaeximbank, and, in December 2004, a separate unit of the Risk Management Division was created with special oversight authority over such regional investments. While these local banks maintain their own risk management division, its policies have been coordinated with the Bank's and the Bank has approval authority with respect to any loan in excess of U.S.$5.0 million (or its equivalent).

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

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

Non-Performing Loans and Impairment Assessment Policy

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

As at 30 September 2004, the aggregate amount of loans deemed to be impaired and on which interest accrual was overdue totaled KZT 3,250 million, compared to KZT 1,774 million as at 31 December 2003. This increase reflected primarily the effect of the overall increase in the size of the Bank's loan portfolio as at 30 September 2004, compared to 31 December 2003. As at 31 December 2001 and 2002, such loans totaled KZT 492 million and KZT 2,361 million, respectively. As at 30 September 2004, the percentage of non-performing loans to gross loans was 0.9%, while, as at 31 December 2003, the percentage of non-performing loans to gross loans was 0.7%, compared to 1.8% as at 31 December 2002 and 0.4% as at 31 December 2001.

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

Loan Classification	Provision Requirement
Unclassified loans	0 to 10%
Classified loans	
Unsatisfactory	20 to 25%
Doubtful	50%
Loss	100%

The Bank makes specific provisions for possible loan losses on a case-by-case basis and actual provisions established take into account the value of any collateral or third party guarantees. After taking impairment charges based on the provisioning rates required by the FMSA, the Bank reassesses the allowances on a quarterly basis to ensure that the amounts properly represent the difference between carrying amounts and the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan or other asset or liability. Accordingly, the actual provision levels may differ from the above provisioning rates.

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

	Nine-month period ended 30 September 2004			Year ended 31 December 2003		
	Gross Loans	Total Impairment Allowance	Percentage Reserved	Gross Loans	Total Impairment Allowance	Percentage Reserved
	(KZT millions, unaudited)			(KZT millions)		
Impairment rates						
0% up to 5%	190,873	4,956	2.6%	136,327	3,478	2.6%
5% up to 10%	145,278	7,983	5.5%	93,583	5,270	5.6%
20% up to 25%	16,298	3,544	21.7%	13,415	2,909	22.7%
25% up to 50%	1,032	516	50.0%	2,051	1,100	53.6%
100%	7,979	7,979	100.0%	2,514	2,514	100.0%
Gross loans/allowance	361,460	**24,978**	6.9%	247,620	**15,271**	6.2%
Accrued interest	12,006			7,498		
	373,466			**255,118**		

As at 30 September 2004, loans, net of interest, increased by 46% to KZT 361,460 million from KZT 247,620 million as at 31 December 2003. The allowance for loan impairment increased by 63.6% to KZT 24,978 million as at 30 September 2004 from KZT 15,271 million as at 31 December 2003, principally as a result of the increase in loans.

Total classified loans as at 30 September 2004 increased by 50.3% to KZT 25,309 million from KZT 17,710 million as at 31 December 2003, reflecting the combined effects of increases in unsatisfactory and loss loans, partially offset by a decrease in doubtful loans. As at 30 September 2004, total unsatisfactory loans increased by 21.5% to KZT 16,298 million, compared to KZT 13,415 million as at 31 December 2003, primarily as a result of the classification of certain loans made to one of the Bank's principal borrowers as unsatisfactory. This borrower, which operates in the agricultural segment, experienced adverse developments due to the seasonal nature of its business. Loans classified as doubtful decreased by

49.7% to KZT 1,032 million as at 30 September 2004 from KZT 2,051 million as at 31 December 2003. This decrease in doubtful loans was principally attributable to the impairment of asset quality in relation to certain borrowers.

The Bank undertakes the following actions with regard to bad loans: (i) develops an action plan for collection of such loans; (ii) conducts an audit of the relevant company's financial results and activities; (iii) approves a debt repayment schedule considered to be realistic by both the Bank and the borrower; (iv) continuously monitors financial flows of the relevant companies; and (v) requires additional collateral to secure such loans. Loans classified as loss, or bad loans, increased by 217.4% to KZT 7,979 million as at 30 September 2004, compared to KZT 2,514 million as at 31 December 2003, principally due to the deterioration of the quality of a number of loans. Management believes, however, that this deterioration is temporary in nature and will not result in a significant loss of assets, as the Bank has been successful in recent periods in returning loans to a current status without losses. Moreover, the Bank believes it has sufficient available collateral to permit it to recover the value of many of its loss loans if these remain unpaid. As at 30 September 2004, the ratio of the Bank's impairment charges to total loans, net of interest, was 6.9%, compared to 6.2% as at 31 December 2003.

Write-off Policy

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

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

	Nine-month period ended 30 September		Year ended 31 December		
	2004	**2003**	**2003**	**2002**	**2001**
	(KZT millions, unaudited)		*(KZT millions)*		
Beginning allowance balance	15,271	10,166	10,166	6,474	2,905
Impairment charge for losses	12,160	6,375	10,391	7,184	5,838
Net write-offs					
Write-offs	(4,878)	(5,687)	(6,762)	(3,763)	(3,227)
Recoveries	2,425	1,386	1,476	271	958
	(2,453)	**(4,301)**	**(5,286)**	**(3,492)**	**(2,269)**
Ending allowance balance	**24,978**	**12,240**	**15,271**	**10,166**	**6,474**

Write-offs in the first nine months of 2004 decreased by 14.2% to KZT 4,878 million, compared to write-offs of KZT 5,687 million in the same period in 2003, after having increased by KZT 2,999 million or 79.7% to KZT 6,762 million in 2003, compared to KZT 3,763 million as at 31 December 2002, and by KZT 536 million or 16.6% in 2002, compared to KZT 3,227 million as at 31 December 2001. The decrease in net write-offs for the first nine months of 2004, compared to the same period in 2003, primarily reflected an increase in recoveries of amounts due in respect of loans previously written-off, as well as some improvement in asset quality, while write-offs increased in 2003, compared to 2002, and in 2002, compared to 2001, in line with the overall growth in the Bank's loan portfolio. In 2003, the increase in write-offs was also due to several problem loans that were identified in the latter part of 2002. While management actively tried to correct these problems, these loans were eventually written off in 2003.

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

	Nine-month period ended 30 September	Year ended 31 December		
	2004	2003	2002	2001
	(%, unaudited)		*(%)*	
Percentage of net write-offs to gross loans (excluding accrued interest)	0.7	2.1	2.5	1.9
Percentage of net write-offs to the opening reserve balance	16.1	52.0	53.9	78.1
Percentage of recoveries to write-offs	49.7	21.8	7.2	29.7

In 2001, 2002 and 2003, net write-offs as a percentage of gross loans remained relatively constant at 1.9%, 2.5% and 2.1%, respectively, and then decreased to 0.7% for the nine months ended 30 September 2004. Net write-offs as a percentage of the opening reserve balance have continually decreased over the period.

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

Average Balances

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

	Average Balance for the nine-month period ended 30 September		Average Balance for the year ended 31 December		
	2004	2003	2003	2002	2001
	(KZT millions, unaudited)		*(KZT millions)*		
Average Assets					
Cash and equivalents	15,517	32,361	16,922	18,889	12,113
Obligatory reserves	5,094	3,485	3,219	3,708	3,567
Due from other banks	13,586	8,467	12,609	5,485	75
Available-for-sale securities	25,963	–	–	–	–
Trading securities	70,334	52,019	46,836	24,956	13,002
Held-to-maturity securities	–	21,394	22,961	9,817	–
Gross loans	304,540	163,118	191,220	124,789	85,732
Impairment charge	(20,124)	(11,203)	(12,718)	(8,320)	(4,805)
Accrued interest	9,752	4,575	5,293	2,764	1,941
Premises and equipment	7,050	6,268	6,634	5,982	5,220
Other assets	8,314	6,688	6,300	3,345	1,403
Total average assets	**440,026**	**287,172**	**299,276**	**191,415**	**118,248**
Average liabilities and shareholders' equity					
Amounts owed to the Government and the NBK	5,087	4,207	3,925	2,554	1,600
Due to other banks and financial institutions	119,212	70,777	85,829	48,851	30,099
Amounts owed to customers	175,986	128,440	122,491	93,383	63,971
Debt securities issued	94,114	50,860	52,397	22,298	6,655
Accrued interest payable	3,669	2,797	2,478	1,632	1,252
Other liabilities	5,926	7,683	5,767	4,488	2,072
Total average liabilities	**403,994**	**264,764**	**272,887**	**173,206**	**105,649**
Minority interest	1,474	1,139	1,170	910	711
Average shareholders' equity	**34,558**	**21,269**	**25,219**	**17,299**	**11,888**
Average liabilities and shareholders' equity	**440,026**	**287,172**	**299,276**	**191,415**	**118,248**

The following table shows the Group's consolidated average balances and interest rates for the periods indicated. In such tables, the average balances for interest-earning assets and interest-bearing liabilities represent the average of the opening and closing balances for the relevant period:

	Nine-month period ended 30 September			Year ended 31 December								
	2004			2003			2002			2001		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(KZT millions, unaudited, except percentages)						*(KZT millions except percentages)*					
Assets												
Interest-earning deposits	13,652	492	4.8%	12,609	298	2.4%	12,353	372	3.0%	5,602	219	3.9%
KZT	7,501	161	2.9%	9,157	228	2.5%	1,667	74	4.4%	247	18	7.3%
Foreign currency	6,151	331	7.2%	3,452	70	2.0%	10,686	298	2.8%	5,355	201	3.8%
Securities	95,394	3,718	5.2%	69,797	4,257	6.1%	34,773	2,818	8.1%	13,002	1,422	10.9%
KZT	25,300	683	3.6%	12,288	993	8.1%	13,222	1,407	10.6%	8,680	1,028	11.8%
Foreign currency	70,094	3,035	5.8%	57,509	3,264	5.7%	21,551	1,411	6.6%	4,322	394	9.1%
Loans	304,540	31,702	13.9%	191,220	26,263	13.7%	124,789	19,178	15.4%	85,732	14,004	16.3%
KZT	85,594	12,074	18.8%	56,130	10,990	19.6%	27,798	5,235	18.8%	24,133	5,968	24.7%
Foreign currency	218,946	19,628	12.0%	135,090	15,273	11.3%	96,991	13,943	14.4%	61,599	8,036	13.1%
Total interest-earning assets	**413,586**	**35,912**	**11.6%**	**273,626**	**30,818**	**11.3%**	**171,915**	**22,368**	**13.0%**	**104,336**	**15,645**	**15.0%**
Cash and non-interest deposits	20,611			20,141			15,729			10,153		
Accrued interest	10,705			5,293			2,764			1,941		
Impairment charge	(20,241)			(12,718)			(8,320)			(4,805)		
Fixed assets	7,051			6,634			5,982			5,220		
Other assets	8,314			6,300			3,345			1,403		
Total average assets	**440,026**			**299,276**			**191,415**			**118,248**		

	Nine-month period ended 30 September			Year ended 31 December								
	2004			2003			2002			2001		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(KZT millions, unaudited, except percentages)			*(KZT millions except percentages)*								
Liabilities and Shareholders' Equity												
Due to Government and NBK	5,088	216	5.7%	3,925	408	10.4%	2,554	150	5.9%	1,600	77	4.8%
KZT	4,341	186	5.7%	2,611	283	10.8%	870	78	9.0%	727	63	8.7%
Foreign currency	747	30	5.3%	1,314	125	9.5%	1,684	72	4.3%	873	14	1.6%
Due to other banks	119,212	3,826	4.3%	85,829	3,467	4.0%	48,851	2,386	4.9%	30,099	1,740	5.8%
KZT	4,778	112	3.1%	3,176	214	6.7%	1,490	241	6.0%	1,639	5	0.3%
Foreign currency	114,434	3,714	4.3%	82,653	3,253	3.9%	47,361	2,145	4.5%	28,460	1,735	6.1%
Due to customers	137,897	5,979	5.8%	90,878	6,177	6.8%	66,192	5,274	8.0%	44,669	3,701	8.3%
KZT	55,516	2,609	6.3%	36,320	3,179	8.8%	19,771	2,465	12.5%	11,784	1,940	16.5%
Foreign currency	82,381	3,370	5.5%	54,558	2,998	5.5%	46,421	2,809	6.1%	32,885	1,761	5.4%
Debt securities issued	94,114	7,256	10.3%	52,397	5,711	10.9%	22,298	2,717	12.2%	6,655	1,153	17.3%
KZT[(2)]	10,470	579	7.4%	3,691	58	8.0%	–	–	–	–	–	–
Foreign currency	83,644	6,677	10.6%	48,706	5,653	11.6%	22,298	2,717	12.2%	6,655	1,153	17.3%
Total interest-bearing liabilities	**356,311**	**17,277**	**6.5%**	**233,029**	**15,763**	**6.8%**	**139,895**	**10,527**	**7.5%**	**83,023**	**6,671**	**8.0%**
Non-interest-bearing customer accounts	38,089			31,613			27,191			19,302		
Other liabilities	9,425			8,245			6,120			3,324		
Minority interest	1,474			1,170			910			711		
Shareholders equity	34,727			25,219			17,299			11,888		
Total average liabilities and shareholders	**440,026**			**299,276**			**191,415**			**118,248**		
Net interest spread[(1)]			5.1%			4.5%			5.5%			7.0%
Net interest income		18,634			15,055			11,841			8,974	
Net interest margin[(1)]			6.0%			5.5%			6.9%			8.6%

Notes:
(1) See ''Selected Financial Information – Selected Financial Restated Economic Data'' for definitions.
(2) Domestic debt was issued in September 2003 and accordingly any average would be meaningless. The rate represents the debenture coupon rate.

Analysis of Changes in Net Interest Income

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

	30 September 2004/ 31 December 2003			Year ended 31 December					
				2003/2002			2002/2001		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Net Change	Volume	Rate	Net Change	Volume	Rate	Net Change
	(KZT millions, unaudited)			*(KZT millions)*					
Interest Income									
Interest-earning deposits:									
KZT	9	(141)	(132)	199	(45)	154	66	(10)	56
Foreign currency	182	12	194	(110)	(118)	(228)	159	(62)	97
Securities:									
KZT	314	(500)	(186)	(545)	131	(414)	492	(113)	379
Foreign currency	1,069	(440)	629	2,188	(335)	1,853	1,157	(140)	1,017
Loans:									
KZT	7,156	(1,940)	5,216	5,539	216	5,755	(822)	1,555	(733)
Foreign currency	13,688	(5,438)	8,250	4,719	(3,389)	1,330	5,071	890	5,907
Total interest income	**22,418**	**(8,447)**	**13,971**	**12,303**	**(1,853)**	**8,450**	**7,713**	**(990)**	**6,723**
Interest Expense									
Due to the Government and the NBK									
KZT	73	26	99	186	19	205	13	2	15
Foreign currency	(25)	18	(7)	(21)	65	53	21	37	58
Due to other banks:									
KZT	222	(202)	20	(168)	(195)	(27)	–	236	236
Foreign currency	1,956	(476)	1,480	420	(312)	1,108	939	(592)	410
Due to customers:									
KZT	603	(188)	415	1,609	(894)	715	1,080	(556)	524
Foreign currency	1,150	(151)	999	463	(274)	189	792	252	1,048
Debt securities:									
KZT	–	579	579	58	–	58	–	–	–
Foreign currency	3,231	(314)	2,917	3,071	(135)	2,936	3,913	(2,300)	1,564
Total interest expense	**7,210**	**(708)**	**6,502**	**6,463**	**(1,284)**	**5,237**	**6,761**	**(2,900)**	**3,855**
Net change in net interest income	**15,208**	**(7,739)**	**7,469**	**5,841**	**(2,570)**	**3,213**	**953**	**1,920**	**2,868**

The Bank's Loan Portfolio

Loans to customers represent the largest part of the Bank's assets. The Bank's gross loan portfolio (including accrued interest) as at 31 December 2001 was KZT 117,193 million, KZT 137,913 million as at 31 December 2002, KZT 255,118 million as at 31 December 2003 and KZT 373,466 million as at 30 September 2004. See ''Management's Discussion and Analysis of Results of Operations and Financial Condition – Financial Condition – Total Assets''. The average balance of the Bank's gross loan portfolio was KZT 85,732 million in 2001, KZT 124,789 million in 2002, KZT 191,220 million in 2003 and KZT 304,540 million in the nine-month period ended 30 September 2004. Lending to corporate clients represented 63.7% of the Bank's total assets as at 30 September 2004, compared to 54.8% as at

31 December 2003, 49.5% as at 31 December 2002 and 60.4% as at 31 December 2001. The Bank's customer base includes many of the country's leading industrial companies and trading corporations as well as a number of medium and small size enterprises. Loans to individual customers are relatively rare (primarily loans for automobile purchases) as the mortgage lending market in Kazakhstan is still developing. Loans to other banks also represent a small percentage of the Bank's total assets (2.5% as at 30 September 2004, 3.9% as at 31 December 2003 and 4.8% as at 31 December 2002).

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

	As at 30 September	As at 31 December		
	2004	**2003**	**2002**	**2001**
	(KZT millions, unaudited)		*(KZT millions)*	
Loans	361,460	247,620	134,825	114,753
Of which:				
Classified loans(1)	25,309	17,710	19,272	16,720
Non-performing loans(2)	3,250	1,774	2,361	492
Accrued interest receivable	12,006	7,498	3,088	2,440
Total gross loans	**373,466**	**255,118**	**137,913**	**117,193**
Commercial letters of credit	55,489	45,141	26,507	15,730
Financial guarantees(3)	37,802	18,648	17,392	7,114
Promissory notes	11,050	5,799	4,433	5,164
Undrawn loan commitments	41,690	25,443	11,155	3,317
Total contingent liabilities	**146,031**	**95,031**	**59,487**	**31,325**
Allowance for impairment				
Allowance for impairment of loans	24,978	15,271	10,166	6,474
Allowance for off-balance sheet items	814	319	244	49
Other allowance	947	339	109	181
Total allowances	**26,739**	**15,929**	**10,519**	**6,704**
Shareholders' equity	**38,433**	**30,683**	**19,755**	**14,842**
Classified loans/gross loans	6.8%	7.2%	14.3%	14.6%
Non-performing loans/gross loans	0.9%	0.7%	1.8%	0.4%
Loan allowance/classified loans	98.7%	86.2%	52.8%	38.7%
Loan allowance/non-performing loans	768.6%	860.8%	431.0%	1,316.0%
Loan allowance/gross loans	6.7%	6.2%	7.5%	5.6%

Notes:

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

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

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

Loans by Type

The Bank provides financing for various purposes, although the majority of loans are for working capital purposes, with a maturity of twelve months or less, for fixed asset purchases, and for trade finance.

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

	As at 30 September		As at 31 December					
	2004		2003		2002		2001	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Working capital finance	225,569	60.4	132,553	51.96	116,491	84.5	95,357	81.4
Fixed asset purchase (excluding real estate)	31,876	8.5	32,895	12.89	4,039	2.9	4,417	3.8
Construction and repair	28,691	7.7	22,610	8.86	816	0.6	7,422	6.3
Consumer loans	30,804	8.2	20,953	8.21	9,182	6.7	3,813	3.3
Other	56,526	15.1	46,107	18.08	7,385	5.3	6,184	5.3
Total (including accrued interest)	**373,466**	**100.0**	**255,118**	**100.0**	**137,913**	**100.0**	**117,193**	**100.0**

Loans by Type of Borrower

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

	As at 30 September		As at 31 December					
	2004		2003		2002		2001	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Private companies (corporates)	332,032	88.9	219,838	86.2	121,186	87.9	98,405	84.0
Individuals	38,035	10.2	27,222	10.7	12,765	9.3	5,785	4.9
State companies	2,476	0.7	7,506	2.9	801	0.6	1,230	1.0
State budget or local authorities	364	0.1	518	0.2	706	0.5	815	0.7
Other	559	0.1	34	0.0	2,455	1.8	10,958	9.4
Total	**373,466**	**100.0**	**255,118**	**100.0**	**137,913**	**100.0**	**117,193**	**100.0**

The Bank inherited a large corporate customer base from its predecessor, Alem Bank and Turan Bank, including many of the country's leading industrial companies in a broad range of industries. Historically, a significant percentage of the Bank's predecessors' loans were extended to State-owned companies, but, since the Bank's establishment in January 1997, this concentration has been significantly reduced. Loans to private companies and individuals increased from 57.0% of total loans as at the time of the Bank's establishment to 99.1% of total loans as at 30 September 2004. The increase in loans to individuals reflects the overall growth of the economy and the resulting improvement in the general welfare of a large number of individuals across Kazakhstan.

The increase in loans to private companies reflects the privatisation of a number of State-owned enterprises by the Government in recent years, as well as a deliberate policy of the Bank. The Bank has identified certain sectors, including energy, food processing and distribution, trading and services and transportation and utilities, as key target areas in which it intends to expand its lending business. As at 30 September 2004, the Bank's loan portfolio, including accrued interest receivable, comprised KZT 370,067 million to private companies and individuals (99.1%) and KZT 2,840 million to State-owned companies (0.8%). As at 31 December 2003, the Bank's loan portfolio, including accrued interest receivable comprised KZT 247,060 million to private companies and individuals (96.8%) and KZT 8,024 million to State-owned companies (3.1%). As at 31 December 2002, the Bank's loan portfolio, including accrued interest receivable, comprised KZT 133,951 million to private companies and individuals (97.1%) and KZT 1,507 million to State-owned companies (1.1%).

As at 30 September 2004, the Bank's 10 largest customers accounted for 18.3% of total commercial loans then outstanding (as compared to 26.3% as at 31 December 2003), although no single borrower accounted for more than 5.0% of the total loan portfolio.

Loans by Sector

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

	As at 30 September		As at 31 December			
	2004		2003		2002	
	(KZT millions unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Wholesale trade	81,502	22	53,538	21	27,583	20
Construction	55,123	15	17,863	7	8,495	6
Agriculture	51,385	14	32,506	13	14,547	11
Individuals	38,035	10	27,222	11	12,765	9
Food industry	28,602	8	30,350	12	11,661	8
Oil & gas production	23,036	6	29,841	12	11,710	9
Mining	18,112	5	15,242	6	6,124	4
Transport	11,688	3	3,541	1	10,400	8
Retail trade	11,209	3	1,480	(*)	6,303	5
Real estate activities	10,977	3	7,173	3	5,602	4
Chemical industry	9,256	2	9,254	4	10,161	7
Publishing	4,200	1	549	(*)	n/a	–
Telecommunication	4,118	1	4,612	2	335	(*)
Energy	4,043	1	3,558	1	3,061	2
Metallurgical industry	3,191	1	7,125	3	1,134	1
Production of rubber and plastics articles	2,168	1	1,243	(*)	1,195	1
Machinery & equipment production	1,980	1	1,991	1	n/a	–
Light and leather industry	876	(*)	688	(*)	45	(*)
Hospitality	799	(*)	362	(*)	n/a	–
Research and Development	714	(*)	432	(*)	n/a	–
Other	12,452	3	6,548	3	6,792	5
Total	**373,466**	**100.0**	**255,118**	**100.0**	**137,913**	**100.0**

Note:

(*) Less than 1.0%.

Loans by Maturity

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

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

	As at 30 September		As at 31 December					
	2004		2003		2002		2001	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Less than 1 year	139,828	37.4	123,431	48	84,085	61	81,196	69
From 1 to 3 years	86,246	23.1	51,795	20	31,492	23	25,748	22
Over 3 years	140,703	37.7	75,056	29	19,743	14	8,451	7
Past Due	6,689	1.8	4,836	3	2,593	2	1,798	2
Total	**373,466**	**100.0**	**255,118**	**100.0**	**137,913**	**100.0**	**117,193**	**100.0**

Note:
(*) Less than 1.0%.

Loans by Geographic Location

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

	As at 30 September		As at 31 December	
	2004		2003	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*
Almaty	94,341	25.3	62,035	24.3
Astana	27,109	7.3	21,582	8.5
CIS and other countries	69,526	18.6	38,914	15.3
West region	33,805	9.1	45,244	17.7
East region	63,654	17.0	31,948	12.5
North region	44,654	12.0	24,258	9.5
South region	31,872	8.5	24,934	9.8
Central region	8,505	2.2	6,203	2.4
Total	**373,466**	**100.0**	**255,118**	**100.0**

Collateralisation of Loan Portfolio

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

	Nine-month period ended 30 September		Year ended 31 December	
	2004		2003	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*
Collateralised	370,577	99.2	251,159	98.4
Uncollateralised	2,889	0.8	3,959	1.6
Total loans	**373,466**	**100.0**	**255,118**	**100.0**

Credit Exposure other than Loans

As at 30 September 2004, the Bank was exposed to other credit risks consisting of financial instruments with off-balance sheet risk in the aggregate amount of KZT 146,031 million, including commitments to extend credit of KZT 41,690 million, financial guarantees and promissory notes of KZT 48,852 million and commercial letters of credit of KZT 55,489 million. As at 30 September 2004, the Bank held open forward contracts for the total amount of KZT 2,000 million.

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

As at 30 September 2004 and 31 December 2003, 2002 and 2001, the Bank had established allowances for losses with respect to off-balance sheet risks of KZT 814 million, KZT 319 million, KZT 244 million and KZT 49 million, respectively. See also ''Management's Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements and Contractual Commitments''.

Investments

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

Trading Portfolio

Securities purchased with the intention of recognising short-term profits, which consists primarily of debt securities, but also include some equity securities, are classified as trading securities. After initial recognition, securities which are classified as held for trading are measured at estimated fair value. Changes in the estimated fair value are included in the accompanying consolidated statements of income within gains less losses from securities. In determining estimated fair value, trading securities are valued at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter.

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

	As at 30 September 2004			As at 31 December 2003		
	Amount	**Interest Rate %**	**Maturity**	**Amount**	**Interest Rate %**	**Maturity**
	(KZT millions, unaudited)			*(KZT millions)*		
Bonds of international financial organizations	31,932	2.4%–7.1%	2005–2013	37,473	4.4%–7.1%	2005–2013
Notes of NBK	20,756	3.6%–5.1%	2005	6,683	5.0%–5.5%	2004
Treasury bills of the Ministry of Finance	15,169	5.5%–8.3%	2004–2014	3,800	6.1%–16.9%	2004–2008
Sovereign bonds of the Republic of Kazakhstan	7,115	11.1%–13.6%	2004–2007	9,605	11.1%–13.6%	2004–2007
Corporate bonds	2,227	7.1%–10.5%	2005–2014	3,555	7.4%–13.0%	2004–2013
Municipal bonds	1,048	8.5%–8.6%	2005–2008	33	6.3%–8.6%	2004–2006
Corporate equity securities	708			–		
Equity securities of Kazakhstani banks and financial institutions	121			442		
Trading securities	**79,076**			61,591		
Subject to repurchase agreements	9,489			15,773		

Held-to-Maturity and Available-for-Sale Investment Securities

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities with fixed maturities are classified as held-to-maturity where management has both the intent and the ability to hold such securities to maturity. Held-to-maturity securities are carried at amortised cost using the effective yield method, less any allowance for impairment.

Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are classified as available-for-sale. Available-for-sale securities are measured at fair value, which is equal to the market value at the relevant balance sheet date. When debt securities of fixed maturities are non-marketable or no information is available on a market for similar instruments, fair value is estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment, unless there are other appropriate and workable methods of reasonably estimating their fair value.

As at 30 September 2004, the Bank did not hold any held-to-maturity securities in its portfolio of investment securities, as all such securities were reclassified to available-for-sale securities as at 29 September 2004 when management adopted a change in policy with respect to its intentions to sell its investment securities for liquidity management purposes. Securities classified as available-for-sale securities may be treated as liquid assets for the purposes of testing the Bank's compliance with financial ratio tests imposed under various debt covenants to which the Bank is subject as at the date of this Offering Circular. See ''Investment Considerations – Investment Considerations relating to the Bank – Failure to Meet Financial Ratios'' and '' – Selected Statistical and Other Information – Funding Sources – Covenants in the Facility Agreements''.

As at 30 September 2004 and 31 December 2003, securities classified as available-for-sale and held-to-maturity, respectively, consisted of bonds of international financial organisations held by the Bank included securities of the International Bank of Reconstruction and Development (''IBRD''), Council of Europe Development Bank (''CEDB''), Asian Development Bank (''ADB''), Inter-American Development Bank (''IADB'') and European Association of Project Development (''EuroFIMA'') bearing interest at rates ranging from 4.375% to 6.125% per annum and maturing between 2011 and 2013.

The following table sets out the carrying and nominal values of the bonds of international financial organisations held by the Bank in its investment portfolio and classified as available-for-sale or held-to-maturity, as the case may be, as at the dates indicated:

	As at 30 September 2004		**As at 31 December 2003**	
	Carrying value	**Nominal value**	**Carrying value**	**Nominal value**
	(KZT millions, unaudited)		*(KZT millions)*	
Bonds of international financial organizations	25,640	22,963	26,288	24,611

Funding Sources

The Bank's principal sources of funding include domestic customer deposits, amounts due from other banks and financial institutions and debt securities issued. As of 3 February 2005, the Bank has established credit lines with 130 financial institutions. The Bank believes that its strong presence in the corporate banking market gives it a competitive advantage over other banks in Kazakhstan in deposit-taking, as a result of which it has generally managed to maintain a relatively high share of the market for corporate deposits and current account balances during recent years. In 2003, the Bank increased domestic deposits as the primary source of its funding and, in particular, leveraged its large retail customer base to increase individual demand and term deposits. Total demand and term deposits increased to KZT 41,708 million and KZT 96,579 million, respectively, in 2003 from KZT 39,736 million and KZT 64,936 million in 2002 and KZT 27,010 million and KZT 52,041 million, respectively, in 2001. In the first nine months of 2004, demand deposits and term deposits increased further to KZT 58,717 million and KZT 141,601 million respectively.

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

	As at 30 September		As at 31 December					
	2004		2003		2002		2001	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Customer deposits								
Term	141,601	30.3	96,579	28.3	64,936	31.7	52,041	36.7
Demand	58,717	12.6	41,708	12.2	39,736	19.4	27,010	19.1
Other	12,430	2.7	937	0.3	1,085	0.5	1,957	1.4
	212,748	**45.6**	**139,224**	**40.8**	**105,757**	**51.6**	**81,008**	**57.2**
Bank borrowings	127,741	27.4	120,857	35.4	58,653	28.6	44,156	31.2
Debt securities issued	116,600	25.0	73,507	21.6	31,286	15.3	13,310	9.4
Other liabilities	9,848	2.0	7,463	2.2	9,031	4.5	3,212	2.2
Total	**466,937**	**100.0**	**341,051**	**100.0**	**204,727**	**100.0**	**141,686**	**100.0**

Customer Deposits

Customer deposits represent the largest part of the Bank's funding sources. The Bank believes these funds are relatively insensitive to short-term fluctuations in interest rates and more dependent on the Bank's ability to provide a good level of customer service and an alternative range of banking products and services. As at 31 December 2003, the Bank had total deposits of KZT 139,224 million, representing 14.3% of the total deposits in the banking system. As at 31 December 2003, deposits from corporate customers comprised 50.8% of total deposits, while retail deposits comprised 49.2% of total deposits, resulting in the Bank having a 20.8% market share of the retail banking sector at that date. As at 30 September 2004, the Bank had total customer deposits of KZT 212,748 million, of which 61.3% were corporate and governmental entities' deposits and 38.7% were individual deposits.

The Bank has a large number of corporate customers, including many of the country's leading industrial companies and trading corporations, as well as a number of medium and smaller sized enterprises, which provides the Bank with a diversified and stable funding base.

The Bank's deposits consist of customer current accounts and term deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For term deposits, different interest rates are paid on the various types of accounts offered by the Bank. As at 31 December 2003, rates on Tenge-based term accounts offered by the Bank to corporate customers ranged between 1.0% and 12.3%, while the interest rates paid on U.S. Dollar accounts ranged between 1.0% and 12.0%. As at 30 September 2004, interest rates on term deposits offered by the Bank to corporate customers on Tenge deposits ranged between 0.1% and 12.0%, while the interest rates paid on U.S. Dollar accounts had declined to between 2.0% and 9.5%.

Deposits by Currency

The average balances of foreign currency customer deposits accounted for 58.2%, 58.5% and 51.9% of total average balances of customer deposits for 2001, 2002 and 2003, respectively, and 51.7% of total average customer deposits for the first nine months of 2004. Customer deposits in foreign currencies are substantially denominated in U.S. Dollars.

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

	As at 30 September 2004		As at 31 December 2003		2002		2001	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Foreign currency	112,151	52.4	71,275	51.0	56,733	53.0	53,858	65.7
Tenge accounts	102,023	47.6	69,043	49.0	50,077	47.0	28,114	34.3
	214,174	**100.0**	**140,318**	**100.0**	**106,810**	**100.0**	**81,972**	**100.0**

Deposits by Maturity

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

	As at 30 September 2004		As at 31 December 2003		2002		2001	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
On demand	**10,290.1**		**9,890.9**		**7,171.8**		**4,435.9**	
Less than 1 month	1,720.5	2.5	1,404.9	2.4	896.0	2.0	367.2	1.2
Between 1 and 3 month	7,889.9	11.2	7,793.1	13.3	7,545.7	16.5	5,523.5	17.4
Between 3 months and 1 year	23,865.7	34.0	25,509.7	43.5	21,213.7	46.4	19,032.7	60.0
Between 1 and 5 years	35,278.5	50.3	23,670.1	40.4	16,067.6	35.1	6,790.6	21.4
Over 5 years	1,382.8	2.0	227.3	0.4	2.6	0.01		
Savings	**70,137.4**	**100.0**	**58,605.1**	**100.0**	**45,725.6**	**100.0**	**31,714.0**	**100.0**
TOTAL (On demand + Savings)	**80,427.5**		**68,496.0**		**52,897.4**		**36,149.9**	

Deposits by Type of Accounts

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

	As at 30 September 2004	As at 31 December 2003	2002	2001
	(KZT millions, unaudited)		*(KZT millions)*	
Corporate deposits	112,046	55,600	39,254	33,263
Individual deposits (retail)	82,368	68,496	52,986	36,149
State and budgetary deposits	5,904	9,251	12,384	10,097
Other	12,430	5,877	1,133	1,499
	212,748	**139,224**	**105,757**	**81,008**

Deposits by Sector

The following table sets out the composition of the Group's customer deposits, by reference to the economic sector of the deposit or, as at the dates indicated:

	As at 30 September 2004		As at 31 December 2003	
	(KZT millions, unaudited)	*(%)*	*(KZT millions)*	*(%)*
Individuals	83,019	39	69,066	49
Oil and gas	31,935	15	6,852	5
Metallurgy	28,256	13	15,070	11
Wholesale trading	15,410	7	12,479	9
Insurance and pension funds	10,405	5	1,907	1
Construction	6,964	3	5,439	4
Transportation	4,757	2	1,448	1
Energy industry	4,443	2	3,021	2
Agriculture	4,121	2	2,738	2
Retail trade	2,833	1	2,042	1
Communication	1,001	1	432	1
Mining	968	1	410	1
Chemical processing	903	1	347	(*)
Machinery and equipment production	824	(*)	6,556	5
Food industry	753	(*)	389	(*)
Hotel and hospitality	421	(*)	102	(*)
Light and leather industry	330	(*)	41	(*)
Entertainment	335	(*)	166	(*)
Other	16,496	8	11,813	8
	214,174	**100**	**140,318**	**100**

Bank Loans and Similar Financings

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

	As at 30 September 2004	As at 31 December 2003	2002	2001
	(KZT millions, unaudited)		*(KZT millions)*	
Interest-bearing placements from an OECD-based bank	–	–	–	4,055
Interest-bearing placements from a non-OECD-based bank	404	288	78	–
Interest-bearing placements from Kazakhstan banks	1,231	8,490	856	2,028
Correspondence loan accounts	893	1,583	694	559
Pass-through loans	5,695	3,856	6,846	2,973
Loans from Kazakhstan banks and financial institutions	5,752	3,402	2,302	2,103
Loans from non-Kazakhstan banks and financial institutions	56,256	49,893	33,747	19,866
Syndicated bank loans	52,512	48,168	11,455	10,139
Total	**122,743**	**115,680**	**55,978**	**41,723**

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

The Citi/Deutsche Bank Facility

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

As at 3 February 2005, the outstanding principal balance under the tranche A loan under the Citi/Deutsche Bank Facility was U.S.$250 million. The tranche A loan matures on 29 July 2005. The tranche A loan bears interest on its outstanding principal balance at the rate of LIBOR plus 1.5%. The Bank is entitled to repay the tranche A loan under the Citi/Deutsche Bank Facility at any time in full or in part.

The tranche B loan under the Citi/Deutsche Bank Facility has been repaid by the Bank, in full, at its maturity on 1 February 2005. The Bank intends to fully repay the outstanding principal amount under the tranche A loan under Citi/Deutsche Bank Facility upon its maturity.

The 2003 EBRD Facility

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

The loan identified under the EBRD Facility as the 'A loan' bore interest on its outstanding principal balance at the annual rate of LIBOR plus 3.8% for the first year period and bears interest on its outstanding principal amount at the annual rate of LIBOR plus 3.55% for the rest of the period and the loan identified under the EBRD Facility as the 'B loan' bears interest on its outstanding principal balance at the annual rate of LIBOR plus 3.05%. The Bank is entitled to repay the 2003 EBRD Facility at any time in full or in part. EBRD was entitled to require the Bank to repay the B Loan by giving a notice at least 60 days prior to 27 February 2005. No such notice was delivered.

As at 3 February 2005, the outstanding principal balance of the 2003 EBRD Facility was U.S.$30 million, including U.S.$10 million under the 'A loan' and U.S.$20 million under the 'B loan'. The Bank intends to fully repay the 2003 EBRD Facility at its stated final maturity on 27 February 2007.

Other On-Lending Trade Finance Facilities

The Bank regularly enters into various other inter-bank facilities with foreign banks and Kazakhstan subsidiaries of foreign banks, pursuant to each of which the Bank is permitted to draw various amounts in foreign currency, ranging up to €30 million or the equivalent in the relevant currency, for the purpose of on-lending funds to a specific corporate client of the Bank typically with a view to financing 85% of value of a specific import contract (the ''On-Lending Trade Finance Facilities''). As at the date of this Offering Circular, the Bank maintains On-Lending Trade Finance Facilities with, inter alia, JPMorgan Chase Bank, N.A., ABN AMRO Bank N.V., EBRD, HSBC Bank Kazakhstan, Bank Austria Creditanstalt AG (Austria), Garantibank International N.V. (the Netherlands), Ceskolovenskă obchodni banka, a.s. (the Czech Republic), Bayerische Hypo-Und Vereinsbank Aktiengesellschaft (Germany) and The Bank of New York.

Whilst most of the On-Lending Trade Finance Facilities are concluded for a six-month term, some provide for maturities of up to five years. The On-Lending Trade Finance Facilities are typically either unsecured or secured by the Bank's funds held in accounts with the NBK or the Bank's correspondent banks outside Kazakhstan or by letters of credit. The On-Lending Trade Finance Facilities are typically prepayable by the Bank at any time in full or in part.

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

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

As at 3 February 2005, the aggregate outstanding principal balance under the On-Lending Trade Finance Facilities was equivalent to approximately U.S.$85 million. The Bank intends to continue to fully repay amounts due under the On-Lending Trade Finance Facilities upon their respective maturities.

Covenants in the facility agreements

Under various financing agreements, the Bank is obliged to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In addition, in accordance with the term of these facilities, the Bank is required to obtain the approval of the relevant lenders before distributing any dividends (other than share dividends) to holders of its common shares and the lenders are entitled to receive reports on the Bank's compliance with certain of those ratios. As at 30 June 2004, the Bank failed to meet the liquidity ratio required under the 2003 EBRD Facility, but, having been informed of the failure, EBRD did not take any action and, subsequently, delivered a waiver to the Bank in respect of such failure. The failure to meet this liquidity ratio was a temporary result of the Bank's repayment of the 2004 Notes on 28 June 2004, when the measurement date under the covenants immediately followed the repayment date on 30 June 2004. While management believes that the failure was a one-off occurrence, the Bank is negotiating with its lenders to increase the flexibility of the financial tests imposed under certain of its financial agreement (including with EBRD under the 2003 EBRD Facility). Among other things, the Bank has requested that investments in securities of supranational financial institutions be counted as liquid assets, although they have medium or long-term maturities. The Bank measures its compliance with its debt covenant ratios on a quarterly basis after the Bank's quarterly consolidated financial statements are prepared. As at 31 December 2004, the Bank was in compliance with all financial ratios and other covenants imposed on it under any financing agreement under which it is a borrower or guarantor and the Bank is not aware of any incidents or cases of breach of any debt covenants to which it is subject as at the date of this Offering Circular.

Debt Securities

The Bank has guaranteed the obligations of the Issuer under the following debt securities issued under Rule 144A and Regulation S: the issue of U.S.$100,000,000 10% Notes due 2007; the issue of the U.S.$225,000,000 and U.S.$375,000,000 7.875% Notes due 2010, which are consolidated and form a single series; and the issue of U.S.$300,000,000, and U.S.$100,000,000 8% Notes due 2014, which are consolidated and form a single series.

Subordinated Debt Securities

The Bank has issued U.S. dollar and Tenge-denominated subordinated notes in four tranches. The Bank's subordinated notes bear interest at annual rates ranging between 8.00% and 12.00% and mature between 2009 and 2014. As at 30 September 2004, an aggregate principal amount of KZT 19,179 million of such subordinated notes was outstanding, including KZT 231 million of such notes which are held by the Group. In December 2004, the Bank finalised the issue of the fourth tranche of its subordinated notes in an aggregate principal amount of KZT 14,000 million. These subordinated notes bear interest at an annual rate of 8.00%. These notes constitute unsecured obligations of the Bank and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Bank. The Bank's subordinated notes are treated as Tier II capital to the extent that the principal amount thereof does not exceed total Tier I capital.

BUSINESS

General

The Bank is a leading commercial bank in Kazakhstan, offering a full range of traditional corporate and retail banking products and services, including deposit-taking, lending, the issuance of letters of credit, funds transfers, custodial services, the issuance of payment cards and related services, foreign currency exchange, the issuance of guarantees, cash operations, trust operations, collection operations, transactions with precious metals, leasing, broker-dealer transactions, clearing operations and safe keeping operations. The Bank also provides pension fund services and is engaged in certain insurance activities.

Structure of the Bank

The Bank's head office is in Almaty and, as at 31 December 2004, the Bank had 22 regional branches, 189 retail units and representative offices in Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgystan; and Shanghai, China. In addition, as at 31 December 2004, pursuant to permits obtained from the FMSA, the Bank had opened additional representative offices in Ekaterinburg, Russia; Baku, Azerbaijan; and Dushanbe, Tajikistan. These representative offices are not yet fully operational, however, pending the receipt of required approvals from local state agencies regulating financial markets and financial institutions, which the Bank expects to obtain by the end of the first quarter of 2005. The Bank has also obtained permits from the FMSA to open further representative offices in Chisinau, Moldova; Kazan, Tatarstan, Russia; and Tbilisi, Georgia. The Bank expects these representative offices to become fully operational by the end of 2005 after obtaining the required local state approvals. Although most branches only provide cash settlement services for individual customers, some branches provide a broad range of banking services. Acceptance operations, trust operations, clearing operations, mortgage operations, issuance of payment cards, guarantee operations, issuance of own securities, factoring and forfeiting operations and transactions with precious metals are conducted by the head office.

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

Principal Business Activities

Corporate Banking and Trade Finance

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

The Bank has a wide range of corporate customers, including many of the country's leading industrial companies. As at 30 September 2004, the Bank had over 44,276 corporate accounts.

A major part of the Corporate Business Department's activities consist of the provision of trade finance and short-term credit facilities, mostly in Tenge and U.S. Dollars, including letters of credit, guarantees and working capital. Since long-term funding is limited in Kazakhstan, the majority of these corporate loan facilities have maturities of less than 12 months, although the Bank does make some medium-term loans and even long-term loans to some of its largest and highest quality corporate customers. As at 30 September 2004, the Bank held a 24.0% share of the corporate lending market. The Bank is also expanding into services such as payroll management, corporate cards and foreign exchange. The Kazakhstan Electricity Grid Operating Company and the Kazakhstan Railways Company are two leading Kazakhstan corporates for which the Bank provides payroll management services.

Retail Banking

The retail banking market is an increasingly important source of business for the Bank and management believes the Bank is well placed to take advantage of its relatively large individual customer and depositor base. The Bank has benefited from its strong corporate banking relationships by extending retail banking services to the management and employees of its major corporate customers. As at

30 September 2004, the Bank had over 618,114 retail customer accounts aggregating KZT 75,073 million, making it Kazakhstan's second largest bank in terms of the number of its retail accounts.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, credit and debit cards, money transfer services within Kazakhstan and to and from foreign countries, currency exchange services and ATM services. The Bank is the second largest bank in Kazakhstan measured by number of retail customers (after Halyk Savings Bank, which historically has led the retail banking market as Kazakhstan's former state-owned ''savings'' bank). Since 1999, the Bank has continued to increase its penetration of the retail banking market and to expand its branch network in regions with a high potential for retail banking business, particularly in eastern Kazakhstan and in the Caspian Sea regions in the western part of the country. In December 2004, the Bank launched two pilot retail boutique projects in the city of Almaty to offer a full range of banking services to retail customers. The Bank aims to continue to modernize its retail unit network over the next three years in order to permit the Bank to take advantage of growing market demand for retail banking services. See ''Overview of the Bank – Strategy – Expansion of Retail Services''.

As at 30 September 2004, the bank held retail deposits of KZT 70,137 million in approximately 148,557 accounts, which gave it a 20.9% market share of retail term deposits in Kazakhstan. As at the date of this Offering Circular, longer-term retail deposits have increased as a percentage of the Bank's total retail deposit base. As at 30 September 2004, deposits with a term of one to three years represented 32.6%, while deposits with a term of more than three years comprised 3.1% of the total retail deposit base.

The Bank has also benefited from an increase of Tenge-denominated deposits from 46.9% of total deposits as at 31 December 2002 to 49.2% as at 31 December 2003, compared to 47.6% as at 30 September 2004.

As at 30 September 2004, large deposits (i.e., in excess of U.S.$10,000) also increased with deposits of an amount between U.S.$10,000 to U.S.$100,000 accounting for 30.8% of the term deposit portfolio and deposits in excess of U.S.$100,000 accounting for 24.2% of total deposits, compared to 30.6% and 19.1% of total deposits, respectively, as at 31 December 2003.

The Bank also offers a wide range of consumer lending products: mortgage lending, loans for purchasing automobiles and consumer goods, loans to employees of large corporate customers and loans to the Bank personnel. As at 30 September 2004, total consumer loans were KZT 30,804 million, compared to KZT 20,953 million as at 31 December 2003.

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

As at the date of this Offering Circular, the Bank has a leading market position in offering a wide range of card products, representing a 12.7% share of the market for these cards. The Bank offers 17 different types of cards to its customers, including Visa Gold, Visa Platinum, Visa Virtual, MasterCard Gold, MasterCard Platinum, World Signia and Cirrus Maestro International. As at the date of this Offering Circular, the Bank has issued over 290,895 cards that are in circulation, 2,479 of which are credit cards. 259,874 of the Bank's cards are domestic cards, including 168,775 domestic VISA cards, 40,012 domestic Maestro cards and 51,087 Smart Alem cards, while the remaining 28,542 of the Bank's cards are international MasterCards and VISA cards and American Express cards. The Bank's card processing activities have been outsourced by the Bank to Alem Card Ltd., an independent process center that provides card processing services to the Bank and other similarly situated financial institutions. In addition, the Bank lauched Internet banking services in 2004, which allow retail customers to pay for their mobile phone and cable TV bills, and to transfer cash between different card accounts, on-line.

Capital Market Operations

Since Kazakhstan began its privatisation programme in 1992, the country has put in place considerable legal and technical infrastructure to support the domestic capital markets. The Bank is committed to maintaining its position in the local capital markets. During the first nine months of 2004, JSC TuranAlem Securities, the Bank's wholly owned subsidiary, handled approximately 38.4% of trades on non-government securities on the KASE.

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

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

International Banking

The Bank provides services for customers engaged in international trading. Many of Kazakhstan's leading exporters are customers of the Bank, including Petrokazakhstan, Aktobemunaigas, Maygystanmunaigas, Kazakhmys, Ispat-Karmet and Kazatomprom; the Bank also services some large Russian corporates, such as Prodimpex Group of Companies, Extra M Group of Companies, United Food Company and Income Group of Companies. The Bank organizes medium and long-term import financing not only in Kazakhstan but also in other CIS countries.

The Bank is a leading provider of foreign exchange services and is active in inter-bank OTC trading and official currency markets on behalf of its customers. The Bank maintains correspondent banking relationships with many international leading banks, including ING Bank N.V., Deutsche Bank AG, Dresdner Bank AG, ABN AMRO Bank N.V., Union Bank of Switzerland, Bank of Montreal, The Bank of New York, JPMorgan Chase Bank, N.A., Citibank, N.A., Akbank, Sumitomo Mitsui Banking Corporation and American Express Bank. As a leading trade finance bank in Kazakhstan, the Bank benefits from close cooperation with the major export credit agencies, such as Euler-Hermes Germany, SACE-Italy, EGAP-Czech Republic, Finnvera-Finland, Esportkreditnamnden (EKN)-Sweden, Export Risk Guarantee Agency (ERG)-Switzerland, Office du Ducroire (ODL)-Luxembourg office and Office National du Ducroire (OND)-Belgium and export-import banks, such as EXIM USA, EXIM Korea and Export-Import Bank of Slovakia, among others.

The Bank has expanded its regional presence through the establishment of a network of representative offices. As at 31 December, the Bank maintains representative offices outside Kazakhstan in Moscow, Russia; Kiev, Ukraine; Minsk, Belarus; Bishkek, Kyrgystan; and Shanghai, China; through which it intends to diversify its clientele and the range of banking products in the areas of lending and international trade finance. In addition, as at 31 December 2004, pursuant to permits obtained from the FMSA, the Bank had opened additional representative offices in Ekaterinburg, Russia; Baku, Azerbaijan; and Dushanbe, Tajikistan. These representative offices are not yet fully operational, however, pending the receipt of required approvals from local state agencies regulating financial markets and financial institutions, which the Bank expects to obtain by the end of the first quarter of 2005. The Bank has also obtained permits from the FMSA to open further representative offices in Chisinau, Moldova; Kazan, Tatarstan, Russia; and Tbilisi, Georgia. The Bank expects these representative offices to become fully operational by the end of 2005 after obtaining the required local state approvals. In 2003, the Bank arranged the first equipment delivery transaction to Russia to be financed by a syndicate of international banks with insurance cover being provided by certain export credit agencies. The Bank's representative office in Shanghai, China, allows the Bank to expand its activities into Asia.

Pursuant to this stated policy, as at 31 December 2004, the Bank had acquired a 15.63% ownership interest in Slavinvest Bank, a small Russian bank based in Moscow; an 8.75% ownership interest in JSCB Transbank, a small Ukrainian bank based in Kiev; and a 49.0% ownership interest in CJSC Astanaeximbank, a small bank based in Minsk, Belarus. The Bank intends to complete the acquisition of a 19.0% ownership interest in Omsk Bank, a small bank based in Omsk, Russia, in which Slavinvest Bank currently owns a 16.26% interest.

The Bank has also entered into strategic cooperation agreements with Omsk Bank, Transbank and Astanaeximbank. The target banks are small, local banks with the potential, in particular, to develop trade finance businesses. Pursuant to the respective strategic cooperation agreements with these entities, the Bank is working with the local banks to develop and harmonize their credit policies and risk management and operating systems. While management is considering increasing the Bank's ownership interests in the target banks, there are no immediate plans for increasing any particular investment. As at the date of this Offering Circular, the Bank is entitled to appoint a majority of the members of the Board of Directors of Transbank, while the Bank expects to appoint a majority of the members of the respective Boards of Directors of Omsk Bank and Astanaeximbank at meetings of their shareholders scheduled for mid-February. The Bank also has a wholly owned overseas subsidiary in the Netherlands, TuranAlem Finance B.V., which is acting as the Issuer.

Pension Fund Services

The provision of pension fund services is a growing business in Kazakhstan as a result of government reform in this area in 1998. There are currently eight asset management companies, 15 private pension funds and one state-run pension fund in Kazakhstan. The Group is committed to becoming a leading provider of pension fund services and has an equity share in two pension funds, JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund. As at 31 December 2004, the Group owned 66.0% and 87.8%, respectively, of the share capital of such pension funds. At meetings held in November 2004, the respective shareholders of JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund adopted resolutions approving the merger of these entities. As at 31 December 2004, the required approvals for the merger had been obtained from the FMSA and the Bank expects that the merger will be completed, through the registration of a newly-created entity, by the end of February 2005.

Insurance Activities

The insurance market is developing rapidly in Kazakhstan due to improvements in legislative measures, expanded regulatory supervision and the general economic development in Kazakhstan over the past few years. There are approximately 36 insurance companies operating in Kazakhstan. As at 30 November 2004, these insurance companies had total capital of KZT 21,899 million and total assets of KZT 39,699 million. The Bank has a controlling interest in three insurance providers, Dynasty Life Insurance, BTA Insurance Company and KBS Garant through which it offers a broad range of insurance products and is focused on furthering its penetration of the market over the next few years. Management believes the Bank is well positioned to capitalise on the anticipated growth in this sector in the next five years.

Branch Operations and Technology

The Bank has developed a fully centralized technology system, operating integrated banking and accounting systems and has a unified payment system, which allows on-line communication between the head office of the Bank and its branches through a real-time wide area network. Individual branches maintain their own independent databases and data is transmitted electronically to the head office where consolidated accounts are prepared. All servers have dual protection and are backed-up daily to the main server. The Bank considers the upgrading of its information technology systems as an important aspect of the Bank's further development. Accordingly, during 2003, the Bank adopted a number of new information systems, including the ''Centralised Retail System'' (by LLP Force Technology, Kazakhstan), the ''Resource Navigator'' system, which focuses on foreign exchange position control (by Softwell, Russia); a trade finance system ''Trade Innovation'' (by Misys, UK), a financial analysis system; ''Contour Corporation'' (by IntersoftLab, Russia), and ''Siebel 7''; which is focused on managing client interaction (by Siebel, USA). In addition, SwiftAlliance Access has been upgraded to version 5.0. Although the Bank expects to upgrade its principal information and technology systems within the next three years, the Bank does not expect to make significant additional investments in its branch network in the near to medium term as management believes that the network is sufficiently well-developed throughout Kazakhstan to service the Bank's existing and planned future business. The Bank will, however, focus on developing its ATM and POS networks.

Subsidiaries and Affiliates

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

Subsidiaries

The following table sets out certain information relating to the Bank's subsidiaries as at 31 December 2004:

Company Name	Industry	Date of Investment	Investment at Cost(2)	Bank's Shareholding
			(KZT millions)	*(%)*
Subsidiaries				
TuranAlem Finance B.V	Capital Markets	21 May 2001	3.19	100.0
JSC TuranAlem Securities	Securities Trading and Asset Management	13 December 1997	43.60	100.0
LLP TuranAlem Finance (Russia)	Capital Markets	22 June 2004	(1)	100.0
LLP TuranAlem Capital (Russia)	Capital Markets	25 June 2004	(1)	100.0
JSC Dynasty Life Insurance Company	Life Insurance	30 March 2001	129.25	66.0
JSC Insurance Company KBS Garant	Insurance	4 April 2001	230.11	57.5
JSC Insurance Company BTA	Insurance	8 September 1998	668.36	49.0
JSC Kurmet Pension Fund	Pension Fund	16 September 1998	332.64	66.0
JSC Kazakhstan Pension Fund	Pension Fund	6 July 1999	454.37	87.8
JSC BTA Ipoteka	Mortgage	20 November 2000	1,269.99	100.0
JSC BTA Leasing	Leasing	14 September 2000	297.19	100.0

Notes:

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

(2) Includes adjustments for additional investments made by the Bank, directly or through its consolidated subsidiaries, in shares issued by the Bank's subsidiaries after 30 September 2004 and for the effect of exchange rate movements.

TuranAlem Finance B.V. TuranAlem Finance B.V. was incorporated on 22 May 2001 in The Netherlands as a limited liability company. TuranAlem Finance B.V. is acting as the Issuer of the Note. See ''The Issuer''.

JSC TuranAlem Securities. JSC TuranAlem Securities is a wholly owned, consolidated subsidiary of the Bank. Its principal business areas include sales, investment banking, trading and underwriting of government, municipal and corporate securities in Kazakhstan. In 2003, JSC TuranAlem Securities handled approximately 38.4% of the trades on non-government securities on the KASE. The company's major trading partners are ING Bank, Morgan Stanley, Standard Bank and RZB. As at 30 September 2004, JSC TuranAlem Securities' share capital was KZT 1,258 million and its assets amounted to KZT 2,056 million.

LLP TuranAlem Finance (Russia). LLP TuranAlem Finance (Russia) was incorporated on 22 June 2004 in Moscow, Russia as a limited liability company and is a wholly-owned subsidiary of the Bank. It was created principally for the purpose of raising funds for the Bank through the issuance of Russian Rouble-denominated bonds and promissory notes. LLP TuranAlem Finance (Russia) began conducting operations in July 2004.

LLP TuranAlem Capital (Russia). LLP TuranAlem Capital (Russia) was incorporated on 25 June 2004 in Moscow, Russia as a limited liability company and is a wholly-owned subsidiary of the Bank. It was created principally for the purpose of raising funds for the Bank through the issuance of Russian Rouble-denominated promissory notes. LLP TuranAlem Capital (Russia) began conducting operations in July 2004.

JSC Dynasty Life Insurance Company. JSC Dynasty Life Insurance Company was established in July 1999 as a closed joint stock company and is based in Almaty. As at 30 September 2004, the Bank held 66% of JSC Dynasty Life Insurance Company's share capital. JSC Insurance Company BTA (described below) is also a major shareholder of JSC Dynasty Life Insurance Company. JSC Dynasty Life Insurance Company provides life insurance services and is the sole insurance company in Kazakhstan which is licensed by the FMSA to provide these services. As at 30 September 2004, JSC Dynasty Life Insurance Company had a 15.0% share of the life insurance market in Kazakhstan and its assets amounted to KZT 723 million.

JSC Insurance Company KBS Garant. JSC Insurance Company KBS Garant was established in January 1999 as an open joint stock company. As at 30 September 2004, the Bank held 57.5% of JSC Insurance Company KBS Garant's share capital. JSC Insurance Company KBS Garant provides a range of property and personal accident insurance products and is based in Almaty. As at 30 September 2004, it had a 5.3% share of the insurance market in Kazakhstan. The total assets of JSC Insurance Company KBS Garant as at 30 September 2004 were KZT1,225 million and its share capital was KZT 261.6 million.

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

JSC Kurmet Pension Fund. JSC Kurmet Pension Fund was established in September 1998 as a closed joint stock company and is based in Almaty. As at 30 September 2004, the Bank held 66.0% of JSC Kurmet Pension Fund's share capital. JSC Kurmet Pension Fund is also a non-state pension fund. See ''The Bank's Business —Banking Services — Pension Fund Services''. As at 30 September 2004 it had a 4.2% share of the pensions market in Kazakhstan. As at 30 September 2004, this entity's share capital was KZT 408.2 million and its pension assets amounted to KZT 414 million.

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

JSC BTA Ipoteka. JSC BTA Ipoteka was established in November 2000 as an open joint stock company and is based in Almaty. The Bank holds indirectly, through JSC TuranAlem Securities, 100% of JSC BTA Ipoteka's share capital. JSC BTA Ipoteka provides a wide range of services, including the provision of financing for the purchase, maintenance and construction of real estate. As at 30 September 2004, it had a 22.0% share of the mortgage market in Kazakhstan. As at 30 September 2004, its shareholders' equity was KZT 1,669.0 million and its assets were KZT7,469 million.

JSC BTA Leasing. JSC BTA Leasing was established in August 2000 as an open joint stock company and is based in Almaty. JSC BTA Leasing provides leasing services to its clients for equipment and the servicing of equipment. As at 30 September 2004, its total assets were KZT 4,133 million.

Affiliates

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

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

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

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

Legal Proceedings

Following an inspection by the Kazakhstan tax authorities with respect to the years ended December 31, 2002 and 2003, the tax authorities claimed KZT 558 million in unpaid taxes from the Bank. The claim arose primarily due to the introduction of changes in Kazakhstan tax laws with respect to which there was no satisfactory authoritative interpretation. Following the Bank's appeal to the Ministry of Finance of the Republic of Kazakhstan, in December 2004, the amount of the taxes claimed was reduced to KZT 275 million. Whilst the Bank has admitted liability for KZT 251 million in unpaid taxes (which liability shall be offset against tax credits due to the Bank or paid by the Bank upon receipt of a formal demand from the Ministry of Finance, as applicable), a part of the tax claim in the amount of KZT 24 million, related to transfer pricing, remains in dispute and the Bank intends to vigorously defend this portion of the claim and, if necessary, will take the matter to the Kazakhstan courts. No assurance can be given that the Kazakhstan courts will rule in the Bank's favour. The Bank has created the required provisions covering the total amount of the tax claim, including the base amount of the tax, plus accrued penalties and interest.

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

In the past, claims have also been made in relation to certain Kazakhstan residents' foreign currency accounts held at the Kazakhstan branch of the Vnesheconombank (Bank for Foreign Economic Activity) of the USSR. In connection with the dissolution of the Soviet Union, in December 1991, all of these accounts were frozen and the credit balances on them were subsequently applied by the Soviet authorities to the repayment of foreign debts incurred during the Soviet era. The Bank is not the legal successor to the Kazakhstan branch of Vnesheconombank and does not regard itself as having any liability to the holders of those accounts. This view was supported by the conclusions of an intergovernmental meeting between Kazakhstan and Russia and a non-binding opinion of the Ministry of Justice issued in 2003, stating that the Bank did not have any liability to those holders.

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

Employees

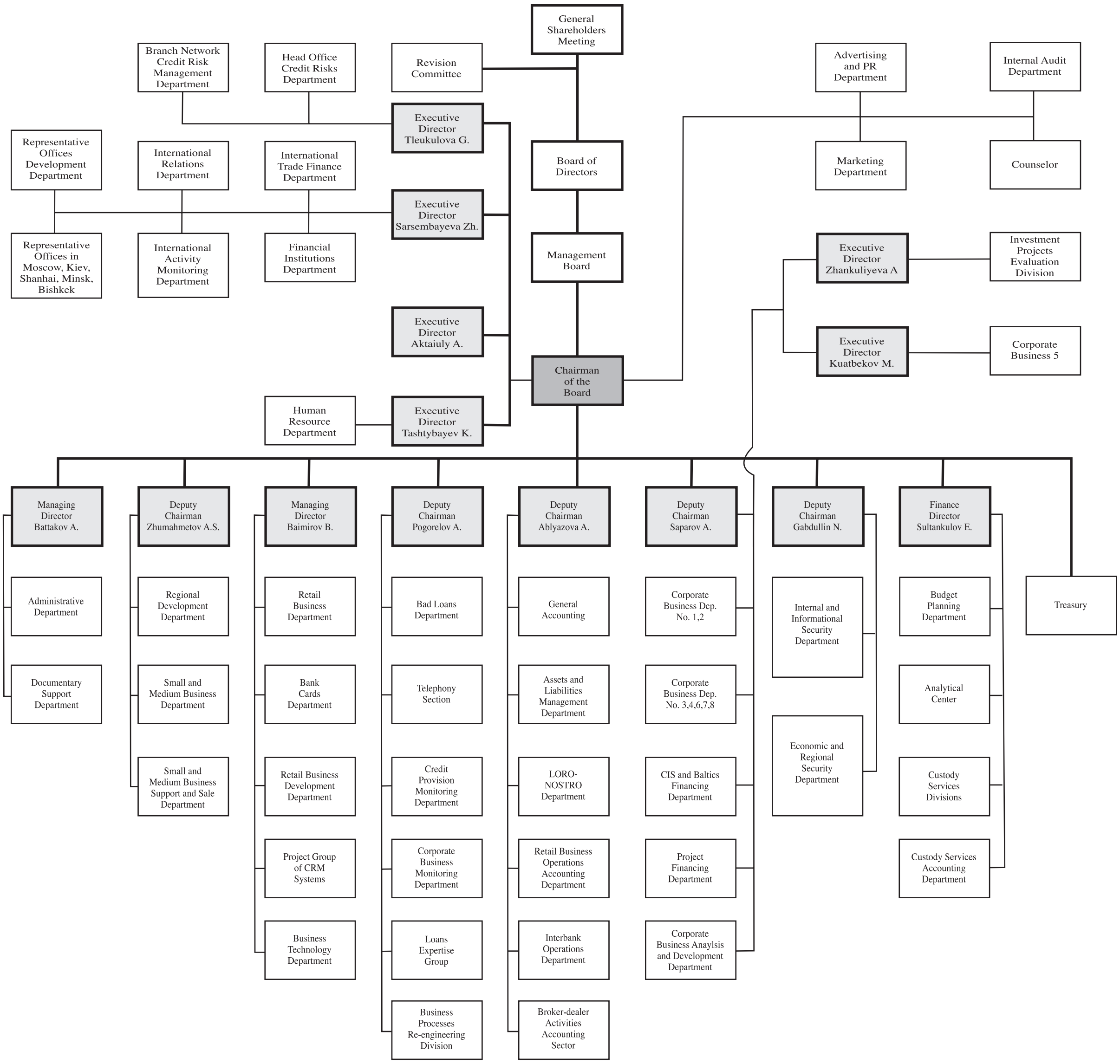
As at 30 September 2004, the Group employed 3,817 full-time employees, of which 1,817 were employed at the Group's branches outside Almaty. As at 31 December 2003 and 2002, the Group employed 3,221 and 3,624 full time employees, respectively. Currently, there are no labour unions representing any employees of the Bank or its subsidiaries. The Group has never experienced any industrial action or other work stoppages resulting from labour disputes. The average age of the Group employees is 31.2 years and 82.8% of the employees in professional positions hold university degrees. A number of key staff have been trained at the Bank's main correspondent banks, including ING, Bayerische HypoVereinsbank, CSFB, SMBC, Deutsche Bank, Dresdner Bank and RZB.

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

MANAGEMENT AND SHARE OWNERSHIP

Organisation Chart

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



Management

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

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

Board of Directors

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

- defining the investment, credit and other policies of the Bank;
- establishing lending and interest rate limits;
- nominating the Chairman and members of the Management Board;
- taking decisions on major deals (i.e., those which increase the Bank's liabilities by 10% or more or those involving 25% or more of the net book value of the Bank's assets or 25% or more of the Bank's securities);
- calling general and extraordinary general meetings of shareholders; and
- approving the Bank's budget.

On 19 December 2004, a fatal hunting accident resulted in the untimely death of Mr. Yerzhan Tatishev, the former Chairman of the Management Board of the Bank. Mr. Saduakas Mameshtegi, at the time a Deputy Chairman of the Bank, was promptly appointed as acting Chairman of the Management Board of the Bank pursuant to a unanimous resolution adopted at an extraordinary meeting of the Board of Directors of the Bank. Mr. Mameshtegi's appointment as the new Chairman of the Bank was approved at the General Meeting of Shareholders of the Bank held on 21 January 2005. Mr. Mameshtegi has announced that he will continue to follow the policies and strategic objectives promoted by the late Mr. Yerzhan Tatishev and the Bank's management believes that the transition in management will not adversely affect the on-going operations of the Bank or the Bank's strategic development, either in the short term or over a longer period.

At the same General Meeting, the Bank's shareholders confirmed the appointment of Mr. Yerkin Tatishev (the late Mr. Yerzhan Tatishev's younger brother) as First Deputy Chairman of the Management Board in charge of investment activities. In addition, in accordance with the Bank's Charter and the Law on Joint Stock Companies, the General Meeting of Shareholders accepted the resignation of two members of the Board of Directors, Mr. Mazhibayev and Mr. Abzhanov, and appointed four new members (in addition to Mr. Mameshtegi), including Mr. Yerlan Tatishev (the late Mr. Yerzhan Tatishev's older brother), M. Sarkytbayev, D. Dzhakishev and M. Zhaksylikova. Each of Mr. Ualiev, Mr. Aksambiyev, Mr. Iliyav and Mr. Tessyman who were initially elected in January 2002, were reconfirmed as members of the Board of Directors at the same General Meeting. Members of the Board of Directors are elected for an indefinite term by a resolution of a general shareholders meeting.

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

Name	Position
S. Ualiev	Chairman of the Board of Directors of the Bank and Euroasia Transit Group Ltd.
Yerlan Tatishev	Member of the Board of Directors of the Bank
T. Aksambiyev	Member of the Board of Directors of the Bank and JSC NK Kor
N. Tesseyman	Member of the Board of Directors of the Bank and Director of EBRD Representative Office, Moscow, Russia
M. Sarkytbayev	Member of the Board of Directors of the Bank and Chairman of the Board of Directors of JSC Kaspineft TME
A. Iliyav	Member of the Board of Directors of the Bank, Member of the Management Board of the Bank and Representative of RZB
D. Dzhakishev	Member of the Board of Directors of the Bank
M. Zhaksylikova	Member of the Board of Directors of the Bank and Director of Premier Consult Ltd.
S. Mameshtegi	Member of the Board of Directors of the Bank and Chairman of the Management Board of the Bank

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

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank. Under Kazakhstan law, the Management Board is vested with executive powers over the day-to-day management of the affairs of the Bank, subject to the supervision of the Board of Directors and ultimately the Bank's shareholders. The Management Board's responsibilities include the following:

- making executive business decisions;
- implementing the business strategy;
- appointing senior management and branch representatives of the Bank;
- proposing dividends; and
- dealing with all other matters not reserved to the Board of Directors or the General Shareholders' Meeting.

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

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

Saduakas Mameshtegi (35), Chairman, graduated from Moscow State Technical University in 1993. In 1994, he joined KB Elistbank as an economist. In 1995, he joined Astana Bank in Moscow as Head of the Securities Department. He joined the Bank in 1997 in the Treasury Department, and became a Deputy Chairman in 1999 and was elected as Chairman on 21 January 2005.

Anatoly Pogorelov (53), Deputy Chairman, graduated from Karaganda Polytechnics Institute in 1974 and worked in the information technology industry until Kazakhstan's independence in 1991. From 1991 until 1993 he was General Director of Plus Micro, a firm specialising in computer technology, before entering the banking sector as Head of the Technical Department at Alem Bank. He became Director of the Information Technology Department at Kazkommertsbank in 1994 and moved to the Bank in 1997.

Yerkin Tatishev (29), First Deputy Chairman, graduated from Kazakh State Academy of Law in 1992 and from Moscow State University of Economics, Statistics and Informatics in 1999. From 1994 to 1997, he held various positions at Slavinvest Bank, including Deputy Chairman of the Management Board.

From 1997 to 1998, Mr. Yerkin Tatishev was Deputy Director of the Investment Department of Astana Holding Corp. From 1998 to 2002, he was President of JSC ''Kostanay Minerals'' and, from 2002 to 2004, he was Chairman of the Board of Directors of JSC ''Kostanay Minerals'' and JSC ''Orenburg Minerals''. Mr. Yerkin Tatishev joined the Bank as Deputy Chairman in January 2005.

Niyazbek Gabdullin (50), Deputy Chairman, graduated from Karaganda State University in 1981 and worked as a lawyer until 1994. From 1994 to 1997, he was Head of the Legal Department at Kazkommertsbank. He has held his current position at the Bank since early 1997.

Arsen Saparov (36), Deputy Chairman, was educated at the Kazakhstan State Academy of Management. His entire working career has been spent in the banking sector. From 1992 to 1994, he was employed by Alem Bank as Head of the Project Finance division. He worked at Exim Bank of Kazakhstan from 1994 to 1995, before joining Kazkommertsbank as Head of the Credit Department, a position he held until 1997. He has held his current position at the Bank since February 1997.

Akhmaral Ablyazova (52), Deputy Chairwoman, graduated from Almaty Institute of National Economy in 1974 and worked for many years as an accountant. In 1992, she became Deputy Chief Accountant at Bank InterInvest, a position she held for two years before joining Zhilstroibank as Deputy Chief Accountant and Deputy Director of the Accounting Department. She was later Chief Accountant at Exim Bank of Kazakhstan before joining Kazkommertsbank in 1995 as Chief Accountant and Director of the Accounting Department where she remained until 1997. In February 1997, she became the Bank's Chief Accountant and, in June 1998, a Deputy Chairman.

Azat Battakov (45), Managing Director, graduated from Karaganda State University in 1981. His managerial experience began in 1991 as the Senior Lawyer at Kazakhintorg. In 1994, he joined Kazkommertsbank as Deputy Director of the Legal Department. In 1997, he became the Bank's Chairman's Advisor and, in September 1999, was appointed Managing Director.

Abilakim Zhumakhmetov (46), Deputy Chairman, graduated from Karaganda Cooperative Institute, Accounting Department in 1981 and graduated from Moscow Cooperative Institute, Accounting Department in 1984. In 1993, Mr. Zhumakhmetov obtained a degree in economics and, in 1994, he went into banking. From 1995 till 1998, he was Head of Kazkommertsbank's Kyzylorda branch office. From 1998 to 2000, he was Head of the Bank's Kyzylorda branch office and has held his current position since August 2000.

Bolat Baimirov (37), Managing Director, graduated from Moscow Physics and Technical Institute, Applied Mathematics and Physics Department in 1990 and started to work as a teacher at Kazakhstan Polytechnics Institute in 1990. In 1996, he entered the banking sector in Kazakhstan as Head of the Liabilities Department at Turanbank. Since 1997, he has been the Director of the Plastic Cards Department at the Bank. He has held his current position at the Bank since September 2000.

Yerik Sultankulov (39), Finance Director, graduated from Kazakhstan State University, Journalist Department in 1993 and Kazakhstan State Management Academy, Management and Marketing Department in 2000. From 1991 to 1993, he worked as Deputy Director and then became General Director of a Soviet-Canadian joint venture. In 1995, he was appointed Deputy Head of Leninsk Regional Administration before becoming General Director of LLP Alem Sauda in the same year. From 1996 to 1998, he worked at Altor JV as Vice President for Finance. From 1998 to 2000, he was Deputy Director and then Director of CJSC State Cumulative Pension Fund. He has held his current position at the Bank since December 2000.

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

Committees

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

The Head Office Credit Committee

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

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

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

CIS and Baltic Area Credit Committee

Name	Position
S. Mameshtegi, Committee Chairman	Chairman
A. Saparov	Deputy Chairman
Y. Tatishev	Deputy Chairman
G. Tleukulova	Executive Director
A.Zhankulieva	Executive Director
E.Sultankulov	Finance Director
Sh.Iskakova	Head of CIS and Baltic area financing
Zh.Sarsembayeva	Executive Director
D.Kim, Secretary of Committee	

The Branch Network Credit Committee

The Branch Network Credit Committee is authorised to consider and approve credit requests extended by the Bank in amounts ranging from U.S.$300,000 to U.S.$2,000,000. Members of the Branch Network Credit Committee are appointed by the Management Board for indefinite terms.

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

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

SME Credit Committee

The SME Credit Committee is in charge of loans to small- and medium-sized businesses in excess of the limits of the relevant branch but not exceeding U.S.$500,000. The SME Credit Committee reports to the Branch Network Credit Committee. Members of the SME Credit Committee are appointed by the Management Board for indefinite terms.

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

Name	Position
A. Maulenkulov	Head of SME Sales Support Department
K. Ergalauov	Head of Regional Managers Desk, SME Department
G. Omarov	Head of Branches Risk Management Department
O. Isakova	Lawyer within KLG
L. Bitabarova	Head of Project Analysis Desk, SME Sales Support Department
R. Umirzakova, Secretary of Committee	

The Asset Liability Management Committee (ALCO)

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

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

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

The Tariffs Committee

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

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

Name	Position
A. Zhumakhmetov, Committee Chairman	Deputy Chairman
A. Ablyazova	Deputy Chairwoman
N. Beisembinov	Head of Branch Development Department
F. Izenbayeva	Head of Cash Settlement Unit
R. Kadyrov	Head of Corporate Banking Analysis and Development Department
N. Kakimzhanov	Manager, Retail Business Department
Y. Kostin	Head of Marketing Department
N. Mukhametzhanov	Treasurer
A. Togisbayeva	Head of LORO-NOSTRO Department
A. Maulenkulov	Head of SME Sales Support Department
D. Tazhibayeva	Head of International Activities Monitoring Department
I. Adil, Secretary of Committee	

The Information Committee

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

Name	Position
A. Ablyazova, Committee Chairwoman	Deputy Chairwoman
A. Pogorelov, Deputy to Committee Chairwoman	Deputy Chairman
B. Musanov	Director General Force Technology Ltd
I. Poliyakov	Deputy Head of Retail Business
N. Beisembinov	Head of Branch Development Department
N. Yesimzhanova	Head of Retail Business Development Department
N.Grebennikov	Deputy Head of Internal and Informational Security
S. Sarkytbayev	Branch Director
R. Kadyrov	Head of Corporate Banking Analysis and Development
N. Mukhametzhanov	Treasurer
Y. Krylova	IT System Administrator

The Bad Debt Credit Committee

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

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

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

The Retail Loans Credit Committee

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

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

Name	Position
B. Baimirov, Chairman of the Committee	Managing Director
E. Urekesheva	Head of Retail Business Department
N. Yesimzhanova	Head of Retail Business Development Department
A. Urisbayev	Head of Retail Risk Management Department
G. Abdusalyamova	Lawyer, KLG Ltd
R. Zhubay	Secretary

The Security Committee

The Security Committee is responsible for establishing and developing the Bank's policies relating to systems security and related strategies.

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

Name	Position
N.Gabdullin	Deputy Chairman
A. Pogorelov	Deputy Chairman
A. Zhumakhmetov	Deputy Chairman
A.Battakov	Managing Director
Y. Sultankulov	Finance Director
M.Ashimov	Head of Internal and Data Security
N.Grebennikov	Deputy Head of Internal and Data Security
E.Dykanbayev	Head of Economic and Regional Security
S.Salykbayev	Regional Security

Management Remuneration

In accordance with the Bank's charter, the remuneration of the Chairman and the Management Board is determined by the Board of Directors and amounted in aggregate to KZT 187 million as at 30 September 2004. See also ''—Transactions with Related Parties''.

Principal Shareholders

The Bank's Common Shares

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

In the last quarter of 2003, the Bank issued 431,350 common shares, with a nominal value of KZT 10,000.00 each, for KZT 5,535 million.

In accordance with the resolution of the meeting of the Bank's shareholders held on 10 June 2004, the Bank's shareholders have approved an increase in the Bank's authorised share capital by KZT 13,632 million, consisting of 615,287 common shares (75.1%) and 204,004 CPS (24.9%), which are being placed prinicipally among the Bank's existing shareholders. As at 31 December 2004, all of such common shares had been subscribed for an aggregate amount of KZT 10,238 million and 32,277 of the CPS had been subscribed for a total of KZT 537 million. It is expected that the balance of the CPS will be subscribed by the end of February 2005.

The following table sets out certain information as to the registered holders of common shares as at 31 December 2004:

Holder of Record	Number of Shares	Percentage Ownership
Management	475,980	20.40(1)
Valaxis Asset Management SA	218,814	9.37
Hawsbrok	173,293	7.42
Bank of New York (nominee)	404,245	17.32
Central Securities Depository (nominee)	843,535	36.13
Other	218,568	9.36
Total(2)	**2,334,435**	**100.00**

Notes:

(1) Comprised of common shares owned by the late Mr. Yerzhan Tatishev, the former Chairman of the Bank, which are expected to be inherited by members of his family in accordance with applicable Kazakhstan law, subject to probate of his estate. Until such time as this inheritance is effected, the Bank expects that such shares will be administered by Mr. Yerkin Tatishev or Mr. Yerlan Tatishev, brothers of the late Mr. Yerzhan Tatishev, as trust managers of Mr. Yerzhan Tatishev's estate pursuant to applicable provisions of the inheritance laws of Kazakhstan.

(2) 30,716 common shares are held by the Bank as treasury stock.

The Bank's CPS

During 2001, the Bank issued CPS in the aggregate principal amount of KZT 4,267 million, which constituted 24.9% of the Bank's issued share capital. The IFC acted as the placement advisor. DEG, IFC and FMO converted portions of their then outstanding loans to the Bank into CPS and EBRD and RZB paid the nominal value for the CPS. In 2003, the Bank issued an additional 57,493 CPS in an aggregate amount of KZT 738 million at a price per share of KZT12,832.80.

The following table sets out certain information as to the holders of CPS as at 31 December 2004:

Shareholder	Number of CPS	Percentage Ownership
EBRD	73,500	12.20
IFC	73,500	12.20
FMO	70,678	11.74
RZB	293,115	48.67
Other	91,481	15.19
Total	**602,274**	**100.00**

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

The CPS shareholders have the right to request the Bank to convert all or any part of their CPS into the Bank's common shares on a one-for-one basis at any time prior to 1 May 2006. Such conversion shall be completed by the end of the calendar year in which requested. If the Bank has not sold at least 55% of the Bank's then issued common shares to an OECD-based bank with total assets greater than U.S.$60 billion and with a financial strength rating of not less than D+ (or the equivalent) from Moody's, Standard & Poor's or Fitch IBCA (the ''Strategic Investment Event'') by 31 December 2006, each CPS shareholder will be entitled to redeem all or any portion of its CPS at the Indexed Nominal Value. In any event, the Bank will have a right to repurchase all of the CPS from CPS shareholders at the Indexed Nominal Value per each CPS prior to 30 June 2007. In addition, the Bank will be obliged to redeem the CPS at the Indexed Nominal Value per each CPS, if (i) any person makes a tender offer in accordance with Article 29 of the current Law of Kazakhstan On Joint Stock Companies to purchase 30% or more of the Bank's voting shares (a ''Tender Offer'') and the respective Tender Offer price for each CPS is less than the Indexed Nominal Value or (ii) any government or governmental authority condemns, nationalises, seizes or expropriates all or any substantial part of the property or other assets of the Bank or of its share capital, or assumes custody or control of such property or other assets or of the business or operations of the Bank or of its share capital, or acquires majority ownership of the Bank, or takes any action for the dissolution or liquidation of the Bank or any action that would prevent the Bank or its officers from carrying on its business or operations. The Bank's management believes that, on the basis of the current market price for its shares, it is unlikely that it would be profitable for a holder to require such redemption and that the likelihood of a tender offer is remote.

In December 2003, the International Accounting Standards Board issued revised IAS 32 and IAS 39. Both standards are effective for financial years beginning on or after January 1, 2005. The revised standards will restrict the classification of a financial instrument with contingent settlement provisions as equity thus increasing the likelihood of such instruments having to be classified as liabilities. The new standards will require the Bank to reclassify the CPS from equity to liabilities, resulting in a reduction in equity and an increase in liabilities of KZT 5,239 million. See ''Capitalisation of the Bank''.

Transactions with Related Parties

Loans and advances to shareholders and related parties, including employees, amounted to KZT 430 million, KZT 276 million and KZT 143 million as at 30 September 2004 and 31 December 2003 and 2002, respectively. As at end of 30 September 2004 and 31 December 2003 and 2002, the allowance for impairment in respect of these related party loans was zero. As at 30 September 2004, the annual interest rates charged by the Bank on loans to shareholders and related parties ranged from 9% to 21% per annum for KZT denominated loans, compared to 9% to 29% per annum and 16% per annum as at 31 December 2003 and 2002 respectively, and 9% to 17% per annum for U.S. Dollar denominated loans, compared to 9% to 21% per annum as at 31 December 2003 and 2002.

The following table sets out certain information relating to the principal amounts of loans outstanding to members of the Management Board as at 30 September 2004:

Name	**Principal amount outstanding**
	(KZT thousands)
Niyazbek Gabdullin	8,434
Saduakas Mameshtegi	12,662
Arsen Saparov	32,794
Abilakim Zhumakhmetov	13,122
Total	**67,012**

There are no other outstanding loans or guarantees granted by the Bank to any member of the Board of Directors and Management Board or to any parties related to them. The Bank's senior and middle management currently hold in aggregate 475,514 common shares, representing 20.77% of the total amount of the Bank's issued common shares.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

Since mid-1994, Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates, thereby fostering an efficient, stable banking sector that, for the most part, has avoided the series of financial crises that have adversely affected Russia and other emerging market countries. The financial sector, which is dominated by private commercial banks, has been one of the fastest growing sectors in Kazakhstan. This growth has been facilitated by a favorable macroeconomic environment, which has resulted from early and continuing structural reforms, a cautious fiscal stance and consistently strong oil revenues. In particular, the Government and the NBK have undertaken structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system.

The National Bank of Kazakhstan and the FMSA

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

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

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

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

Banking

Structure of the Banking System of Kazakhstan

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

Banking Reform and Supervision

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

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

NBK, now the FMSA. In 2003, all banks were requested to develop and install an internal risk management systems.

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

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

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

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

Commercial Banks

According to the NBK, as at 30 September 2004, there were 35 banks in Kazakhstan, excluding NBK and DBK, compared to 44 as at the end of 2001 and 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks. In November 2001, the Government divested its remaining 33% stake in Halyk Savings Bank, by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2.1 billion.

As of 30 September 2004, all of the commercial banks licensed in Kazakhstan were in compliance with prudential regulatory requirements, although the FMSA did place one bank under conservatorship in 2004. As at 31 December 2003, one Kazakhstan bank had failed to comply with such regulatory requirements, compared to six as at 31 December 2001. In each case, the non-compliant banks did not meet the single borrower exposure, the open currency position and the maximum asset investment ratios imposed by the FMSA. As at 30 June 2004, Kazakhstan commercial banks had aggregate provisions for bad debts of KZT 33.4 billion.

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

Foreign Capital in the Banking Sector

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

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

Furthermore, the aggregate registered capital of banks with foreign participation may not exceed 50% of the aggregate registered capital of all Kazakhstan banks, unless authorised by the FMSA. As at 30 September 2004, the aggregate registered capital of all banks with foreign participation represented approximately 35.9% of the aggregate registered capital of all Kazakhstan banks.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank, Deutsche Bank, Commerzbank, Société General and ING Bank.

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 by the Kazakhstan Parliament 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 certain out-flowing capital account operations are required to be licensed by or registered with the NBK. Capital in-flows are registered and monitored for statistical purposes only, but are not restricted.

New licensing rules adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules over 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 Kazakhstan export goods by directing export revenues abroad. In May 2003, a new law was passed which provides for step-by-step liberalisation, which is intended to result in, among other things, full internal convertibility of the Tenge, the ability of banks to invest abroad and the removal of restrictions on investments in foreign investment-grade securities and the opening of accounts in OECD banks by 2007.

In addition, Kazakhstan has significantly liberalised its foreign exchange regulations. Since May 2003, a licence has not been required for a resident of Kazakhstan to invest in foreign investment-grade securities or to acquire more than 50.0% of the voting interests in a company incorporated in any OECD, for an individual to open an account with a bank rated at least A by Standard & Poor's and incorporated in an OECD country or for banks based in Kazakhstan to make loans to non-residents. The NBK intends to liberalise licensing rules further within the next few years.

FORM OF NOTES AND TRANSFER RESTRICTIONS

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

1. Form of Notes

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

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

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

2. Transfer Restrictions

On or prior to the 40th day after the Closing Date, a beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction it being understood, however, that the Issuer has been advised that neither the Euroclear Operator nor Clearstream, Luxembourg will monitor compliance with these Transfer Restrictions nor provide certification of non-U.S. beneficial ownership. After such 40th day, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Note, as set out below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Exchange of Interests in Global Notes for Note Certificates

The Restricted Global Note will become exchangeable for Note Certificates (as defined below) in definitive form (''Restricted Note Certificates'') if DTC or any successor depositary on behalf of which the Notes evidenced by the Restricted Global Note may be held notifies the Issuer and the Guarantor that it is no longer willing or able to discharge its responsibilities as depositary with respect to the Notes, ceases to be a clearing agency registered under the Exchange Act or is at any time no longer eligible to act as such and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or such successor depositary, (b) an Event of Default (as defined and set out in Condition 10 on the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form on an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for definitive Notes. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of any event specified in (a), (b) or (c).

The Unrestricted Global Note will become exchangeable for Note Certificates in definitive form (''Unrestricted Note Certificates'') if (a) either the Euroclear Operator or Clearstream, Luxembourg or any successor depositary on behalf of which the Notes evidenced by the Unrestricted Global Note may be held is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or other) or announces an intention permanently to cease business or does in fact do so, (b) an Event of Default (as defined and set out in Condition 10 on the Notes) occurs or (c) if instructions have been given for the transfer of an interest in the Notes evidenced by a Global Note to a person who would otherwise take delivery thereof in the form on an interest in the Notes evidenced by the other Global Note where such other Global Note has been exchanged for definitive Notes. In such circumstances, such Unrestricted Note Certificates will be registered in such names as the Euroclear Operator and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notify the holders as soon as practicable after the occurrence of any event specified in (a), (b) or (c).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TAXATION

Kazakhstan Taxation

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

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

Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan-Netherlands Tax Treaty at a rate of 10%. The Bank will agree to ensure in the deposit agreement dated 10 February 2005 between the Issuer and the Bank to pay such additional amounts in respect of such withholding as shall be necessary to ensure that the Issuer receives the full amount of the payment required as if no such deduction were required.

Payments of interest under the Guarantee will be subject to withholding of Kazakhstan tax at a rate of 15%, and payment of fees and commissions will be subject to withholding of Kazakhstan tax at a rate of 20% unless reduced or made exempt by an applicable double taxation treaty. The Bank will agree in the Trust Deed and the Guarantee to pay additional amounts (as defined in the Trust Deed) in respect of any such withholding, subject to certain exceptions set out in full in ''Terms and Conditions of the Notes – Condition 4''. Payments, if any, under the Guarantee to a Noteholder entitled to the benefits of a Kazakhstan Tax Treaty may be subject to a reduced rate of withholding tax. For example, Noteholders entitled to the benefits of the Kazakhstan Tax Treaty with Germany, Italy, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax of 10%.

The Netherlands Taxation

General

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

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

Withholding tax

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

Corporate Income Tax and Individual Income Tax

Residents of The Netherlands

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

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

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

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

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

Non-residents of The Netherlands

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

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

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

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

(iv) such holder does not have an interest in an enterprise in The Netherlands other than by way of securities.

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

Gift, Estate or Inheritance Taxes

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

For purposes of Dutch gift and inheritance tax, an individual who holds Dutch nationality will be deemed to be resident in The Netherlands, if he/she has been resident in The Netherlands at any time during the 10 years preceding the date of the gift or his/her death.

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

Other Taxes and Duties

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

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

European Union Taxation

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

United States Federal Income Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and retirement of Notes by a holder thereof. This summary applies only to Notes held as capital assets and does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, pass-through entities, individual retirement and other tax-deferred accounts, holders that mark their securities to market, controlled foreign corporations, foreign personal holding companies, passive foreign investment companies, certain expatriates or former long term residents of the United States, tax-exempt organisations or dealers or traders in securities or currencies, or to holders that will hold a Note as part of a position in a ''straddle'' or as part of a ''hedging'', ''conversion'' or ''integrated'' transaction for U.S. federal income tax purposes or U.S. Holders (defined below) that have a ''functional currency'' other than the U.S. Dollar. Moreover, this summary does not address the U.S. federal estate and gift or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and non-U.S. tax consequences of acquiring, holding and disposing of Notes.

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

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

Interest

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

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

Sale, Exchange or Retirement

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

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

U.S. Backup Withholding Tax and Information Reporting

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

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

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

SUBSCRIPTION AND SALE

ING Bank N.V., London Branch and J.P. Morgan Securities Ltd. (together, the ''Managers''), have, pursuant to an underwriting agreement (the ''Underwriting Agreement'') dated 9 February 2005, agreed with the Issuer and the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Issuer and the Bank have agreed to pay certain costs and expenses in connection with the issue of the Notes.

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

United States

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

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

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

United Kingdom

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

Kazakhstan

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

The Netherlands

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

General

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

GENERAL INFORMATION

1. The Notes have been accepted for clearance through DTC, the Euroclear Operator and Clearstream, Luxembourg. The Restricted Global Note has been accepted for clearance through DTC. The CUSIP number for the Restricted Global Note is 89989EAF4. The Unrestricted Global Note has been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg under ISIN XS0211873053 and Common Code 021187305.

2. The issue of the Notes was authorised by a duly adopted resolution of the Managing Board of the Issuer dated 7 February 2004 and by a duly adopted resolution of the Bank as sole shareholder of the Issuer dated 7 February 2004. The Guarantee was authorised by a duly convened meeting of the shareholders of the Bank held on 2 December 2004 and by a duly adopted resolution of the Board of Directors of the Bank dated 28 December 2004.

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

4. Except as otherwise disclosed in this Offering Circular, there has been no material adverse change, or development reasonably likely to involve a material adverse change, in the condition (financial or otherwise) or general affairs of the Guarantor or any of its subsidiaries, taken as a whole, since 30 September 2004 and no change in the condition of the Issuer since its date of incorporation, in either case, that is material in the context of the issue of the Notes or the giving of the Guarantee.

5. The Charter, the annual report of the Bank incorporating the annual financial statements of the Bank for the years ended 31 December 2001, 2002 and 2003 and this Offering Circular and any supplements hereto are available and, until the maturity of the Notes, future annual reports of the Bank and the latest audited published financial statements (to the extent any are produced) of the Bank will be available, during normal business hours at the specified office of the Principal Paying Agent and the office of the Paying Agent in Luxembourg from time to time. The Bank does not generally prepare or publish any interim audited or unaudited financial statements or non-consolidated financial statements. The unaudited interim condensed consolidated financial statements of the Bank as at and for the nine months ended 30 September 2003 and 2004 were prepared solely for purposes of the offering of the Notes contemplated by this Offering Circular.

6. Copies of the Guarantee, the Trust Deed, the Agency Agreement, the Issuer's Articles of Association and the Issuer's annual audited financial statements and any auditors' reports relating thereto, for the financial years ended 31 December 2002 and 2003 are available during normal business hours, at the specified office of the Principal Paying Agent and at the office of the Paying Agent in Luxembourg from time to time. The Issuer does not prepare or publish any interim audited or unaudited financial statements.

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

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

9. The Bank's independent auditors are Ernst & Young. The Bank's consolidated financial statements for the years ended 31 December 2001, 2002 and 2003 were audited by Ernst & Young. The Group's condensed interim consolidated financial statements as at and for the nine-month periods ended 30 September 2003 and 2004 were reviewed by Ernst & Young. Ernst & Young's audit report and review report are included in this Offering Circular. Ernst & Young has given and not withdrawn its written consent to the distribution of this Offering Circular with the inclusion herein of its reports and references to its name in the form and context in which these appear.

10. The Issuer's independent auditors are Mazars Paardekooper Hoffman, Rotterdam, The Netherlands. The Issuer's financial statements as at and for the years ended 31 December 2002 and 2003 were audited by Mazars Paardekooper Hoffman and its reports are included in this Offering Circular. Mazars Paardekooper Hoffman has given and not withdrawn its written consent to the distribution of this Offering Circular with the inclusion herein of its reports and references to its name in the form and context in which these appear.

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

INDEX TO FINANCIAL STATEMENTS

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TuranAlem Finance B.V.

Rotterdam, The Netherlands.

ANNUAL ACCOUNTS

2003

ADDRESS:
Schouwburgplein 30-34
3012 CL Rotterdam

Chamber of Commerce
File number 24.32.14.12

Contents

MAZARS

HH/AH1813

AUDITOR'S REPORT

INTRODUCTION

We have audited the annual accounts of TuranAlem Finance B.V., Rotterdam, The Netherlands for the year 2003, with capital and reserves as at 31 December 2003 of USD 481,285 and net profit for the period 2003 of USD 231,152. These annual accounts are the responsibility of the company's management. Our responsibility is to express an opinion on these annual accounts based on our audit.

SCOPE

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

OPINION

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

Rotterdam, 6 February, 2004

MAZARS PAARDEKOOPER HOFFMAN

G.A.P.M. Kannekens RA

H. Huizer RA

MAZARS PAARDEKOOPER HOFFMAN
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TuranAlem Finance B.V.

Balance Sheet
(before appropriations of results and expressed in USD)

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

The Management,

Equity Trust Co. N.V.　　　　Zhamilya Sarsembayeva

TuranAlem Finance B.V.
Profit and Loss Account
(Expressed in USD)

	For the Year Ended December 31,	
	2003	**2002**
FINANCIAL INCOME (CHARGES)		
Interest income – parent company loan	23,454,152	17,338,215
Interest expense – debt	(23,169,402)	(17,136,798)
Interest banks	111	121
Interest Shareholder	5,300	-
Expense agreement	155,612	187,248
Exchange differences	(19)	1,862
	445,754	390,648
EXPENSES		
General and administrative expenses	139,701	156,486
Bank charges	1,900	1,250
	141,601	157,736
OPERATING PROFIT BEFORE TAXATION	304,152	232,912
CORPORATE INCOME TAX	73,000	37,696
NET PROFIT FOR THE YEAR	231,152	195,216

The Management,

Equity Trust Co. N.V.

Zhamilya Sarsembayeva

1. General

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

2. Summary of principal accounting policies

(a) General

The accompanying accounts have been prepared in accordance with EU directives as implemented in Part 9, Book 2 of the Dutch Civil Code.

(b) Foreign currencies

All assets and liabilities expressed in currencies other than USD have been translated at the rates of exchange prevailing at the balance sheet date. All transactions in foreign currencies have been translated into USD at rates of exchange approximating to those ruling at the date of the transactions. Resulting exchange differences, if any, are recognised in the profit and loss account. Translation results on the Company's issued share capital are transferred to reserves directly.

(c) Other assets and liabilities

Unless otherwise indicated assets and liabilities are stated at face value.

(d) Revenue recognition

Expenses and income are accounted for under the accrual basis.

(e) Corporation tax

Taxation is incurred and provided for in accordance to a special agreement accepted ruling practice.

3. Loans to Parent Company

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

		Amount	
Long-term		**2003**	**2002**
29 May 2002	29 May 2007	$ 100,000,000	$ 100,000,000
2 June 2003	2 June 2010	225,000,000	-
		325,000,000	$ 100,000,000
Short-term			
7 Sept 2001	7 March 2003	-	73,500,000
		$325,000,000	$173,500,000

3. Loans to Parent Company (continued)

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

4. Cash at Bank

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

5. Long-Term Debt

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

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

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

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

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

6. Capital and Reserves

The authorised share capital of the Company consists of 900 shares of EUR 100 each, amounting to EUR 90,000. As at balance sheet date 180 shares of EUR 100 were issued and fully paid-up.

The movements in capital and reserves for the years ended December 31, 2003 and 2002 can be summarised as

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

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

7. Expense Agreement

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

8. Staff Numbers and Employment Costs

The Company has no employees, other than its directors, and hence incurred no wages, salaries, pension costs and other social security premiums during the year under review or the previous year.

9. Directors

The Company has two directors and no supervisory directors. Neither remuneration nor any other benefit was paid to the present director during the year under review or the previous year.

Rotterdam, February 2003

The Management,

____________________ ____________________

Equity Trust Co. N.V. Sarsembayeva, Zhamilya

Supplementary information to the Accounts as at 31 December 2003

Audit

These accounts have been audited. We refer to the Auditors' report.

Retained earnings

Subject to the provisions under Dutch law that no dividends can be declared until any accumulated losses have been recovered, retained earnings are at the disposal of the shareholder in accordance with the Articles of Association of the Company.

Bank TuranAlem
Consolidated Financial Statements

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

CONTENTS

REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank TuranAlem

We have audited the accompanying consolidated balance sheets of Bank TuranAlem (the "Bank") as of December 31, 2003, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Ernst & Young Kazakhstan

February 1, 2004

Consolidated Balance Sheets

(Millions of Kazakh Tenge)

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

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

Yerzhan N. Tatishev — Chairman of the Board

Akmaral N. Ablyazova — Chief Accountant

February 1, 2004

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

Consolidated Statements of Income

(Millions of Kazakh Tenge, except per share amounts)

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

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

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

(Millions of Kazakh Tenge)

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

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

Consolidated Statements of Cash Flows

(Millions of Kazakh Tenge)

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

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

(Millions of Kazakh Tenge)

1. Principal Activities

Bank TuranAlem and subsidiaries (the "Group") provide retail and corporate banking services, insurance services, leasing and other financial and non financial services in Kazakhstan. The parent company of the Group is Bank TuranAlem (the "Bank"), which was registered as a closed joint stock company in 1997 and was reregistered as an open joint stock company in December 1998. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on September 26, 2003. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 2 lists the Bank's subsidiaries.

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

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

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

2. Basis of Preparation

General

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

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

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

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

(Millions of Kazakh Tenge)

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

2003

Subsidiary	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Consumer Mortgage Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kurmet Pension Fund	72.47%	Kazakhstan	16.09.98	Pension Fund	16.09.98
JSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
Kazakhstan Pension Fund	65.97%	Kazakhstan	22.06.99	Pension Fund	06.07.99
KBS Garant	57.53%	Kazakhstan	12.01.99	Property and Casualty Insurance	04.04.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

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

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

Although the Bank does not own any shares in Kazco Construction, Samal Properties, Real Estate Commerce and Force Technology, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries because the Bank controls and benefits directly from their operations.

2002

Subsidiary	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11. 00	Consumer Mortgage Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
Altyn Orda	100.00%	Kazakhstan	28.05.01	Collateralised Retail Consumer Lending	28.05.01
TuranAlem Finance B.V.	100.00%	Netherlands	22.07.99	Securities Trading	21.05.01
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Pension Fund	16.09.98
OJSC Insurance Company BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
KBS Garant	57.53%	Kazakhstan	22.06.99	Property and Casualty Insurance	04.04.01
Kazakhstan Pension Fund	50.40%	Kazakhstan	12.01.99	Pension Fund	06.07.99
Dynasty	66,00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

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

(Millions of Kazakh Tenge)

On July 22, 2002, the Group increased its share from 23.70% to 66.00% in the share capital of Kurmet. Kurmet contributed operating loss of KZT 35 million to the Group from July 22, 2002 to December 31, 2002.

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

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

2001

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

On March 26, 2001, the Group acquired 54.52% of the share capital of KBS Garant ("KBS"). KBS contributed operating income of KZT 3 million to the Group from March 26, 2001 to December 31, 2001.

On August 6, 2001, the Group acquired 50.40% of the share capital of KPF. KPF contributed operating income of KZT 5 million to the Group from August 6, 2001 to December 31, 2001.

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

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

(Millions of Kazakh Tenge)

Reconciliation between KAS and IFRS

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

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

3. Summary of Accounting Policies

Principles of Consolidation

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

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

Recognition of Financial Instruments

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

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

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

Related Parties

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

Cash and Cash Equivalents

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

(Millions of Kazakh Tenge)

Obligatory Reserves

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

Trading Securities

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

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

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

Amounts Due from Other Financial Institutions

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

Repurchase and Reverse Repurchase Agreements

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

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

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

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

Derivative Financial Instruments

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

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

(Millions of Kazakh Tenge)

Held-to-Maturity Investment Securities

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

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

Loans to Customers

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

Leases

i. Finance – Group as Lessor

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

ii. Operating – Group as Lessee

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

iii. Operating – Group as Lessor

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

Taxation

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

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

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

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

(Millions of Kazakh Tenge)

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

Allowances for Impairment of Financial Assets

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

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

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

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

Property and Equipment

Property and equipment, except buildings, are stated at the lower of cost less accumulated depreciation, recoverable amount, and any impairment losses. Buildings are stated in the consolidated balance sheets at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any accumulated depreciation and subsequent accumulated impairment losses. Revaluations of buildings are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

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

Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	15-50
Furniture and fixtures	4-10
Computers and office equipment	4

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

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

Amounts Due to NBK, Other Financial Institutions and to Customers

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

Debt Securities Issued

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

Provisions

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

Retirement and Other Benefit Obligations

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

Share Capital

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

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

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

Contingencies

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

Trust Activities

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

Income and Expense Recognition

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

(Millions of Kazakh Tenge)

Underwriting Income (Loss)

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

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

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

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

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

Reserve for Insurance Losses and Loss Adjustment Expenses

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

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

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

Reinsurance

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

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

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

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the market exchange rate quoted by KASE at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies.

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

(Millions of Kazakh Tenge)

Reclassifications

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

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

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

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

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

Loans to other Kazakhstani banks and financial institutions are secured by securities held under reverse repurchase agreements in amounts to fully collateralise the deposits. Management regularly reviews the estimated fair value of the collateral to ensure that pledged securities are sufficient to cover the outstanding loans. These loans mature in January 2004 (2002 – January 2003; 2001 – January 2002).

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

5. Obligatory Reserves

Obligatory reserves comprise:

	2003	*2002*	*2001*
Due from NBK	**3,706**	2,731	2,222
Cash on hand allocated to obligatory reserves	–	–	2,462
	3,706	2,731	4,684

(Millions of Kazakh Tenge)

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

6. Trading Securities

Trading securities owned comprise:

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

Interest rates and maturity of these securities follow:

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

7. Amounts Due from Other Financial Institutions

Amounts due from other financial institutions comprise:

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

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

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

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

(Millions of Kazakh Tenge)

Interest rates and maturities are the following:

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

8. Held-to-Maturity Investment Securities

Held-to-maturity investment securities comprise:

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

Included in bonds of international financial organisations are securities of the International Bank of Reconstruction and Development ("IBRD"), Council of Europe Development Bank ("CEDB"), Asian Development Bank ("ADB"), and, Inter-American Development Bank ("IADB"), European Association of Project Development ("EuroFIMA") that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

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

9. Loans to Customers

Loans to customers comprise:

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

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

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

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

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

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

(Millions of Kazakh Tenge)

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

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

10. Allowances for Losses and Provisions

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

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

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

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

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

(Millions of Kazakh Tenge)

11. Taxation

The corporate income tax expense comprises:

	2003	*2002*	*2001*
Current tax charge	**266**	–	–
Deferred tax charge	**–**	–	–
Income tax expense	**266**	–	–

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

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

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

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

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

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

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

(Millions of Kazakh Tenge)

12. Property and Equipment

The movements of property and equipment were as follows:

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

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

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

13. Amounts Due to NBK and the Government

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

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

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

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

(Millions of Kazakh Tenge)

14. Amounts Due to Other Financial Institutions

Amounts due to other financial institutions comprise:

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

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

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

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

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

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

(Millions of Kazakh Tenge)

15. Amounts Due to Customers

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

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

Interest rates and maturity of amounts due to customers follow:

	2003		*2002*		*2001*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Current accounts	**0% - 1.0%**	**–**	0% - 1.0%	–	0% - 1.0%	–
Time deposits	**1.0% - 12.3%**	**2004 - 2010**	1.0% - 13.5%	2003 - 2005	1.0% - 14.0%	2002 - 2004
Guarantee and other deposits	**0% - 10.2%**	**2004 - 2020**	0% - 9.0%	2003 - 2020	0% - 12.0%	2004 - 2021

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

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

16. Debt Securities Issued

Debt securities issued consisted of the following:

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

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

	2003		*2002*		*2001*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
USD notes	**7.875%-11.5%**	**2004 - 2010**	10.0%-11.5%	2004 - 2007	11.5%	2004
USD and KZT subordinated notes	**8.0%-12.0%**	**2009 - 2013**	9.0%-12.0%	2009 - 2010	12.0%	2009

The subordinated notes at December 31, 2003, 2002, and 2001, are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

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

(Millions of Kazakh Tenge)

17. Shareholders' Equity

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

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

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

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

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

Convertible Preferred Shares

During 2001, the Bank issued 426,722 CPS at nominal value and recognized the issued share capital in these consolidated financial statements at the amount received, KZT 4,267 million, net of the external costs directly attributable to the share issue amounting to KZT 107 million. During 2003, the Bank issued 57,493 CPS at a premium of KZT 2,832.80.

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

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

Upon the expiration of the Convertibility Period, i.e. on December 31, 2006, and only in the event the Bank fails to sell 55% of the aggregate of the Bank's issued common shares to an OECD based bank with total assets of not less than USD 60 billion and a financial strength rating of not less than D+ ("Strategic Investor"), each CPS Shareholder shall have the right to redeem all or any portion of the Convertible Preferred Shares in cash. Management believes that the likelihood of those shares being redeemed is remote.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the USD equivalent of the CPS Purchase Price at the offer date (the "Purchase Price") if any person makes a Shareholder Protection Tender Offer ("Tender Offer"), i.e. an offer to purchase 30% or more of the Bank's common share capital, and the respective Tender Offer Price for each CPS is less than the CPS Purchase Price. If the CPS Shareholders accept the redemption offer, the Bank is then obligated to redeem the shares. Management believes, that the likelihood of a Tender Offer being made is remote.

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

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

(Millions of Kazakh Tenge)

18. Commitments and Contingencies

Operating Environment

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

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

Legal

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

Financial Commitments and Contingencies

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

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

At December 31, 2003, ten guarantees accounted for 28% (2002 - 28%, 2001 – 21%) of total financial guarantees and represented 20% (2002 – 68%, 2001 – 51%) of the Group's total shareholders' equity at that date.

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in the bank, government securities, and other assets.

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

Trust Activities

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

Deliverable Forward Contracts

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

(Millions of Kazakh Tenge)

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

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

19. Fees and Commissions

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

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

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

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

20. Gains Less Losses From Trading Securities

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

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

21. Other Operating Income

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

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

(Millions of Kazakh Tenge)

22. Salaries and Administrative and Operating Expenses

Salaries and benefits and administrative and operating expenses comprise:

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

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

23. Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2003, 2002 and 2001. During 2003, the Bank accrued dividends to the CPS shareholders amounting to KZT 487 million (2002 - KZT 508 million, 2001 – KZT 41 million) and paid dividends to the CPS shareholders amounting to KZT 475 million (2002 - KZT 503 million, 2001 – nil).

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

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

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

(Millions of Kazakh Tenge)

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

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

24. Risk Management Policies

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

Credit Risk

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

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

The Group maintains strict control limits on net open derivative positions, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counter parties.

(Millions of Kazakh Tenge)

Concentration

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

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

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

Market Risk

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

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

(Millions of Kazakh Tenge)

Currency Risk

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

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

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

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

(Millions of Kazakh Tenge)

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

Interest Rate Risk

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

The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprise in a given period. The Group manages this risk by matching the reprising of assets and liabilities through risk management strategies.

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

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

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

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

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Millions of Kazakh Tenge)

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2003							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Past due	Total
Assets:								
Cash and cash equivalents	13,162		124	–	–	–	–	13,286
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from other financial institutions	50	10,281	144	1,129	1,829	965	–	14,398
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	21,918	25,454	76,059	51,795	75,056	4,836	255,118
Other assets	4,539	152	294	295	2,262	–	–	7,542
	79,342	32,351	26,016	77,483	59,592	102,309	4,836	381,929
Liabilities:								
Amounts due to NBK and the Government	–	3,071	1	604	614	900	–	5,190
Amounts due to other financial institutions	1,533	21,394	10,023	47,591	22,648	13,862	–	117,051
Amounts due to customers	41,286	17,723	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	3,900	243	33	25	65	52	–	4,318
	46,719	42,431	29,309	113,866	46,427	62,299	–	341,051
Net position	32,623	(10,080)	(3,293)	(36,383)	13,165	40,010	4,836	40,878
Accumulated gap	32,623	22,543	19,250	(17,133)	(3,968)	36,042	40,878	

	2002							
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	Over 3 years	Past due	Total
Assets:								
Cash and cash equivalents	19,596	961	–	–	–	–	–	20,557
Obligatory reserves	–	–	–	–	2,731	–	–	2,731
Trading securities	32,081	–	–	–	–	–	–	32,081
Amounts due from other financial institutions	–	–	–	10,805	15	–	–	10,820
Held-to-maturity investment securities	–	–	–	–	–	19,634	–	19,634
Loans to customers	–	26,496	13,416	44,173	31,492	19,743	2,593	137,913
Other assets	1,866	99	169	169	3,205	–	–	5,508
	53,543	27,556	13,585	55,147	37,443	39,377	2,593	229,244
Liabilities:								
Amounts due to NBK and the Government	–	173	21	1,099	1,130	260	–	2,683
Amounts due to other financial institutions	694	15,029	1,904	15,642	10,804	12,420	–	56,493
Amounts due to customers	39,725	12,721	17,040	26,195	11,129	–	–	106,810
Debt securities issued	–	235	–	–	9,141	22,145	–	31,521
Other liabilities	2,164	4,501	434	21	100	–	–	7,220
	42,583	32,659	19,399	42,957	32,304	34,825	–	204,727
Net position	10,960	(5,103)	(5,814)	12,190	5,139	4,552	2,593	24,517
Accumulated gap	10,960	5,857	43	12,233	17,372	21,924	24,517	

(Millions of Kazakh Tenge)

	2001							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 3 years***	***Over 3 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	10,412	6,704	50	54	–	–	–	17,220
Obligatory reserves	–	–	–	–	4,684	–	–	4,684
Trading securities	17,831	–	–	–	–	–	–	17,831
Amounts due from other financial institutions	–	–	–	150	–	–	–	150
Loans to customers	–	20,005	20,716	40,475	25,748	8,451	1,798	117,193
Other assets	–	–	110	256	1,107	–	–	1,473
	28,243	26,709	20,876	40,935	31,539	8,451	1,798	158,551
Liabilities:								
Amounts due to NBK and the Government	–	162	37	597	1,642	–	–	2,438
Amounts due to other financial institutions	559	16,414	1,018	16,248	7,814	–	–	42,053
Amounts due to customers	27,010	13,885	29,078	9,217	2,101	681	–	81,972
Debt securities issued	–	156	–	–	10,396	2,914	–	13,466
Other liabilities	–	652	98	702	305	–	–	1,757
	27,569	31,269	30,231	26,764	22,258	3,595		141,686
Net position	674	(4,560)	(9,355)	14,171	9,281	4,856	1,798	16,865
Accumulated gap	674	(3,886)	(13,241)	930	10,211	15,067	16,865	

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

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

25. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments.

Amounts Due from and to Other Financial Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short- term maturity of these financial instruments. For longer-term deposits, applicable interest rates reflect market rates and, consequently, the fair value approximates the carrying amounts.

(Millions of Kazakh Tenge)

Loans to Customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

Investment Securities

Investment securities held-to-maturity include only securities with fixed interest rates which reflect market interest rates and, consequently, the fair value approximates the carrying amounts. Non-marketable available-for-sale securities are represented by corporate shares and shares of associates and subsidiaries held for disposal. The total carrying amount of these securities approximates their fair values.

Amounts Due to Customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt Securities Issued

Debt securities are issued at interest rates approximate to market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	2003		*2002*		*2001*	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets						
Loans to customers	**255,118**	**256,986**	137,913	135,140	117,193	114,708
Financial liabilities						
Amounts due to other financial institutions	**117,051**	**113,161**	56,493	55,574	42,053	38,905
Debt securities issued	**74,174**	**78,456**	31,521	32,937	13,466	13,310

26. Related Party Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counterparts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. This includes holding companies, subsidiaries and fellow subsidiaries

(b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

(Millions of Kazakh Tenge)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of December 31, the Group had the following transactions with related parties:

	2003			2002		
	Related party transactions	*Percent on normal conditions*	*Total category*	*Related party transactions*	*Percent on normal conditions*	*Total category*
Loans to customers, gross	**276**	**99.9%**	**232,349**	143	100.0%	124,660
Amounts due to other financial institutions	**1,508**	**100.0%**	**117,051**	708	100.0%	56,493
Amounts due to customers	**128**	**99.9%**	**140,318**	129	99.9%	106,809
Commitments and guarantees issued	**748**	**100.0%**	**18,648**	919	100.0%	17,384
Interest income	**71**	**99.9%**	**30,818**	36	100.0%	22,368
Interest expense	**113**	**100.0%**	**15,663**	33	100.0%	10,527
Insurance expense	**100**	**100.0%**	**145**	1,079	100.0%	1,079

	2001		
	Related party transactions	*Percent on normal conditions*	*Total category*
Loans to customers, gross	2,344	97.8%	117,193
Amounts due to other financial institutions	588	98.6%	42,053
Amounts due to customers	2,274	97.0%	81,972
Commitments and guarantees issued	148	100.0%	22,874

27. Capital Adequacy

NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. In 2003, risk-weighted assets calculated in accordance with the NBK requirements were derived from the Bank's consolidated financial statements prepared in accordance with IFRS while in 2002 and 2001 risk weighted assets were derived from the Bank's stand-alone financial statements prepared in accordance with KAS. As of December 31, 2003, 2002 and 2001, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2003, 2002 and 2001, exceeded the minimum ratio of 8% recommended by the Basle Accord.

	Balance Sheet Notional Amount			Risk Weighted Amount		
	2003	*2002*	*2001*	*2003*	*2002*	*2001*
Total assets	**482,835**	295,204	195,176	**308,124**	182,869	142,614

	Capital			BIS%		
	2003	*2002*	*2001*	*2003*	*2002*	*2001*
Tier 1 capital	**25,948**	15,595	10,682	**8.42%**	8.53%	7.49%
Tier 2 capital	**21,561**	13,573	9,445			
Gross available capital	**47,509**	29,168	20,127			
Less investments	**(870)**	(50)	(140)			
Tier 1 + Tier 2 capital	**46,639**	29,118	19,987	**15.14%**	15.92%	14.01%

28. Segment Information

The Group's operations are highly integrated and primarily constitute a single industry segment, banking, that accounts for more than 95% of the Group's business. Accordingly for the purposes of IAS No. 14 "Segment Reporting" the Group is treated as one business segment. The Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.

Bank TuranAlem

Condensed Interim Consolidated Financial Statements

September 30, 2004 and 2003
Together with Independent Accountants' Review Report

CONTENTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Board of Directors of JSC Bank TuranAlem –

We have reviewed the accompanying condensed consolidated balance sheet of JSC BankTuranAlem (the "Bank") as of September 30, 2004 and the related condensed interim consolidated statements of income, changes in shareholders' equity, and cash flows for the nine-month periods ended September 30, 2004 and 2003. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of the Bank's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

We have previously audited, in accordance with International Standards on Auditing, the consolidated balance sheet of the Bank as of December 31, 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated February 1, 2004, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived. We have not performed any auditing procedures since December 31, 2003.

Ernst & Young Kazakhstan

December 31, 2004

CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions of Kazakhstani Tenge)

	Notes	*September 30, 2004 (unaudited)*	*December 31, 2003*
Assets			
Cash and cash equivalents	3	**17,747**	13,286
Obligatory reserves		**6,482**	3,706
Trading securities	4	**79,076**	61,591
Amounts due from credit institutions		**12,772**	14,398
Investment securities:			
- available for sale securities	5	**25,640**	–
- held-to-maturity securities		–	26,288
Loans to customers	6	**348,488**	239,847
Property and equipment		**7,356**	6,745
Other assets		**9,426**	7,203
Total assets		**506,987**	373,064
Liabilities			
Amounts due to the Government and the NBK	8	**5,028**	5,190
Amounts due to credit institutions	9	**123,602**	117,051
Amounts due to customers	10	**214,174**	140,318
Debt securities issued	11	**116,600**	74,174
Other liabilities		**7,533**	4,318
Total liabilities		**466,937**	341,051
Minority interest		**1,617**	1,330
Shareholders' equity	12		
Share capital			
- common shares		**16,252**	16,244
- preferred shares		**5,593**	4,735
Treasury stock		**(488)**	(628)
Additional paid-in capital		**1,697**	1,413
Reserves		**2,330**	1,737
Retained earnings		**13,049**	7,182
Total shareholders' equity		**38,433**	30,683
Total liabilities, shareholders' equity and minority interest		**506,987**	373,064
Commitments and contingencies	13		

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

Saduakas H. Mameshtegi — Acting Chairman of the Board

Akmaral N. Ablyazova — Chief Accountant

December 31, 2004

The accompanying notes on pages 5 to 19 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

(Millions of Kazakhstani Tenge, except for earnings per share)

	Notes	*Nine-month periods ended September 30,* 2004 unaudited	2003 unaudited
Interest income			
Loans		**31,702**	18,237
Securities		**3,718**	3,275
Deposits with other banks		**492**	431
		35,912	21,943
Interest expense			
Debt securities issued		**(7,257)**	(3,760)
Deposits from customers		**(5,979)**	(4,565)
Deposits and loans from credit institutions		**(4,042)**	(2,450)
		(17,278)	(10,775)
Net interest income before impairment		**18,634**	11,168
Impairment charge	7	**(12,394)**	(6,375)
Net interest income		**6,240**	4,793
Fee and commission income		**6,271**	4,410
Fee and commission expense		**(260)**	(217)
Fees and commissions		**6,011**	4,193
Gains less losses from trading securities:			
- dealing		**42**	(145)
- revaluation		**(1,083)**	591
Gains less losses from foreign currencies:			
- dealing		**817**	1,369
- translation differences		**3,767**	(639)
Loss from insurance operations		**(286)**	(224)
Other income		**581**	547
Non interest income		**3,838**	1,499
Salaries and other employee benefits		**(3,122)**	(2,544)
Administrative and operating expenses		**(3,078)**	(2,439)
Depreciation and amortisation		**(746)**	(656)
Taxes other than income tax		**(969)**	(555)
Other provisions	7	**(1,306)**	(282)
Other		**(289)**	(301)
Non interest expense		**(9,510)**	(6,777)
Income before income tax expense and minority interest		**6,579**	3,708
Income tax expense		**(535)**	(235)
Net income after income tax		**6,044**	3,473
Minority interest in net loss		**133**	35
Net income		**6,177**	3,508
Basic earnings per share (in Kazakhstani Tenge)	14	**3,432**	2,478
Diluted earnings per share (in Kazakhstani Tenge)	14	**2,730**	2,020

The accompanying notes on pages 5 to 19 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Millions of Kazakhstani Tenge)

	Share Capital-Common Shares	*Share Capital-Preferred Shares*	*Treasury Stock*	*Additional Paid-in Capital*	*Reserves*	*Retained Earnings*	*Total Sharehol-ders' Equity*
December 31, 2002	11,931	4,160	(195)	28	854	2,977	19,755
Release of property and equipment revaluation reserve on usage of previously revalued assets (unaudited)	–	–	–	–	(40)	40	–
Purchase of treasury shares (unaudited)	–	–	(114)	–	–	–	(114)
Dividends – preferred shares (unaudited)	–	–	–	–	–	(404)	(404)
Release of property and equipment revaluation reserve on disposal of previously revalued assets (unaudited)	–	–	–	–	(3)	3	–
Net income (unaudited)						3,508	3,508
September 30, 2003 (unaudited)	11,931	4,160	(309)	28	811	6,124	22,745
Sale of common shares (unaudited)	4,313	–	–	1,222	–	–	5,535
Sale of preferred shares (unaudited)		575	–	163	–	–	738
Purchase of treasury shares (unaudited)	–	–	(319)	–	–	–	(319)
Dividends – preferred shares (unaudited)	–	–	–	–	–	(83)	(83)
Revaluation of property and equipment (unaudited)	–	–	–	–	955	–	955
Release of property and equipment revaluation reserve on usage of previously revalued assets (unaudited)	–	–	–	–	(28)	28	–
Release of property and equipment revaluation reserve on disposal of previously revalued assets (unaudited)	–	–	–	–	(1)	1	–
Net income (unaudited)	–	–	–	–	–	1,112	1,112
December 31, 2003	16,244	4,735	(628)	1,413	1,737	7,182	30,683
Sale of common shares (unaudited)	**8**	**–**	**–**	**2**	**–**	**–**	**10**
Sale of preferred shares (unaudited)	**–**	**858**	**–**	**243**	**–**	**–**	**1,101**
Sale of treasury shares (unaudited)	**–**	**–**	**140**	**39**	**–**	**–**	**179**
Dividends – preferred shares (unaudited)	**–**	**–**	**–**	**–**	**–**	**(405)**	**(405)**
Fair value change of available-for-sale securities, net of tax (unaudited)	**–**	**–**	**–**	**–**	**779**	**–**	**779**
Revaluation of property and equipment (unaudited)	**–**	**–**	**–**	**–**	**(94)**	**–**	**(94)**
Release of property and equipment revaluation reserve on usage of previously revalued assets (unaudited)	**–**	**–**	**–**	**–**	**(89)**	**89**	**–**
Release of property and equipment revaluation reserve on disposal of previously revalued assets (unaudited)	**–**	**–**	**–**	**–**	**(3)**	**3**	**–**
Other reserves (unaudited)	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Net income (unaudited)	**–**	**–**	**–**	**–**	**–**	**6,177**	**6,177**
September 30, 2004 (unaudited)	**16,252**	**5,593**	**(488)**	**1,697**	**2,330**	**13,049**	**38,433**

The accompanying notes on pages 5 to 19 are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of Kazakhstani Tenge)

	Nine-month periods ended September 30, 2004 *Unaudited*	2003 *Unaudited*
Cash flows from operating activities:		
Net income before minority interest and income taxes	**6,579**	3,708
Adjustments for:		
Depreciation and amortization	**746**	656
Impairment charge	**13,700**	6,832
Unrealised foreign exchange (gain) loss	**(874)**	2,434
Minority interest	**133**	35
Unrealised loss on trading securities	**2,606**	1,376
Loss from disposal of property and equipment	**1**	–
Operating income before changes in net operating assets	**22,891**	15,041
(Increase) decrease in operating assets:		
Obligatory reserves	**(2,776)**	(1,507)
Trading securities	**(23,622)**	4,707
Amounts due from credit institutions	**1,391**	(41,252)
Loans to customers	**(129,658)**	(67,761)
Other assets	**(2,540)**	(2,752)
Increase (decrease) in operating liabilities:		
Amounts due to the Government and the NBK	**(162)**	3,083
Amounts due to credit institutions	**14,024**	29,797
Amounts due to customers	**80,978**	48,174
Other liabilities	**1,798**	173
Net cash flows from operating activities before income taxes	**(37,676)**	(12,297)
Income tax paid	**(225)**	(176)
Net cash flows from operating activities	**(37,901)**	(12,473)
Cash flows from investing activities		
Purchase of property and equipment	**(1,546)**	(1,483)
Proceeds from sale of property and equipment	**98**	1,254
Purchase of held-to-maturity securities	**–**	(4,204)
Net cash flows from investing activities	**(1,448)**	(4,433)
Cash flow from financing activities:		
Sale of common shares	**10**	–
Sale of preferred shares	**1,101**	–
Sale of treasury shares	**179**	(114)
Debt securities issued	**42,988**	41,396
Net cash flows from financing activities	**44,278**	41,282
Effects of exchange rate changes on cash and cash equivalents	**(468)**	(767)
Net change in cash and cash equivalents	**4,461**	23,609
Cash and cash equivalents at the beginning of the period	**13,286**	20,557
Cash and cash equivalents at the end of the period	**17,747**	44,166
Supplementary information:		
Interest received	**29,726**	19,555
Interest paid	**14,089**	10,989

The accompanying notes on pages 5 to 19 are an integral part of these condensed interim consolidated financial statements.

(Millions of Kazakhstani Tenge)

1. Principal Activities

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

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

The Bank's primary business consists of originating loans and guarantees, attracting deposits from legal entities and individuals, trading with securities, foreign currency and derivative instruments, execution and arrangement of precious metals transactions, conducting credit card operations and sale of state saving bonds. In addition, the Bank is authorized to accept pension fund deposits. The Bank is the second largest bank in Kazakhstan in terms of total assets. The Bank has a primary listing in the Kazakhstani Stock Exchange ("KASE"). Certain of the Group's debt securities are listed on the Luxemburg Stock Exchange with a secondary listing on the KASE. Its head office is located in Almaty, Kazakhstan. As of September 30, 2004, it had 22 regional branches and 186 cash settlement units (December 31, 2003 – 22 regional branches and 188 cash settlement units) located throughout Kazakhstan.

As of September 30, 2004, members of the Shareholders' Council and Management Board controlled 475,514 shares (20.77% of share capital) (December 31, 2003 – 475,213 shares or 21.68%). The Group had 3,817 and 3,221 employees as of September 30, 2004 and December 31, 2003, respectively.

2. Basis of Preparation

General

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in millions of Kazakhstani Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the management and the regulators measure the Bank's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies. The market exchange rates at September 30, 2004 and December 31, 2003 were KZT 134.56 and 144.22 to USD 1, respectively.

The accompanying condensed interim consolidated financial statements have been prepared in accordance with IFRS for interim financial information. Accordingly, they do not include all of the information required by IFRS for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

These condensed interim consolidated financial statements are in compliance with IAS 34 "Interim Financial Reporting". The accounting policies and methods of computations adopted in the preparation of these condensed interim consolidated financial statements are principally the same as those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2003.

Income tax expense is recognized in each interim period using the tax rates by jurisdictions that would be applicable to the expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pretax income of the interim period.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all the information and notes required by IFRS for complete financial statements. These condensed interim consolidated financial statements should be read in conjunction with the complete financial statements as of December 31, 2003, along with the corresponding figures.

(Millions of Kazakhstani Tenge)

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The primary estimates, which relate to the allowance for loan losses, deferred taxes and the carrying value of property and investments, are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Consolidated Subsidiaries

The condensed interim consolidated financial statements include the following subsidiaries:

September 30, 2004 (unaudited)

Subsidiary	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Consumer Mortgage Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
TuranAlem Finance	100.00%	Russia	22.06.04	Issuance of bills of exchange	28.09.04
TuranAlem Capital	100.00%	Russia	25.06.04	Commercial activities	
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Pension Fund	16.09.98
JSC Insurance Company BTA	49.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
Kazakhstan Pension Fund	87.75%	Kazakhstan	22.06.99	Pension Fund	06.07.99
KBS Garant	57.53%	Kazakhstan	12.01.99	Property and Casualty Insurance	04.04.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

The Group established two 100% owned subsidiaries in Russia: TuranAlem Finance on June 22, 2004 and TuranAlem Capital on June 25, 2004.

On April 1, 2004, the Group's share in the paid-in share capital of Kurmet Pension Fund ("Kurmet") decreased from 72.47% to 66.00% as the minority shareholders have contributed additional capital into Kurmet.

On July 7, 2004, the Group's share in the paid-in share capital of JSC Insurance Company BTA ("BTA Insurance") decreased from 66.00% to 49.00% as the minority shareholders have contributed additional capital into BTA Insurance. The Group retained control over the operations of BTA Insurance.

During the period from January 1 until September 30 2004, the Group increased its share in the paid-in share capital of Kazakhstan Pension Fund from 65.97% to 87.75%.

Although the Bank does not own any shares in Kazco Construction, Samal Properties, Real Estate Commerce and Force Technology, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries because the Bank controls and benefits directly from their operations.

Recently issued International Financial Reporting Standards

Effective April 1, 2004, the International Accounting Standards Board enacted IFRS 3 "Business Combinations", which replaced IAS 22 "Business Combinations" and SIC-9, SIC-22 and SIC-28. Application of IFRS 3 Business Combinations had no material effect on the financial position of the Group.

Effective January 1, 2005, IFRS 2 "Share-based Payment", IFRS 4 "Insurance Contracts", IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" as well as fifteen revised IASs are enacted. The Group has not determined the effect of the application of new standards on its financial statements. However, the impact of the application of the new standards on the Group's consolidated financial statements is not expected to be material, except as discussed below with regards to the revised IAS 32 (amended 2004), "Financial Instruments: Disclosure and Presentation", and 39 (amended 2004), "Financial Instruments: Recognition and Measurement".

(Millions of Kazakhstani Tenge)

Revised IAS 32 and 39

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, "Financial Instruments: Disclosure and Presentation", and IAS 39, "Financial Instruments: Recognition and Measurement". Both standards are effective for financial years beginning on or after January 1, 2005, with earlier application of both standards together being permitted. Together, the two standards provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Bank decided to adopt these revised standards as of January 1, 2005. Therefore, comparative prior years 2004, 2003 and 2002 presented in the 2005 financial statements will be restated as if the revised standards had always been in effect. Except for the reduction in shareholders' equity and increase in liabilities resulting from the transfer of convertible preferred shares amounting to KZT 5,239 from equity to liabilities (see Note 12), the impact of the newly issued accounting guidance is currently not expected to have a material impact on the financial statements of the Bank.

Investment Securities

The Bank classifies its investment securities into two categories:

• Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and

• Securities that are not classified by the Bank as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

3. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	September 30, 2004 (unaudited)	*December 31, 2003*
Cash on hand	**11,686**	9,784
Current accounts with other financial institutions	**5,600**	2,734
Time deposits with contractual maturity of less than 90 days	**269**	–
Loans to other Kazakh banks and credit institutions	**192**	136
Current accounts with the NBK	**–**	632
Cash and cash equivalents	**17,747**	13,286

(Millions of Kazakhstani Tenge)

4. Trading Securities

Trading securities owned comprise:

	September 30, 2004 (unaudited)	*December 31, 2003*
Bonds of international financial organizations	**31,932**	37,473
Notes of the NBK	**20,756**	6,683
Treasury bills of the Ministry of Finance	**15,169**	3,800
Sovereign bonds of the Republic of Kazakhstan	**7,115**	9,605
Corporate bonds	**2,227**	3,555
Municipal bonds	**1,048**	33
Corporate equity securities	**708**	–
Equity securities of Kazakhstani banks and financial institutions	**121**	442
Trading securities	**79,076**	61,591
Subject to repurchase agreements	**9,489**	15,773

Interest rates and maturity of these securities are:

	September 30, 2004 (unaudited)		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*
Bonds of international financial organizations	**2.4% - 7.1%**	**2005-2013**	4.4% - 7.1%	2005 – 2013
Notes of the NBK	**3.6% - 5.1%**	**2005**	5.0%-5.5%	2004
Treasury bills of the Ministry of Finance	**5.5% - 8.3%**	**December, 2004-2014**	6.1% - 16.9%	2004 – 2008
Sovereign bonds of the Republic of Kazakhstan	**11.1% - 13.6%**	**November, 2004-2007**	11.1% - 13.6%	2004 – 2007
Corporate bonds	**7.1% - 10.5%**	**2005-2014**	7.4% - 13.0%	2004 – 2013
Municipal bonds	**8.5% - 8.6%**	**2005 - 2008**	6.3% - 8.6%	2004 – 2006

5. Available for sale securities

Available for sale securities were transferred from held-to-maturity securities on September 29, 2004, following a change in management's intent with regard to the underlying securities. Available for sale securities comprise bonds of international financial organisations, which are securities of the International Bank of Reconstruction and Development ("IBRD"), Council of Europe Development Bank ("CEDB"), Asian Development Bank ("ADB"), Inter-American Development Bank ("IADB") and European Association of Project Development ("EuroFIMA") that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

6. Loans to Customers

Loans to customers comprise:

	September 30, 2004 (unaudited)	*December 31, 2003*
Loans to customers	**368,506**	252,774
Financial leasing	**3,366**	1,718
Overdrafts	**646**	293
Factoring	**439**	278
Promissory notes	**509**	55
	373,466	255,118
Less – Allowance for loan impairment (Note 7)	**(24,978)**	(15,271)
Loans to customers	**348,488**	239,847

As of September 30, 2004, the annual interest rates charged by the Bank ranged from 16% to 33% per annum for KZT-denominated loans (December 31, 2003 – from 20% to 33%) and from 12% to 24% per annum for US Dollar-denominated loans (December 31, 2003 – from 12% to 26%).

(Millions of Kazakhstani Tenge)

Loans have been extended to the following types of customers:

	September 30, 2004 (unaudited)	*December 31, 2003*
Private companies	**332,032**	219,838
Individuals	**38,035**	27,222
State companies	**2,476**	7,506
State budget or local authorities	**364**	518
Other	**559**	34
	373,466	255,118
Less – Allowance for loan impairment (Note 7)	**(24,978)**	(15,271)
Loans to customers	**348,488**	239,847

As of September 30, 2004, the Group had a concentration of loans represented by KZT 73,933 due from the top 10 borrowers that comprised 18% of the total gross loan portfolio (December 31, 2003 – KZT 67,204, 26.30%). Allowances of KZT 1,726 (2003 – KZT 2,657) were made against these loans.

Loans are made to the following sectors:

	September 30, 2004 (unaudited)	%	*December 31, 2003*	%
Wholesale trade	**81,502**	**22%**	53,538	21%
Construction	**55,123**	**15%**	17,863	7%
Agriculture	**51,385**	**14%**	32,506	13%
Individuals	**38,035**	**10%**	27,222	11%
Food industry	**28,602**	**8%**	30,350	12%
Oil & Gas production	**23,036**	**6%**	29,841	12%
Mining	**18,112**	**5%**	15,242	6%
Transport	**11,688**	**3%**	3,541	1%
Retail trade	**11,209**	**3%**	1,480	–
Real estate activities	**10,977**	**3%**	7,173	3%
Chemical industry	**9,256**	**2%**	9,254	4%
Publishing	**4,200**	**1%**	549	–
Telecommunication	**4,118**	**1%**	4,612	2%
Energy	**4,043**	**1%**	3,558	1%
Metallurgical industry	**3,191**	**1%**	7,125	3%
Production of rubber and plastic articles	**2,168**	**1%**	1,243	–
Machinery and equipment production	**1,980**	**1%**	1,991	1%
Light and leather industry	**876**	–	688	–
Hospitality	**799**	–	362	–
Research and Development	**714**	–	432	–
Other	**12,452**	**3%**	6,548	3%
	373,466	**100%**	**255,118**	**100%**

(Millions of Kazakhstani Tenge)

7. Allowances for Losses and Provisions

The movements on the allowances for impairment of interest earning assets, were as follows:

	Due from credit institutions	*Loans to customers*	*Total*
December 31, 2002	–	10,166	10,166
Impairment charge (unaudited)		6,375	6,375
Write-offs (unaudited)		(5,687)	(5,687)
Recoveries (unaudited)		1,386	1,386
September 30, 2003 (unaudited)	–	12,240	12,240
Impairment charge (unaudited)		4,016	4,016
Write-offs (unaudited)		(1,075)	(1,075)
Recoveries (unaudited)		90	90
December 31, 2003	–	15,271	15,271
Impairment charge (unaudited)	**234**	**12,160**	**12,394**
Write-offs (unaudited)	**–**	**(4,878)**	**(4,878)**
Recoveries (unaudited)	**–**	**2,425**	**2,425**
September 30, 2004 (unaudited)	**234**	**24,978**	**25,212**

The movements on the allowances for other losses and other provisions were as follows:

	Other assets	*Letters of credit and guarantees*	*Total*
December 31, 2002	109	244	353
Provision (charge) (unaudited)	175	107	282
Write-offs (unaudited)	–	(33)	(33)
September 30, 2003 (unaudited)	284	318	602
Provision (charge) (unaudited)	55	1	56
December 31, 2003	339	319	658
Provision (charge) (unaudited)	**811**	**495**	**1,306**
Write-offs (unaudited)	**(456)**	**–**	**(456)**
Recoveries (unaudited)	**19**	**–**	**19**
September 30, 2004 (unaudited)	**713**	**814**	**1,527**

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

8. Amounts Due to the Government and the NBK

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

	September 30, 2004 (unaudited)	*December 31, 2003*
Amounts due to the Government:		
Non-interest bearing – KZT denominated	**299**	29
Interest bearing – KZT denominated	**1,087**	1,182
Interest bearing – USD denominated	**140**	204
Interest bearing – EUR denominated	**430**	504
Amounts due to the NBK:		
Deposits	**3,000**	3,000
Loan	**42**	258
	4,998	5,177
Accrued interest	**30**	13
Amounts due to the Government and the NBK	**5,028**	5,190

(Millions of Kazakhstani Tenge)

9. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	September 30, 2004 (unaudited)	*December 31, 2003*
Interest-bearing placements from Kazakh banks	**1,231**	8,490
Interest-bearing placements from non OECD banks	**404**	288
Correspondent loro accounts	**893**	1,583
	2,528	10,361
Loans from OECD banks and financial institutions	**51,832**	46,541
Loans from non-OECD banks and financial institutions	**4,424**	3,352
Syndicated bank loans	**52,512**	48,168
Loans from Kazakh banks and financial institutions	**5,752**	3,402
Pass-through loans	**5,695**	3,856
	122,743	115,680
Accrued interest	**859**	1,371
Amounts due to credit institutions	**123,602**	117,051

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

	September 30, 2004 (unaudited)		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*
Interest-bearing placements from Kazakh banks	**0.50%-4.70%**	**October 2004**	2.10% - 5.50%	2004
Interest-bearing placements from non OECD banks	**2.50% - 7.00%**	**October 2004 - 2005**	4.50%	2004
Correspondent loro accounts	–	–	–	–
Loans from OECD banks and finance institutions	**1.07% - 6.05%**	**2004 - 2009**	1.10% - 9.70%	2004 – 2009
Loans from non-OECD banks and finance institutions	**1.83% - 6.00%**	**2004 - 2005**	1.86% - 4.60%	2004 – 2005
Syndicated bank loans	**3.28% - 5.00%**	**2005 - 2007**	3.30% - 3.70%	2004 – 2005
Pass-through loans	**5.00% - 8.53%**	**2004 - 2006**	5.00% - 10.20%	2004 – 2006
Loans from Kazakh banks and financial institutions	**4.27% - 5.31%**	**2005**	3.00% - 5.20%	2004

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

10. Amounts Due to Customers

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

	September 30, 2004 (unaudited)	*December 31, 2003*
Time deposits	**141,601**	96,579
Current accounts	**58,717**	41,708
Guarantee and other deposits	**12,430**	937
	212,748	139,224
Accrued interest	**1,426**	1,094
Amounts due to customers	**214,174**	140,318

(Millions of Kazakhstani Tenge)

Interest rates and maturity of amounts due to customers follow:

	September 30, 2004 (unaudited)				December 31, 2003			
	KZT denominated		USD/EURO denominated		KZT denominated		USD/EURO denominated	
	%	Maturity	%	Maturity	%	Maturity	%	Maturity
Time deposits	0.1% - 12.0%	November, 2004 - 2010	2.0% - 9.5%	October, 2004-2008	1.0% – 12.3%	2004-2010	1.0%-12.0%	2004 - 2010
Current accounts	up to 3.0%	–	up to 1.0%	–	up to 1.0%	–	up to 1.0%	–
Guarantee and other deposits	–	December, 2004	–	December, 2004	–	2004-2020	up to 10.2%	2004 -2020

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	September 30, 2004 (unaudited)	December 31, 2003
Current accounts:		
Commercial entities	**41,171**	29,576
Individuals	**13,482**	9,891
Governmental entities	**4,064**	2,241
Term deposits:		
Commercial entities	**70,875**	26,024
Individuals	**68,886**	58,605
Governmental entities	**1,840**	7,010
Other	**12,430**	5,877
	212,748	139,224
Accrued interest	**1,426**	1,094
Amounts due to customers	**214,174**	140,318

An analysis of customer accounts by sector follows:

	September 30, 2004 (unaudited)	%	December 31, 2003	%
Individuals	**83,019**	**39%**	69,066	49%
Oil and gas	**31,935**	**15%**	6,852	5%
Metallurgy	**28,256**	**13%**	15,070	11%
Wholesale trading	**15,410**	**7%**	12,479	9%
Insurance and pension funds	**10,405**	**5%**	1,907	1%
Construction	**6,964**	**3%**	5,439	4%
Transportation	**4,757**	**2%**	1,448	1%
Energy industry	**4,443**	**2%**	3,021	2%
Agriculture	**4,121**	**2%**	2,738	2%
Retail trade	**2,833**	**1%**	2,042	1%
Communication	**1,001**	**1%**	432	1%
Mining	**968**	**1%**	410	1%
Chemical processing	**903**	**1%**	347	–
Machinery and equipment production	**824**	–	6,556	5%
Food industry	**753**	–	389	–
Hotel and hospitality	**421**	–	102	–
Light and leather industry	**330**	–	41	–
Entertainment	**335**	–	166	–
Other	**16,496**	**8%**	11,813	8%
	214,174	**100%**	140,318	100%

(Millions of Kazakhstani Tenge)

11. Debt Securities Issued

Debt securities issued consisted of the following:

	September 30, 2004 (unaudited)	*December 31, 2003*
USD notes	**97,986**	61,294
Subordinated USD and KZT notes	**19,179**	13,528
	117,165	74,822
Own USD notes held by the Group	**(386)**	(482)
Subordinated own USD and KZT notes held by the Group	**(231)**	(8)
	116,548	74,332
Less unamortized cost of issuance	**(1,827)**	(825)
	114,721	73,507
Accrued interest	**1,879**	667
Debt securities issued	**116,600**	74,174

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

	September 30, 2004 (unaudited)		*December 31, 2003*	
	%	*Maturity*	*%*	*Maturity*
USD notes	7.875%-10.000%	2007 – 2014	7.875%-11.500%	2004 – 2010
Subordinated USD and KZT notes	8.000%-12.000%	2009 – 2014	8.000%-12.000%	2009 – 2013

The subordinated notes at September 30, 2004 and December 31, 2003, are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

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

12. Shareholders' Equity

Authorized share capital at September 30, 2004 consisted of 1,719,148 common shares and 569,997 Preferred Shares ("PS") (December 31, 2003 – 1,719,148 common and 569,997 PS). Issued and paid share capital at September 30, 2004 consisted of 1,688,432 common shares, 510,793 Convertible Preferred Shares ("CPS") and 59,204 preferred shares convertible into common shares (December 31, 2003 – 1,677,269 common shares and 484,215 CPS). All shares are KZT denominated and have a nominal value of KZT 10,000 each. Share capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of Bank TuranAlem following the combination of Turan Bank and Alem Bank.

At September 30, 2004, the Group held 30,716 of the Bank's shares as treasury stock (December 31, 2003 – 41,104).

During the nine-month period ended September 30, 2004, the Bank issued 26,578 CPS and 59,204 preferred shares convertible into common shares and 775 common shares at a premium of KZT 2,833 per share. (During 2003, the Bank issued 57,493 CPS and 431,350 common shares at a premium of KZT 2,833 per share).

(Millions of Kazakhstani Tenge)

The following shareholders held the outstanding shares.

Shareholder	September 30, 2004 (unaudited)	December 31, 2003
	%	
Common shares:		
Management	**27.66**	27.82
Bank of New York (nominee holder)	**23.51**	26.00
Central Securities Depository CJSC (nominee holder)	**28.66**	25.88
VALAXIS Asset Management SA	**9.38**	9.43
HAWSBROK	**7.42**	7.47
Others	**3.37**	3.40
	100.00	100.00
Preferred shares:		
Raiffeisen Zentralbank Osterreich ("RZB")	**28.44**	33.48
DEG	**22.98**	27.05
EBRD	**12.90**	15.18
IFC	**12.90**	15.18
FMO	**12.40**	9.11
Others	**10.38**	–
	100.00	100.00

Convertible Preferred Shares

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

Upon the expiration of the Convertibility Period, i.e. on December 31, 2006, and only in the event the Bank fails to sell 55% of the aggregate of the Bank's issued common shares to an OECD based bank with total assets of not less than USD 60 billion and a financial strength rating of not less than D+ ("Strategic Investor"), each CPS Shareholder shall have the right to redeem all or any portion of the Convertible Preferred Shares in cash. Management believes that the likelihood of those shares being redeemed is remote.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the USD equivalent of the CPS Purchase Price at the offer date (the "Purchase Price") if any person makes a Shareholder Protection Tender Offer ("Tender Offer"), i.e. an offer to purchase 30% or more of the Bank's common share capital, and the respective Tender Offer Price for each CPS is less than the CPS Purchase Price. If the CPS Shareholders accept the redemption offer, the Bank is then obligated to redeem the shares. Management believes, that the likelihood of a Tender Offer being made is remote.

At September 30, 2004, the CPS nominal value was KZT 10,000 (USD 74.32) (December 31, 2003 – KZT 10,000 (USD 69.34)), the quoted market price per common share was KZT 12,800 (USD 95.12) (December 31, 2003 – KZT 12,900 (USD 89.45)), and the net assets value per share (as measured by the underlying net asset value of the Group divided by the number of shares outstanding) was KZT 17,733 (USD 131.78) (December 31, 2003 – KZT 13,997 (USD 97.05)).

Based on the above, the likelihood of the CPS being redeemed is considered remote and, in accordance with International Accounting Standard No 32 "Financial Instruments: Disclosure and Presentation" that is currently in effect, the Convertible Preferred Shares are accounted for as equity.

In December 2003, the IASB issued revised IAS 32 and IAS 39. Both standards are effective for financial years beginning on or after January 1, 2005. The revised Standards will restrict the classification of a financial instrument with contingent settlement provisions as equity thus increasing the likelihood of such instruments having to be classified as liabilities. The new standard will require the Bank to reclassify the CPS from equity to liabilities, resulting in a reduction in equity and an increase in liabilities by KZT 5,239. This may result in a reduction in the Bank's Capital adequacy ratios. Had the Bank applied the revised IAS 39 and IAS 32 from January 1, 2004, the Bank's key financial figures as of September 30, 2004, and for the nine-month period then ended would have been as follows:

Total liabilities	KZT 472,176
Shareholders' equity	KZT 33,194
Net income	KZT 5,792

Dividends on Convertible Preferred Shares

The CPS carry a dividend of 10.25% per annum. These dividends are cumulative.

(Millions of Kazakhstani Tenge)

13. Commitments and Contingencies

Financial Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	September 30, 2004 (unaudited)	December 31, 2003
Credit related commitments		
Undrawn loan commitments	**41,690**	25,443
Commercial letters of credit	**55,489**	45,141
Promissory notes guarantees	**11,050**	5,799
Guarantees	**37,802**	18,648
Other contingencies	**–**	
	146,031	95,031
Less: cash collateral	**(750)**	(945)
Less: provisions	**(814)**	(319)
Financial commitments and contingencies	**144,467**	93,767

At September 30, 2004, the top ten letters of credit accounted for 55% of the Bank's total commercial letters of credit (December 31, 2003 – 31%) and represented 80% (December 31, 2003 – 46%) of the Bank's total shareholders' equity.

At September 30, 2004, the top ten guarantees accounted for 25% (December 31, 2003 - 28%) of total financial guarantees and represented 32% (December 31, 2003 – 20%) of the Group's total shareholders' equity at that date.

Litigation

Following an inspection by the Kazakhstan tax authorities with respect to years ended December 31, 2002 and 2003, the tax authorities claimed KZT 275 million in unpaid taxes from the Bank. The claim arose primarily due to the introduction of changes in Kazakhstan tax laws with respect to which there was no satisfactory authoritative interpretation. Whilst the Bank has admitted liability for KZT 251 million in unpaid taxes, part of the tax claim in the amount of KZT 24 million remains in dispute and the Bank intends to vigorously defend this portion of the claim and, if necessary, will take the matter to the Kazakhstan courts. The management believes that the Bank has adequate reserves to cover any potential liabilities that may eventually arise from this dispute.

Trust Activities

The Group provides custody services to third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these condensed interim consolidated financial statements. As at September 30, 2004 such assets held in this capacity were KZT 52,383 (December 31, 2003 – KZT 40).

Deliverable Forward Contracts

At September 30, 2004 the Group was a party to the following deliverable forward contracts, all of which mature in December 2004:

	September 30, 2004 (unaudited)		December 31, 2003	
	Notional amount	Unrealized gains	Notional amount	Unrealized gains
Deliverable forward contracts:				
RUR-KZT contracts with Kazakh counteragents	**2,000**	**156**	**–**	**–**
USD-KZT contracts with Kazakh counteragents	–	–	**11,474**	**359**
USD-EUR contracts with Kazakh counteragents	–	–	**1,004**	**5**

(Millions of Kazakhstani Tenge)

14. Earnings per Share

The following reflects the income and share data used in the basic and diluted earnings per share computations for the nine-month periods ended September 30:

	2004 (unaudited)	*2003 (unaudited)*
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on CPS's	**6,044,000**	3,508,000
Net income attributable to common and potential common shareholders for diluted earnings per share	**6,044,000**	3,508,000
Weighted average number of common shares for basic earnings per share	**1,681,838**	1,252,557
Weighted average number of common and potential common shares for diluted earnings per share	**2,262,796**	1,736,772

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at September 30 is as follows:

	2004 (unaudited)	*2003 (unaudited)*
Weighted average number of common shares at September 30 for basic earnings per share	**1,681,838**	1,252,557
Weighted average number of common shares resulting from the potential conversion of the preferred shares into common shares	**580,958**	484,215
Weighted average number of common and potential common shares at September 30	**2,262,796**	1,736,772

15. Risk Management Policies

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

Currency Risk

The Bank's exposure to foreign currency exchange rate risk follows:

	September 30, 2004 (unaudited)			*December 31, 2003*		
	KZT	*Other foreign currencies*	*Total*	*KZT*	*Other foreign currencies*	*Total*
Assets:						
Cash and cash equivalents	**7,733**	**10,014**	**17,747**	6,688	6,598	13,286
Obligatory reserves	**2,445**	**4,037**	**6,482**	3,706	–	3,706
Trading securities	**39,144**	**39,932**	**79,076**	11,648	49,943	61,591
Amounts due from credit institutions	**6,559**	**6,447**	**13,006**	8,483	5,915	14,398
Investment securities:						
- available for sale securities	**–**	**25,640**	**25,640**	–	–	–
- held-to-maturity securities	**–**	**–**	**–**	3	26,285	26,288
Loans to customers	**99,484**	**273,982**	**373,466**	78,426	176,692	255,118
Other assets	**9,526**	**613**	**10,139**	7,175	367	7,542
	164,891	**360,665**	**525,556**	116,129	265,800	381,929
Liabilities:						
Amounts due to the Government and the NBK	**4,450**	**578**	**5,028**	4,263	927	5,190
Amounts due to credit institutions	**5,369**	**118,233**	**123,602**	4,390	112,661	117,051
Amounts due to customers	**102,023**	**112,151**	**214,174**	69,043	71,275	140,318
Debt securities issued	**17,560**	**99,040**	**116,600**	7,598	66,576	74,174
Other liabilities	**6,798**	**735**	**7,533**	3,982	336	4,318
	136,200	**330,737**	**466,937**	89,276	251,775	341,051
Net balance sheet position	**28,691**	**29,928**	**58,619**	26,853	14,025	40,878

(Millions of Kazakhstani Tenge)

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 25,925 and KZT 15,610 as of September 30, 2004 and December 31, 2003, respectively.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

As of September 30, 2004 and December 31, 2003 the effective average interest rates by currencies and comparative market rates for interest earning/ bearing monetary financial instruments were as follows:

	Septembet 30, 2004 (unaudited)		*December 31, 2003*	
	KZT	*Foreign currency*	*KZT*	*Foreign currency*
Trading securities	**3.60%**	**6.16%**	6.90%	7.70%
Amounts due from other financial institutions	**2.86%**	**7.18%**	2.70%	2.40%
Investment securities:				
- available for sale securities	–	**5.10%**	–	–
- held-to-maturity securities	–	–	–	4.40%
Loans to customers	**18.81%**	**11.95%**	16.70%	12.50%
Amounts due to NBK and the Government	**5.71%**	**5.33%**	6.50%	4.40%
Amounts due to other financial institutions	**3.14%**	**4.33%**	5.10%	4.20%
Amounts due to customers	**6.27%**	**5.45%**	9.40%	5.10%
Debt securities issued	**7.38%**	**10.64%**	8.22%	11.60%

Liquidity Risk

The following tables provide analysis of the maturity of assets and liabilities:

	September 30, 2004 (unaudited)							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	**16,226**	**269**	**37**	**1,215**	**–**	**–**	**–**	**17,747**
Obligatory reserves	**–**	**–**	**–**	**–**	**6,482**	**–**	**–**	**6,482**
Trading securities	**79,076**	**–**	**–**	**–**	**–**	**–**	**–**	**79,076**
Amounts due from other financial institutions	**48**	**6,551**	**74**	**–**	**–**	**6,333**	**–**	**13,006**
Available for sale investment securities	**25,640**	**–**	**–**	**–**	**–**		**–**	**25,640**
Loans to customers	**–**	**26,648**	**30,053**	**83,127**	**86,246**	**140,703**	**6,689**	**373,466**
Other assets	**3,167**	**57**	**5,340**	**870**	**599**	**106**	**–**	**10,139**
	124,157	**33,525**	**35,504**	**85,212**	**93,327**	**147,142**	**6,689**	**525,556**
Liabilities:								
Amounts due to NBK and the Government	**–**	**3,090**	**527**	**193**	**470**	**748**	**–**	**5,028**
Amounts due to other financial institutions	**1,674**	**13,129**	**4,537**	**76,824**	**15,268**	**12,170**	**–**	**123,602**
Amounts due to customers	**65,030**	**26,913**	**36,662**	**56,162**	**26,822**	**2,585**	**–**	**214,174**
Debt securities issued	**–**	**3,655**	–	–	**28,038**	**84,907**	**–**	**116,600**
Other liabilities	**3,209**	**218**	**2,844**	**758**	**346**	**158**	**–**	**7,533**
	69,913	**47,005**	**44,570**	**133,937**	**70,944**	**100,568**	**–**	**466,937**
Net position	**54,244**	**(13,480)**	**(9,066)**	**(48,725)**	**22,383**	**46,574**	**6,689**	**58,619**
Accumulated gap	**54,244**	**40,764**	**31,698**	**(17,027)**	**5,356**	**51,930**	**58,619**	

(Millions of Kazakhstani Tenge)

	December 31, 2003							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	13,162		124	–	–	–	–	13,286
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from other financial institutions	50	10,281	144	1,129	1,829	965	–	14,398
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	21,918	25,454	76,059	51,795	75,056	4,836	255,118
Other assets	4,539	152	294	295	2,262	–	–	7,542
	79,342	32,351	26,016	77,483	59,592	102,309	4,836	381,929
Liabilities:								
Amounts due to NBK and the Government	–	3,071	1	604	614	900	–	5,190
Amounts due to other financial institutions	1,533	21,394	10,023	47,591	22,648	13,862	–	117,051
Amounts due to customers	41,286	17,723	19,252	50,598	8,678	2,781	–	140,318
Debt securities issued	–	–	–	15,048	14,422	44,704	–	74,174
Other liabilities	3,900	243	33	25	65	52	–	4,318
	46,719	42,431	29,309	113,866	46,427	62,299	–	341,051
Net position	32,623	(10,080)	(3,293)	(36,383)	13,165	40,010	4,836	40,878
Accumulated gap	32,623	22,543	19,250	(17,133)	(3,968)	36,042	40,878	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 25,925 and KZT 15,610 as of September 30, 2004 and December 31, 2003, respectively.

The Bank's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown on demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

16. Related Party Transactions

As of September 30, 2004 and December 31, 2003 the Bank had the following transactions with related parties:

	September 30, 2004 (unaudited)			December 31, 2003		
	Related party transactions	**Percent on normal conditions**	**Total category**	**Related party transactions**	**Percent on normal conditions**	**Total category**
Loans to customers, gross	**430**	**100.0 %**	**361,069**	**276**	**99.9%**	**255,118**
Amounts due to other financial institutions	**16,270**	**100.0 %**	**123,105**	**1,508**	**100.0%**	**115,680**
Amounts due to customers	**284**	**100.0 %**	**202,730**	**128**	**99.9%**	**139,224**
Commitments and guarantees	**4,304**	**100.0 %**	**37,452**	**748**	**100.0%**	**18,648**

(Millions of Kazakhstani Tenge)

For the nine-month period ended September 30, the Bank had the following transactions with related parties:

	2004 (unaudited)			2003 (unaudited)		
	Related party transactions	Percent on normal conditions	Total category	Related party transactions	Percent on normal conditions	Total category
Interest income	**30**	**100 %**	**35,912**	**41**	**99.9%**	21,943
Interest expense	**538**	**100 %**	**17,278**	**89**	**100.0%**	10,775

17. Subsequent events

In addition to the 15.63% share in the capital of Slavinvestbank ("SIB"), a commercial bank in Russia, that is owned by the Bank, on November 24, 2004, the Bank has concluded an option agreement with the shareholders of SIB to buy, by September 1, 2005, 34.24% of the common voting shares in SIB and has signed a letter of intent to acquire an additional 40.12% by January 1, 2007.

In addition, during the period from October 1, 2004 to December 31, 2004, the Bank aquired an 8.75% ownership interest in JSCB Transbank, a small Ukrainian bank based in Kiev; and a 49.0% ownership interest in CJSC Astanaeximbank, a small bank based in Minsk, Belarus. Furthermore, in the forth quarter of 2004, the Bank has signed agreements to acquire 19% ownership interest in Omsk Bank, a small bank based in Omsk, Russia.

At meetings held in November 2004, the respective shareholders of JSC Kurmet Pension Fund and JSC Kazakhstan Pension Fund adopted resolutions approving the merger of these entities. As at December 31, 2004, the required approvals for the merger had been obtained from the FMSA and the Bank expects that the merger will be completed, through the registration of a newly-created entity, by the end of February 2005.

On 19 December 2004, a fatal hunting accident resulted in the untimely death of Mr. Yerzhan Tatishev, the former Chairman of the Management Board of the Bank and a former shareholder. Mr. Saduakas Mameshetegi, at the time a Deputy Chairman of the Bank, was promptly appointed as acting Chairman of the Management Board of the Bank pursuant to a unanimous resolution adopted at an extraordinary meeting of the Board of Directors of the Bank.

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