КАЗКОММЕРЦБАНК

KAZKOMMERTS INTERNATIONAL B.V.

(incorporated with limited liability in The Netherlands)

U.S.$150,000,000
8.5 per cent. Notes due 2013

ISSUE PRICE: 99.00 PER CENT.

(plus accrued interest from 16 April 2003)
(to be consolidated and form a single series with the Issuer's U.S.$350,000,000 8.5 per cent. Notes due 2013)

Guaranteed by

OJSC KAZKOMMERTSBANK

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

The U.S.$150,000,000 8.5 per cent. Notes due 2013 (the "Further Notes") are issued by Kazkommerts International B.V. (the "Issuer") and are guaranteed by OJSC Kazkommertsbank ("Kazkommertsbank", the "Bank" or the "Guarantor"). Interest on the Further Notes will accrue from 16 April 2003 and will be payable semi annually in arrear on 16 April and 16 October of each year, commencing on 16 October 2003. The Further Notes will be consolidated and form a single series with the U.S.$350,000,000 8.5 per cent. Notes due 2013 of the Issuer issued on 16 April 2003 (the "Existing Notes" and, together with the Further Notes, the "Notes") on the Closing Date (as defined below).

The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Further Notes pursuant to a deed of guarantee (the "Guarantee") dated 16 April 2003, as supplemented by a supplemental deed of guarantee to be dated on or about the Closing Date. The Further Notes will be constituted by, are subject to, and have the benefit of, a trust deed dated 16 April 2003 as amended on 8 May 2003 and as supplemented by a supplemental trust deed dated the Closing Date between the Guarantor and J.P. Morgan Corporate Trustee Services Limited, as trustee for the holders of the Notes (the "Trustee").

The Further Notes will be offered and sold in an offering in the United States to "qualified institutional buyers" (as defined in Rule 144A ("Rule 144A") under the 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 ("Regulation S") under the Securities Act. See "Subscription and Sale" and "Form of Notes and Transfer Restrictions".

Application has been made to list the Further Notes on the Luxembourg Stock Exchange. Application has also been made for the Further Notes to be designated as eligible for trading on The Portal Market, a subsidiary of the Nasdaq Stock Market, Inc. ("PORTAL"). After their issue, the Guarantor will also apply for the Further Notes to be listed on the Kazakhstan Stock Exchange.

See "Investment Considerations" starting on page 14 for a discussion of certain factors that should be considered in connection with an investment in the Further Notes.

THE NOTES AND THE GUARANTEE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES 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.

Further Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "Unrestricted Global Note") in registered form, without interest coupons attached, which will be registered in the name of Chase Nominees Limited as nominee for, and shall be deposited on or about 8 May 2003 (the "Closing Date") with JPMorgan Chase Bank, London Branch, as common depository for, and in respect of interests held through, Euroclear Bank, S.A./N.V., as operator of the Euroclear System (the "Euroclear Operator") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Further Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "Restricted Global Note" and, together with the Unrestricted Global Note, the "Global Notes") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). The Further Notes will be issued in minimum denominations of U.S.$10,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (each denomination of Notes an "authorised denomination"). 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 therein, Notes in definitive form will not be issued in exchange for beneficial interests in the Global Notes.

Credit Suisse First Boston **JPMorgan**

The date of this Offering Circular is 7 May 2003.

The Issuer and the Bank, having made all reasonable inquiries, confirm that this Offering Circular contains all information with regard to the Issuer, the Bank and its subsidiaries, the Notes and the Guarantee which is material in the context of the issue and offering of the Notes and the giving of the Guarantee, that the information contained in this Offering 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. The Issuer and the Bank accept responsibility for the information contained in this Offering Circular.

The information contained herein under the headings ''The Banking Sector in Kazakhstan'' and Annex A – ''The Republic of Kazakhstan'' has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information provided herein. The Issuer and the Bank accept responsibility for accurately reproducing such extracts but accept no further or other responsibility in respect of such information. None of the Managers (as defined in ''Subscription and Sale''), the Trustee or any of their respective directors, affiliates, advisers or agents, has made an independent verification of the information herein in connection with the issue or offering of the Notes nor guarantees the accuracy or completeness of such information, and such information is not to be construed as a representation or warranty by any Manager, the Trustee or any of their respective directors, affiliates, advisers or agents. In making an investment decision, investors must rely on their own examination of the Issuer, the Bank and the terms of the offering, including the merits and the risks involved. The contents of this Offering Circular are not to be construed as legal, business or tax advice. Each prospective investor should consult its own attorney, business adviser and tax adviser for legal, business or tax advice.

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

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase the Further Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offer or sale of the Further Notes in certain jurisdictions is restricted by law. This Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Offering Circular may come are required by the Issuer, the Bank, the Managers and the Trustee to inform themselves about and to observe such restrictions. 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 any such restrictions. In particular, the Further Notes have not been approved or disapproved by the U.S. Securities and Exchange Commission (the ''SEC''), any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Further Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States. In addition, the Issuer has not authorised any issue of Further Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the ''Regulations''). Further Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that 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 other applicable provisions of the Regulations. Further information with regard to restrictions on offers and sales of the Further Notes and the distribution of this Offering Circular is set out under ''Subscription and Sale'' and ''Form of Notes and Transfer Restrictions''.

IN CONNECTION WITH THE ISSUE OF THE NOTES, J.P. MORGAN (EUROPE) LIMITED (OR ANY PERSON ACTING ON BEHALF OF J.P. MORGAN (EUROPE) LIMITED) 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 CLOSING DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON J.P. MORGAN (EUROPE) LIMITED (OR ANY AGENT OF J.P. MORGAN (EUROPE) LIMITED) 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 LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (''RSA'') WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD-LOOKING STATEMENTS

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

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ENFORCEMENT OF FOREIGN JUDGMENTS

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

The Notes and the Trust Deed are governed by the laws of England and the Issuer and the Bank have agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to the jurisdiction of the English courts or, at the election of the Trustee or, in certain circumstances, a Noteholder, to arbitration in Vienna, Austria. See Conditions 17 and 19 under ''Terms and Conditions of the Notes''. Kazakhstan's courts will not enforce a judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. However, each of Kazakhstan and Austria are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the ''Convention''), although there has recently been some doubt as to whether the courts of Kazakhstan would enforce an arbitral award under the Convention. In February 2002, the Constitutional Council of the Republic passed a decree on the interpretation of Kazakhstan's Constitution which stated that the conclusion by parties to a commercial contract in which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic. Accordingly, such arbitration awards should be generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

PRESENTATION OF CERTAIN INFORMATION

The Bank is required to maintain its books of account in Tenge in accordance with relevant laws in Kazakhstan and with the regulations (collectively, ''NBK Regulations'') of the National Bank of Kazakhstan (the ''NBK'') (collectively, ''Kazakh Practices''). If not otherwise specified, for the purposes of the financial analysis and management discussions herein, the term ''the Bank'' shall mean Kazkommertsbank and its principal subsidiaries Kazkommerts International B.V., Kazkommerts Capital 2 B.V., Kazkommerts Finance 2 B.V., JSC Kazkommerts Securities, JSC Kazkommerts Policy and JSC Kazkommertsbank Kyrgyzstan, whose accounts are consolidated with the Bank's accounts. JSC Kazkommerts Policy and JSC Kazkommertsbank Kyrgyzstan have been consolidated with the Bank's accounts for the years ended 31 December 2002 and 2001. The Bank's financial statements contained in this Offering Circular were prepared in accordance with International Accounting Standards (''IAS''). The Bank's financial statements for the years ended 31 December 2002 and 2001 were audited by TOO Deloitte & Touche, Kazakhstan, (''TOO Deloitte & Touche'') the Kazakhstan national practice of Deloitte Touche Tohmatsu (''DTT''). DTT is a Swiss Verein and each of its national practices are separate and independent legal entities. 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 official currency of Kazakhstan; references to ''U.S. Dollars'' or ''U.S.$'' are to United States dollars and references to ''Euro'' and ''€'' 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. References to ''Kazakhstan'' or the ''Republic'' are to Kazakhstan, references to the ''Government'' are to the government of Kazakhstan and references to the ''CIS'' are to the Commonwealth of Independent States.

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 exchange rates applicable on the date of such balance sheet (or, if no such rate was published for such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate. Following a recommendation of the NBK relating to the use of NBK official exchange rates, U.S. Dollar translations of Tenge amounts as at any date falling after 31 December 2001 included in this Offering Circular have been calculated in accordance with the official exchange rates for U.S. Dollars published by the Kazakhstan Stock Exchange. The official U.S. Dollar rate published by the Kazakhstan Stock Exchange on 31 December 2002 was KZT155.85:U.S.$1 and the average exchange rate for the year ended 31 December 2002 was KZT153.86:U.S.$1. For further details of applicable exchange rates, see Annex A – ''The Republic of Kazakhstan – Exchange Rates'' and the financial statements included herein.

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

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

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

SUMMARY

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

The Issuer

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

The Bank and its Business

The Bank was established in 1990 and is the largest private sector bank in Kazakhstan. For the 2002 financial year, the Bank had profits after taxation of KZT7,981 million (U.S.$51.2 million) and, as at 31 December 2002, the Bank had total assets of KZT274,761 million (U.S.$1,763.0 million) and shareholders' equity of KZT32,066 million (U.S.$205.7 million).

The Bank's commercial banking business primarily consists of corporate banking, trade and project finance, personal banking, debit and credit card services and foreign currency trading. Its principal activities are the acceptance of deposits and the provision of loan and credit facilities in Tenge and foreign currencies, and it provides a wide range of current account related services such as direct debit payments, payments for utility bills and consumer finance. The Bank is also a major participant in the securities market and the foreign currency markets in Kazakhstan and a major provider of cash management services to corporations, including payroll services.

In 2001, the Bank developed a retail market strategy (the ''Retail Market Strategy'') under which the Bank began to develop a retail branch network in Kazakhstan. As at 31 December 2002, the Bank had five dedicated retail branches and plans to open further branches in major regions in Kazakhstan where the Bank has determined that there is potential to increase retail deposits and sell financial products to the retail market. See ''The Bank – Strategy''.

The Bank issues both VISA and Europay/MasterCard credit cards and its debit and credit cards provide access to the ''Cirrus/Maestro'' systems. As at 31 December 2002, the Bank had over 214,000 cards in issue. The Bank is also an authorised agent for distribution of American Express and Diners Club cards and was the first bank in Kazakhstan to issue smart cards to its customers in 2001.

The Bank has an established automatic teller machine (''ATM'') network. The Bank currently has 172 ATMs and 666 point-of-sale terminals in principal cities throughout Kazakhstan. In addition, in common with other retail banks in Kazakhstan, customers of the Bank can use the ATM networks of other Kazakh banks for a small fee charged for each withdrawal. As a result, customers of the Bank have access to a large network of ATMs throughout Kazakhstan.

As at 31 December 2002, the Bank was the largest bank in Kazakhstan in terms of total assets based on Kazakh Practices (KZT278,617 million) and second in terms of shareholders' equity (KZT25,730 million). The Bank is the largest bank in Kazakhstan in terms of the size of its deposits, having approximately 51,200 individual customer accounts that represent 26.0 per cent. of the market for term deposits in terms of monetary value. As at 31 December 2002 the Bank had 48 full-service branches, five retail-only branches and 39 settlement outlets throughout Kazakhstan in addition to two overseas representative offices. The Bank estimates that its share of the corporate lending market in Kazakhstan was approximately 25 per cent. in 2002.

Credit Ratings

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

Their current ratings of the Bank are as follows:

Fitch	**Moody's**	**Standard & Poor's**
Long-term – BB	Long-term Foreign Currency Debt rating – Baa3	Long-term – BB-
Short-term B	Financial Strength – D	Short-term – B
Outlook – Stable	Outlook – Stable	Outlook – Stable

It is expected that Fitch, Moody's and Standard & Poor's will assign BB, Baa3 and BB- ratings, respectively, to the Notes. A security credit rating is not a recommendation to buy, sell or hold the securities, and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

SUMMARY TERMS AND CONDITIONS

Issue:	U.S.$150,000,000 principal amount of 8.5 per cent. Notes due 16 April 2013.
Single Series:	The Further Notes will be consolidated and form a single series with the Existing Notes on the Closing Date. The Further Notes represented by beneficial interests in the Unrestricted Global Note will have a Temporary ISIN and Common Code until such time. See ''General Information''.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 8.5 per cent. per annum. Interest on the Notes will accrue from the 16 April 2003 and will be payable semi- annually in arrear on 16 April and 16 October of each year, commencing on 16 October 2003.
Status:	The Notes constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Issuer which rank and will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See ''Terms and Conditions of the Notes – Status of Notes and Guarantee''. The obligations of the Guarantor under the Guarantee constitute direct, general, unconditional and, except as provided therein, unsecured obligations of the Guarantor which rank and will rank at least *pari passu* in right of payment with all other present and future unsecured obligations of the Guarantor save only for such obligations as may be preferred by mandatory provisions of applicable law.
Guarantee:	The Guarantor will, on the Closing Date, enter into a supplemental deed of guarantee under which the Guarantor will guarantee on an unconditional basis due payment of all sums payable by the Issuer under the Further Notes. The supplemental deed of guarantee will supplement the deed of guarantee dated 16 April 2003 entered into by the Guarantor in connection with the Existing Notes.
Negative Pledge:	Each of the Issuer and the Guarantor agrees that, so long as any Notes remain outstanding, it shall not and shall not permit any of its (in the case of the Issuer) Subsidiaries or (in the case of the Guarantor) Material Subsidiaries to create or permit to subsist any mortgage, charge, lien, pledge or other security interest (other than in the case of the Guarantor, a Permitted Security Interest, as defined in Condition 4) upon the whole or any part of their respective undertakings, assets or revenues to secure any Indebtedness for Borrowed Money (as defined in Condition 4) unless the Notes or the Guarantee, as the case may be, are secured equally and rateably with such other Indebtedness for Borrowed Money or are otherwise given the benefit of such security interest. See ''Terms and Conditions of the Notes – Negative Pledge''.
Certain Covenants:	The Notes and the Trust Deed contain certain covenants, including, without limitation, covenants with respect to the following matters: (i) limitation on transactions at less than the fair market value and (ii) limitation on payment of dividends. See ''Terms and Conditions of the Notes – Condition 5''.
Taxation:	All payments by the Issuer under the Notes will be made without the imposition of any Dutch withholding taxes. See ''Taxation – The Netherlands Taxation''. Payments of interest from the Bank to the Issuer to fund the Issuer's obligations to make payments under the Notes will be subject to Kazakhstan withholding tax under the Kazakhstan – Netherlands

	Tax Treaty at a rate of 10 per cent. Payments under the Guarantee will be subject to Kazakhstan withholding tax at a rate of 15 to 20 per cent. unless reduced by an applicable double taxation treaty. See ''Taxation – Kazakhstan Taxation''. In the event that any taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or any political subdivision or any authority thereof or therein having the power to tax on payments of principal and interest in respect of the Notes (including payments by the Guarantor under the Guarantee), the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations, pay such additional amounts to the holder of any Note as will result in receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction on account of any such taxes had been required. See ''Terms and Conditions of the Notes – Condition 9''.
Governing Law:	The Notes, the Guarantee and the Trust Deed will be governed by, and construed in accordance with, the laws of England.
Listing:	Application has been made to list the Further Notes on the Luxembourg Stock Exchange. After issue, the Bank will apply for the Further Notes to be listed on the Kazakhstan Stock Exchange. Neither the Issuer nor the Bank can give any assurance that such listing will be obtained.
U.S. Transfer Restrictions:	The Notes and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States other than to qualified institutional buyers in transactions exempt from registration under the Securities Act pursuant to Rule 144A. See ''Form of Notes and Transfer Restrictions''.
Use of Proceeds:	The net proceeds from the sale of the Further Notes is expected to be approximately U.S.$148,530,000. The net proceeds will be lent by the Issuer to the Bank and will be used by the Bank to fund loans to Kazakh corporate entities and for general corporate purposes. See ''Use of Proceeds''.
Investment Considerations:	Prospective investors should carefully consider the discussion of certain investment considerations relating to the Issuer, the Bank and the Further Notes prior to an investment in the Notes. See ''Investment Considerations''.

SUMMARY FINANCIAL INFORMATION

The summary information set forth below should be read in conjunction with, and is qualified in its entirety by, the Bank's financial statements, including the notes thereto, contained elsewhere in this Offering Circular. See ''Index to Financial Statements''.

The Bank's financial statements contained in this Offering Circular for the years ended 31 December 2002 and 2001 were prepared in accordance with IAS and were audited by TOO Deloitte & Touche, whose report thereon is included in this Offering Circular.

See ''Index to Financial Statements'' and ''Management's Discussion and Analysis of Results of Operations and Financial Condition''.

	Year ended 31 December			
	2002	*2002*	*2001*	*2000*
	In U.S.$ thousands[1]	*In KZT millions*		
INCOME STATEMENT				
Interest income	147,367	22,607	17,536	12,362
Interest expense	(73,384)	(11,258)	(7,888)	(5,763)
Net interest income before provisions for loan losses	73,983	11,349	9,648	6,599
Loan loss provisions	(35,514)	(5,448)	(4,238)	(1,334)
Net interest income	38,469	5,901	5,410	5,265
Net non-interest income	75,866	11,639	6,623	3,863
Operating income	114,335	17,540	12,033	9,128
Operating expense	(51,861)	(7,956)	(5,940)	(5,276)
Income before provisions for other transactions and tax expense	62,474	9,584	6,093	3,852
Recovery/(provision) on losses on other transactions	(8,650)	(1,327)	(526)	18
Income before income tax expenses	53,824	8,257	5,567	3,870
Income tax (expense)/recovery	(1,800)	(276)	(278)	154
Minority interest	(15)	(2)	–	–
Net income	52,009	7,979	5,289	4,024

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

	Year ended 31 December			
	2002	*2002*	*2001*	*2000*
	In U.S.$ thousands[1]	*In KZT millions*		
BALANCE SHEET				
Assets				
Cash and balances with the National Bank of Kazakhstan	124,445	19,395	11,478	5,012
Loan and advances to banks, net	278,506	43,405	17,570	15,712
Trading securities	131,110	20,433	13,275	23,040
Securities under reverse repurchase agreements	–	–	–	3,089
Loans to customers, net	1,091,354	170,087	137,661	67,080
Other assets	137,571	21,441	14,360	10,083
Total assets	1,762,986	274,761	194,344	124,016
Liabilities				
Loans and advances from banks	349,877	54,528	42,900	23,363
Securities sold under agreements to repurchase	–	–	1,563	–
Customer accounts	888,112	138,412	108,975	54,139
Debt securities issued	190,017	29,614	–	14,900
Other borrowed funds	29,175	4,547	5,222	4,402
Other liabilities	60,955	9,500	7,083	7,040
Subordinated debt	38,578	6,012	2,942	2,820
Dividends payable	3	1	1,236	–
Total liabilities	1,556,717	242,614	169,921	106,664
Share capital and reserves				
Minority interest	521	81	–	–
Share capital	22,456	3,500	3,498	2,932
Reserves	183,292	28,566	20,925	14,420
Total share capital and reserves	205,748	32,066	24,423	17,352
TOTAL LIABILITIES, SHARE CAPITAL AND RESERVES	1,762,986	274,761	194,344	124,016

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

SELECTED FINANCIAL AND OTHER RATIOS[1]

	Year ended 31 December		
	2002	*2001*	*2000*
Combined Key Ratios			
Return on shareholders' equity	28.3%	25.3%	26.2%
Net earnings per common share, in Tenge	25.94	18.37	14.14
Operating expenses/Operating income before provisions for loan losses	34.6%	36.5%	50.4%
Operating expenses/Operating income after provisions for loan losses	45.4%	49.4%	57.8%
Loan Loss provisions/Loans	6.2%	6.5%	8.9%
Profitability Ratios			
Net interest income before provisions for loan losses as a percentage of average interest-earning assets	6.2%	7.8%	9.0%
Net interest income after provisions for loan losses as a percentage of average interest-earning assets	3.2%	4.4%	7.2%
Operating expense as a percentage of net interest income	70.1%	61.6%	80.0%
Operating expense as a percentage of average total assets	3.8%	4.2%	6.0%
Profit after taxation as a percentage of average total assets	3.8%	3.7%	4.6%
Profit after taxation as a percentage of average shareholders' equity	27.6%	28.2%	29.7%
Balance Sheet Ratios			
Deposits as a percentage of total assets	50.4%	56.1%	43.7%
Total net loans to customers as a percentage of total assets	61.9%	70.8%	54.1%
Total shareholders' equity as a percentage of total assets	11.7%	12.6%	14.0%
Liquid assets as a percentage of customer deposits	60.4%	35.0%	65.9%
Liquid assets as a percentage of liabilities of up to one month	126.5%	63.8%	90.3%
Capital Adequacy Ratios			
Total capital	16.4%	17.2%	20.0%
Tier 1 capital	10.5%	11.1%	12.3%
Credit quality ratios			
Non-performing loans as a percentage of total loans	1.3%	0.8%	0.8%
Non-performing loans as a percentage of total cash and non-cash loans	1.1%	0.7%	0.7%
Provisions for loan losses as a percentage of non-performing loans	486.2%	783.3%	1138.4%
Exchange rates			
Period end	155.85	150.94	145.40
Average for the period	153.86	146.73	142.12
Inflation (%)			
CPI	6.6%	6.4%	9.8%
Real GDP (% change)	9.5%	13.5%	9.8%

1 For the definitions of certain ratios, see "Selected Financial Information – Selected Financial and Other Ratios"

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 economies such as Kazakhstan's are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Considerations Relating to the Republic of Kazakhstan

Political and Regional Considerations

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

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises and deregulation and 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 and wheat.

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

Like other countries in Central Asia, Kazakhstan could be affected by the military action taken in Afghanistan by the United States and an international coalition in response to the September 2001 terrorist attacks in the United States. In addition, the commencement and continuation of military action by a United States and British-led coalition against the regime in Iraq in March 2003 could also affect the world economy and the political stability of other countries. In particular, countries in the Central Asian region such as Kazakhstan whose economies and state budgets rely in part on the export of oil and oil products, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects, such as Turkey which is a major infrastructure project contributor in the Central Asian region.

Macroeconomic Considerations and Exchange Rate Policies

Since Kazakhstan is heavily dependent upon export trade and commodity prices, it was particularly affected by the Asian financial crisis in early 1998 and by the Russian crisis later that year, both of which exacerbated the problems associated with falling commodity prices. Because Kazakhstan is negatively

affected by low commodity prices and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy.

Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect Kazakhstan's economy.

The Government began implementing market-based economic reforms in 1992 (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last ten years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. According to figures compiled by the NSA, while gross domestic product ("GDP") fell in 1998 by 1.9 per cent. in the aftermath of the Asian and Russian financial crises, it began to rebound in 1999 following the flotation of the Tenge in April of that year and increased by 2.7 per cent. in real terms over the course of the full year. Whilst GDP has continued to grow in real terms following the flotation of the Tenge in 1999, increasing by 9.8 per cent. in 2000 and 13.5 per cent. in 2001, and is estimated to have increased by 9.5 per cent. in 2002, there can be no assurance that the GDP will continue to grow and any fall in GDP in subsequent years could adversely effect Kazakhstan's economy.

The Tenge is convertible for current account transactions, although it is not a fully convertible currency outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and, in April 1999, floated the Tenge. In the period from flotation on 4 April 1999 to 31 December 1999, the Tenge declined by 58.0 per cent. against the U.S. Dollar, for an overall decline of 64.9 per cent. against the U.S. Dollar in the year ended 31 December 1999, compared to a decline of 10.9 per cent. in the year ended 31 December 1998. Following its flotation in 1999, the Tenge has continued to decline in value against the U.S. Dollar, although at a much lower rate, declining 5.2 per cent. in 2000, 3.8 per cent. in 2001 and 3.3 per cent. in 2002. At the date of this Offering Circular, the Tenge has shown a slight increase against the U.S. Dollar since the beginning of 2003. 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 enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of large oil and gas producers, mining companies and the national telecommunications company. However, there remains a need for substantial investment in many sectors of the Kazakhstan economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the amount of non-cash transactions in the economy and the size of the informal sector adversely affect the implementation of reforms and hamper the efficient collection of taxes. The Government has stated that it intends to address these problems by improving bankruptcy procedures, the business infrastructure and tax administration and by continuing the privatisation process. Implementation of these measures, however, may not happen in the short-term and any positive results of such actions may not materialise until the medium term, if at all.

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including a revised tax code, laws relating to foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan is at an early stage of development compared to countries with established market economies. In addition, the judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. Further, due to the presence of numerous ambiguities in Kazakhstan's commercial

legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments making it difficult for companies to ascertain whether they are liable to additional taxes, penalties and interest. The Government 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.

Less Developed Securities Markets

An organised securities market was established in Kazakhstan only relatively recently 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 has increased rapidly in recent years growing by 99.8 per cent. in 2001 and 23.2 per cent. in 2002. The Bank's gross loan portfolio was KZT73,646 million as at 31 December 2000, KZT147,166 million as at 31 December 2001 and KZT181,330 million as at 31 December 2002. This significant increase in credit exposure will require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of financial and management control. Growth such as this also requires the Bank to attract and retain qualified personnel and to train new personnel. Failure successfully to manage growth and development and to maintain the quality of its assets could have a material adverse effect on the Bank's results of operations and financial condition.

Concentration of Lending

While the Bank has reduced the concentration of its lending in the last few years, as at 31 December 2002, the Bank's top 20 borrowers comprised 33.2 per cent. of its loan portfolio, compared to 39.1 per cent. as at 31 December 2001 and 47.4 per cent. as at 31 December 2000. Whilst this reflects, in part, the limited number of better corporate credits in Kazakhstan, the Bank will require continued emphasis on credit quality and the development of financial and management control to monitor this credit exposure, the failure to achieve which could have a material adverse effect on the Bank's results of operations and financial condition.

Lack of Information and Risk Assessments

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

Competition

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

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and the capital adequacy of banks in conformity with the recommendations of the NBK's Board of Directors. In addition, an institutional development plan was prepared for leading Kazakh banks, including the Bank. According to the plan, banks are required to prepare their accounts in accordance with IAS and to start to apply the Basel Committee norms within a period determined by the NBK on a case-by-case basis. They are also required to join a bank-funded deposit insurance scheme and be audited annually by a public accountancy firm approved by the NBK, which is likely to be one of the leading international firms. See ''The Banking Sector in Kazakhstan''. Notwithstanding the NBK Regulations, regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. See ''– Underdevelopment and Evolution of Legislative and Regulatory Framework''. There can be no assurance that the Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Reform of the International Capital Adequacy Framework

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

Equity Participation of EBRD

On 4 March 2003 the Board of Directors of European Bank for Reconstruction and Development (''EBRD'') approved the acquisition of up to 15 per cent. of the common shares of the Bank for a total cash consideration of up to €30 million. The acquisition was approved by the General Shareholders Meeting of the Bank held on 27 March 2003, and the Bank expects that EBRD will enter into an agreement with the Bank before the end of the first half of 2003, pursuant to which EBRD will agree to subscribe for such shares. There can be no assurance that the Bank and EBRD will enter into the agreement or that the transaction will be consumated in the timeframe contemplated by the agreement. In addition, assuming that the subscription goes ahead, the Bank will be required to comply with certain covenants which could restrict the Bank's future operations. See ''The Bank – Participation by EBRD''.

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.

In the last quarter of 1997, certain markets in South East Asia experienced significant financial turmoil that had a ripple effect on other emerging markets. In August 1998, the government of the Russian Federation declared a moratorium on the payment of certain debt obligations of Russian entities and forced a restructuring of certain short-term domestic sovereign instruments. Although this moratorium expired in November 1998, the economic and financial situation in Russia remains uncertain and there can be no assurance that events will not occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998 or that any such volatility will not adversely affect the liquidity of the market for, or price of, the Notes.

On 11 September 2001 terrorist attacks were conducted against multiple targets in the United States, causing large loss of life and extensive damage. These events, and their aftermath and the ensuing conflict in Afghanistan, 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. In addition, the uncertainty that surrounds the current military action by a United States and British-led coalition against the regime in Iraq has also had a significant effect on international financial markets generally and may continue to do so both internationally and, more specifically, in the Central Asian region.

Absence of Trading Market for the Notes

Prior to the offering of the Notes, there has been no existing market for the Notes. Accordingly, 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. Application will also be made to list the Notes on the Kazakh Stock Exchange. There can be no assurance that such a listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors.

THE ISSUER

History

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

Capitalisation and Indebtedness

The Issuer is a wholly owned subsidiary of the Bank. The following table sets forth the capitalisation of the Issuer as at 31 December 2002:

	31 December 2002
	in Euro thousands
Liabilities:	
Loans from third parties[1]	664,300
Shareholders' Equity:	
Share capital comprising 40 ordinary shares[2]	18
Retained earnings	770
Total Shareholders' Equity	788
Total Capitalisation	665,088

[1] As adjusted to reflect the Issuer's U.S.$350,000,000 8.5 per cent. Notes due 2013 issued on 16 April 2003.

[2] The issued shares are all fully paid up. The Issuer has an authorised share capital of €90,000 divided into 200 ordinary shares with a par value of €450 each.

Except for the issue of the Further Notes and other than as set forth in the notes to the capitalisation table, there has been no material change in the capitalisation of the Issuer since 31 December 2002.

Business

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

On 20 December 2001, the Issuer and the Guarantor entered into a one year term loan facility with an option to roll over the loan for a further six to twelve months. Under the terms of the loan, the advance was paid in two tranches with U.S.$95 million advanced to the Issuer and guaranteed as to payment by the Guarantor and U.S.$5 million advanced directly to the Guarantor. The facility was extended in December 2002 for a further twelve months and the Issuer drew down a further U.S.$50 million, taking the total facility to U.S.$150 million. In 2002, the Issuer issued a total of U.S.$200 million 10.125 per cent. Notes due 2007 in two tranches of U.S.$150 million and U.S.$50 million. In December 2002, the Issuer received a payment of U.S.$33 million (KZT5,143 million) from Central Asian Industrial Holdings N.V. (''CAIH'') (formerly Central Asian Industrial Investments N.V.), a Dutch Antilles company controlled by certain shareholders of the Bank, which was deposited with the Bank by the Issuer on behalf of CAIH and pledged as collateral to secure a loan advanced by the Bank to Karakudukmunai, a Kazakh entity affiliated with CAIH. To the extent that Karakudukmunai defaults on its payment obligations under the loan, the deposited funds will be applied in satisfaction of those obligations. The Issuer receives interest from the Bank on the outstanding amount deposited at eight per cent. per annum, which it then pays to CAIH. The deposit is recorded as a loan from third parties on the Issuer's balance sheet, but the Issuer is not obliged to make any payment to CAIH under this arrangement unless and until it has received the corresponding payment from the Bank. See ''Transactions with Related Parties''.

On 16 April 2003, the Issuer issued U.S.$350,000,000 8.5 per cent. Notes due 2013 (the ''Existing Notes''). The Further Notes will be consolidated with and form a single series with the Existing Notes. See ''General Information''. Apart from the indebtedness mentioned above and the Existing Notes, the

Issuer had 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 31 December 2002, a significant effect on the financial position of the Issuer.

Financial Statements

In accordance with Dutch law, the Issuer is required to publish statutory annual financial statements, which must be filed with the commercial register in Rotterdam. Following an NBK requirement that the accounts of overseas subsidiaries of Kazakh banks must be independently audited, the Issuer has engaged Mazars to conduct an audit of its 2001 and 2002 statutory financial statements. As at the date hereof, the audit of such financial statements had not been completed. Copies of the Issuer's unaudited statutory financial statements for the years ended 31 December 2002 and 2001 and the latest published financial statements of the Issuer and any auditors' reports relating thereto, will be available for inspection (and copies thereof may be obtained) on any business day during usual business hours at the registered office of the Issuer and at the specified office of the Principal Paying Agent and of the Paying Agent in Luxembourg from time to time. The Issuer does not produce interim financial statements. In addition, the Issuer is consolidated with the Bank in its financial statements.

Management

The Issuer currently has two directors, Mr. Eldar Sovetovich Abdrazakov, aged 30, who is Managing Director of the Bank, and Equity Trust Co. N.V. (''Equity Trust''), a company with limited liability incorporated in The Netherlands, which serves as managing director of the Issuer.

General Information

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

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

THE BANK

History

The Bank originated with the incorporation on 12 July 1990 of an open joint stock company under the name JSC Medeu Bank, in accordance with the laws of the Soviet Socialist Republic of Kazakhstan, to engage in various activities in the banking sector. Following the independence of Kazakhstan, JSC Medeu Bank was re-registered under the name OJSC Kazkommertsbank and obtained a banking licence from the NBK on 21 October 1991. The banking licence number with the NBK is No. 48. The Bank's registration certificate number with the Ministry of Justice is 4466-1910-AO. The registered office of the Bank and the Head Office is 135 ''Zh'' Gagarin Ave., Almaty 480060, Kazakhstan.

In April 1994, the Bank merged with Astana Holding Bank, a commercial bank incorporated in Kazakhstan and, since 1994, the Bank has been present in Kazakhstan's major business and population centres. As at 31 December 2002, the Bank also had a representative office in London, United Kingdom and had acquired a majority holding in JSC Kazkommertsbank Kyrgyzstan, Kyrgyzstan in September 2002.

Overview of Business

The Bank's commercial banking business primarily consists of corporate banking, trade and project finance, personal banking, debit and credit card services and foreign currency trading. Its principal activities are the acceptance of deposits and the provision of loan and credit facilities in Tenge and foreign currencies, and it provides a wide range of current account related services such as direct debit payments, payments for utility bills and consumer finance. The Bank is also a major participant in the securities market and the foreign currency markets in Kazakhstan and a major provider of cash management services to corporations, including payroll services. The Bank has a total of 53 branches and 39 settlement outlets throughout its network and two overseas representative offices. The Bank classifies its branch and settlement outlets on the basis of the type of service available to customers. If the Bank were to classify its branches and settlement outlets in accordance with NBK criteria, it would have 21 branches and 71 settlement outlets.

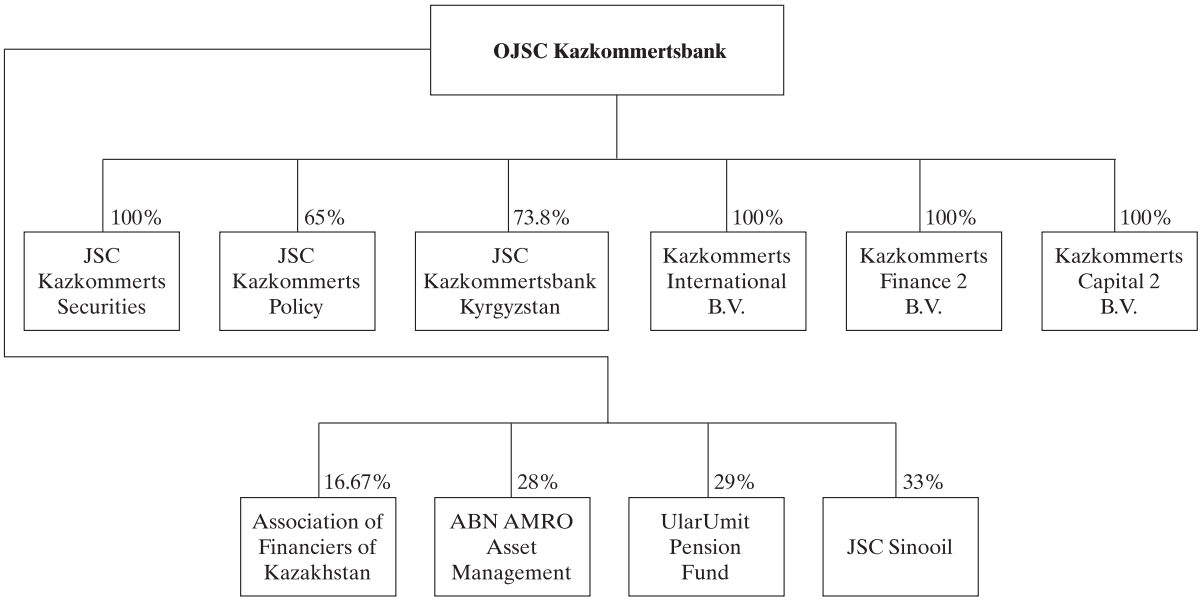
In 2001, the Bank, developed the Retail Market Strategy in order to create a retail branch network in Kazakhstan to provide a full range of retail products to high net-worth individuals and middle income customers. As at 31 December 2002, the Bank had five retail-only branches and plans to open further retail branches in the future in major regions in Kazakhstan which the Bank determines are likely to yield larger sources of deposits and fee income derived from the sale of retail-based financial products. See ''– Strategy''.

The Bank issues both VISA and Europay/MasterCard credit cards and its debit and credit cards provide access to the ''Cirrus/Maestro'' systems. As at 31 December 2002, the Bank had over 214,000 cards in issue. The Bank is also an authorised agent for distribution of American Express and Diners Club cards and was the first bank in Kazakhstan to issue smart cards.

The Bank has an established ATM network, with 172 ATMs and 666 point-of-sale terminals in operation in principal cities throughout Kazakhstan. In addition, in common with other retail banks in Kazakhstan, customers of the Bank can use the ATM networks of other Kazakh banks for a small fee charged for each withdrawal. As a result, customers of the Bank have access to a large network of ATMs throughout Kazakhstan.

Corporate Structure

The following chart sets out details of the Bank's subsidiaries and other direct and in-direct equity holdings in affiliates as at the date of this Offering Circular:



Ownership

Since late 1994, a majority of the common shares of the Bank (''Common Shares'') have been owned and controlled by the Bank's senior management, who hold their investment in the Bank directly and indirectly (through Central Asian Investment Company, a Kazakh company) and, as at 31 December 2002, controlled 53.4 per cent. of the Bank's issued Common Shares with a voting interest of 63.5 per cent.

In June 1997, the Bank launched an international offering of its Common Shares in the form of depositary receipts (the ''GDRs''). This was the first international offering of depositary receipts by a Kazakh corporate entity. As at 31 December 2002, investors held 27.0 per cent. of the Bank's Common Shares (32.1 per cent. of voting rights) through the GDRs which are listed on the London and Istanbul Stock Exchanges and traded on the Berlin and Frankfurt Stock Exchange as well as being eligible for trading on PORTAL.

In May 1998, International Finance Corporation (''IFC'') exercised its option to convert U.S.$1 million of a U.S.$10 million facility made available to the Bank into the Bank's Common Shares. As a result, it now holds 0.7 per cent. of the Bank's Common Shares (0.8 per cent. of voting rights).

At the end of 2001, the Bank issued and placed with domestic pension funds over 55 million non-voting preference shares (''Preference Shares'') out of total 125 million authorised Preference Shares. The proceeds exceeded U.S.$21 million. Each Preference Share has a minimum guaranteed dividend of U.S.$0.04 per Preference Share per year. If a dividend is not paid, the Preference Shares become voting until such time as all dividend payments are fully paid. There are no options for conversion of the Preference Shares into Common Shares. As of 31 December 2002, the holders of Preference Shares held 15.9 per cent. of the Bank's share capital. The remaining 3.0 per cent. of the Bank's share capital (3.6 per cent. of voting rights) comprises Common Shares held by a number of private companies and individuals.

The Bank's Common and Preference Shares are listed on the ''A'' list of the Kazakhstan Stock Exchange.

Participation by EBRD

On 4 March 2003 the Board of Directors of EBRD approved the acquisition of up to 15 per cent. of the Common Shares of the Bank. The acquisition was approved by the General Shareholders Meeting of the Bank on 27 March 2003, and the Bank expects that EBRD will enter into an agreement (the ''Subscription Agreement'') with the Bank before the end of the first half of 2003, pursuant to which EBRD will agree to subscribe for a number equal to or more than 51.9 million authorised but unissued Common Shares of the Bank (the ''EBRD Shares'') for a total cash consideration of up to €30 million,

subject to a number of conditions being met. The purchase of the EBRD Shares will replace an option that EBRD had to subscribe the lesser of up to U.S.$20 million or 10 per cent. of the Bank's share capital which became exercisable in July 2001 and was to expire in July 2003.

The stated purpose of EBRD's subscription of the EBRD Shares is to strengthen the Bank's capital base, fund its expansion plan and broaden its investor base, in each case, with the aim of the Bank becoming an international institution.

The Bank anticipated that the Subscription Agreement will contain a number of covenants that apply to the Bank for so long as EBRD is a shareholder of the Bank, including that the Bank will:

- maintain its corporate business in compliance with all applicable laws;
- maintain an accounting and cost control system satisfactory to EBRD;
- maintain a number of financial ratios;
- institute and maintain internal money laundering procedures satisfactory to EBRD;
- not declare or pay any dividend or other distribution other than as set out in the shareholders agreement;
- not create or permit to exist any lien on any property, revenues or other assets of the Bank except as set forth in the Subscription Agreement;
- not enter into any derivative transaction except in the ordinary course of business with an aggregate net open position higher than as stipulated in the Subscription Agreement or by the NBK, whichever is lower;
- not enter into any transaction with any person except in the ordinary course of business on ordinary commercial terms and on an arm's length basis;
- not make any changes or permit changes to be made to its share capital or its Charter; and
- not sell, transfer, lease or otherwise dispose of all or a substantial part of its assets or undertake or permit any merger, consolidation or reorganisation,

in each case, unless otherwise agreed by EBRD.

The Bank does not expect that the covenants imposed upon it following the signing of the Subscription Agreement will have a material impact on its business as NBK regulations and its current financing arrangements impose similar restrictions and obligations upon the Bank. In addition to the Subscription Agreement, it is anticipated that the controlling shareholders of the Bank will be required to enter into a shareholders agreement with EBRD although, as at the date of this Offering Circular, the scope of any such agreement had not been determined.

Following the purchase of the EBRD Shares, EBRD will be entitled to appoint one director to the Board of Directors, and shall continue to be represented on the Board of Directors for so long as it is a shareholder of the Bank.

Assuming that EBRD subscribes for the EBRD Shares in full, EBRD will own Common Shares with a voting interest of 15 per cent. The voting interests of the Bank's senior management will be reduced to 54.0 per cent., the holders of GDRs to 27.3 per cent., IFC to 0.7 per cent. and other shareholders to 3.0 per cent.

As at 31 December 2002 the Bank had 2,850 full-time employees, of which approximately 1,461 were employed in its branches and representative offices outside Almaty. Currently, there are no labour unions in the Bank. The Bank has never experienced strikes or other work stoppages resulting from labour disputes.

Competition

As at 31 December 2002 there were a total of 38 banks, excluding the NBK, operating in Kazakhstan, compared to 44 banks operating in Kazakhstan as at 31 December 2001. The decline in the number of banks was primarily due to stricter requirements set by the NBK as to capital adequacy, provisioning, maximum single-party exposure, accounting and information disclosure. Commercial banks operating in Kazakhstan can be divided into three groups: large local banks including the Bank, Halyk Savings Bank, and Bank TuranAlem, banks with foreign ownership, such as ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, and smaller local banks. Although the Bank believes that it is well-

positioned to compete in the Kazakh banking sector, being the largest bank (in terms of assets) in Kazakhstan, and having a relatively low cost deposit base and diversified client base, it faces competition from a number of existing participants in the banking sector in Kazakhstan.

Bank TuranAlem is considered as a major competitor. Bank TuranAlem resulted from a merger initiated by the Government between two state-owned banks, Turan Bank and Alem Bank, in April 1997. The state's interest in TuranAlem was sold by auction in March 1998 for U.S.$72 million to a group of Kazakh investors. As of 31 December 2002, TuranAlem was the second largest private bank by assets and the third largest bank in terms of equity in Kazakhstan. It has the second largest market share in terms of its deposit base.

The extensive branch network of Halyk Savings Bank of Kazakhstan, also known as People's Savings Bank or HSBK, makes it the Bank's major competitor with respect to retail banking. As of 31 December 2002, Halyk Savings Bank was the third largest bank in Kazakhstan by total assets. As at 31 December 2002, it was the third largest deposits taker (in aggregate monetary terms) after the Bank and TuranAlem Bank. HSBK is also the leading participant in the primary domestic securities market. In November 2001, the Government sold its remaining 33.33 per cent. stake in Halyk Savings Bank to domestic investors.

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

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

ABN AMRO Bank Kazakhstan is the second largest bank with foreign ownership in terms of equity. The Bank believes that ABN AMRO Bank Kazakhstan is a major competitor of the Bank particularly with respect to corporate banking and capital markets activities. Following the Bank's assessment that it ceased to have significant influence in the financial and operating affairs of ABN AMRO Bank Kazakhstan in 2002, the Bank, which currently owns a 29 per cent. shareholding in ABN AMRO Bank Kazakhstan, has re-classified its holding as securities available-for-sale from that of an affiliated company. As at the date hereof, the Bank had not sold its equity holding in ABN AMRO Bank Kazakhstan and no assurance can be made that it will realise any such sale in the immediate future due to the absence of a liquid market in the shares of ABN AMRO Bank Kazakhstan.

Citibank Kazakhstan was established in 1998 and has been aggressively increasing its market share in corporate banking. Citibank Kazakhstan is one of the five largest banks and is considered as a major competitor of the Bank.

The following table compares certain financial data (prepared in accordance with Kazakh Practices) relating to the Bank and the largest local and foreign banks, which it considers to be its major competitors in the banking sector as at 31 December 2002:

	31 December 2002	
	Assets	*Equity*
	In KZT millions	
Kazkommertsbank	278,617	25,730
Bank TuranAlem	228,742	22,486
Halyk Savings Bank	196,499	16,422
ABN AMRO Bank Kazakhstan	54,536	5,425
Citibank Kazakhstan	33,137	5,380

Source: Published financial statements.

Strategy

The Bank aims to increase its share of the corporate and retail banking sector in Kazakhstan and, as capital markets develop in Kazakhstan, to extend its expertise in that area. In order to achieve this, the Bank intends to expand the range of its corporate and personal banking services and establish new branches and settlement outlets. These objectives may also be furthered through additional investment by the Bank in new entities or in financial institutions or companies in which it currently participates and through improvement of the Bank's operating methods and its funding base.

As the Bank continues to expand its corporate and retail banking services, management of the Bank anticipate that the business of the Bank will be divided into three core divisions to streamline operations and increase competitiveness within the sectors in which it operates. This medium term strategy contemplates the Bank creating a Corporate Investment Banking Division, which will be responsible for handling cash-management, e-banking, structured finance and corporate finance products for international corporations, large domestic corporations and pension funds, a Commercial Banking Division providing working capital, capital expenditure and trade finance facilities for small and medium enterprises and a Consumer Banking Division, which will encourage retail deposits and provide consumer loans, mortgages and asset management services for high net worth individuals and middle income customers.

In addition, the Bank aims to increase its presence in other countries, initially by expanding into other CIS countries. In September 2002, the Bank acquired a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan, a bank with offices in Bishkek and Osh. The Bank, in conjunction with EBRD, which is providing training for the employees of JSC Kazkommertsbank Kyrgyzstan, intends to develop a commercial banking division in Kyrgyzstan for small- and medium-sized enterprises. Prior to its acquisition of JSC Kazkommertsbank Kyrgyzstan, the Bank maintained a representative office in Kyrgyzstan, which it closed in 2002. The Bank also intends to purchase a controlling shareholding in Moskommertsbank (formerly the Regional Bank for the Development of Business (MBRP)) in 2003, a small Moscow-based Russian bank with which the Bank currently has a strategic alliance.

Expansion of Banking Services

The Bank intends to expand further its corporate client base, while maintaining the quality of its loan portfolio. The Bank considers oil and gas, metallurgy and consumer lending (primarily, consumer loans and mortgages) as key sectors for further expansion. As at 31 December 2002, the Bank had increased its exposure to the oil and gas sector to 18.1 per cent. of its total loan portfolio (before provisions for loan losses) compared to 9.9 per cent. as at 31 December 2001. At the same time, the Bank intends to reduce its exposure to certain customers, including small-sized agricultural companies, as a proportion of its total corporate exposure, a policy that it commenced in 2002, reducing its exposure in the agricultural sector to 15.3 per cent. of its loan portfolio, compared to 16.4 per cent. as at 31 December 2001, in each case, before provisions for loan losses. The Bank has a relatively high concentration of customers engaged in foreign trade or servicing large international projects in Kazakhstan, which accounted for 17.5 per cent. of its loan portfolio as at 31 December 2002, compared to 15.2 per cent. in 2001, in each case, before provisions for loan losses. In order to achieve its aim to expand its banking services, the Bank has established a marketing department to undertake sectoral risk assessments and to

develop new products. See ''Selected Statistical and Other Information – Lending Policies and Procedures''.

The Bank is also seeking to increase its trade finance portfolio foreign currency credit lines in order to expand its trade finance and project finance activities.

In 2001, the Bank developed a strategy for retail market expansion. The Retail Market Strategy provides for a geographical segmentation of Kazakhstan to determine the most promising regions to be targeted. The Bank expects the gradual expansion of its retail banking business with the opening of new offices in the most promising regions. The strategy anticipates that the Bank will continue to attract a growing level of retail deposits and that the Bank will create product lines to be offered to different clients with special attention paid to the quality of services and the Bank's ability to cross-sell different products through well-trained personnel. The Bank also intends to expand its consumer lending (primarily car loans and mortgages) to high net-worth individuals and middle income clients in a number of the more developed regions in Kazakhstan, as well as offering asset management services for such clients. The Bank considers customers with account balances in excess of U.S.$50,000 as its target clientele.

The Bank is constantly improving its operating efficiencies through organisational restructuring and investments in human resources and information technology. Following completion of an EBRD sponsored programme in 1999 with Crédit Commercial de France S.A. (''CCF'') as the Bank's partner, the Bank introduced western-type risk management and risk assessment, as well as improved internal procedures. In 1999, the Bank commenced a programme to install an advanced banking information system (Equation DBA) designed by Midas Kapiti International Ltd., which has allowed the Bank to establish a unified system connecting all branches on a real-time basis. The installation of the system throughout the Bank's branch network was completed in late 2002.

Improvement of Funding Base

Taking into account the growing needs of the Bank's customers in longer term financing, the Bank intends to continue to improve its funding base through increasing its medium term funding from capital markets, co-operating with multilateral financial institutions and foreign export credit agencies and through augmenting its market share in longer term deposits from corporate and retail clients, mainly concentrating on retail deposits. Management believes that the improvement of the Bank's capitalisation, financial performance, organisational and operational structure will improve its rating in the international and domestic markets.

By the end of 2002, the Bank had increased its authorised share capital to KZT5 billion, of which KZT3,499.8 million was issued and fully paid-up. As part of its programme to increase its capital base, the Bank issued U.S.$20 million 11 per cent. subordinated notes due 2007 in September 2000, which were mainly placed among pension funds in Kazakhstan, and in December 2000 the Bank received a seven year €10 million credit line from DEG – Deutsche Investitions und Entwicklungsgesellschaft mbH (''DEG'') which was converted into a subordinated loan in April 2002 following the exercise of an option by DEG. At the end of 2001, the Bank raised a further U.S.$21.2 million by the placement of Preference Shares with domestic pension funds, and in September 2002, the Bank registered an issue of U.S.$50 million 9 per cent. subordinated notes due 2009. As at the date of this Offering Circular, the Bank had placed U.S.$26 million of these subordinated notes with pension funds on the domestic market. In addition, the Bank expects to increase its capital base further in 2003 with the proposed subscription by EBRD of up to 15 per cent. of the voting Common Shares of the Bank for up to €30 million. See ''– Participation by EBRD''.

In 2002 the Issuer raised U.S.$200 million by the issue of its 10.125 per cent. Notes due 2007 in two tranches of U.S.$150 million and U.S.$50 million in May and December, respectively. The proceeds from the issue of these Notes were placed by the Issuer with the Bank as a time deposit. In September 2002, the Bank signed a US$50 million four year term-loan agreement with EBRD. The loan was structured as two loans: a US$30 million loan for four years provided by EBRD and a US$20 million loan syndicated with commercial banks for two years with a roll-over option for another two years. The Bank has not yet drawn down the facility, but it is expected to do so in 2003. In addition, the Bank and the Issuer extended their U.S.$100 million term facility in December 2002 for a further twelve months and increased the facility by U.S.$50 million, taking the total amount drawn down under such facility to U.S.$150 million. In April 2003, the Issuer raised U.S.$350 million with the issuance of the Existing Notes which will be supplemented by the issuance of the Further Notes.

Capital Markets

The infrastructure, including the legal framework, of the Kazakh securities market is still in the process of being developed. In August 1997, the first transactions on the Kazakhstan Stock Exchange took place, although equity trading in Kazakhstan, to the extent it occurs, takes place primarily on the OTC market. The Bank is taking steps to further its expertise and position itself in this and related areas through, among other things, its wholly-owned subsidiary JSC Kazkommerts Securities, established in October 1997. In 2002, JSC Kazkommerts Securities was one of the major underwriters for domestic bond placements by Kazakh companies.

USE OF PROCEEDS

The net proceeds to the Issuer from the sale of the Further Notes are expected to be approximately U.S.$148,530,000. Such net proceeds will be lent by the Issuer to the Bank and will be used by the Bank to fund loans to Kazakh corporate entities and for other general corporate purposes.

CAPITALISATION

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

	31 December 2002			
	Actual		*As adjusted*	
	In U.S.$ thousands[1]	*In KZT millions*	*In U.S.$ thousands*[1]	*In KZT millions*
Liabilities				
Senior long-term liabilities[2] [5]	394,261	61,446	894,261	139,372
Subordinated long-term liabilities[3]	38,578	6,012	38,578	6,012
Total liabilities	432,839	67,458	932,839	145,384
Shareholders' equity				
Share capital[4]	22,456	3,500	22,456	3,500
Common Shares	18,878	2,942	18,878	2,942
Preference Shares	3,578	558	3,578	558
Share premium	35,119	5,473	35,119	5,473
Revaluation reserves	44	7	44	7
Revenue reserves	148,129	23,086	148,129	23,086
Total shareholders' equity	205,748	32,066	205,748	32,066
Total capitalisation	638,587	99,524	1,138,587	177,450

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

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

3 In September 2002, the Bank registered an issue of U.S.$50 million 9 per cent. subordinated notes due 2007, although as at 31 December 2002, none of the notes had been sold to investors. As at the date hereof, the Bank had sold U.S.$26 million of the notes to pension funds on the domestic market.

4 On 27 March 2003, a General Shareholders Meeting of the Bank approved the issue of a number equal to or more than 51.9 million new Common Shares to EBRD for up to €30 million. See "The Bank – Participation by EBRD".

5 The Issuer issued U.S.$350,000,000 in aggregate principal amount of the existing 8.5 per cent. Notes due 2013 on 16 April 2003 and shall issue U.S.$150,000,000 in aggregate principal amount of the further 8.5 per cent. Notes due 2013 on 8 May 2003.

Other than as set forth in the notes to the capitalisation table, there has been no material change in the Bank's capitalisation since 31 December 2002.

SELECTED FINANCIAL INFORMATION

The audited summary information set forth below should be read in conjunction with, and is qualified in its entirety by, the Bank's financial statements, including the notes thereto, contained elsewhere in this Offering Circular. The Bank's financial statements contained in this Offering Circular are prepared in accordance with IAS. The Bank's financial statements for the years ended 31 December 2002 and 2001 were audited by TOO Deloitte & Touche, whose report thereon is included in this Offering Circular. See ''Index to Financial Statements''.

	31 December			
	2002	*2002*	*2001*	*2000*
	In U.S.$ thousands[1]	*In KZT millions*		
INCOME STATEMENT				
Interest income	147,367	22,607	17,536	12,362
Interest expense	(73,384)	(11,258)	(7,888)	(5,763)
Net interest income before provisions for loan losses	73,983	11,349	9,648	6,599
Loan loss provisions	(35,514)	(5,448)	(4,238)	(1,334)
Net interest income	38,469	5,901	5,410	5,265
Net gain on sale of trading securities	3,483	534	491	300
Unrealised gain on trading securities	2,618	402	1,010	905
Net gain on foreign exchange operations	4,174	640	730	482
Net unrealised exchange gain	3,696	567	656	598
Fee and commission income	37,754	5,792	3,850	2,790
Fee and commission expense	(7,342)	(1,126)	(768)	(1,057)
Realised gain/(loss) on securities available-for-sale	–	–	(2)	7
Equity income from associated companies	221	34	389	358
Dividends received and other investment income	2,912	447	38	135
Unrealised gain/(loss) on securities available-for-sale	25,527	3,916	(54)	(1,471)
Other income	2,823	433	283	816
Net non-interest income	75,866	11,639	6,623	3,863
Operating income	114,335	17,540	12,033	9,128
Operating expense	(51,861)	(7,956)	(5,940)	(5,276)
Income before provisions for losses on other transactions and tax expense	62,474	9,584	6,093	3,852
Recovery/(provision) for losses on other transactions	(8,650)	(1,327)	(526)	18
Income before income tax expenses	53,824	8,257	5,567	3,870
Income tax (expense)/recovery	(1,800)	(276)	(278)	154
Net income before Minority interest	52,024	7,981	5,289	4,024
Minority interest	(15)	(2)	–	–
Net income	52,009	7,979	5,289	4,024

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

	31 December			
	2002	*2002*	*2001*	*2000*
	In U.S.$ thousands[1]	*In KZT millions*		
BALANCE SHEET				
Assets				
Cash and balances with the National Bank of Kazakhstan	124,445	19,395	11,478	5,012
Loan and advances to banks, net	278,506	43,405	17,570	15,712
Trading securities	131,110	20,433	13,275	23,040
Securities under reverse REPO agreements	–	–	–	3,089
Loans to customers, net	1,091,354	170,087	137,661	67,080
Securities available-for-sale	38,292	5,968	169	1,219
Securities held-to-maturity	1,207	188	314	220
Investments in associated companies	1,835	286	1,774	2,047
Fixed assets, net	22,121	3,448	2,344	2,021
Intangible assets, net	3,905	609	528	478
Other assets	70,211	10,942	9,231	4,098
TOTAL ASSETS	1,762,986	274,761	194,344	124,016
LIABILITIES, SHARE CAPITAL AND RESERVES				
Loans and advances from banks	349,877	54,528	42,900	23,363
Securities sold under agreements to repurchase	–	–	1,563	–
Customer accounts	888,112	138,412	108,975	54,139
Debt securities issued	190,017	29,614	–	14,900
Other borrowed funds	29,175	4,547	5,222	4,402
Other liabilities	60,955	9,500	7,083	7,040
Subordinated debt	38,578	6,012	2,942	2,820
Dividends payable	3	1	1,236	–
TOTAL LIABILITIES	1,556,717	242,614	169,921	106,664
Minority interest	521	81	–	–
Share capital	22,456	3,500	3,498	2,932
Reserves	183,292	28,566	20,925	14,420
Total share capital and reserves	205,748	32,066	24,423	17,352
TOTAL LIABILITIES, SHARE CAPITAL AND RESERVES	1,762,986	274,761	194,344	124,016

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

SELECTED FINANCIAL AND OTHER RATIOS

	31 December		
	2002	*2001*	*2000*
Combined Key Ratios			
Return on shareholding equity[1]	28.3%	25.3%	26.2%
Net earnings per common share, in Tenge[1]	25.94	18.37	14.14
Operating expenses/Operating income before provisions for loan losses	34.6%	36.5%	50.4%
Operating expenses/Operating income after provisions for loan losses	45.4%	49.4%	57.8%
Loan Loss provisions/Loans	6.2%	6.5%	8.9%
Profitability Ratios[2]			
Net interest income before provisions for loan losses as a percentage of average interest-earning assets	6.2%	7.8%	9.0%
Net interest income after provisions for loan losses as a percentage of average interest-earning assets	3.2%	4.4%	7.2%
Operating expense as a percentage of net interest income	70.1%	61.6%	80.0%
Operating expense as a percentage of average total assets	3.8%	4.2%	6.0%
Profit after taxation as a percentage of average total assets	3.8%	3.7%	4.6%
Profit after taxation as a percentage of average shareholders' equity[2]	27.6%	28.2%	29.7%
Balance Sheet Ratios			
Deposits as a percentage of total assets	50.4%	56.1%	43.7%
Total net loans to customers as a percentage of total assets	61.9%	70.8%	54.1%
Total shareholders' equity as a percentage of total assets	11.7%	12.6%	14.0%
Liquid assets as a percentage of customer deposits[3]	60.4%	35.0%	65.9%
Liquid assets as a percentage of liabilities of up to one month[3]	126.5%	63.8%	90.3%
Capital Adequacy Ratios[4]			
Total capital	16.4%	17.2%	20.0%
Tier 1 capital	10.5%	11.1%	12.3%
Credit quality ratios[5]			
Non-performing loans as a percentage of total loans	1.3%	0.8%	0.8%
Non-performing loans as a percentage of total cashand non-cash loans	1.1%	0.7%	0.7%
Provisions for loan losses as a percentage of non-performing loans	486.2%	783.3%	1138.4%
Exchange rates			
Period end	155.85	150.94	145.40
Average for the period	153.86	146.73	142.12
Inflation and growth rates (%)			
CPI	6.6%	6.4%	9.8%
Real GDP (% change)	9.5%	13.5%	9.8%

1 Calculated based on the average of the period's opening and closing balances.

2 Based on average monthly balance for each month of the period.

3 Liquid assets comprise cash and balances with the NBK, loans and advances to banks (with a maturity of less than one month), trading securities, securities held-to-maturity and securities sold with an option to repurchase, less bonds of the Issuer.

4 Calculated in accordance with the recommendations of the Basel Committee on Banking Regulation and Supervisory Practices.

5 For the definition of non-performing loans, see ''Selected Statistical Information – Non-performing Loans and Provisioning Policy''.

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

The following discussion should be read in conjunction with the Bank's audited financial statements as at and for the years ended 31 December 2002 and 2001, respectively.

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

Introduction

The Bank's financial statements as at and for the years ended 31 December 2002 and 2001 prepared in accordance with IAS and contained in this Offering Circular were audited by TOO Deloitte & Touche. The financial statements are consolidated and reflect the results of operations of the Bank and its subsidiaries, JSC Kazkommerts Securities, JSC Kazkommerts Policy, JSC Kazkommertsbank Kyrgyzstan, Kazkommerts International B.V., Kazkommerts Capital 2 B.V. and Kazkommerts Finance 2 B.V. JSC Kazkommerts Policy was acquired in 2000 and its financial statements have been consolidated with the Bank's accounts since the date of acquisition. The Bank acquired a 73.8 per cent. holding in JSC Kazkommertzbank Kyrgyzstan in 2002 and its financial statements have been consolidated with the Bank's since the date of acquisition. The following discussion and analysis of the Bank's operations and financial condition, in so far as it refers to average amounts, has been based upon an analysis of average daily balances shown in the Bank's accounting records maintained in accordance with Kazakh Practices and adjusted to IAS.

The discussion in relation to the Bank's financial statements as at and for the years ended 31 December 2002 and 2001 are, unless otherwise stated, based upon the Bank's consolidated financial statements as at and for the years ended on such dates. The Bank's consolidated financial statements as at and for the years ended 31 December 2002 and 2001 are contained in ''Index to Financial Statements''.

Critical Accounting Policies

The Bank's results of operation and financial condition presented in the financial statements, notes to the financial statements, selected statistical and other information appearing elsewhere within this Offering Circular, including the management's discussion and analysis of results of operation and financial condition, are, to a large degree, dependent upon the Bank's accounting policies. The selection and application of its accounting policies involve judgments, estimates and uncertainties that are susceptible to change.

The Bank's significant accounting policies are described in Note 2 to the financial statements, appearing on page F-8 of this Offering Circular. The Bank has identified the following accounting policies that it believes are the most critical to the understanding of the results of operations and financial condition of the Bank. These Critical Accounting Policies require management's subjective and complex judgement about matters that are inherently uncertain. The impact and any associated risks related to the Bank's critical accounting policies on its business operations are discussed throughout the section entitled ''Management's Discussion and Analysis of Results of Operations and Financial Condition'' where these policies affect the Bank's financial results as presented in this Offering Circular.

Allowance for loan losses

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

Financial Instruments

On 1 January 2001, the Bank adopted IAS 39 ''Financial Instruments: Recognition and Measurement''. This did not result in any major changes in accounting policies as the existing policy

of the Bank for the measurement of assets and liabilities prior to 1 January 2001 approximated the methods of classification, recognition and measurement of financial instruments set out in IAS 39.

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

As at 31 December 2002, the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

- *cash and balances with the NBK and loans and advances to banks* – for these short-term instruments, the carrying amount is a reasonable estimate of fair value.
- *trading securities* – such securities are stated at fair value.
- *Loans to customers* – the fair value of the Bank's loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio.
- *Securities available-for-sale* – such securities are initially recorded at cost, which approximates the fair value of the consideration given, and subsequently measured at fair value. Fair value is determined by reference to market prices or, in the event that such market prices are not available, at the management's discretion.
- *Securities held-to-maturity* – such securities are stated at cost and adjusted for accretion and amortisation of premiums and discounts, which approximates fair value.
- *Investments* – investments in associates are recorded using the equity method. Subsidiaries that are considered insignificant for the Bank taken as a whole, or control of which is intended to be temporary, are stated at cost or at market value, if it is less than the purchase cost. The recorded amount is considered as reasonable approximation of fair value.
- *Loans and advances from banks, customer accounts* – the carrying amount is a reasonable estimate of fair value.
- *Debt securities issued* – debt securities issued are stated at nominal value. Premium and discounts are amortised over the life of an instrument, unamortised balances are offset and recorded in other assets or other liabilities section.

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

Off-Balance Sheet Arrangements

The Bank enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include guarantees, letters of credit, forward contracts and option contracts, involve varying degrees of credit risk and are not reflected in the balance sheet of the Bank. As at 31 December 2002, the Bank had issued guarantees totalling KZT18,951 million, had open letters of credit totalling KZT18,466 million and had open forward contracts totalling KZT3,604 million. The Bank's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

As at 31 December 2002, the provisions for losses for contingent liabilities were KZT1,790 million, compared to KZT667 million as at 31 December 2001, of which letters of credit and guarantees accounted for KZT1,123 million and KZT380 million for the years ended 31 December, 2002 and 2001, respectively.

The following table sets forth the commitments and contingent liabilities of the Bank in Tenge by maturity as at 31 December 2002:

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
Guarantees	3,062,258	1,610,104	3,265,618	8,960,850	2,052,264	18,951,094
Letters of credit	4,528,845	11,206,760	1,944,611	785,479	–	18,465,695
Forward contracts	2,045,880	1,558,500	–	–	–	3,604,380
Option contract[1]	3,117,000	–	1,558,500	–	–	4,675,500

1 The put options expired unexercised in January 2003. The premium received by the Bank is included in the income statement in ''other expenses''.

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

Results of Operations for the Year ended 31 December 2002 Compared to the Year ended 31 December 2001

Net income

The Bank's net income after taxes and minority interests increased by 50.9 per cent. in 2002 compared to 2001, up from KZT5,289 million in 2001 to KZT7,979 million in 2002. The growth in net income in 2002 was primarily due to a 45.8 per cent. increase in operating income from KZT12,033 million in 2001 to KZT17,540 million in 2002, caused primarily by gains made on the revaluation of its equity holding in JSC Air Kazakhstan and the revaluation of its holding in ABN AMRO Bank Kazakhstan as a result of its reclassification to securities available-for-sale. Net income before taxes and provisions for losses on other transactions grew by 57.3 per cent. to KZT9,584 million in 2002 compared to KZT6,093 million in 2001.

Interest Income

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

	31 December		
	2002	*2001*	*2000*
	In KZT millions		*Per cent.*
Interest on loans to customers	21,150	15,509	36.4
Interest on loans and advances to banks	347	711	(51.2)
Interest on trading securities	1,110	1,316	(15.6)
Total	22,607	17,536	28.9

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

	31 December	
	2002	*2001*
	Per cent.	
KZT loans to customers	13.7	13.0
Foreign currency loans to customers	14.7	15.6
KZT loans to banks	5.2	7.5
Foreign currency loans to banks	3.1	5.5
KZT denominated securities	6.2	6.9
Foreign currency denominated securities	9.3	11.5

Interest income grew 28.9 per cent. in 2002 compared to 2001, from KZT17,536 million to KZT22,607 million, principally as a result of the 23.2 per cent. increase in the Bank's customer loan portfolio from KZT147,166 million in 2001 to KZT181,330 million in 2002 (before provisions). Interest income from loans to customers increased by 36.4 per cent. to KZT21,150 million from KZT15,509

million, despite falling interest rates on customer loans. The net average loan portfolio grew by 61.9 per cent. in 2002 to KZT159,439 million from KZT98,452 million, while average interest rates on the portfolio fell to 15.1 per cent. in 2002 from 15.8 per cent. in 2001. The Bank maintained its policy of keeping the majority of its loan portfolio foreign currency denominated in 2002 (predominantly U.S. Dollars), and the share of Tenge denominated loans remained largely unchanged at 21.8 per cent. of the net average loan portfolio in 2002 compared to 22.5 per cent. in 2001. Average loans in foreign currencies were 78.2 per cent. of the total average loan portfolio in 2002, compared to 77.5 per cent. in 2001.

In 2002, interest income from loans and advances to banks fell by 51.2 per cent. to KZT347 million compared to KZT711 million in 2001. The decrease was primarily attributable to a decline in overnight interest rates from 5.6 per cent. to 3.3 per cent. and a decrease in average interest-earning deposits held with other banks from KZT11,343 million in 2001 to KZT9,194 million in 2002. The majority of the Bank's inter-bank exposure had a maturity of up to three months.

Interest income from trading securities fell 15.6 per cent. in 2002 to KZT1,110 million from KZT1,316 million in 2001 due to a fall in average interest rates from 10.4 per cent. in 2001 to 8.6 per cent. in 2002. The average trading securities portfolio remained relatively unchanged increasing by 1.2 per cent. from KZT12,698 million in 2001 to KZT12,855 million in 2002.

Interest Expense

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

	31 December	
	2002	*2001*
	In KZT million	
Interest expense on customer accounts	6,880	4,521
Interest expense on loans and advances from banks	1,940	2,267
Interest expense on debt securities issued	2,083	763
Interest expense on other liabilities	355	337
Total	11,258	7,888

Despite a decline in the average cost of funding to 6.6 per cent. in 2002 compared to 6.4 per cent. in 2001, interest expense increased by 42.7 per cent. in 2002, from KZT7,888 million in 2001 to KZT11,258 million in 2002 as a result of a substantial increase in deposits placed with the Bank in 2002. Average interest-bearing liabilities increased by 46.9 per cent. in 2002 from KZT117,145 million in 2001 to KZT172,036 million in 2002.

During 2002, the Bank increased its customer accounts from KZT108,975 million as at 31 December 2001 to KZT138,412 million as at 31 December 2002, resulting in an increase in interest expense on customer accounts of 52.2 per cent. in 2002. Average customer accounts as a percentage of total average assets remained relatively unchanged at 53.8 per cent. in 2002 compared to 53.1 per cent. in 2001.

Interest expense on loans and advances from banks fell by 14.4 per cent. in 2002 from KZT2,267 million in 2001 to KZT1,940 million in 2002 despite a fall in the interest rates on correspondent accounts from 2.3 per cent. in 2001 to 1.6 per cent. in 2002. The average balance of correspondent accounts increased by 69.8 per cent. from KZT397 million in 2001 to KZT674 million in 2002. Despite an increase in the average cost of inter-bank borrowings from 6.8 per cent. in 2001 to 7.0 per cent. in 2002, the Bank increased its short-term inter-bank borrowings by 2.3 per cent. to KZT3,845 million in 2002 from KZT3,758 million in 2001. This increase was primarily due to increased short-term funding requirements in 2002 resulting from an increased use of overdraft facilities by customers, including a number of large corporate customers that used overdraft facilities to pre-pay tax liabilities. The Bank also took advantage of a reduction in long-term interest rates from 8.4 per cent. in 2001 to 7.0 per cent in 2002 and increased its long-term borrowings by 26.7 per cent. from KZT23,955 million in 2001 to KZT30,357 million in 2002. The average volume of other borrowed funds rose to KZT5,221 million in 2002 from KZT4,469 million in 2001 as average interest rates declined to 6.8 per cent. from 7.5 per cent. in the same period.

Whilst the Bank, through the Issuer, repaid its U.S.$100 million 11.25 per cent. Notes due 2001 in May 2001 and the Bank repaid its U.S.$30 million 10.0 per cent. domestic notes due 2001 in September 2001, the Issuer issued U.S.$200 million 10.125 per cent. Notes due 2007 in 2002 comprising a U.S.$150

million tranche issued in May, and a U.S.$50 million tranche issued in December. As a result, interest expense on debt securities issued increased by 173.1 per cent. in 2002 from KZT763 million in 2001 to KZT 2,083 million in 2002. See ''Asset and Liability Management – Funding and Liquidity''.

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

	31 December	
	2002	*2001*
	Per cent.	
KZT deposits		
Time deposits	9.6	11.7
Demand deposits	1.1	1.5
Foreign currency deposits		
Time deposits	7.8	8.2
Demand deposits	1.1	1.6

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

Net interest income

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

	31 December	
	2002	*2001*
	In KZT millions	
Interest income	22,607	17,536
Interest expense	(11,258)	(7,888)
Net interest income before provisions for loan losses	11,349	9,648

Net interest income as a percentage of average interest-earning assets fell to 6.2 per cent. in 2002 from 7.8 per cent. in 2001 as a result of decreases in interest rates. In addition, as a result of the increase in the Bank's loan portfolio, provisions for possible loan losses were increased from KZT4,238 million in 2001 to KZT5,448 million in 2002. As a result, adjusted net interest income as a percentage of interest-earning assets fell to 3.2 per cent. in 2002 from 4.3 per cent. in 2001.

Provision for Loan Losses

The Bank's total loan portfolio increased by 23.2 per cent. in 2002 to KZT181,330 million from KZT147,166 million in 2001. Reflecting this, aggregate provisions for loan losses increased in 2002 by 28.6 per cent. to KZT5,448 million from KZT4,238 million in 2001.

The Bank recovered KZT124 million from loans and advances to banks in 2002 compared to a provision of KZT201 million in 2001. This recovery can be attributed primarily to the re-allocation by the Bank of loans and advances to OECD banks in 2002 following an increase in loans and advances to non-OECD banks (including Russian and Kazakh banks) in 2001 which required greater loss provisioning. Recovery of provisions for customer loans previously written off fell by 12.5 per cent. from KZT1,388 million in 2001 to KZT1,215 million in 2002.

As of 31 December 2002, the Bank's loan loss reserves were 6.2 per cent. of the total loan portfolio compared to 6.5 per cent. as of 31 December 2001. The decrease can be attributed to improvement in the

general economic situation in Kazakhstan as well as the generally improved quality of the Bank's loan portfolio.

Net non-interest income

In 2002, net non-interest income rose by 75.7 per cent. to KZT11,639 million from KZT6,623 million in 2001. This increase was primarily due to the success of a marketing campaign in 2002 which targeted cross-selling of products offered by the Bank to medium-sized clients and high net-worth individuals, thereby increasing fees and commissions earned on the sale of financial products to such customers.

Fees and Commissions

Fee and commission income grew by 50.4 per cent. in 2002 from KZT3,850 million in 2001 to KZT5,792 million in 2002. The increase can be attributed to an increase in the volume of operations, despite a decline in commissions earned due to increased competition in the domestic market. Commissions for customer settlement services, credit and charge card operations and documentary operations increased by 38.5 per cent., 68.6 per cent. and 152.8 per cent., respectively, in 2002. Commissions for cashier services rose by 10.5 per cent. and other fees and commissions, which include cash collection services, cheque facilities and account maintenance fees, rose by 25.6 per cent.

As the Bank's offered services continued to grow in 2002, expenses related to fees and commissions also increased. Fees and commissions paid in 2002 increased by 46.6 per cent. from KZT768 million in 2001 to KZT1,126 million in 2002. Despite the increase in expenses related to fees and commissions, as a percentage of income derived from fees and commissions, expenses fell from 20.0 per cent. to 19.5 per cent. in 2002. The increase in fees and commissions expenses in 2002 also resulted from a 46.0 per cent. growth in commissions paid to correspondent banks, a 79.3 per cent. increase in fees and commissions paid for credit and charge card services and a 78.2 per cent. rise in fees and commissions on documentary operations. Fees and commissions paid in relation to international borrowings grew by 246.9 per cent from KZT141 million to KZT489 million as a result of the Bank's increased international borrowings in 2002 and at the end 2001. At the same time, audit expense, legal fees and consultancy fees were nil, compared to KZT49 million, KZT41 million and KZT78 million in 2001 as such fees are now classified as an operating expense.

Gains on securities

The Bank's net realised gain on trading securities was 8.9 per cent. higher in 2002 amounting to KZT534 million compared to KZT491 million in 2001. The unrealised gain on trading securities fell from KZT1,010 million to KZT402 million as a result of limited operations with higher yielding Russian sovereign eurobonds in 2002 than in 2001.

At the same time, the Bank recorded an unrealised gain of KZT3,916 million on securities available-for-sale compared to a loss of KZT54 million in 2001. The loss in 2001 resulted from the revaluation of small equity holdings of JSC Kazkommerts Securities. The significant gain in securities available-for-sale in 2002 resulted from the reclassification of the Bank's equity stake in ABN AMRO Bank Kazakhstan to securities available-for-sale, accounting for a net unrealised gain of KZT1,560 million and the revaluation of the Bank's equity stake in JSC Air Kazakhstan which it had acquired through a partial debt-equity swap from nil to KZT2,391 million. The revaluation was part of a restructuring of JSC Air Kazakhstan implemented by the Government pursuant to which the Government paid the Bank KZT2,391 million for its 50 per cent. holding in JSC Air Kazakhstan in early 2003. See ''Transactions with Related Parties''. The gain on the Bank's equity stake in ABN AMRO Bank Kazakhstan arises from the difference between the equity value of the shares at 31 December 2002 and the management's determination of their value using a commonly accepted equity valuation technique.

In 2001, the Bank realised a loss on securities available-for-sale of KZT1.4 million primarily caused by the sale of the Bank's holding in JSC Ekskavator in 2001. There were no realised gains or losses on securities available-for-sale in 2002.

Net Realised and Unrealised Gain on Foreign Exchange Operations

The continued relative stability of the Tenge exchange rate in 2001 and 2002 (the Tenge devalued by 3.8 per cent., in 2002 compared to 3.9 per cent. in 2001) resulted in lower trading margins and less volatility in foreign currency operations and, as a result, the net gain on foreign exchange operations fell from KZT730 million in 2001 to KZT640 million in 2002 (12.3 per cent.). The Bank had expected trading

volumes in foreign currency notes to increase in 2002 as a result of the reduction of the customs duty on physical foreign currencies from 0.4 per cent. in 2001 to 0.2 per cent. in 2002, although such increased activity did not materialise.

Throughout 2001 and 2002, the Bank maintained its long U.S. Dollar position, resulting in a net unrealised gain of KZT567 million in 2002 compared to KZT656 million in 2001.

Equity Income from Associated Companies

Equity income from associated companies fell 91.3 per cent. in 2002 to KZT34 million from KZT389 million in 2001, primarily as a result of re-classification of the Bank's equity stake in ABN AMRO Bank Kazakhstan as securities available-for-sale.

Dividends Received

In 2002, the Bank received a dividend of KZT447 million, primarily on its investment in from ABN AMRO Bank Kazakhstan as compared to KZT38 million on securities held by the Bank and JSC Kazkommerts Securities in 2001.

Other income

Other income grew by 53.1 per cent in 2002 from KZT282.9 million in 2001 to KZT433.1 million in 2002. Following the acquisition of JSC Kazkommerts Policy in 2000, JSC Kazkommerts Policy was consolidated with the Bank for the year ended 31 December 2001. Following the consolidation of JSC Kazkommerts Policy into the Bank's financial statements, insurance premiums of JSC Kazkommerts Policy were the main item of other income, with premiums increasing from KZT206 million in 2001 to KZT335 million in 2002 (62.6 per cent.) resulting from the continued development of the insurance market in Kazakhstan.

Operating expenses

Operating expenses, comprising salaries and wages and related social security charges, depreciation, advertising, communication and other expenses increased by 33.9 per cent. in 2002 to KZT7,956 million from KZT5,940 million in 2001. The Bank maintains strict expense controls, which have allowed it to reduce operating expenses to 45.4 per cent. of operating income and 34.6 per cent. of operating income before loan loss provisions in 2002 compared to 49.4 per cent. and 36.5 per cent., respectively, in 2001. Operating expenses as a percentage of average assets also improved in 2002 to 3.8 per cent. from 4.2 per cent. in 2001.

The major component of the Bank's operating expenses is staff costs which accounted for 52.5 per cent. of total operating expenses in 2002, compared to 49.1 per cent. in 2001. Staff costs grew by 43.4 per cent. in 2002 to KZT4,178 million from KZT2,914.1 million in 2001. The rise in staff costs resulted from an increase in the number of staff employed by the Bank in 2002 by 19.1 per cent. from 2,392 employees at the end of 2001 to 2,850 at the end of 2002, and also an increase in bonus payments to certain staff, reflecting a change in the bonus policy whereby the Bank now accounts for bonuses in the year to which they are attributable rather than that in which they are paid, effective from 2002. Bonus payments were KZT758 million in 2002, comprising KZT151 million payable for 2001 bonuses and KZT607 million accrued in 2002 for 2002 bonuses, payable in 2003. A substantial portion of staff salaries are linked to the U.S. Dollar and are therefore sensitive to fluctuations in the value of Tenge, although the relative stability of the Tenge against the U.S. Dollar in 2001 and 2002 meant that there was little volatility in staff costs caused by currency fluctuations in 2001 and 2002. The Bank expects a gradual increase in the number of staff it employs as it implements its Retail Market Strategy, although management will continue to implement strict expense controls throughout the Bank to control such operating expenses.

Depreciation and amortisation costs rose 21.1 per cent. in 2002 to KZT625 million from KZT516 million in 2001 as a result of a 24.7 per cent. increase in net average fixed and intangible assets in 2002, including the purchase and installation of the Bank's Equation DBA banking information system and the expansion of its ATM network.

As the Bank has continued to expand its customer base (average customer deposits increased by 49.5 per cent. in 2002 from KZT75,864 million in 2001 to KZT113,394 million) the Bank's payments in respect of eligible accounts to the DBK to maintain the Deposit Insurance Scheme increased by 149.9 per cent. in 2002 to KZT353 million from KZT141 million in 2001. See ''The Banking Sector in Kazakhstan – Banking''.

Advertising costs and rental expenses rose by 7.8 per cent. and 31.1 per cent., respectively, in 2002 from KZT289 million and KZT122 million to KZT312 million and KZT160 million, respectively, as the Bank continued with the implementation of its domestic market expansion. Fixed assets maintenance costs increased by 95.8 per cent. in 2002 to KZT242 million from KZT124 million in 2001 due, in part, to the completion of the installation of the Bank's Equation DBA banking information system in 2002. Vehicle maintenance, training and stationery expenses also increased in 2002 by 27.2 per cent., 234.2 per cent. and 60.6 per cent., respectively, as the Bank's business continued to expand.

Following the introduction of new Tax Code in 2002, certain financial services provided by the Bank were exempt from VAT or assigned a zero VAT rating allowing the Bank to decrease VAT expenses by 8.7 per cent. in 2002 from KZT256 million in 2001 to KZT234 million despite the increase in the general volume of operations over the period. Communication expenses remained relatively constant in 2002 falling slightly to KZT220 million compared to KZT223 million in 2001. An increase in capital market operations and regional development saw travel expenses grow by 24.1 per cent. in 2002 to KZT253 million from KZT204 million in 2001.

Charity and sponsorship expenses fell by 13.8 per cent. in 2002 from KZT183million in 2001 to KZT158 million.

In 1999, the Government introduced a customs duty of 1.0 per cent. on the import of all physical foreign banknotes. At the end of 2000, this duty was decreased to 0.4 per cent. and it was further decreased to 0.2 per cent. in 2002. As a result, the customs duty paid by the Bank on the import of foreign banknotes fell 54.2 per cent. from KZT195 million in 2001 to KZT89 million in 2002.

The Bank paid 15.5 per cent. less tax (other than corporate income tax and VAT) in 2002 than in 2001, the higher payment in 2001 resulting from a one-time dividend tax of KZT96 million on dividends received from ABN AMRO Bank Kazakhstan in that year.

Inventory written off increased significantly in 2002 to KZT79 million from KZT3 million (2,323.3 per cent.). Small items of furniture acquired by the Bank during the course of its branch expansion programme were written-off in 2002, the year of purchase. In addition, the Bank purchased a large stock of blank credit and debit cards for future use, which were also written-off in 2002.

Other expenses grew from KZT239 million in 2001 to KZT450 million in 2002. The growth came as a result of an increase in legal expenses and arrangement fees due to the Issuer's U.S.$200 million eurobond issue, the loan from EBRD, syndicated loans and other capital market operations.

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. In 2001, the effective tax rate paid by the Bank was 5.0 per cent., compared to an effective tax rate in 2002 of 3.4 per cent. Effective tax rates are substantially lower than the statutory rate primarily as a result of certain income (including income from changes in net unrealised gain on foreign exchange operations, Government securities trading and long-term loans) being non-taxable under Kazakh tax legislation. There are also certain differences between IAS and Kazakh Practices in relation to accounting for the accrual of deferred taxes arising as a result of the difference between Kazakh and international provisioning standards. See ''Selected Statistical and Other Information – Non-Performing Loans and Provisioning Policy''.

Financial Condition

Total Assets

During 2002, the Bank's total assets increased by 41.4 per cent. to KZT274,761 million from KZT194,344 million at the end of 2001. The growth was primarily attributable to a 69.0 per cent. increase in cash and balances with the NBK and National Bank of Kyrgyzstan, a 147.0 per cent. growth in net loans and advances to banks, a 53.9 per cent. growth in trading securities and a 23.6 per cent. growth in the Bank's loan portfolio.

At the same time, the Bank increased its portfolio of securities available-for-sale by 3,431.4 per cent. as a result of the reclassification and revaluation of its equity stake in ABN AMRO Bank Kazakhstan from an investment in associated companies. As a result, investments with associated companies fell by 83.9 per cent.

In addition, the development and growth of the Bank (in terms of branches and staff) saw fixed and intangible assets rise by 47.1 per cent and 15.3 per cent., respectively, over the period.

Average assets of the Bank increased by 47.5 per cent. as at 31 December 2002 to KZT210,722 million from KZT142,831 million as at 31 December 2001. As at 31 December 2002, the Bank remained the largest bank in Kazakhstan in terms of assets.

Total Liabilities

During 2002 the Bank's liabilities increased by 42.8 per cent. to KZT242,614 million from KZT169,921 million at the end of 2001. The increase came as a result of the increase in customer accounts by 27.0 per cent., and in loans and advances from banks by 27.1 per cent. and the issuance of debt securities by the Bank and the Issuer in 2002, increasing the Bank's liabilities in relation to debt securities from nil as at 31 December 2001 to KZT29,614 million as at 31 December 2002.

In May 2001, the Bank repaid the loan from the Issuer to fund the redemption of its U.S.$100 million 11.25 per cent. Notes due 2001 and in September 2001, the Bank repaid its U.S.$30 million 10.0 per cent. domestic notes due 2001. In 2002, the Issuer issued U.S.$200 million 10.125 per cent Notes due 2007 comprising two tranches of U.S.$150 million and U.S.$50 million issued in May and December, respectively, the proceeds of which were on-lent to the Bank as a time deposit. Subordinated eurobonds and domestic bonds issued by the Bank are classified as subordinated debt and so are not included as debt securities issued by the Bank. As at 31 December 2001, the Bank had subordinated debt of KZT2,942 million, represented by a U.S.$20 million 11.0 per cent. subordinated eurobond due 2007. At the end of 2002, the Bank's subordinated debt had increased to KZT6,012 million following the exercise by DEG of its option to convert its loan into a subordinated loan in 2002 amounting to KZT1,625 million and the issuance of subordinated notes amounting to KZT1,325 million in December 2002 to the holders of the Bank's Preference Shares in lieu of a cash dividend. As at the end 2002, the Bank had registered an issue of U.S.$50 million 9.0 per cent. subordinated notes due 2009 with the NBK, although these were not offered to investors until early 2003.

At the end of 2001, the Bank's borrowings under repurchase transactions totalled KZT1,563 million. As at 31 December 2002, the Bank was not party to any repurchase transactions.

In 2002, average liabilities of the Bank grew 46.6 per cent. to KZT181,824 million compared to KZT124,051 million in 2001. The average interest-bearing liabilities of the Bank increased by 46.9 per cent. compared to 2001. During 2002, average time deposits and demand deposits increased 69.0 per cent. and 16.0 per cent., respectively.

Equity

As at 31 December 2002, the Bank's equity capital had increased by 31.3 per cent. to KZT32,066 million from KZT24,423 million as at 31 December 2001. Average equity rose by 53.9 per cent. in the same period.

As at 31 December 2002, the Bank's equity capital (measured in accordance with the standards of the Bank for International Settlements (the ''BIS'')) was KZT37,484 million, including Tier 1 capital of KZT24,080 million. As at 31 December 2002, BIS Tier 1 and total capital adequacy ratios stood at 10.5 per cent. and 16.4 per cent. compared to 11.1 per cent. and 17.2 per cent., at the end 2001 respectively. At the end of 2002, the Bank remained the largest commercial bank in Kazakhstan in terms of equity and the second largest bank in Kazakhstan after the DBK.

The following table sets out the Bank's capital adequacy ratios calculated in accordance with the requirements of the NBK as at 31 December 2002 and 2001:

		As at 31 December	
	NBK's minimum requirements	*2002*	*2001*
Minimum charter fund[1]	Not less than KZT2,000 million[2]	KZT3,500 million	KZT3,498 million
Capital Adequacy Ratios			
K1 – tier I capital to total assets	Not less than 6%	6.8%	7.8%
K2 – own capital to total assets weighted for risk	Not less than 12%	12.4%	13%
K4 – Current Liquidity ratio[4]	Greater than 30%	78.2%	41%
K5 – Short-term Liquidity Ratio*	Greater than 40%	95.8%	–
Reserves with the NBK and cash**	A monthly average of 8%	13.5%	8.8%
K6 – investments into fixed assets and non financial assets to equity	50% of bank's own capital of all customer deposits	15.9%	11.1%
Maximum aggregate net open foreign currency position[4]	50% of bank's own capital[3]	1.4%	21.9%
Maximum net open position for any single currency	50% of bank's own capital	–	23.5%
Maximum net open long position in U.S. Dollars[5]*	30% of bank's own capital	2.5%	–
Maximum net open short position in Russian roubles[6]*	15% of bank's own capital	0.9%	–
Maximum net open short position in Kyrgyz Soms[7]*	5% of bank's own capital	0.0%	–
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	100% of bank's own capital	11.2%	11.4%
Maximum exposure to any single borrower	Percentage of bank's own capital		
related parties	10%	5.4%	6.8%
– other borrowers	25%	23.9%	21.3%
– on insecured loans	10%	4.2%	8.2%

1 Under Kazakh law, the ''charter fund'' means capital which must be provided in order to establish a company or a bank. A charter fund may only be formed with cash contributions. No borrowed funds are permitted as a contribution to a charter fund.

2 For newly established second tier banks with branches.

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

4 Net currency position.

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

6 Short currency position in currencies of countries rated from B but lower than A.

7 Long currency position (long and short) in currencies of countries rated lower than B or having no rating.

* New ratios introduced in 2002.

** Minimum reserves requirements were decreased from 8 per cent. to 6 per cent. and calculation methods have been adjusted in 2002.

ASSET AND LIABILITY MANAGEMENT

Introduction

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

Interbank borrowings as a percentage of the Bank's total liabilities fell from 25.2 per cent. to 22.5 per cent. during the course of 2002. Over the same period, customer deposits as a percentage of the Bank's liabilities decreased to 57.1 per cent. from 64.1 per cent. while debt securities as a percentage of the Bank's total liabilities rose from nil to 12.2 per cent. as a result of the issue of U.S.$200 million 10.125 per cent. Notes due 2007 by the Issuer during the year.

The Bank follows a policy of shorter-term or matched financing that addresses the sensitivity of the Bank to changes in interest rates. Nevertheless, as of 31 December 2002 the Bank's cumulative interest sensitivity gap was negative for the period of up to one month at KZT 4,952 million and positive overall at KZT 18,385 million. This was an improvement on the previous year end when the Bank's cumulative interest sensitivity gap was negative for the period of up to one month at KZT25,921 million but was positive overall at KZT17,439 million. The Bank's short term negative exposure to interest rates is primarily because of substantial demand deposits placed with the Bank by corporate customers and such customers' demand for longer term credit facilities. When practicable, the Bank also seeks to link loans to their underlying funding sources through participation in the special programmes sponsored by the NBK, the Ministry of Finance of Kazakhstan and international financial institutions. The Bank also endeavours to increase and extend the maturities of its retail time deposits.

In order to be able to meet a sudden deposit outflow, at year end 2002 the Bank maintained cash reserves with the NBK and National Bank of Kyrgyzstan, short-term deposits and current accounts with banks, as well as trading securities, which amount to KZT19,395 million, KZT43,575 million and KZT 1,924 million, respectively.

The Bank monitors and manages its asset and liability position through its Asset and Liability Management Committee (''ALMC''), which is chaired by the Chairman of the Bank and includes three Managing Directors, the Director of Treasury and the Director of Investment Banking. The ALMC meets weekly to review the Bank's asset and liability position based on information provided by the Financial Control and Treasury Divisions, including maturities and interest rates and yields; the size of the Bank's loan and investment portfolios; the maturity profile of the Bank's loans, time deposits and investments; the Bank's net foreign currency position; its operational ratios relative to NBK regulations; exchange rates, inflation rates and other macro-economic factors; and general national and international political and economic trends. Based on its review, the ALMC evaluates the Bank's risk profile and determines short-term strategy. The Bank's treasury operations and investment strategies are also planned at ALMC meetings.

Maturities

The Bank's senior management monitors asset and liability maturities to ensure that they are consistent with the Bank's strategy according to prevailing market conditions, that the Bank has sufficient liquidity and that limits established by the NBK are respected. The ALMC reviews the Bank's positions weekly and advises on any prospective changes to be made to them.

The following table summarises the Bank's assets and liabilities by maturity as at 31 December 2002 and contains certain information regarding interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the periodic re-pricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income while an increase in interest rates would have a negative effect on interest income. The table assumes that the Bank is able to trade its government securities on the OTC market and therefore lists them as liquid assets rather than long term assets according to their maturity.

	31 December 2002						
	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Provisions*	*Total*
	In KZT million						
ASSETS							
Loans and advances to banks, net	43,575,280	–	–	–	–	(170,136)	43,405,144
Trading securities	1,924,299	1,256,413	11,215,700	6,031,369	5,668		20,433,449
Loans to customers, net	11,487,070	13,923,107	46,547,690	97,214,900	12,157,149	(11,242,456)	170,087,460
Securities available-for-sale	2,562,528	104,847	3,300,448	–	–	–	5,967,823
Securities held-to-maturity	–	–	–	188,152	–	–	188,152
Total interest earning assets	59,549,177	15,284,367	61,063,838	103,434,421	12,162,817	(11,412,592)	240,082,028
Cash and balances with the NBRK	19,394,771	–	–	–	–	–	19,394,771
Investments in associates	–	–	–	–	285,917	–	285,917
Fixed assets, net	–	–	–	–	3,447,613	–	3,447,613
Intangible assets, net	–	–	–	–	608,577	–	608,577
Other assets, net	3,778,090	2,579,402	3,719,781	3,405,308	294,817	(2,835,006)	10,942,392
TOTAL ASSETS	82,722,038	17,863,769	64,783,619	106,839,729	16,799,741	(14,247,598)	274,761,298
LIABILITIES							
Loans and advances from banks	9,968,303	284,785	38,261,304	5,504,772	509,091	–	54,528,255
Debt securities issued	–	–	–	29,614,150	–	–	29,614,150
Customer accounts	54,531,114	23,753,871	40,408,715	19,718,545	43	–	138,412,288
Other borrowed funds	399	467	325,858	3,537,525	682,710	–	4,546,959
Subordinated debt	–	–	–	1,272,265	4,740,057	–	6,012,322
Total interest bearing liabilities	64,499,816	24,039,123	78,995,877	59,647,257	5,931,901	–	233,113,974
Other liabilities	1,557,925	960,358	2,892,101	664,387	1,214,408	2,210,711	9,499,890
Dividends payable	406	–	–	–	–	–	406
TOTAL LIABILITIES	66,058,147	24,999,481	81,887,978	60,311,644	7,146,309	2,210,711	242,614,270
Interest sensitivity gap	(4,950,639)	(8,754,756)	(17,932,039)	43,787,164	6,230,916		
Cumulative interest sensitivity gap	(4,950,639)	(13,705,395)	(31,637,434)	12,149,730	18,380,646		
Cumulative interest sensitivity gap as a percentage of total assets	(1.80%)	(4.99%)	(11.51%)	4.42%	6.69%		
OFF-BALANCE SHEET COMMITMENTS							
Payable under forward deals	(2,045,880)	(1,558,500)	–	–	–		(3,604,380)
Receivable under forward deals	2,044,177	1,565,000	–	–	–		3,609,177
Interest sensitivity gap	(1,703)	6,500	–	–	–		
Cumulative interest sensitivity gap	(1,703)	4,797	4,797	4,797	4,797		
Aggregated cumulative interest sensitivity gap, balance sheet and off-balance sheet	(4,952,342)	(13,700,598)	(31,632,637)	12,154,527	18,385,443		

Notwithstanding its substantial negative short-to-medium term interest sensitivity gap, the Bank believes that its sensitivity to interest rate changes is largely reduced by its relatively short-term lending and its ability under a substantial majority of its loan agreements to adjust the applicable rate of interest at any time. If the adjusted interest rate is not acceptable to the borrower, it can prepay the loan and, in

the event of material changes in circumstances, the Bank is also entitled to call for prepayment of loans. Accordingly, a substantial portion of the Bank's assets are susceptible to repricing prior to maturity.

Funding and Liquidity

As at 31 December 2002, 71.3 per cent. of the Bank's liabilities had a maturity of less than one year, while the percentage of its assets with a maturity of less than one year was 60.2 per cent. The Bank believes that loans with shorter or the same maturity as corresponding funding sources provide stability and flexibility to its funding. The management of its assets and liabilities allowed the Bank to maintain prudent levels of liquidity through 2002 and 2001 and this is expected to continue through 2003.

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

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

In July 1997 the Bank raised approximately U.S.$50 million through an international offering of its Common Shares in the form of depositary receipts which are listed on the London and Istanbul stock exchanges and traded on the Frankfurt and Berlin stock exchanges. In December 2001, the Bank raised U.S.$21.2 million through a public placement of Preference Shares in Kazakhstan. In 2003, the Bank expects to raise an additional U.S.$30 to U.S.$100 million by placing Preference and Common Shares with international financial institutions and international and Kazakh investors, including the placement of its U.S.$50 million subordinated notes due 2009 with domestic investors and the anticipated equity participation of EBRD in the Bank referred to above. The Bank's Common and Preference Shares are listed in the A-category on the Kazakhstan Stock Exchange.

In May 1998, the Bank, through the Issuer, raised U.S.$100 million by means of a three year eurobond with an interest rate of 11.25 per cent. which matured in May 2001. The issue was the first eurobond issued by a Kazakh corporate issuer. In September 1999, the Bank issued a U.S.$30 million domestic bond, which matured in September 2001. In September 2000, the Bank issued U.S.$20 million subordinated notes due 2007 with an 11 per cent. coupon. The issue was mainly placed with Kazakh pension funds.

In 2001, the Bank received €10 million under a seven year credit facility from DEG, which was subsequently converted into a subordinated loan in April 2002.

In September 2002, the Bank signed a U.S.$50 million four year term-loan agreement with EBRD. The loan was structured as two loans: a U.S.$30 million loan for four years provided by EBRD and a U.S.$20 million loan syndicated with commercial banks for two years with a roll-over option for another two years. The Bank has not yet drawn down the facility, and considers it a liquidity back up.

In addition to this facility, as of 31 December 2002, EBRD has an aggregate of U.S.$43 million in different loans outstanding to the Bank. EBRD has also approved taking an equity participation in the Bank of up to 15 per cent for up to €30 million. The terms of this transaction are expected to be finalised in the first half of 2003. See ''The Bank – Participation by EBRD''.

In 2002, the Issuer also raised U.S.$200 million by the issue of its 10.125 per cent. Notes due 2007 in two tranches of U.S.$150 million and U.S.$50 million in May and December, respectively. The proceeds from the issue of these Notes were placed by the Issuer with the Bank as a time deposit. The Bank and the Issuer also extended their U.S.$100 million term facility in December 2002 for a further twelve months and increased the facility by U.S.$50 million, taking the total amount drawn-down under such facility to U.S.$150 million. In addition, the Bank issued KZT1,325 million subordinated notes to the holders of its Preference Shares in December in lieu of a cash dividend distribution.

The Bank expects to raise approximately U.S.$750 million (including the Notes) in 2003, which the Bank believes should further improve its medium-term funding base.

The following table sets out certain Tenge liquidity ratios for the Bank as at 31 December 2002, 2001 and 2000:

	31 December		
	2002	*2001*	*2000*
Loans to customers, net, as a percentage of total assets	61.9%	70.8%	54.1%
Loans to customers, net, as a percentage of customer accounts	122.9%	126.3%	123.9%
Loans to customers, net, as a percentage of total equity	530.4%	563.7%	386.6%
Liquid assets as a percentage of total assets	30.4%	19.6%	28.8%
Liquid assets as a percentage of total deposits	60.4%	35.0%	65.9%

The Bank's funding base consists largely of demand and time deposits. This structure positively affects funding costs and improves the Bank's liquidity.

The Bank managed substantially to increase its retail deposit base as well as its time deposits in 2002 as compared to 2001 and over this period total customer deposits grew from KZT108,975 million to KZT138,412 million or by 27.0 per cent. The Bank intends further to increase its domestic funding through deposit taking, as it regards deposits as a more stable and relatively cheap source of short-term and medium-term funding.

The Bank seeks to increase its share of retail deposits in the domestic market by increasing its geographical coverage, expanding the range of services it offers and increasing their quality. The Bank believes that through offering a wider range of and more sophisticated services, such as electronic banking, credit and debit cards, payroll services, payments to utilities, account management, trust services and insurance products to individuals, it will be able to attract new customers and improve its ability to cross-sell products. This policy has been implemented in the Bank's retail strategy. See ''Description of Business – Banking Services – Personal Banking''.

Foreign Currency Management

The Tenge has been generally stable against the U.S. dollar over the last two years and during 2001 and 2002 depreciated against the U.S. dollar by only 3.9 per cent. and 3.8 per cent. respectively. However, even though this rate of depreciation is lower than has been the case in the past, the Bank still maintains a long aggregate foreign currency position in order to benefit from the continued depreciation. The Bank's long position is less than the limits set by NBK. At the end of 2002, the Bank closed its short position in Tenge and established an almost neutral position.

The following table sets out the foreign currency positions of the Bank at 31 December 2002, 2001 and 2000:

	31 December		
	2002	*2001*	*2000*
Net (short)/long position (millions of U.S. Dollars)	(3.9)	67.1	10.2
As a percentage of shareholders' equity	(1.9%)	41.3%	8.5%
As a percentage of foreign currency liabilities	(0.3%)	7.4%	1.7%

The NBK regulates and closely monitors the net open foreign currency position of banks. According to the NBK's requirements, a bank's net open foreign currency position may not exceed 50 per cent. of its capital and the net open foreign currency position for any single currency may not exceed 30 per cent. of its capital. The open position for any non-OECD currency is limited to 5 per cent. of its capital. The net open foreign currency position is the difference between the Tenge equivalent of foreign currency assets and foreign currency liabilities. Foreign currency assets include all foreign currency accounts belonging to a bank and the total value of its forward currency purchases. Foreign currency liabilities include all foreign currency accounts held with a bank and the total value of its forward foreign currency sales. At weekly meetings, the ALMC monitors the net open foreign currency position and advises on the Bank's strategy accordingly.

Treasury Operations

The main objective of the Bank's treasury operations is to achieve efficient management of liquidity, interest rate and market risk by operations in the foreign exchange and money markets; thus managing foreign currency exposure and funding costs. The Bank's treasury operations consist largely of

spot transactions in Tenge and foreign currencies, transactions in government securities and currency swap and forward transactions for hedging purposes. Due to the lack of a developed framework and trading and accounting mechanisms in the derivatives market in Kazakhstan, combined with the underdeveloped nature of the banking sector, futures, options and forward currency trading are rare. The Bank, ABN AMRO Bank Kazakhstan, Citibank Kazakhstan, Bank TuranAlem and Halyk Savings Bank are the leading banks involved in money market operations and state securities trading. In the event that EBRD purchases an equity stake in the Bank in 2003, the Bank has agreed to limit any derivative transactions to transactions in the ordinary course of business with an aggregate net open position no higher than the lower of an amount to be agreed between the Bank and EBRD and as stipulated by the NBK. See ''The Bank – Participation of EBRD''. As such, future derivatives trading by the Bank may be limited.

Whilst the size of the Bank's average trading portfolio remained relatively unchanged in 2002, increasing by 1.2 per cent from KZT12,698 million in 2001 to KZT12,855 million in 2002, the composition of the portfolio changed considerably throughout the period. See ''Selected Statistical and Other Information – Trading and Investment Portfolio''.

DESCRIPTION OF BUSINESS

Banking Services

Corporate Banking

The Bank provides commercial banking products and services to predominantly medium and large Kazakh corporations and multinational corporations operating in Kazakhstan. As part of its medium to short term strategy, the Bank plans to expand its corporate client base and increase the quality of its loan portfolio. In 2001, the Bank developed a new method of classifying its corporate clients based on the annual volume of sales rather than average current account balances. Corporate clients with sales of U.S.$2.5 million or less are classified as ''small-sized'', corporate clients with sales of between U.S.$2.5 million and U.S.$9 million as ''medium-sized'', and corporate clients with sales of over U.S.$9 million as ''large-sized''. The principal products offered to corporate clients include trade finance and short-term credit facilities denominated in Tenge and foreign currencies, predominantly U.S. Dollars and Euro, as well as other general banking services. Consistent with the Bank's policy of maintaining high levels of liquidity, it typically provides short-term loans with an average maturity of up to twelve months for medium-sized corporate clients and of up to 18 months for large-sized corporate clients. The Bank believes that this policy also reduces its sensitivity to interest rate changes. As there is a strong demand for longer-term facilities, the Bank tries to link underlying funding sources to longer-term financing, when available, or to maintain flexibility in current funding sources by ensuring that they allow early prepayment or interest rate adjustment. The Bank is also developing documentation to allow loan participation in certain facilities and syndicated loans to top corporate customers in Kazakhstan with foreign banks which have a strong interest in taking part in such transactions. See ''Asset and Liability Management''.

The Bank's primary objectives with respect to its lending activities are to diversify into different sectors of the economy in order to reduce its exposure to particular industries, enhancing the quality of its loan portfolio, and, in the short-term, to achieve real growth in its loan portfolio. As part of this objective, the Bank increased its exposure in the oil and gas sector to 18.1 per cent. of its loan portfolio in 2002 compared to 9.9 per cent. in 2001 (in each case, before provisioning), and intends to further expand its lending activities in the oil and gas, mining and consumer lending sectors in 2003. The Bank continues to expand its market share in relation to medium size borrowers, which it sees as an area with high growth potential. These are sectors that the Bank has identified as having stronger growth prospects and involving a lower credit risk than other sectors included in its current loan portfolio. The Bank has a market research group within its credit department that performs sectoral risk assessments and actively pursues opportunities in targeted industries. The Bank has also established a Marketing Division, headed by a Managing Director. The Marketing Division is involved in market evaluation, monitoring product development and product marketing.

Retail Banking

The Bank commenced its personal banking operations in 1993. The Bank has since expanded into consumer-oriented banking services and has introduced a variety of products such as demand, time and accrual accounts in local and foreign currencies, debit cards which provide access to the ''Cirrus'' and ''Maestro'' systems, VISA and Mastercard credit cards and corporate payroll account services.

The Bank's primary objectives with respect to personal banking are to expand its client base by introducing more current account related products and to expand its consumer loan operations (primarily car loans and mortgages). The Bank has introduced new services, including direct debit payments for retail purchases, payments of utility bills, currency exchange facilities on debit cards, an ATM network and consumer lending services. The establishment of an ATM network began in the second half of 1997 and the Bank has installed a total of 172 ATM units to date in principal cities in Kazakhstan and, in common with other retail banks in Kazakhstan, customers of the Bank can use the ATM networks of other Kazakh banks for a small fee charged for each withdrawal. The VISA and Mastercard credit cards issued by the Bank have been available for use with the ATM network since its integration with the International Eurocard Network in February 1998. The Bank is an authorised agent for American Express and Diners Club in Kazakhstan and was the first bank in Kazakhstan to issue smart cards and to be certified for standard Europay-Mastercard and VISA.

The Bank's main competitors in retail banking are Halyk Savings Bank, which has approximately 20 regional branches and 604 retail outlets and Bank TuranAlem with over 23 regional branches and 230 retail outlets.

In 2001, the Bank developed its Retail Market Strategy, pursuant to which the Bank began to develop a retail branch network in Kazakhstan. The network includes branches for high net-worth individuals and middle income customers with substantial account balances and separate branches for other retail clients. New branches will be introduced over a period of time and will primarily be in regions which the Bank believes have a high growth potential. The Bank has already opened retail branches in Almaty, Astana and Karaganda. In the longer term, such strategy is expected to increase retail deposits of the Bank and to enhance fee and commission revenue from retail products.

In 2001, the retail banking market in Kazakhstan experienced a boom. In 2000, the Government introduced the Deposit Insurance Fund which guarantees certain deposits of retail customers of the member banks. This became an important part of the retail deposit system in 2001. Between June and July of 2001, the Government announced an amnesty of any capital placed with banks through such period. The programme was successful and brought approximately U.S.$480 million into the banking system. Under the conditions of participation in the Deposit Insurance Fund, banks must fulfil certain obligations with respect to interest rates. As a result, the deposit rates paid by banks in Kazakhstan which participate in the Deposit Insurance Fund are subject to the limits established by the Deposit Insurance Fund. See ''The Banking Sector in Kazakhstan''.

In 2001, the Bank continued with its policy of cross-selling products to attract new customers. Payment cards are offered as supplementary services to all customers, in particular, private individuals and large corporate clients. The Bank increased the issuance of, in particular, Europay International and VISA credit cards, as well as Cirrus, Maestro and VISA Electron debit cards. As at 31 December 2002, the aggregate number of issued credit and charge cards rose to over 214,000, an increase of 49,000 from 31 December 2001. AIG, a leading international insurance company, provides insurance services to the Bank's card holders in Kazakhstan and abroad.

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

Other Banking and Financial Services

In May 1997, the Bank received a licence to trade gold, silver and other precious metals in international markets from the National Securities Commission. In 2001, the Bank began to offer trust services to its corporate and retail clients, which mostly relates to trust management over cash and assets.

Branch Operations and Technology

Branch Operations

As of 31 December 2002, the Bank's branch network comprised, in addition to the Head Office, 53 branches in the main industrial regions of Kazakhstan including Astana, Aktau, Zhezkazgan, Ust-Kamenogorsk, Pavlodar and Karaganda. Apart from five retail-only branches, all branches provide both retail and corporate banking services. The operations of each branch are subject to internal regulations and to oversight by the Head Office. Each branch has limits on its lending authority which range from U.S.$50,000 to U.S.$200,000 for any single borrower. The aggregate lending limit of individual branches ranges from U.S.$100,000 to U.S.$2 million. The aggregate loan portfolio of the Almaty Branch is limited to U.S.$18 million while single credits are limited to U.S.$850,000. The branch directors and loan officers report regularly to the Bank's branches credit committee at the Head Office (the ''Credit Committee''). All branches also undergo an annual internal audit. See ''Selected Statistical and Other Information – Lending Policies and Procedures''.

The co-ordination and planning of the operations of the branches and internal controls are conducted by the Branch Banking Department, which monitors the operations and financial results of the branches and is responsible for the development of the regional policies and expansion strategies of the Bank.

In addition to the branch network, the Bank is expanding its settlement operations by establishing settlement outlets in towns and nearby villages. As at 31 December 2002 the Bank had 39 settlement outlets in Kazakhstan. The Bank intends to expand its network of retail branches to provide a full range of services to its retail customers. To support the Bank's international activities, two representatives

offices were opened in London, United Kingdom and Bishkek, Kyrgyzstan in 1999. In addition, the Bank purchased a controlling shareholding in JSC Kazkommertsbank Kyrgyzstan in September 2002, following which it closed its representative office in Bishkek.

The Bank has implemented an organisational restructuring programme at the Head Office and throughout its branch network which is intended to increase operational efficiency and reduce over-staffing within the Bank. Staffing guidelines and quotas under the programme and a new human resources management policy are being developed to improve the quality of the Bank's personnel. The Bank also holds internal and external training and staff rotation programmes designed to improve the skill base and cross-selling ability of employees. The Bank expects that these measures will help to eliminate the difficulties currently being experienced in expanding certain corporate and consumer banking products such as credit cards, debit cards and the ATM network in some regions due to a lack of sufficiently qualified staff and an insufficient computer network infrastructure. The full implementation of the Equation DBA real-time communication system was completed by the end of 2002.

Technology

In 1995, the Bank introduced an integrated banking system and in 1996 a unified payment system, enabling on-line communication between the Head Office and branches by a real-time wide area network (WAN), was installed. Until late 2002, branches maintained their own databases independent of the mainframe at the Head Office and used an e-mail-based system to connect to the Head Office for data transmission. Such a system caused inefficiencies and technical capability issues, particularly with respect to risk management in treasury operations, asset and liability management, management reporting on lending activities, and liquidity management and financial reporting. During 2002, the Bank implemented an advanced banking information system, Equation DBA, in order to reduce these problems. The Bank switched to full utilisation of Equation DBA, eliminating the integrated banking system in late 2002. The Bank believes that the full introduction of the Equation DBA System will significantly improve the scope and efficiency of its information system.

Subsidiaries

As at 31 December 2002, the Bank had six subsidiaries and, of these, the principal subsidiaries are as follows:

JSC Kazkommerts Securities JSC Kazkommerts Securities, a wholly-owned subsidiary of the Bank, was established on 30 October 1997, with shareholders' equity of KZT760 million, to provide investment services both to foreign and domestic clients and to participate in privatisation projects and other transactions. The company is engaged in investment banking operations and is one of the major underwriters of corporate domestic bonds. In 2002, the net profits of JSC Kazkommerts Securities totalled KZT9 million compared to KZT84 million earned in 2001. This Subsidiary has been consolidated with the Bank since 31 December 2001.

JSC Kazkommerts Policy JSC Kazkommerts Policy is an insurance company, which was established in December 1996 by shareholders of the Bank. In 2000, due to a change in regulations which allowed the equity participation of banks in insurance companies, the Bank acquired the company from the shareholders. In 2002, JSC Kazkommerts Policy's net income was KZT136 million, while total equity capital was KZT290 million. In December 2002, the Bank approved an increase in the authorised share capital of JSC Kazkommerts Policy from KZT100 million to KZT154 million, and in February 2003, 53,846 ordinary shares were issued to EBRD for KZT212.6 million, diluting the Bank's holding in JSC Kazkommerts Policy to 65 per cent. JSC Kazkommerts Policy has been consolidated with the Bank since 2001.

JSC Kazkommertsbank Kyrgyzstan JSC KyrgyzAvtoBank was established in 1989 in Kyrgyzstan and in 2002, the Bank acquired a 72.4 per cent. holding in it for KZT 244 million. In December 2002, the Bank increased its holding to 73.8 per cent. and at the same time KyrgzAutoBank's name was changed to JSC Kazkommertsbank Kyrgyzstan. JSC Kazkommertsbank Kyrgyzstan has branches in Bishkek and Osh. As of 31 December 2002, its assets and equity capital were KZT700 million and KZT311 million, respectively. For the year ending 31 December 2002, it made a profit of KZT9 million. JSC Kazkommertsbank Kyrgyzstan has been consolidated with the Bank since the date of its acquisition.

Kazkommerts International B.V. The Issuer was established in 1997 and is the primary off-shore subsidiary of the Bank engaged in raising funds for the Bank outside Kazakhstan. The Issuer's accounts have been consolidated with the Bank's since its incorporation. See ''The Issuer''.

Affiliated Companies and Significant Equity Investments

Banks in Kazakhstan are restricted under NBK Regulations to making equity investments only in other banks and non-banking financial institutions and may only hold limited equity participations in industrial companies whose shares are listed on the Kazakhstan Stock Exchange. See ''The Banking Sector in Kazakhstan''. The Bank has received exemptions from the NBK where appropriate with respect to the participations discussed below.

Associate Companies

The Bank's investments in associates include:

JSC ABN AMRO Asset Management ABN AMRO Asset Management was established in 1998 as a joint venture of ABN AMRO Bank Kazakhstan and the Bank to manage the assets of Kazakh pension funds. The Bank has a 28 per cent. direct interest in ABN AMRO Asset Management which was valued at KZT83 million as at 31 December 2002.

JSC UlarUmit Accumulating Pension Fund The Bank was one of four founders of Umit pension fund, the first open-type Kazakh accumulative Pension Fund. On 3 September 2001, Umit merged with the third largest private-sector pension fund Ular. As of 31 December 2002, the Bank held a 29 per cent. equity stake in the merged pension fund which it values at KZT147 million. UlarUmit is the third largest pension fund and the second largest private pension fund in Kazakhstan. It has more than 800,000 participants with total pension assets of KZT46.3 billion.

JSC Sinooil In October 2002, JSC Kazkommerts Securities entered into a joint-venture agreement with Aktubemunaigaz and PetroChina International Kazakhstan, whereby the Bank (through JSC Kazkommerts Securities) purchased a 33 per cent. stake in the joint-venture company, JSC Sinooil, for KZT56 million. JSC Sinooil will operate in oil product distribution in the Almaty region. Whilst JSC Sinooil had not commenced operations at the date hereof, it is expected to commence distribution by the end of 2003.

Significant Equity Investments

In addition, the Bank has a significant equity interest in JSC ABN AMRO Bank Kazakhstan. ABN AMRO Bank Kazakhstan was founded by ABN AMRO Bank N.V. (''ABN AMRO''), the IFC and the Bank in 1994. 51 per cent. of the share capital of ABN AMRO Bank Kazakhstan is held by ABN AMRO, 20 per cent. is held by the IFC and the Bank holds the remaining 29 per cent. At the end of 2002, the Bank decided to re-classify its holding in ABN AMRO Bank Kazakhstan from an affiliate company to securities available-for-sale, following an assessment by the Bank that it no longer exercised any significant influence over the operating and financial affairs of ABN AMRO Bank Kazakhstan. The reclassification of its holding created an unrealised gain on securities available-for-sale of KZT1,560 million in 2002 resulting from the change in basis of accounting and, accordingly, valuation. As at 31 December 2002, the Bank valued its stake in ABN AMRO Bank Kazakhstan at KZT3,120 million. ABN AMRO Bank Kazakhstan is the fifth largest private-sector bank in Kazakhstan in terms of its equity capital, which was KTZ 5,380 million as at 31 December 2002, and had net revenues of U.S.$1,411 million in 2002. Whilst the Bank's equity holding in ABN AMRO Bank Kazakhstan is classified as securities available-for-sale for the purpose of its financial statements, the Bank has not currently sold its equity holding in ABN AMRO Bank Kazakhstan and no assurance can be given that it will realise any such sale in the immediate future due to the absence of a liquid market in the shares of ABN AMRO Bank Kazakhstan.

In connection with its general corporate objective to increase its share of the corporate banking sector in Kazakhstan, the Bank may make additional investments in new entities or in financial institutions or in other companies in which it currently invests.

SELECTED STATISTICAL AND OTHER INFORMATION

The information included in this section is derived from the average daily balances shown in the Bank's accounting records maintained in accordance with Kazakh Practices and adjusted to IAS.

The following table sets out the Bank's average balance sheets based upon the average of the daily balances for the years ended 31 December 2002 and 2001:

	Year ended 31 December			
	2002		*2001*	
	Average Balance	*Average interest rate*	*Average balance*	*Average interest rate*
	KZT millions	*Per cent.*	*KZT millions*	*Per cent.*
ASSETS				
Interest-earning deposits with other banks	9,194	3.3	11,343	5.6
Tenge	568	5.2	254	7.5
Foreign currency	8,858	3.1	11,236	5.5
Provisions	(232)	–	(147)	–
Tenge	(23)	–	0	–
Foreign currency	(209)	–	(147)	–
Correspondent account with NBK	2,723	–	1,945	–
Tenge	2,674	–	1,945	–
Foreign currency	49	–	0	–
Trading securities	12,885	8.6	12,698	10.4
Tenge	2,880	6.2	3,216	6.9
Foreign currency	9,975	9.3	9,482	11.5
Loans to customers, net	159,439	15.1	98,452	15.8
Performing loans	165,599	14.5	103,628	15.0
Tenge	38,059	13.7	25,326	13.0
Foreign currency	127,540	14.7	78,302	15.6
Non-performing loans	4,213	–	2,949	–
Tenge	670	–	633	–
Foreign currency	3,543	–	2,316	–
Loan loss reserves	(10,373)	–	(8,126)	–
Tenge	(3,935)	–	(3,801)	–
Foreign currency	(6,438)	–	(4,325)	–
Cash	6,430	–	4,642	–
Tenge	2,793	–	1,864	–
Foreign currency	3,637	–	2,778	–
Correspondent accounts with other banks	2,842	1.6	1,875	3.9
Tenge	129	0	13	–
Foreign currency	2,731	1.7	1,863	3.9
Fixed and intangible assets, net	3,614	–	2,899	–
Investments	2,731	–	3,451	–
Other assets	10,894	–	5,526	–
Tenge	6,865	–	3,113	–
Foreign currency	4,029	–	2,413	–
Total	210,722	12.1	142,831	12.3
Tenge	57,024	9.5	38,912	9.1
Foreign currency	153,698	13.0	103,919	13.5

	Year ended 31 December			
	2002		2001	
	Average Balance	Average interest rate	Average balance	Average interest rate
	KZT millions	Per cent.	KZT millions	Per cent.
Liabilities and Shareholders' equity				
Demand deposits	32,387	1.1	27,930	1.6
Tenge	17,173	1.1	13,378	1.5
Foreign currency	15,214	1.1	14,553	1.6
Time deposits	81,007	8.1	47,934	8.5
Tenge	12,041	9.6	3,966	11.7
Foreign currency	68,966	7.8	43,967	8.2
Correspondent accounts of other banks	674	1.6	397	2.3
Tenge	266	1.4	131	2.1
Foreign currency	408	1.8	265	2.4
Short-term interbank borrowings	3,844	7.0	3,758	6.8
Tenge	1,325	11.5	1,338	12.7
Foreign currency	2,519	4.6	2,420	3.6
Long-term borrowings	30,357	7.0	23,955	8.4
Tenge	0	–	0	–
Foreign currency	30,357	7.0	23,955	8.4
Debt securities issued	18,546	8.8	8,702	8.8
Tenge	0	–	0	–
Foreign currency	18,546	8.8	8,702	8.8
Other borrowed funds	5,221	6.8	4,469	7.5
Tenge	192	0.6	56	–
Foreign currency	5,029	7.0	4,413	7.6
Other liabilities	9,788	–	6,906	–
Tenge	3,581	–	1,918	–
Foreign currency	6,207	–	4,987	–
Total Liabilities	181,824	6.2	124,051	6.4
Tenge	34,579	4.3	20,788	4.0
Foreign currency	147,245	6.6	103,263	6.8
Shareholder's equity and reserves	28,898	–	18,780	–
Total	210,722	5.3	142,831	5.5
Tenge	63,477	2.3	39,568	2.1
Foreign currency	147,245	6.6	103,263	6.8
Average exchange rate KZT/U.S.$	153.41		146.74	

Assets

The total assets of the Bank were KZT274,761 million as at 31 December 2002, reflecting an increase of 41.4 per cent. compared to 31 December 2001. The following table sets out the major asset groups of the Bank as at 31 December 2002 and 2001:

	31 December	
	2002	*2001*
	In KZT millions	
Trading and investment portfolio		
Tenge	14,559	2,688
Foreign currency	12,316	12,844
Total	26,875	15,532
Cash and correspondent account with NBK		
Tenge	8,613	6,209
Foreign currency	10,782	5,269
Total	19,395	11,478
Loans and advances to banks		
Tenge	122	2,193
Foreign currency	43,453	15,671
Reserves for loan losses	(170)	(294)
Total	43,405	17,570
Loans and advances to customers		
Tenge	43,993	34,194
Foreign currency	137,337	112,972
Reserves for loan losses	(11,243)	(9,505)
Total	170,087	137,661
Other assets	14,999	12,103

The change in the composition of the Bank's assets in 2002 compared with 2001 relates primarily to an increase in the trading and investment portfolio, which grew from 8.0 per cent. of total assets in 2001 to 9.8 per cent. in 2002, and an increase in loans and advances to banks from 9.0 per cent. to 15.8 per cent. in the same period. The asset growth rate decelerated to 41.4 per cent. from 56.7 per cent. in 2001, as a result of loans to customers increasing by only 23.6 per cent. as compared to a 105.2 per cent. growth in 2001. Loans to customers as a percentage of total assets fell from 70.8 per cent. in 2001 to 61.9 per cent. in 2002. Due to a significant growth of liquid assets in 2002, the liquidity ratio of the Bank, calculated according to the NBK financial reporting requirements, was 0.78 as at 31 December 2002, well above NBK's minimum requirement of 0.30.

Trading and Investment Portfolio

In 2001, low yields and long maturity of new issues of Treasury bills and other Government securities and the gradual retirement of older Treasury bills meant that the Bank substantially decreased its securities portfolio compared to 2000. The Bank's portfolio of Treasury bills, National Savings Bonds and NBK notes fell from KZT9,487 million in 2000 to KZT814 million in 2001. As yields on new issues of Treasury bills in 2002 began to exceed returns on deposits resulting from a fall in inter-bank and other interest rates, the Bank substantially increased its securities portfolio in 2002. The Bank's trading portfolio of Treasury Bills and NBK notes increased from KZT814 million in 2001 to KZT7,965 million as at 31 December 2002. Its trading portfolio of Kazakh eurobonds also increased from KZT2,067 million in 2001 to KZT5,286 million as at 31 December 2002, although this increase was also due, in part, to restrictions imposed by the NBK in August 2002 on investing in eurobonds issued by the Ministry of Finance of the Russian Federation, of which the Bank had held a substantial position in 2001 (39.1 per cent. of the Bank's aggregate trading portfolio as at 31 December 2001) in an attempt to differentiate its country risks and to improve the liquidity of its securities portfolio.

In recent years, most of the Bank's securities portfolio has been denominated in, or linked to, U.S. Dollars, although following the reclassification of its equity holding in ABN AMRO Bank Kazakhstan, the revaluation of its equity holding in JSC Air Kazakhstan and the increase in its Treasury bill and NBK note holdings in 2002, Tenge denominated securities accounted for 44.0 per cent. and 54.2 per cent., respectively, of the Bank's total trading portfolio and total trading and investment portfolio as at 31 December 2002, compared to 6.0 per cent. and 17.3 per cent., respectively, as at 31 December 2001.

Following the restrictions imposed by the NBK on holding securities issued by the Ministry of Finance of the Russian Federation in August 2002, the Bank reduced its portfolio of such securities in 2002 from KZT5,191 million as at 31 December 2001 to KZT571 million as at 31 December 2002. As a result, the Bank increased its investments in Kazakh corporate and municipal bonds, which whilst returning a lower yield than the Bank's portfolio of Russian eurobonds, are regarded as an alternative to direct lending to such entities and are viewed by the Bank as a more liquid asset than a loan. As at 31 December 2002, the Bank held a total of KZT4,247 million eurobonds issued by Kazakh entities, including TuranAlem Finance B.V., Hurricane Hydrocarbons and KazTransOil, compared to KZT3,552 million as at 31 December 2001, as well as domestic bonds issued by a number of corporates and regions totalling KZT1,712 compared to KZT1,652 in 2001. As at 31 December 2002, domestic and international bonds issued by Kazakh entities were valued at KZT8,322 million, or 42.1 per cent. of the debt securities traded.

The Bank also held KZT652 million in small equity investments in Kazakh companies in its trading portfolio as at 31 December 2002, including shares in Kazakhmys, Kazakh Telecom (GDRs) and Ust-Kamenogorsk., which the Bank intends to sell in 2003.

In 2002, securities available-for-sale increased by 3,438.7 per cent. as a result of the revaluation of the Bank's shares in JSC Air Kazakhstan, from nil in 2001 to KZT2,391 million as at 31 December 2002, and the reclassification of its holding in ABN AMRO Bank Kazakhstan as securities available-for-sale (which was previously held as an investment in an affiliated company), resulting in an unrealised gain in securities available-for-sale of KZT3,120 million.

The following table shows the composition of securities held by the Bank and its investments in associated companies as at 31 December 2002 and 2001:

	31 December	
	2002	*2001*
	In KZT millions	
Securities	26,589	13,758
Trading securities	20,433	13,275
Securities available-for-sale	5,968	169
Securities held-to-maturity	188	314
Investments in associated companies	286	1,774
Total securities and investments with associated companies	26,875	15,532

The average portfolio of trading securities remained relatively unchanged in 2002, increasing by 1.2 per cent. from KZT12,698 million in 2001 to KZT12,855 million for the year ended 31 December 2002. Despite decreases in the average portfolio of Treasury bills, securities issued by the Issuer and eurobonds issued by the Ministry of Finance of the Russian Federation, which fell by 12.3 per cent., 91.9 per cent and 59.3 per cent., respectively, in the year ended 31 December 2002 as compared to the same period in 2001, average holdings of Kazakh corporate bonds and sovereign bonds increased by 150.3 per cent and 115.1 per cent., respectively, in the same period. Despite this shift in the composition of this portfolio, the average return declined from 10.4 per cent. in 2001 to 8.6 per cent. in 2002 as a result of declining Tenge interest rates.

The following table shows the structure of the average trading securities portfolio and average percentage rates for the years ended 31 December 2002 and 2001:

	Year ended 31 December			
	2002		*2001*	
	In KZT millions	*Average interest rate, per cent.*	*In KZT millions*	*Average interest rate, per cent.*
Short-term bills MEKKAM and MEKAVM.....	325	6.0	1,115	6.9
Medium-term T-bills MEOKAM and MEAKAM	1,119	7.0	329	9.2
NBK notes.....	1,435	5.6	1,720	6.5
National Savings bonds	–	–	119	7.1
Corporate bonds.....	4,709	9.8	1,881	11.1
Eurobonds of the Ministry of Finance of Kazakhstan	3,766	4.7	1,751	7.3
Domestic Municipality bonds.....	153	8.7	73	8.7
Eurobonds of the Ministry of Finance of Russian Federation.....	1,108	10.8	2,722	12.9
Eurobonds of the Republic of Turkey.....	–	–	14	12.8
Eurobonds of the Republic of France	–	–	37	4.7
Eurobonds of the Issuer.....	237	8.0	2,937	13.5
Total	12,852	7.5	12,698	10.4

The Bank's Loan Portfolio

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

Loans and advances to banks

As at 31 December 2002, loans and advances to banks, net of provisions, had reached KZT43,405 million compared to KZT17,570 million as at 31 December 2001. At the same time, loans and advances to banks as a percentage of total assets rose to 15.8 per cent. from 9.0 per cent. In general, loans and advances to banks were represented by short-term U.S. Dollar accounts made for liquidity management. The Bank undertakes a conservative approach in its deposit funding activities. Funds are usually placed for a short-term period with a maximum limit on the amount deposited, unless such loans are backed by state securities or cash deposits. As such, as at 31 December 2002 all loans and advances to banks had maturities of less than one month.

Despite significant growth in loans and advances to banks, the reserves for possible losses on loans and advances to banks fell from KZT294 million to KZT170 million, as the Bank decreased its exposure to non-OECD banks from 73.6 per cent in 2001 to 17.8 per cent. in 2002. See ''Management's Discussion and Analysis of Results of Operations and Financial Condition – Net interest income''.

Cash and balances with the NBK and the National Bank of Kyrgyzstan increased from KZT11,478 million in 2001 to KZT19,395 million in 2002 or by 69.0 per cent., due to the requirement to maintain liquidity and obligatory reserves.

The following table shows a breakdown by currency of loans and advances to banks and funds placed with correspondent banks as at 31 December 2002 and 2001:

	31 December	
	2002	*2001*
	In KZT millions	
Correspondent accounts		
Tenge	122	2,193
Foreign currency	43,453	15,123
Loans and advances to banks		
Tenge	–	–
Foreign currency	–	548
Loan loss reserves	(170)	(294)
Loans and advances to banks, net	43,405	17,570

Loans, Letters of Credit and Letters of Guarantee

The Bank offers a variety of corporate banking products including loans, trade financing, letters of credit and letters of guarantee. The following table sets out the composition of the Bank's loans and contingent liability exposure as at 31 December 2002 and 2001:

	31 December	
	2002	*2001*
	In KZT millions	
Loans		
Loans and advances to customers	181,330	147,166
Provisions for losses for contingent liabilities	(11,243)	(9,505)
Loans and advances to customers, net	170,087	137,661
Contingent liabilities		
Letter of guarantee	18,951	6,336
Letter of Credit	18,466	10,390
Loan loss reserves	(1,790)	(667)
Total contingent liabilities, net	35,627	16,059
Total loans and contingent liabilities, net	205,714	153,720

In 2002, the average loan portfolio, net of provisions, grew by 61.9 per cent. to KZT159,439 million from KZT98,452 million in 2001. In real terms, total loans, letters of credit and letters of guarantee rose by 33.8 per cent. in 2002 to KZT205,714 million from KZT153,720 million in 2001.

The Bank provides financing for various purposes, although the majority of loans are for working capital purposes with a maturity of twelve months or less. However, as demand for longer-term financing from existing customers and other high quality corporate credits increases, the Bank intends to increase its financing of longer term capital expenditure in line with increased demand, provided that the Bank can match its funding base with longer-term financing through an increase in borrowings and time deposits.

The following table shows a breakdown of the Bank's loan portfolio by purpose as at 31 December 2002:

	31 December 2002	
	Amount (in millions KZT)	*Share, per cent.*
Working capital finance	71,237	39.3
Fixed asset purchase	38,790	21.4
Construction repair	18,944	10.4
Equity investment in other enterprises	16,316	9.0
Trade finance	8,447	4.7
Real estate purchase	6,130	3.4
Other	21,466	11.8
Total	181,330	100.0

Loan portfolio structure by sector

The Bank increased its lending to export-related sectors of the economy in 2002, primarily to companies in the oil and gas sector, whilst lending to entities in the agriculture, food industry, energy, hotels and catering and engineering sectors remained relatively unchanged year-on-year. Such increases were primarily loans to trading companies, especially those involved in the export of oil and gas, trade goods, construction materials and metallurgy. The Bank considers oil and gas, metallurgy and consumer lending (primarily consumer loans and mortgages) as key sectors for further expansion. Additionally, the Bank expects new opportunities for expansion in the provision of financing to medium-sized companies engaged as sub-contractors or servicing companies for large international projects carried out in Kazakhstan.

The following table sets forth certain information as to the structure of the Bank's loan portfolio by economic sector, as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Share, per cent.*	*In KZT millions*	*Share, per cent.*
Oil and gas	32,791	18.1	14,556	9.9
Trade	31,748	17.5	22,398	15.2
Agriculture	27,744	15.3	24,153	16.4
Food industry	14,906	8.2	16,421	11.2
Construction	12,802	7.1	9,340	6.4
Consumer Lending	11,994	6.6	6,474	4.4
Energy	10,186	5.6	11,107	7.6
Transport and communications	7,263	4.0	12,798	8.7
Mining/metallurgy	6,041	3.3	10,020	6.8
Real estate	6,001	3.3	3,367	2.3
Hotels and catering	4,134	2.3	3,449	2.3
Finance	2,665	1.5	5,860	4.0
Engineering	2,328	1.3	1,075	0.7
Culture and arts	1,810	1.0	2,216	1.5
Other	8,917	4.9	3,931	2.7
Total	181,330	100.0	147,166	100.0

Whilst the Bank's total loan portfolio increased by 23.2 per cent. from 31 December 2001 to 31 December 2002, loans to the oil and gas sector increased by 125.3 per cent. as at 31 December 2002, compared to 31 December 2001, resulting in an increase as a percentage of the Bank's total loan portfolio to 18.1 per cent. in 2002 compared to 9.9 per cent. in 2001. Loans to trading companies also increased from KZT22,398 million as at 31 December 2001 to KZT31,748 million as at 31 December 2002, an

increase of 41.7 per cent. Whilst the Bank considers the metallurgy and mining sector to be a sector that is expected to increase its borrowings in future years, loans to companies in the metallurgy and mining sector fell 39.7 per cent. in 2002 compared to 2001.

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

Whilst the total lent to companies in the agriculture sector increased by 14.9 per cent. in 2002, as a percentage of the Bank's total loan portfolio, such loans decreased from 16.4 per cent. in 2001 to 15.3 per cent. in 2002, in part as a result of a U.S.$25 million grain receipts programme established by the Bank in 2001, in conjunction with EBRD, TuranAlem Bank and Almaty Merchant Bank, although principally as the growth in the Bank's total loan portfolio exceeded the growth in loans to agricultural companies. Loans to agricultural companies are primarily provided to large integrated companies, which are involved in all stages of grain production and processing.

Loans to companies in the financial sector decreased from 4.0 per cent. of the Bank's total loan portfolio in 2001 to 1.5 per cent. in 2002 as a result of the repayment of the loan provided to CAIH. See ''Transactions with Related Parties''.

In line with the Bank's lending policy, the Bank decreased its exposure to companies operating in the food industry and transport and communications sectors. Loans to the food industry fell from 11.2 per cent. of the Bank's total loan portfolio in 2001 to 8.2 per cent. in 2002. The Bank believes this sector, which is predominantly exposed to domestic economy and cross-border competition, is the most sensitive to any negative change in the domestic and regional economic environment. To limit the Bank's exposure to such sensitivity, loans to companies in this sector are principally provided to large conglomerates with potential export capacity. The Bank limits its exposure to high risk sectors of the economy and focuses primarily on lending to private entities and individuals or to borrowers with Government guarantees.

Loan portfolio structure by currencies

In line with the Bank's policy to limit its exposure to currency fluctuations, non-Tenge loans comprise the major part of the Bank's loan portfolio, of which U.S. Dollar obligations are the most significant. As at 31 December 2002, U.S. Dollar denominated or indexed loans comprised 72.6 per cent. of the Bank's loan portfolio, compared to 75.5 per cent. in 2001. However, following domestic demand and due to an expanded funding base in Tenge as well as relatively stable interest rates on Tenge loans, the Bank expanded its Tenge denominated loan portfolio slightly in 2002. Tenge denominated loans represented 24.2 and 23.2 per cent., respectively as at 31 December 2002 and 2001. However, such loans have a shorter-term maturity profile and usually contain provisions to allow the Bank to increase interest rates or demand early repayment in the event of a devaluation of Tenge.

The following table sets forth certain information as to the currency profile of the Bank's loan portfolio as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Share, per cent.*	*In KZT millions*	*Share, per cent.*
Tenge	43,993	24.2	34,194	23.2
U.S. Dollars	131,649	72.6	111,023	75.5
Euro	5,595	3.1	1,949	1.3
Other	93	0.1	–	–
Total	181,330	100.0	147,166	100.0

Maturity Profile of Loan Portfolio

The maturity structure of the Bank's loan portfolio in 2002 reflects a significant exposure to longer term loans, which first appeared in 2001 as demand for longer-term financing developed. The potential of the Bank's exposure to such longer-term loans is offset, in part, by the terms of such loans which allow the Bank to require early payment of the loan and/or revision of interest rates thereby minimising interest rate and credit risks on such longer-term loans.

In 2002, the Bank increased loans with a maturity from one to five years from KZT56,859 million or 38.6 per cent. of the total loan portfolio in 2001 to KZT97,215 million or 53.6 per cent. in 2002, whilst loans with maturity over five years declined from KZT15,146 million to KZT12,157 million in the same period. The significant drop in loans with a maturity of up to one month from KTZ18,892 million to KZT11,487 million was primarily attributable to a decrease in the use of overdraft facilities by the Bank's customers in 2002.

Longer-term contracts are arranged by the Structured Finance Department within the Bank with corresponding funding sources provided, as a rule, from a facility from an international financial institution or government.

The following table sets forth certain information as to the maturity of the Bank's loan portfolio as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Per cent.*	*In KZT millions*	*Per cent.*
Up to one month	11,487	6.3	18,892	12.9
From one to three months	13,923	7.7	17,701	12.0
From three months to one year	46,548	25.7	38,568	26.2
From one to five years	97,215	53.6	56,859	38.6
Over five years	12,157	6.7	15,146	10.3
Total	181,330	100.0	147,166	100.0

Collateralisation of Loan Portfolio

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

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

	Loan/Value Ratio %
Shares	50
Fixed assets	50
Guarantees from non-financial institutions	50
Commodities	70
Real estate	80
Government securities	100
Guarantees from financial institutions	100
Cash	100

The following table sets forth the amount of the Bank's collateralised and non-collateralised loans and each as a percentage of total loans as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Per cent.*	*In KZT millions*	*Per cent.*
Collateralised	173,155	95.5	133,725	90.9
Uncollateralised	8,175	4.5	13,441	9.1
Total loans	181,330	100.0	147,166	100.0

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

Where borrowers of the Bank are connected or related in some way, for example by having common shareholders or being owned by other such companies, these related companies are treated as a single borrower by the Bank and are required to provide cross-collateral for loans. If there is a default by one company, all the other companies of the same group become liable and the Bank can enforce collateral posted by the other connected companies to repay the defaulting obligations.

The share of uncollateralised loans has dropped from 9.1 per cent. to 4.5 per cent. as at 31 December 2001 and 2002, respectively, primarily due to a decrease in the use of overdraft facilities by corporate borrowers.

Lending Policies and Procedures

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

The Bank has two credit committees in Head Office as well as six regional credit directors (including one based in Almaty) and credit committees in each branch. The branch credit committees have authority to approve loans to small companies and individuals between U.S.$10,000 and U.S.$200,000 with an aggregate lending limit from U.S.$220,000 to U.S.$2 million per borrower, depending on the branch and the experience of its personnel. The Almaty branch's limits are U.S.$18 million for total lending and U.S.$850,000 per borrower. The regional directors cover the Central, Northern, Southern, Western and Eastern regions and one is based at the Head Office in Almaty. Each region covers between four to six branches of the Bank. Regional credit committees are responsible for lending to medium size companies, if the amount of the credit exceeds the limit per borrower for the respective branch. Regional directors have a limit of U.S.$250,000 per borrower.

The Head Office credit committees include the Credit Committee for Branches and the Commercial Directorate. All credits for amounts in excess of individual limits for branches as well as all loans generated in the Head Office must be approved by the Commercial Directorate, which includes the Chairman of the Management Board, seven managing directors and one member of the Board of Directors. The Commercial Directorate is chaired by the Chairman of the Management Board and may approve loans for a total amount equal to the maximum risk per single borrower. Loans over U.S.$10 million must be approved by the Board of Directors. In addition, the Board of Directors must approve all transactions with related parties.

Each new proposal initiated by a client's relationship manager must be considered by the respective credit committee. Any such proposal must be reviewed by the Risk Management and Problem Loans Department, which reports to a member of the Management Board. The Risk Management Department and Problem Loans Department prepares an independent analysis of the proposal, including feasibility studies, financial analysis and inquiry into the borrower's financial standing, and seeks to obtain related information from various sources, such as the state tax inspectors and its security division, which undertakes a series of confidential investigations, including investigation of criminal records, references from other banks, interior ministry records and the NBK's list of previously defaulting borrowers.

The Bank's Collateral Group provides an independent assessment of collateral, including valuation and enforceability.

Independent advisers review loan agreements and other relevant legal documentation.

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

A Customer is capable of repaying principal and interest on time and is financially robust.

B Customer's financial position is stable and there is a low risk expectation.

C Some negative financial aspects exist that might affect the customer's ability to repay debts.

D Serious and numerous financial aspects exist that affect the customer's ability to repay debts.

E Financial position is so low that debt repayment is unlikely.

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

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

In this matrix:

''*Good debt service*'' means that interest and principal is paid timely and there are no signs that the remaining loan amount includes any capitalised amounts of previous re-borrowings. It also includes amounts less than seven days overdue.

''*Unsatisfactory debt service*'' means that payments of principal and interest are overdue for between seven and 30 days, or that interest or principal payment was extended.

''*Bad debt service*'' means that payment of principal or interest is overdue for more than 30 days, or that interest and/or principal has been extended.

When making an assessment of debt service, any overdue payment which is the equivalent of more than 10 per cent. of the loan amount is classified as ''unsatisfactory'', provided, however, that exceptions can be made for technical delays. Overdue payments which are equivalent to 20 per cent. of the loan amount are classified as ''bad''.

Non-Performing Loans and Provisioning Policy

Non-performing loans, which include loans on which interest has ceased to accrue, amounted to KZT2,312 million or 1.3 per cent. of the Bank's loan portfolio as at 31 December 2002 as compared with KZT1,213 million or 0.8 per cent. as at 31 December 2001.

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

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

Loans are monitored at least once per year with particular attention to timely debt service and the financial health of the borrower. The Bank also conducts a sectorial analysis and reviews lending to specific sectors if it considers that companies in such sectors may face payment difficulties as a result of

economic and other factors. In addition, where a company has a seasonal business, for example, companies in the agricultural sector, loans are reviewed at appropriate times throughout the season (at the beginning of spring and the end of summer, in the case of agricultural companies). As soon as problems arise on the timely payment of principal or interest, the Bank's Security Department becomes involved. Management believes that the Bank's experience in enforcing its security for defaulted loans has generally been good. Where possible, however, the Bank attempts to put in place security enforcement measures that do not involve court actions, such as receiving prior approval from the borrower to sell collateral upon default.

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

The table below sets forth certain information relating to the Bank's provisioning policies as at 31 December 2002 and 2001:

		31 December					
		2002			*2001*		
Risk Category	*Rate of provisioning*	*Total exposure* *In KZT millions*	*Total Reserves* *In KZT millions*	*Reserves/ Exposure* *In KZT millions*	*Total exposure* *In KZT millions*	*Total Reserves* *In KZT millions*	*Reserves/ Exposure* *In KZT millions*
Standard	2.0%	79,021	1,711	2.2%	72,871	1,458	2.0%
Watch	5.0%	62,752	3,479	5.5%	51,808	2,590	5.0%
Sub-standard	20.0%	33,170	3,080	9.3%	9,549	1,091	11.4%
Doubtful	50.0%	1,393	362	26.0%	12,309	4,047	32.9%
Loss	100.0%	4,994	2,611	52.3%	629	319	50.7%
Total		181,330	11,243	6.2%	147,166	9,505	6.5%

The effective level of provisions fell to 6.2 per cent. from 6.5 per cent. in 2002 as a result of a general improvement in the quality of the Bank's loan portfolio. ''Loss'' and ''Doubtful'' loans amounted to 3.5 per cent. of all loans at the end of 2002 compared to 8.8 per cent. in 2001. At the same time ''Sub-standard'' loans increased to 18.3 per cent. in 2002 from KZT9,549 million in 2001 to KZT 33,170 million at the end of 2002. As at 31 December 2001, ''Sub-standard'' loans amounted for 8.4 per cent. ''Sub-standard'' loans increased significantly in 2002 as a result of the reclassification of the financial strength ratings of certain of the Bank's borrowers.

Under NBK regulations, loans are written off if interest and principal are overdue for over 180 days. The Security Department continues to monitor loans written-off for a five year period, in order to assess the possibility of making a subsequent recovery. There is no time limit on the collection of bad loans under Kazakh law. This policy causes the level of provisioning to be lower than it would be if loans were not written off and the balance adequately provisioned.

The credit risk represented by the Bank's twenty largest borrowers fell from 39.1 per cent. of the Bank's total loan portfolio at the end of 2001 to 33.2 per cent. at the end of 2002. The Bank expects to further reduce the concentration of its loan portfolio by attracting new medium and small size borrowers, although the number of good credits in Kazakhstan are limited.

Funding

A large portion of the Bank's funding base is represented by corporate customer accounts, which the Bank's management believes to be relatively insensitive to short term fluctuations in market rates of interest and which provide the Bank with a significant funding advantage over other Kazakh banks. The Bank also managed to increase its retail funding base in 2001, having become an important source of funding. Retail funding is less volatile than corporate funding, although it is more costly for the Bank. The Bank concentrates its efforts on servicing high net worth individuals and is trying to expand its market share of the mass retail market. Other important sources of funding are bilateral and special purpose facilities from banks and financial institutions and the issue of debt securities. The Bank managed to decrease its reliance on syndicated and interbank borrowings to 22.3 per cent of liabilities in 2002 from 25.3 per cent. in 2001.

The capital amnesty implemented by the Government in 2001 to encourage the use of the banking system was one of the factors in increasing the Bank's funding from retail deposits in that year. Between

June and July 2001, individuals and companies who deposited funds with banks did not need to justify the source of such funds to the tax authorities or otherwise. The 30 day amnesty resulted in U.S.$480 million being placed with commercial banks.

Debt securities became an important source of funding in 2002, when the Bank, through the Issuer, issued U.S.$200 million 10.125 per cent Notes due 2007. At the end of 2002, debt securities issued accounted for 12.2 per cent of the Bank total liabilities.

The following table sets out the Bank's sources of funds as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Per cent.*	*In KZT millions*	*Per cent.*
Customer deposits	138,412	57.0	108,975	64.1
Loans and advances from banks	54,528	22.5	42,900	25.3
Securities sold under agreements to repurchase	–	–	1,563	0.9
Debt securities issued and subordinated notes	35,626	14.7	2,942	1.7
Other borrowed funds	4,547	1.9	5,222	3.1
Other liabilities	9,500	3.9	7,083	4.2
Dividends payable to shareholders	1	–	1,236	0.7
Total liabilities	242,614	100.0	169,921	100.0

As at 31 December 2002 time deposits reached KZT99,758 million or 72.1 per cent. of total customer accounts, representing an improvement from KZT74,188 million or 68.1 per cent. at the end of 2001. The share of Tenge denominated deposits increased to 25.9 per cent. of total deposits in 2002 from 23.1 per cent. at the end of 2001. The increased demand for retail deposits, most of which are in U.S. Dollars, was one of the major reasons for this. In addition, world oil and grain prices remained favourable in 2002 and as a result, exporters were able to accumulate significant U.S. Dollar deposits. The interest rates on the Bank's deposits are close to average rates on the market, and the Bank offers interest rates which are competitive with those of other institutions in Kazakhstan.

The following table sets forth a breakdown of time and demand deposits by currency as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Per cent.*	*In KZT millions*	*Per cent.*
Tenge				
Demand deposits	18,753	13.5	19,866	18.2
Time deposits	17,106	12.4	5,307	4.9
	35,859	25.9	25,173	23.1
Foreign currency				
Demand deposits	19,901	14.4	14,921	13.7
Time deposits	82,652	59.7	68,881	63.2
	102,553	74.1	83,802	76.9

As at 31 December 2002 the deposits of the twenty largest depositors accounted for 26.0 per cent. of total deposits, compared to 36.9 per cent. in 2002. Although the concentration of deposits remains significant, the Bank reduced the general concentration of domestic funding by attracting small- and medium-sized corporations and by a significant growth in retail deposits. As at 31 December 2002, the share of retail accounts had reached 43.2 per cent., compared to 39.8 per cent. in the previous year.

Loans and advances from banks and financial institutions accounted for 25.2 per cent. of the Bank's liabilities in 2001 and declined to 22.5 per cent. at the end 2002. The following table sets forth the structure of the Bank's wholesale funding as at 31 December 2002 and 2001:

	31 December			
	2002		*2001*	
	In KZT millions	*Per cent.*	*In KZT millions*	*Per cent.*
Loans and advances from banks	54,528	92.3	42,900	89.1%
Correspondent accounts	449	0.8	1,263	2.6%
Loans from banks	53,354	90.3	40,601	84.4%
Loans from international financial institutions	725	1.2	1,036	2.1%
Other borrowed funds	4,547	7.7	5,222	10.9%
Due to Ministry of Finance	1,595	2.7	2,049	4.3%
Due to the Fund of Small Business Support	2,952	5.0	3,173	6.6%
Total	59,075	100.0	48,122	100.0%

The Bank took advantage of low international interest rates in 2001 by entering into a U.S.$100 million syndicated loan agreement in December of that year. The loan, which had a maturity of one year, was rolled over by the Bank for a further twelve months and was increased to U.S.$150 million in December 2002.

In 2002, the Bank continued to exploit bilateral credit lines from banks and international financial institutions. The Bank is engaged in special programmes sponsored by the Government and various international financial institutions such as EBRD, ADB, IDB, IBRD and IFC.

MANAGEMENT

Management

On 25 January 1999, the General Meeting of Shareholders of the Bank approved the Bank's new Charter which was restated for the purpose of complying with the existing legislation of Kazakhstan, including the Law on Joint Stock Companies adopted at the time. The latest amendments to the Charter were approved by the General Shareholders' Meeting held on 30 July 2001. According to the present Charter, the Bank must have a Board of Directors, the management body of the Bank, a Management Board, the executive body of the Bank, and a Statutory Auditor. The General Meeting of Shareholders elects the members of the Board of Directors and the Statutory Auditor. The Board of Directors in turn elects the members of the Management Board. The Board of Directors represents the interests of shareholders, is responsible for executing the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. Overall responsibility for the administration of the Bank's current activities is vested in the Management Board. The Statutory Auditor oversees the financial and economic activities and reports to the shareholders.

Board of Directors

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

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

Nurzhan S. Subkhanberdin (age 38) has served as a Chairman of the Board since September 2002. Mr. Subkhanberdin is a former Chairman of the Management Board of the Bank and held numerous other positions within the Bank prior to his appointment as Chairman of the Board. Mr. Subkhanberdin graduated from the Moscow State University (''MSU'') and has a degree in economics from the Kazakh State University (''KSU'').

Daulet H. Sembaev (age 67) has been a member of the Board since April 2001. Before September 2002, Mr. Sembaev served as Chairman of the Board. Mr. Sembaev is a former Chairman of the NBK, President of the Kazakh Association of Financiers and a member of Parliament. He has also held other positions with different government bodies and private companies. Mr. Sembaev graduated as an engineer from the Kazakh Mining Institute in 1958.

Erik Kh. Gukasov (age 69) has served as a Member of the Board of Directors since April 2001. He is an advisor to American-Kazakh joint venture DEN. He graduated as an irrigation engineer from the Agricultural Institute in Tashkent in 1954.

Nina A. Zhussupova (age 41) has been a member of the Board since September 2002. Ms. Zhussupova is a Chairman of the Management Board of the Bank. Since August 1995, she served as First Deputy Chairman, Manager of the Accounts Office and Chief Accountant. She holds a degree in economics from the Almaty Institute for National Economy (''AINE'').

Serik A. Akhanov (age 50) has been a member of the Board since September 2002. Mr. Akhanov was an advisor to the Chairman of Management Board before his appointment as a member of the Board. Mr. Akhanov is a former Deputy Chairman of EximBank of Kazakhstan. He has also held senior positions within the Ministry of Finance, Ministry of Economy and the NBK. Mr. Akhanov holds an MBA degree from AINE.

The Management Board

The Management Board consists of not less than three persons. The Management Board manages the Bank's affairs on a day-to-day basis. Specifically, its responsibilities include managing the current activities of the Bank, making business decisions, and all other matters not reserved to the exclusive

competence of the Board of Directors or the General Meeting of Shareholders. The Meetings of the Management Board can be convened as necessary.

The current members of the Management Board are as follows:

Nina A. Zhussupova (age 41) has been a member of the Board since September 2002. Ms. Zhussupova is a Chairman of the Management Board of the Bank. Since August 1995, she served as First Deputy Chairman, Manager of the Accounts Office and Chief Accountant. She holds a degree in economics from AINE.

Aibar L. Dautov (age 30) has served as Deputy Chairman of the Board since 2001. Mr. Dautov is the former Bank's Managing Director and Chief Credit Officer. Formerly he was the Financial Director of the Butya limited partnership. He holds a degree in economics from MSU.

Askar M. Alshinbaev (age 37) has served as a member of the Management Board since 1998. He is the former Deputy Chairman of the Board of the Bank. Mr. Alshinbaev is a member of the Board of Directors of Hurricane Hydrocarbons. He holds a degree in engineering from Kazakh Polytechnic Institute.

Senior Management

The Managing and Executive Directors constitute a Directorate. The name, age and certain other information about each other member of the current Directorate are set out below:

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

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

Barlykzhan K. Nukenov (age 42) has served as a Managing Director since 1999. He is a former Deputy Governor of Karagandy Region. Mr. Nukenov holds a degree in law from Karaganda Higher Militia School and a degree in economics from Karaganda State University.

Aidar B. Akhmetov (age 33) has served as a Managing Director since 1998. He is the former Chairman of the Board of ABN AMRO Asset Management. He holds a degree in English and German from Almaty Pedagogical Institute of Foreign Languages and a degree in economics from the Kazakh State Academy of Management.

Eldar S. Abdrazakov (age 30) has served as a Managing Director since 2001. Mr. Abdrazakov joined the Bank in 1995 and has held a number of positions in the Bank. He is a Director of Kazkommerts International B.V., Kazkommerts Finance 2 B.V. and Kazkommerts Capital 2 B.V., as well as Director of Investment Banking at the Bank. He holds an MBA degree in international economic relations from Yassayi International Kazakh-Turkish University.

Ian Connor (age 35) has served as a Managing Director since 2001. Prior to joining Kazkommertsbank, Mr. Connor held the position of Chief Executive Officer at Global Menkul Degerler A.S., an Istanbul based brokerage and investment house. He also worked for several years in the corporate finance division at Coopers & Lybrand (London). Mr. Connor is member of The Institute of Chartered Accountants in England and Wales and a graduate of The University of Edinburgh, with a B.Sc. in Mathematics.

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

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

Yevgeny D. Feld (age 43) has served as a Managing Director since 2002. Mr. Feld is the former Deputy Chairman of the Board and Managing Director of the Bank. Mr. Feld was a CEO of a number of

companies in Kazakhstan, with the most recent including KEGOC and Alautransgaz. He holds a degree in economics from the Academy for National Economy and Trade of the Karaganda Co-operative Institute.

Beibit T. Apsembetov (age 35) has served as a Managing Director since 2002. Mr. Apsembetov is a former Director of TOO ''Deloitte & Touche Kazakhstan''. He holds a degree in economics from Leningrad State University and is a chartered accountant.

Almat K. Turtaev (age 33) has served as a Managing Director since June 2002. Before joining the Bank, Mr. Turtaev served as Deputy Chairman of EximBank of Kazakhstan and adviser to the Chairman of Development Bank of Kazakhstan. Mr. Turtaev holds a degree in economics from St. Petersburg's Institute for Trade and Economy.

Azat B. Abishev (age 37) has served as an Executive Director since 1998. Mr. Abishev is the former Deputy Chairman of the Board of Managing Directors and its Senior Secretary. He holds a degree in economics from AINE and a degree in law from Karaganda Higher Militia School.

Georgy E. Gukasov (age 36) has served as an Executive Director since 1998. Mr. Gukasov is the former Bank's Chief Administrative Manager. He was formerly General Director of Forex, a closed joint-stock company and director of cash operations of the Bank. He graduated from Karaganda Polytechnic Institute.

Magzhan M. Auezov (age 27) has served as a Managing Director since 2002. Mr Auezov is a former Country Head of Loan Products of ABN AMRO Bank Kazakhstan and prior to that Head of Trade and Commodity Finance Department at the same bank. He holds a graduate degree in International Banking and Finance from Columbia University, New York, and an undergraduate degree in International Economics from Georgetown University, Washington DC, as well as a diploma in International Affairs from the Kazakh State National University.

The following table sets out the principal amounts of loans outstanding to members of the Board of Directors, Management Board and Managing and Executive Directors as at 31 December 2002:

	Principal amount outstanding in U.S.$	*Principal amount outstanding in KZT thousands*
Mr. Nurzhan Subkhanberdin	1,723,934	268,675
Mr. Azat Abishev	1,495,620	233,092
Mr. Nurzhan Bekshenov	1,264,735	197,109
Mr. Askar Alshinbaev	432,730	67,441
Mr. Aibar Dautov	407,010	63,432
Mr. Yevgeny Feld	246,670	38,444
Mr. Georgy Gukasov	175,452	27,344
Mr. Beibit Apsembetov	131,770	20,536
Mr. Aidar Akhmetov	98,465	15,346
Mr. Eldar Abdrazakov	55,300	8,619
Mr. Magzhan Auezov	28,000	4,364
Mrs. Ludmila Vozlublennya	12,150	1,894
Mr. Barlykzhan Nukenov	4,953	772
Mr. Almat Turtaev	3,202	499
Mr. Ermek Shamuratov	1,391	217
Mr. Serik Akhanov	658	103
Total	6,082,039	946,616

There are no other outstanding loans or guarantees granted by the Bank to any member of the Board of Directors, Management Board and Managing and Executive Directors or to any parties related to them.

Statutory Auditor

The Statutory Auditor oversees financial control of the Bank's activities. The appointment of the Statutory Auditor is approved annually by the shareholders. Members of the Management Board cannot be appointed as the Statutory Auditor. The Statutory Auditor has the right to be present at meetings of the Board of Managing Directors and to speak, but not vote, at such meetings. The Statutory Auditor has the right, as required, to convene an extraordinary general meeting of shareholders.

Currently TOO Almatygoraudit is the Bank's Statutory Auditor. It was appointed on 30 March 2001 and will remain as auditor until May 2003.

TRANSACTIONS WITH RELATED PARTIES

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

The following table sets forth the total related party transactions of the Bank as at 31 December 2001 and 2002 and the total amounts repaid and incurred in 2002:

	31 December 2001	*Issued in 2002*	*Paid in 2002*	*31 December 2002*
	In KZT millions			
Loans and advances	8,181.6	1,757.2	8,313.2	1,625.6
Deposits	1,021.6	5,705.2	5,773.6	953.2

The following table sets forth the Bank's interest income and expense relating to transactions with related parties as at 31 December 2002 and 2001:

	31 December	
	2002	*2001*
	In KZT thousands	
Interest income	275,541	215,720
Interest expense	99,341	46,384

The significant decrease in loans to related parties as at 31 December 2002 was attributable to the repayment by CAIH of the outstanding amount owed to the Bank and the write-off of the loan to JSC Air Kazakhstan.

Loans to related parties as at 31 December 2001 included a loan to CAIH, a subsidiary of the Bank's shareholder, Central Asian Investment Company, of KZT5,597 million. Initially this loan was used for the purchase of shares of JSC Kazakhtelecom. CAIH was, however, obliged by a Government decree passed in 1998 to sell these shares and should have repaid the loan from the proceeds. Although part of the loan, amounting to KZT4,644 million, was repaid in 2000 the Bank's exposure under it exceeded the NBK's single borrower exposure limits and the Bank was required to bring itself into compliance by 31 December 2000. To achieve this in accordance with NBK's requirements, the remaining balance was written off for statutory purposes. However, the Bank considered that the loan would nevertheless be repaid and therefore created a provision for the uncollectable amount. CAIH repaid the loan in instalments, with the final balance being paid in December 2002.

In December 2002, the Issuer received a payment of U.S.$33 million (KZT5,143 million) from CAIH which was deposited with the Bank by the Issuer on behalf of CAIH and pledged as collateral to secure a loan advanced by the Bank to Karakudukmunai, a Kazakh entity affiliated with CAIH. To the extent that Karakudukmunai defaults on its payment obligations under the loan, the deposited funds will be applied in satisfaction of those obligations. The Issuer receives interest from the Bank on the outstanding amount deposited at eight per cent. per annum, which it then pays to CAIH. The deposit is recorded as a loan from third parties on the Issuer's balance sheet, but the Issuer is not obliged to make any payment to CAIH under this arrangement unless and until it has received the corresponding payment from the Bank.

In accordance with an agreement in October 2000 between the Bank and JSC Air Kazakhstan which was approved by the Government, the Bank received 150,000 shares (50 per cent. of voting rights) of JSC Air Kazakhstan as part of a debt for equity swap for loans due to the Bank amounting to KZT2,375 million. The Bank valued the shares at nil Tenge as at the end of 2001 due to the weak financial state of the company. In September 2002, the Government approved the purchase of the shares in JSC Air Kazakhstan from the Bank for a net cash consideration of KZT2,391 million on the understanding that the Bank would write-off the outstanding loans from Air Kazakhstan which the Bank did in 2002. The Bank received payment from the Government in January 2003 and no longer holds any shareholding in the company.

As at 31 December 2002, the Bank had outstanding guarantees and letters of credit issued for related parties for KZT27.3 million and KZT5.4million, respectively, compared to KZT19.5 million and KZT108.9 million, respectively, as at 31 December 2001.

During 2002 and 2001, the Bank purchased and sold trading securities from and to related parties for totalling KZT67.6 million and KZT2,305.1 million, respectively.

The Bank's shareholdings in related companies amounted to KZT147.5 million at 31 December 2002 and KZT110.0 million as at 31 December 2001.

The Bank issued KZT1,325 million subordinated notes in 2002 to holders of its Preference Shares in lieu of a cash dividend, as approved by a decision of the Shareholders meeting in March 2001. In 2002 cash dividends declared and paid on the Bank's Preference Shares amounted to KTZ346.6 million.

In 2002 the Bank's subsidiary JSC Kazkommerts Securities received fees of KZT31.1million and KZT13.7 million from related parties for bond placements and consulting services, respectively.

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. See ''Annex A – The Republic of Kazakhstan''.

The Government and the NBK have also undertaken structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system.

The National Bank of Kazakhstan

The NBK is the central bank of Kazakhstan. Legislation adopted in 1995 established the current legal framework of Kazakhstan's banking system. The NBK is an independent institution, but is subordinate to the President. The President has the power, *inter alia*, to appoint (with the approval of Parliament) and remove the NBK's Governor and deputy Governors, to confirm the annual report of the NBK on the recommendation of the Governor, to confirm the concept and design of the national currency, and to request information from the NBK. Grigori Marchenko was appointed Governor of the NBK in October 1999, replacing Kadyrzhan Damitov.

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

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

Banking

Structure of the Banking System of Kazakhstan

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

Banking Reform and Supervision

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

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

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

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

In December 1999, a self-funded domestic deposit insurance scheme was established and as at 31 December 2002, 22 banks, including six subsidiaries of foreign banks, were covered by the scheme. The insurance cover is presently limited to Tenge, U.S. Dollar and Euro personal time deposits up to a total of

KZT400,000 plus statutory interest for Tenge accounts and KZT360,000 for U.S. Dollar and Euro accounts.

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

Commercial Banks

As at 31 December 2002, there were 38 banks in Kazakhstan, down from 184 in mid-1994. This decrease was largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium sized banks. However, in October 1996, Kramds Bank, the fifth largest bank in Kazakhstan in terms of assets, was liquidated by a decision of the NBK due to violation of prudential regulations, liabilities in excess of assets and an inability to meet its obligations.

In November 2001 the Government divested its remaining 33 per cent. stake in Halyk Savings Bank by means of a public auction. A consortium consisting of JSC Mangistaumunaygaz and a number of limited liability partnerships won the auction. JSC Mangistaumunaygaz extracts, transports, refines and sells oil, gas and oil products. In December 2001 the consortium, led by JSC Mangistaumunaygaz, sold its share in Halyk Savings Bank to a group of companies, including Almaty Merchant Bank.

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

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

The financial standing of Kazakhstan's banks varies. As at 31 December 2002, 28 of the 38 commercial banks had registered capital of over KZT1 billion, six banks had registered capital of KZT500 million to KZT1 billion and four banks had registered capital of KZT100 million to KZT500 million. Banks with registered capital of less than KZT500 million are required to submit to the NBK an application for a permit for voluntary reorganisation into an organisation performing only certain bank operations.

Foreign Capital in the Banking Sector

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

Under relevant legislation, ''a bank with foreign participation'' is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks. As at 31 December 2002 there were 17 banks with foreign participation operating in Kazakhstan including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC.

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

For a foreign bank to establish a subsidiary or joint venture where it has more than a 50 per cent. interest, the foreign bank must initially maintain a representative office in Kazakhstan for at least one year. A number of foreign banks have opened representative offices in Kazakhstan. These include Dresdner Bank, Deutsche Bank, CCF, Commerzbank and ING Bank.

TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a duly authorised issue of U.S.$150,000,000 8.5 per cent. Notes due 2013, (the ''Further Notes'') issued by Kazkommerts International B.V. (the ''Issuer'') and unconditionally and irrevocably guaranteed by OJSC Kazkommertsbank (the ''Guarantor'') pursuant to a deed of guarantee dated 16 April 2003 as supplemented by a supplemental deed of guarantee dated 8 May 2003 (together, the ''Guarantee''). The Further Notes will be consolidated and form a single series with the U.S.$350,000,000 8.5 per cent. Notes due 2013 of the Issuer issued on 16 April 2003 (the ''Existing Notes'', and, together with the Further Notes, 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). The Notes are constituted by a trust deed dated 16 April 2003 as amended by an amended and restated trust deed dated 8 May 2003 as supplemented by a supplemental trust deed dated 8 May 2003 (together, the ''Trust Deed'') between the Issuer, the Guarantor and J.P. Morgan Corporate Trustee Services Limited (the ''Trustee'', which expression shall include its successors as trustee under the Trust Deed), as trustee for holders of the Notes. The Issuer and the Guarantor have entered into a paying agency agreement dated 16 April 2003 as amended by an amended and restated agency agreement dated 8 May 2003 as supplemented by a supplemental paying agency agreement dated 8 May 2003 (together, the ''Agency Agreement'') with the Trustee, JPMorgan Chase Bank as registrar (the ''Registrar''), JPMorgan Chase Bank, London Branch, as principal paying agent (the ''Principal Paying Agent''), the other paying agents named therein (together with the Principal Paying Agent, the ''Paying Agents'') and the transfer agents (the ''Transfer Agents'') named therein. The Registrar, Paying Agents and Transfer Agents are together referred to herein as the ''Agents'', which expression and each of which definitions encompassed thereby include any successor agents appointed in these capacities from time to time in connection with the Notes and the Guarantee.

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

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

1. Form, Denomination and Title

(1) Form and Denomination

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

(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.

(3) Third Party Rights

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

2. Transfer of Notes and Issue of Notes

(1) Transfer

Subject to Conditions 2(4) and 2(5), a Note may be transferred in whole or in part in an authorised denomination upon the surrender of the Note Certificate representing that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the ''Transfer Form'') duly completed and executed, at the specified office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or, as the case may be, such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Transfer Forms are available from any Transfer Agent, the Registrar and the Issuer upon the request of any holder. In the case of a transfer of only a portion of the Notes represented by a Note Certificate, neither the portion transferred nor the balance thereof not transferred may be less than the applicable authorised denomination, and a new Note Certificate in respect of such balance not so transferred will be issued to the transferor.

(2) Delivery

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

(3) No Charge

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

(4) Closed Periods

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

(5) Regulations concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes set forth 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 Transfer Agents. A copy of the current regulations will be sent, free of charge, by the Registrar or any Transfer Agent to any Noteholder who so requests in writing.

3. Status of Notes and Guarantee

(1) Status of the Notes

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

(2) Status of the Guarantee

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

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

4. Negative Pledge

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

(2) Negative Pledge of the Guarantor

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

(3) Certain Definitions

For the purposes of these Conditions:

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

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

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

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

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

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

''*Permitted Security Interest''* means any Security Interest (i) granted in favour of the Guarantor by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entities to the Guarantor, (ii) which arise pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Guarantor held by financial institutions, (iv) arising in the ordinary course of the Guarantor's or a Subsidiary's business and (a) which are necessary in order to enable the Guarantor or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Guarantor's or such Subsidiary's business or (b) limited to deposits made in the name of the Guarantor or such Subsidiary to secure obligations of the Guarantor's or such Subsidiary's customers, (v) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, (vi) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Guarantor or any Subsidiary), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Guarantor's foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (vii) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest, (viii) granted upon or with regard to any property hereafter acquired by the Guarantor or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property (ix) created or outstanding upon any property or assets of the Guarantor or any Material Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Indebtedness for Borrowed Money secured by such property or assets is limited to such property or assets, provided that, the amount of Indebtedness for Borrowed Money so secured pursuant to this clause (ix) at any one time shall not exceed an amount in any currency or currencies equivalent to 15 per cent. of loans to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Guarantor prepared in accordance with International Accounting Standards) and (x) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.$50,000,000 (or its equivalent in other currencies) at that time.

''*Repo''* means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities borrowing agreement or any agreement relating to securities which is similar in effect to any for the foregoing and for purposes of this definition, the term ''securities'' means any capital stock, share, debenture or other debt or equity instrument, or other derivative, whether issued by any

private or public company, any government or agency or instrumentality thereof or any supernational, international or multilateral or organisation.

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

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

5. Certain Covenants

For so long as any Note remains outstanding:

(1) Limitations on Certain Transactions

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

(2) Limitation on Payment of Dividends

The Guarantor will not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default (as defined in Condition 10) or an event which, with the passage of time or the giving of notice, or both, would constitute an Event of Default or (ii) at any time when no such Event of Default or event exists, (a) more frequently than once during any calendar year or (b) in an aggregate amount exceeding 50 per cent. of the Guarantor's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with International Accounting Standards, for which purpose, the amount of the Guarantor's net income shall be determined by reference to its audited financial statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to (i) distributions by the Guarantor of its common shares in connection with an increase of capital permitted under Condition 5(1) or (ii) the payment of any dividends in respect of any preferred shares of the Guarantor.

(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.

For purposes of this Condition the term ''Fair Market Value'' of a transaction means the value that would be obtained in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer. A report of the Auditors (as defined in the Trust Deed) of the Guarantor of the Fair Market Value of a transaction may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties.

6. Interest

Each Further Note bears interest from 16 April 2003 (the ''Interest Commencement Date'') at a rate of 8.5 per cent. per annum (the ''Rate of Interest''), payable on 16 April and 16 October in each year (each, an ''Interest Payment Date''), subject as provided in Condition 8. Each period beginning on (and

including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an ''Interest Period''.

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

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

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

7. Redemption, Purchase and Cancellation

(1) Final Redemption

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 16 April 2013, subject as provided in Condition 8.

(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 15 April 2003 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 15 April 2003 as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 15 April 2003, and (ii) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it; *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such Additional Amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due, or (as the case may be) a demand under the Guarantee were then made or (also as the case may be) the Guarantor would be obliged to make a payment to the Issuer to enable it to make a payment of principal or interest in respect of the Notes if any such payment on the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 7(2) the Issuer shall deliver or procure that there is delivered to the Trustee (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers in form and substance satisfactory to the Trustee of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such Additional Amounts or (as the case may be) the Guarantor has or will become obliged to make such additional withholding or deduction as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion

as sufficient evidence of the satisfaction of the circumstances set out in (a)(i) and (a)(ii) above or (as the case may be) (b)(i) and (b)(ii) above, in which event they shall be conclusive and binding on the holders of the Notes. Upon the expiry of any such notice as is referred to in this Condition 7(2), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(2).

(3) Purchase

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

(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

(1) Principal

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

(2) Interest

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

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

(3) Payments Subject to Fiscal Laws

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

(4) Payment on Business Days

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

Where payment is to be made by cheque, the cheque will be mailed (i) on the Business Day immediately preceding the due date for payment or, if later, the day on which the relevant Note

Certificate is surrendered at the specified office of any of the Paying Agents (or if such day is not a Business Day, the immediately following Business Day) (in the case of principal and interest due on redemption) and (ii) on the Business Day immediately preceding the due date for payment (in the case of interest due other than on redemption).

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

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

(5) Partial Payments

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

(6) Agents

The names of the initial Agents and their initial specified offices are set forth at the end of this Offering Circular. Any of the Agents may resign in accordance with the provisions of the Agency Agreement and each of the Issuer and the Guarantor reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents provided that it will at all times maintain (i) a Registrar, (ii) a Paying Agent and (iii) a Paying Agent and a Transfer Agent having a specified office in Europe, which will be in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. In addition, the Issuer undertakes that it will ensure that it maintains a paying agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such directive. 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) shall be made free and clear of, and without deduction or withholding for, any taxes, duties, assessments, or governmental charges imposed, levied, collected, withheld or assessed by The Netherlands or Kazakhstan or, in either case, any political subdivision or any authority thereof or therein having the power to tax (collectively ''Taxes'') unless such withholding or deduction is required by law. In such event, the Issuer or (as the case may be) the Guarantor will, subject to certain exceptions and limitations set forth below, pay such additional amounts (the ''Additional Amounts'') to the holder of any Note as will result in receipt by the Noteholder of such amounts as would have been received by them if no such withholding or deduction on account of any such Taxes had been required. However, neither the Issuer nor the Guarantor will be required to make any payment of Additional Amounts to any such holder for or on account of any such Taxes (a) which would not have been so imposed (i) but for the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership or a corporation) and The Netherlands, in the case of Taxes imposed by The Netherlands, or Kazakhstan, in the case of Taxes imposed by Kazakhstan, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein other than the mere holding of the Note, or (ii) but for the presentation by the holder of any such Note for payment on a date more than 30 days after the date (the ''Relevant Date'') which is the later of the date on which such payment became due and payable and the date on which payment thereof is duly provided for except to the extent that the holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days; or (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made

pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November, 2000 or any law implementing or complying with, or introduced in order to conform to, such directive; nor shall Additional Amounts be paid with respect to any payment on a Note or under the Guarantee to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for Tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of the Note.

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

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

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

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

10. Events of Default

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

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

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

(3) Cross-default: (i) any Indebtedness for Borrowed Money of the Issuer, the Guarantor or any Material Subsidiary (a) becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of default by the Issuer or the Guarantor or (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 Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.$10,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

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

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

(6) 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 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

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

(8) Invalidity or Unenforceability: (i) the validity of the Notes, the Trust Deed, the Guarantee or the Agency Agreement is contested by the Issuer or the Guarantor or the Issuer or the Guarantor shall deny any of its obligations under the Notes, the Trust Deed, the Guarantee or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee or the Agency Agreement or (iii) all or any of its obligations set out in the Notes, the Trust Deed, the Guarantee or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this clause (8), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(9) Government Intervention: (i) all or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets, revenues and, following the occurrence of any of the events specified in this Condition 10(9), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(10) Controlling Shareholder: the Issuer ceases to be a Subsidiary of the Guarantor.

11. Warranties

The Issuer 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 execution of the Guarantee, as applicable, and to constitute the same as legal, valid and binding obligations of the

Issuer and, in the case of the Guarantee, the Guarantor, enforceable in accordance with their terms, 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 the Transfer Agent subject to all applicable laws and stock exchange requirements (if applicable), upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity or otherwise as the Issuer and/or the Registrar may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

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

(1) Meetings of Noteholders

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

(2) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to (i) any modification of any provision of the Trust Deed, the Guarantee or the Notes (including these Conditions) which is of a formal, minor or technical nature or is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any provision of these Conditions, the Guarantee or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and shall be notified to the Noteholders as soon as practicable thereafter.

(3) Substitution

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

15. Notices

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

on the date of such publication or, if published more than once on different dates, on the first date on which publication is made.

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

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 securities shall be consolidated and form a single series with the outstanding Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant this Condition. Any such other securities shall be constituted by a deed supplemental to the Trust Deed.

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

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

19. Governing Law, Jurisdiction and Arbitration

(1) Governing Law

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

(2) Jurisdiction

Subject to Condition 19(6), each of the Issuer and the Guarantor has agreed that the courts of England shall have, subject as follows, exclusive jurisdiction to hear and determine any suit, action or proceedings which arise out of or in connection with the Notes or the Trust Deed (''Proceedings'') and,

for such purposes, have irrevocably submitted to the jurisdiction of such courts. Nothing in this Condition 19(2) shall limit the right of the Trustee or, as the case may be, a Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings by the Trustee in any one or more jurisdictions preclude the taking of Proceedings by the Trustee or, as the case may be, a Noteholder, in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(3) Appropriate Forum

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

(4) Process Agent

Each of the Issuer and the Guarantor has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered in connection with any Proceedings in England, to OJSC Kazkommertsbank London Representative Office at 3rd Floor, Broughton House, 6-8A Sackville Street, London W1S 3DG or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). Nothing in this sub-clause shall affect the right of the Trustee or a Noteholder to serve process in any other manner permitted by law.

(5) Consent to enforcement etc.

Each of the Issuer and the Guarantor consents generally in respect of any Proceedings (or arbitration in accordance with Condition 19(6)) to the giving of any relief or the issue of any process in connection with such Proceedings or arbitration including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, judgment or award which is made or given in such Proceedings or arbitration.

(6) Arbitration

Each of the Issuer and the Guarantor has agreed in the Trust Deed that the Trustee may elect by written notice to the Issuer and/or the Guarantor, as the case may be, that any claim, dispute or difference arising out of or in connection with the Notes shall be finally settled by arbitration in accordance with the rules of the United Nations Commission on International Trade Law (alternatively referred to as the UNCITRAL Arbitration Rules). The arbitration shall take place in Vienna under the UNCITRAL Arbitration Rules, and the proceedings shall be conducted in the English language. The Issuer and/or the Guarantor, as the case may be, (on behalf of themselves) shall appoint one arbitrator and the Trustee shall appoint one arbitrator and the parties to the arbitration jointly shall appoint the third arbitrator who shall be the chairman of the arbitral tribunal. The President of the Court of Arbitration of the International Chamber of Commerce in Paris shall act as the ''appointing authority'' under the UNCITRAL Arbitration Rules in the event that either the Issuer and/or the Guarantor or the party or parties to the arbitration should fail to appoint an arbitrator or the parties to the arbitration should fail to appoint jointly the third arbitrator within the time limits specified in the UNCITRAL Arbitration Rules. The decision and award of the arbitrators shall be final and binding and shall be enforceable in any court of competent jurisdiction.

FORM OF NOTES AND TRANSFER RESTRICTIONS

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

1. Form of Notes

All Notes will be in fully registered form, without interest coupons attached. Further Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Unrestricted Global Note, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, London Branch, 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.

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

The Further Notes will be consolidated and form a single series with the Existing Notes on the Closing Date.

The Unrestricted Global Note issued in respect of the Further Notes will have the same Common Code and ISIN as the unrestricted global note issued in respect of the Existing Notes. The Restricted Global Note issued in respect of the Further Notes will have the same CUSIP Number and ISIN as the restricted global note issued in respect of the Existing Notes. See ''General Information''. The Unrestricted Global Note and the Restricted Global Note are referred to as the ''Global Notes''.

2. Transfer Restrictions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Exchange of Interests in Global Notes for Note Certificates

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

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

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

In addition to the requirements described under ''Transfer Restrictions'', the holder of a Further Note may transfer such Further 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 and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

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

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 any Manager or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for

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

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

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

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

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

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 Accountholders.

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

Trading between DTC Participants.

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

Trading between DTC Seller and the Euroclear Operator/Clearstream, Luxembourg Purchaser.

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note and (ii) increase the amount of Notes registered in the name of

the nominee of the common depositary for the Euroclear Operator and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to the Euroclear Operator or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first Business Day following the settlement date. See above concerning the Record Date for payment of interest.

Trading between the Euroclear Operator/Clearstream, Luxembourg Seller and DTC Purchaser.

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

Although the foregoing sets out the procedures of the Euroclear Operator, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes 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 account holders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

TAXATION

Kazakhstan Taxation

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

Under Kazakh law as presently in effect, payments of principal and interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has not 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 per cent.

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

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 tax legislation as in effect at the date hereof and as interpreted in published case law until this date.

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

Withholding Tax

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

Corporate Income Tax and Individual Income Tax

Residents of The Netherlands

If the holder of a Note is a resident or deemed to be a resident of The Netherlands for Netherlands corporate income tax purposes, income derived from the Notes and gains realised upon the disposal of

the Notes are subject to a 34.5 per cent. corporate income tax rate (a corporate income rate of 29 per cent. applies with respect to taxable profits up to €22,689).

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

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

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

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

Non-residents of The Netherlands

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

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

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

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

(iv) neither such holder nor, in the event the holder is an individual, individuals related to such holder (statutorily defined term) and certain of their relatives by blood or marriage in the direct line (including foster children) 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 ten years preceding the date of the gift or his/her death.

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

Other taxes and Duties

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

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

Proposed EU Directive on the Taxation of savings Income

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

United States Federal Income Taxation

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

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

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

Interest

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

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

Sale, Exchange or Retirement

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

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

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain noncorporate holders of Notes that are United States persons. Information reporting generally will apply to payments of principal of, and interest on, an obligation, and to proceeds from the sale or redemption of, an obligation made within the United States to a holder (other than an exempt recipient, including a corporation, a payee that is not a United States person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax from any such payment within the United States on a Note or under the Guarantee to a holder of a Note that is a United States person (other than an ''exempt recipient'', such as a corporation) if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate of 30 per cent. will be reduced to 29 per cent. for years 2004 and 2005, and 28 per cent. for years 2006 through 2010.

In the case of payments to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information

reporting requirements. Moreover, a payor may rely on a certification provided by a payee that is not a United States person only if the payor does not have actual knowledge or a reason to know that any information or certification stated in the certificate is incorrect.

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

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited and J.P. Morgan Europe Limited (the ''Managers'') have, in an underwriting agreement dated 7 May 2003 (the ''Underwriting Agreement''), agreed with the Issuer and the Bank, subject to the satisfaction of certain conditions, to subscribe for the Further Notes at an issue price of 99.0 per cent. of their principal amount plus accrued interest less a selling commission of 0.2 per cent. of such principal amount. The Issuer and the Bank have agreed to pay to the Managers a combined management and underwriting commission of 0.3 per cent. of such principal amount. In addition, 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 the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, 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.

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

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

The Underwriting Agreement provides that the Managers may directly or through its U.S. broker-dealer affiliate arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

United Kingdom

Each Manager has represented and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Further Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (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 Guarantor; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Kazakhstan

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

The Netherlands

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

General

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

GENERAL INFORMATION

1. The Notes have been accepted for clearance through the Euroclear Operator, Clearstream, Luxembourg and DTC. Further Notes will be fungible for trading purposes with the Existing Notes on the Closing Date. The Unrestricted Global Note relating to the Further Notes will have the same Common Code and ISIN as the Existing Notes, namely 016714909 and XS0167149094, respectively. The Restricted Global Note issued in respect of the Further Notes has been accepted for clearance through DTC and has the same CUSIP number and ISIN as the Existing Notes, namely, 48666FA C4 and the ISIN is US48666FAC41, respectively.

2. The issue of the Existing Notes was authorised by a duly adopted resolution of the Managing Board of the Issuer dated 15 April 2003 and was approved by a duly adopted resolution of the Bank as sole shareholder of the Issuer dated 15 April 2003. The deed of guarantee relating to the Existing Notes was authorised by a duly convened meeting of the Board of Directors of the Bank held on 15 April 2003. The issue of the Further Notes was authorised by a duly adopted resolution of the Managing Board of the Issuer dated 6 May 2003 and was approved by a duly adopted resolution of the Bank as sole shareholder of the Issuer dated 6 May 2003. The supplemental deed of guarantee relating to the Further Notes was authorised by a duly convened meeting of the Board of Directors of the Bank held on 15 April 2003.

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

4. There has been no adverse change, or development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Guarantor or any of its Subsidiaries since 31 December 2002 that is material in the context of the issue of the Notes.

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

   (a) the Agency Agreement;

   (b) the Guarantee, and

   (c) the Trust Deed.

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

   (a) the audited consolidated financial statements of the Guarantor prepared in accordance with IAS for the years ended and as at 31 December 2002, 2001 and 2000;

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

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

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

   The Issuer does not produce interim financial statements.

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

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

9. The Trust Deed provides that any certificate or report of the auditors or any financial institution called for by or provided to the Trustee in accordance with or for the purposes of the Conditions and/or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report (and/or any engagement letter or other document entered into by the Trustee in connection therewith) contains a monetary or other limit on the liability of the auditors or the financial institution, as the case may be, in respect thereof.

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INDEPENDENT AUDITORS' REPORT

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Deloitte & Touche

To the Shareholders and Board of Directors of OJSC Kazkommertsbank:

We have audited the accompanying consolidated balance sheets of OJSC Kazkommertsbank and its consolidated subsidiaries (the ''Bank'') as at 31 December 2002 and 2001, and the related consolidated profit and loss accounts, statements of cash flows and changes in equity for each of the three years in the period ended 31 December 2002. 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of OJSC Kazkommertsbank and its consolidated subsidiaries at 31 December 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years ended 31 December 2002, in accordance with International Accounting Standards.

Deloitte & Touche

7 March 2003

Deloitte
Touche
Tohmatsu

OJSC KAZKOMMERTSBANK
CONSOLIDATED PROFIT AND LOSS ACCOUNTS
FOR THE YEARS ENDED 31 DECEMBER 2002, 2001 AND 2000
(in KZT and in thousands, except per share amounts)

	Notes	*2002*	*2001*	*2000*
Interest income, net	3, 20, 32	22,607,596	17,536,093	12,361,676
Interest expense	3, 32	11,257,899	7,887,765	5,763,106
Net interest income before provisions for loan losses	3	11,349,697	9,648,328	6,598,570
Provisions for loan losses	4	5,448,245	4,237,906	1,334,043
NET INTEREST INCOME		5,901,452	5,410,422	5,264,527
Fee and commission income		5,791,790	3,850,309	2,790,076
Fee and commission expense		(1,126,385)	(768,238)	(1,056,794)
Net gain on sale of trading securities		534,309	490,545	300,221
Net unrealised gain on trading securities		401,684	1,009,721	904,884
Unrealised gain/(loss) on securities available-for-sale	5	3,916,126	(54,071)	(1,471,061)
Realised (loss)/gain on securities available-for-sale		–	(1,415)	6,921
Equity income from associates		33,869	389,083	358,202
Net gain on foreign exchange operations		640,405	730,264	481,896
Net unrealized foreign exchange gain		567,004	655,563	598,222
Dividends received		446,719	38,327	135,192
Other income	6	433,141	282,910	816,049
NET NON-INTEREST INCOME		11,638,662	6,622,998	3,863,808
OPERATING INCOME		17,540,114	12,033,420	9,128,335
Operating expenses	7	7,955,983	5,940,102	5,276,482
INCOME BEFORE PROVISIONS/ (RECOVERY) FOR LOSSES ON OTHER TRANSACTIONS AND INCOME TAX		9,584,131	6,093,318	3,851,853
Provisions/(recovery) for losses on other transactions	8	1,327,071	525,862	(18,463)
INCOME BEFORE INCOME TAX		8,257,060	5,567,456	3,870,316
Income tax expense/(recovery)	9	276,067	278,555	(153,874)
INCOME		7,980,993	5,288,901	4,024,190
Minority shareholders' interest		2,230	–	–
NET INCOME		7,978,763	5,288,901	4,024,190
Earnings per share				
Basic and diluted (in KZT)	10	25.94	18.37	14.14

The notes on pages F-8 to F-32 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-2.

OJSC KAZKOMMERTSBANK
CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2002 AND 2001
(in KZT and in thousands)

	Notes	*2002*	*2001*
ASSETS			
Cash and balances with the National Banks of the Republic of Kazakhstan and Kyrgyz Republic	11	19,394,771	11,478,415
Loans and advances to banks, net	12	43,405,144	17,569,835
Trading securities	13	20,433,449	13,274,592
Loans to customers, net	14, 32	170,087,460	137,661,500
Securities available-for-sale	15	5,967,823	168,644
Securities held-to-maturity	16	188,152	313,617
Investments in associates	17	285,917	1,773,954
Fixed assets, net	18	3,447,613	2,344,246
Intangible assets, net	19	608,577	528,057
Other assets, net	20	10,942,392	9,230,647
TOTAL ASSETS		274,761,298	194,343,507
LIABILITIES, SHARE CAPITAL AND RESERVES			
Loans and advances from banks	21	54,528,255	42,900,272
Securities sold under agreements to repurchase	22	–	1,562,460
Customer accounts	23, 32	138,412,288	108,975,301
Debt securities issued	24	29,614,150	
Other borrowed funds	25	4,546,959	5,221,585
Other liabilities	26	9,499,890	7,082,721
Subordinated debt	27	6,012,322	2,941,815
Dividends payable to shareholders		406	1,236,325
TOTAL LIABILITIES		242,614,270	169,920,479
COMMITMENTS AND CONTINGENCIES	31	–	–
Minority shareholders' interest		81,240	–
SHARE CAPITAL AND RESERVES:			
Share capital	28	3,499,688	3,497,691
Reserves		28,566,100	20,925,337
TOTAL SHARE CAPITAL AND RESERVES		32,065,788	24,423,028
TOTAL LIABILITIES, SHARE CAPITAL AND RESERVES		274,761,298	194,343,507

The notes on pages F-8 to F-32 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-2.

OJSC KAZKOMMERTSBANK
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2002, 2001 AND 2000
(in KZT and in thousands)

	Share capital	*Share premium*	*Fixed assets revaluation reserve*	*Retained earnings*	*Total*
Balance at 31 December 1999	2,941,814	2,830,951	94,447	7,507,614	13,374,826
Amortisation of fixed assets revaluation reserve	–	–	(84,096)	84,096	–
Share capital repurchased	(9,908)	(37,021)	–	–	(46,929)
Net income for the year	–	–	–	4,024,190	4,024,190
Balance at 31 December 2000	2,931,906	2,793,930	10,351	11,615,900	17,352,087
Amortisation of fixed assets revaluation reserve	–	–	(2,226)	2,226	–
Share capital increase of:					
– common shares	1	–	–	–	1
– preference shares	555,901	2,632,594	–	–	3,188,495
Sale of repurchased shares	9,883	38,163	–	–	48,046
Dividends declared	–	–	–	(1,454,502)	(1,454,502)
Net income for the year	–	–	–	5,288,901	5,288,901
Balance at 31 December 2001	3,497,691	5,464,687	8,125	15,452,525	24,423,028
Amortisation of fixed assets revaluation reserve	–	–	(1,253)	1,253	–
Share capital increase of:					
– preference shares	1,731	8,273	–	–	10,004
Sale of repurchased shares	266	353	–	–	619
Dividends paid					
– preference shares	–	–	–	(346,626)	(346,626)
Net income for the year	–	–	–	7,978,763	7,978,763
Balance at 31 December 2002	3,499,688	5,473,313	6,872	23,085,915	32,065,788

The notes on pages F-8 to F-32 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-2.

OJSC KAZKOMMERTSBANK
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2002, 2001 AND 2000
(in KZT and in thousands)

	Notes	*2002*	*2001*	*2000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before taxes on income		8,257,060	5,567,456	3,870,316
Adjustments for:				
Provisions for loan losses	4	5,448,245	4,237,906	1,334,043
Provisions/(recovery) for losses on other transactions and interest accrual	8	1,327,071	525,862	(18,463)
Unrealised (gain)/loss and amortisation of discounts on trading securities and securities available-for-sale		(4,317,810)	(955,650)	306,441
Depreciation and amortisation		625,058	516,347	453,848
Decrease/(increase) in net interest accruals		1,465,157	(2,958,124)	(488,444)
Net change in dividends accrued		–	–	(69,296)
(Income) from equity investments		(33,869)	(389,083)	(358,202)
Operating profit before changes in operating assets and liabilities		12,770,912	6,544,714	5,030,243
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets				
Loans and advances to banks		5,409,000	(9,164,838)	(2,391,866)
Trading securities and reverse repurchase agreements		(6,764,553)	13,863,820	(12,329,968)
Securities available-for-sale and investment in associates		(744,686)	996,556	–
Securities held-to-maturity		125,465	(93,536)	–
Loans to customers		(37,998,265)	(74,617,909)	(20,019,255)
Dividends received		380,121	541,498	–
Other assets		(1,009,163)	(795,996)	913,745
Increase/(decrease) in operating liabilities				
Loans and advances from banks and repurchase agreements		10,065,523	21,099,758	664,287
Customer accounts		29,436,987	54,836,729	32,062,040
Other borrowed funds		(674,626)	819,954	(1,041,393)
Other liabilities		(273,053)	(2,021,256)	4,067,346
Cash inflows from operating activities before tax		10,723,662	12,009,494	6,955,179
Income taxes (paid)		(722,962)	(20,702)	(21,014)
Net cash inflows from operating activities		10,000,700	11,988,792	6,934,165
CASH FLOWS FROM INVESTING ACTIVITIES				
Net purchases of fixed assets		(1,593,615)	(743,816)	(644,171)
Net acquisition of intangible assets		(197,244)	(146,177)	(291,866)
Net acquisition of investments in associates		(55,800)	(74,560)	–
Net acquisition of investments in subsidiary		(249,840)	–	(174,813)
Net cash (outflows) from investing activities		(2,096,499)	(964,553)	(1,110,850)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of ordinary share capital		–	1	–
Issue of preference share capital		1,731	555,901	–
Proceeds/(repayment) of debt securities issued	24	29,614,150	(14,899,527)	78,862
Subordinated debt	27	1,773,864	–	2,820,385
Sale of repurchased/(purchase of) common shares		266	9,883	(9,908)
Increase in Minority Shareholders' Interest		81,240	–	–
Dividend payment		(347,473)	–	–
Proceeds/(disbursements) from share premium		8,626	2,670,757	(37,021)
Net cash inflows/(outflows) from financing activities		31,132,404	(11,662,985)	2,852,318
NET INCREASE /(DECREASE) IN CASH AND CASH EQUIVALENTS		39,036,605	(638,746)	8,675,633
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	11	16,190,307	16,829,053	8,153,420
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	11	55,226,912	16,190,307	16,829,053

The notes on pages F-8 to F-32 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-2.

Net interest paid and received in cash during the year ended 31 December 2002 amounted to KZT 9,822,159 thousand and KZT 21,985,172 thousand, respectively.

Net interest paid and received in cash during the year ended 31 December 2001 amounted to KZT 6,597,635 thousand and KZT 12,953,470 thousand, respectively.

Net interest paid and received in cash during the year ended 31 December 2000 amounted to KZT 5,508,425 thousand and KZT 12,097,636 thousand, respectively.

The notes on pages F-8 to F-32 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page F-2.

1 ORGANISATION

OJSC Kazkommertsbank (the ''Bank'') was incorporated on 12 July 1990 as an open joint stock company, in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of OJSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan on 21 October 1991. In 1994, OJSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of OJSC Kazkommertsbank. Astana Holding Bank, a joint stock company, was incorporated in May 1993 as a privately held corporation. The number of employees of the Bank at 31 December 2002, 2001 and 2000 was 2,850, 2,392 and 2,001, respectively.

The registered office of the Bank is 135 ''Zh'', Gagarin Ave., Almaty. The Bank's registration certificate number with the Ministry of Justice is 4466-1910-AO.

The financial statements were authorized for issue on 25 February 2003 by the Board of Directors of OJSC Kazkommertsbank.

The Bank's subsidiaries are:

Name	*Location*	*% Held*	*Main line of business*	*Date of acquisition*
Kazkommerts Securities	Kazakhstan	100%	Investment banking	30 October 1997
Kazkommerts Policy	Kazakhstan	100%	Insurance	14 November 2000
Kazkommerts International BV	Netherlands	100%	Capital markets	31 December 1997
Kazkommerts Capital-2 BV	Netherlands	100%	Capital markets	5 April 2000
Kazkommerts Finance-2 BV	Netherlands	100%	Capital markets	21 February 2001
Kazkommertsbank Kyrgyzstan	Kyrgyzstan	73.84%	Commercial banking	30 June 2002

On 30 June 2002 the Bank acquired 72.35% of outstanding common stock of Kyrgyzavtobank, a commercial bank operating in the Republic of Kyrgyzstan, and in December 2002 its investment was increased to 73.84%. On 5 December 2002 the name of Kyrgyzavtobank was changed to Kazkommertsbank Kyrgyzstan. The assets and business of Kazkommertsbank Kyrgyzstan have been consolidated into the results of the Bank since 1 July 2002. The Bank paid KZT 249,840 thousand for these shares. (see Note 36).

In December 2002 authorized common stock of JSC Kazkommerts Policy was increased from KZT 100 mln to KZT 153.8 mln. In February 2003, 53,846 authorized, but not issued ordinary shares were issued to a third party for KZT 212,590 thousand having the effect of reducing in the percentage of Bank's ownership to 65%.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting basis – The consolidated financial statements have been prepared on the accrual basis of accounting under the historical cost convention. Certain fixed assets were revalued in 1997 in accordance with regulation of the National Bank of the Republic of Kazakhstan (''NBRK'') to approximate fair value.

The Bank and its subsidiaries maintain their accounting records in accordance with appropriate local regulations. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform with International Accounting Standards (''IAS'').

The preparation of the consolidated financial statements in conformity with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change related to the provision for loan and investment losses and the fair value of financial instruments.

Principles of consolidation – The consolidated financial statements include the accounts of majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Such subsidiaries are accounted for using the equity method of accounting in the stand-alone financial statements of the Bank.

Investments in associates – Investments in companies in which the Bank has a stake of greater than 20%, and, in the opinion of management, has the ability to significantly influence the operating and financial activities of those companies, are accounted for using the equity method, unless the Bank acquired and holds those companies for resale in the near future, or that company operates under severe long term restrictions, that significantly impair its ability to transfer funds to the Bank.

Investments in other subsidiaries and associated companies – Investments in corporate shares where the Bank owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the financial statements taken as a whole, or the Bank intends to re-sell such investments in the near future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value. Management periodically assesses the carrying values of such investments and provides valuation allowances, if required.

Settlement date – The Bank recognises ''regular way'' purchases and sales of financial instruments using settlement date accounting. The settlement date is the date that the asset is delivered to a counterparty to a contract.

Cash and cash equivalents – Cash and cash equivalents include cash, unrestricted balances with the national banks and correspondent accounts with banks in countries included in the Organization for Economic Cooperation and Development (''OECD'').

Trading securities – Trading securities represent debt and equity securities held for trading and are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost, which approximates fair value of the consideration given and subsequently measured at fair value.

Securities held-to-maturity – Securities held-to-maturity are debt securities with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Such securities are carried at amortized cost, less any provision for impairment. Amortized discounts are recognized in interest income using the effective interest method over the period to maturity.

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost, which approximates the fair value of the consideration given, and subsequently measured at fair value, with such re-measurement included in the consolidated profit and loss accounts.

The determination of fair value of the Bank's trading securities and securities available-for-sale is based on quoted bid prices or, if unavailable, on the estimates of experts.

Originated loans – Loans are originated by the Bank by providing money directly to the borrower and are carried at amortized cost, less any provision for possible loan losses. Loans granted by the Bank below market are discounted to fair value using the effective interest method.

Allowance for loan losses – The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount, which, in the judgement of management, is adequate to provide for possible losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are created to cover potential losses, which, although not specifically identified, are present in the loan portfolio, as evidenced by past experience.

The total change in the allowance for possible loan losses is charged to the profit and loss account the total allowance for loan losses is deducted in arriving at the balance sheet figures of loans and advances to banks and to customers. Management's evaluation of the provision is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of possible loan losses involve an exercise of judgement. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgement of management that the allowance for possible loan losses is adequate to absorb losses inherent in the portfolio.

Write-off of loans – Loans are written off against allowance for possible loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans are written off

after management has exhausted all avenues available to collect amounts due to the Bank and after the Bank has collected all available collateral.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognised for non-accrual loans.

Repurchase agreements – The Bank enters into sale and purchase back agreements (''repos'') and purchase and sale back agreements (''reverse repos'') of financial assets, including interest, in the normal course of its business. A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. Assets sold by the Bank under repos are retained in the financial statements and a consideration received is recorded in liabilities as collateralised deposit received. A reverse repo is an agreement to purchase assets and resell them at a future date with accrued interest received. Assets purchased under reverse repos are recorded in the financial statements as cash received on deposit, which is collateralised by securities or other assets.

Depreciation – Depreciation and amortisation is calculated on a straight-line basis over the following estimated useful lives:

Buildings	40 years
Furniture and equipment	3 – 10 years
Intangible assets	6 – 7 years

Foreign currencies – Assets and liabilities denominated in foreign currencies are translated at the appropriate exchange rate ruling at the balance sheet date. Profits and losses arising from this translation are included in net unrealised exchange gain. The currency used in these financial statements is the Kazakh Tenge, denoted by the symbol KZT. The exchange rates used by the Bank in the preparation of the financial statements are as follows:

	2002	*2001*	*2000*
KZT/USD	155.85	150.20	144.50
KZT/EUR	162.46	134.77	136.21

The Statements of cash flows do not consider the effect of translation of foreign denominated assets and liabilities, the impact of which is included in net unrealised exchange gain.

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income taxes – Taxes on income are computed in accordance with laws of the countries, in which the Bank operates. The Bank determines income tax expense using the liability method whereby the expected income tax effects of timing differences between IAS financial reporting and Kazakhstan's tax reporting are reported as deferred taxes payable in the future or as deferred tax assets recoverable in the future.

Fiduciary activities – The Bank provides trustee services to its customers. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but does not accept credit or market risk related to these activities.

Reclassifications – Certain amounts in the financial statements of previous years have been reclassified to conform to the current year's presentation.

3 NET INTEREST INCOME

	2002	2001	2000
Interest income, net			
Interest on loans to customers, net	21,150,153	15,508,898	10,033,051
Interest on loans and advances to banks, net	346,746	711,126	534,388
Interest on debt securities	1,110,697	1,316,069	1,794,237
Total interest income, net	22,607,596	17,536,093	12,361,676
Interest expense			
Interest on customer accounts	6,880,159	4,521,120	1,602,788
Interest on loans and advances from banks	1,939,714	2,266,854	1,801,352
Interest on debt securities issued	2,083,414	762,717	2,019,941
Other interest expense	354,612	337,074	339,025
Total interest expense	11,257,899	7,887,765	5,763,106
Net interest income before provisions for possible loan losses	11,349,697	9,648,328	6,598,570

4 PROVISIONS/(RECOVERY) FOR LOAN LOSSES

	2002	2001	2000
Provisions on loans to customers	6,787,170	5,424,494	7,150,934
(Recovery)/provisions on loans and advances to banks	(124,060)	201,294	55,764
Recovery of provisions for customer loans previously written off	(1,214,865)	(1,387,882)	(5,872,655)
Provisions for loan losses	5,448,245	4,237,906	1,334,043

5 UNREALISED GAIN/(LOSS) ON SECURITIES AVAILABLE-FOR-SALE

Included in the unrealised gain on securities available-for-sale of KZT 3,916,126 thousand are KZT 1,560,086 thousand related to the restatement to fair value of the Bank's investment in ABN AMRO Bank Kazakhstan and KZT 2,390,700 thousand related to the revaluation of the Bank's investment in Air Kazakhstan.

The value of the Bank's investment in ABN AMRO Bank Kazakhstan was determined using a commonly accepted equity valuation technique, applying a growth factor of 7% per annum and using a discount factor of 13.7%. The application of this valuation method results in a valuation that equates to a Price to Book ratio of 2.

In 2001 the investment in ABN AMRO Bank Kazakhstan was considered to be the cost of acquisition plus the Bank's share of reserves subsequent to the date of investment, and this investment was previously categorized as an investment in an associate. The basis of calculation changed due to the Bank's assessment that this investment no longer meets the criteria required to be considered as an associate (see Notes 15 and 17).

The value of the Bank's investment in Air Kazakhstan is determined with reference to an agreement with the Government of the Republic of Kazakhstan. Subsequent to year end all amounts set out in the contract were paid. In 2001 the value of Air Kazakhstan was considered to be nil, based on the Bank's valuation of the assets and business of that company at that time. The difference between the value of shares at 31 December 2001 and 31 December 2002 is represented as income in the current year.

6 OTHER INCOME

	2002	2001	2000
Insurance premium of Kazkommerts Policy	335,214	205,851	–
Legal settlements	649	433	781,544
Other	97,278	76,626	34,505
Other Income	433,141	282,910	816,049

7 OPERATING EXPENSES

	2002	*2001*	*2000*
Staff costs	4,178,014	2,914,122	2,498,533
Depreciation and amortisation	625,058	516,347	453,848
Contributions to Deposits Insurance Fund	352,755	141,154	38,353
Advertising costs	311,911	289,198	218,573
Business trip expenses	252,806	203,718	187,106
Fixed assets maintenance	242,499	123,837	104,757
VAT	233,676	256,004	233,924
Communications	220,203	223,479	203,806
Rent	159,584	121,792	94,552
Charity and sponsorship expenses	157,740	182,931	285,651
Taxes, other than income tax	139,282	164,744	30,821
Vehicles maintenance	109,885	86,373	61,814
Safeguarding	102,290	113,149	109,094
Customs duty for foreign banknotes	89,420	195,443	331,102
Inventory written off	79,461	3,279	21,542
Training	68,093	20,375	19,398
Cash collection	65,921	69,536	80,943
Stationary	52,411	32,639	24,008
Entertainment	35,054	21,567	28,677
Mail expenses	30,157	21,333	14,859
Other	449,763	239,082	235,121
Operating Expenses	7,955,983	5,940,102	5,276,482

8 PROVISIONS / (RECOVERY) FOR LOSSES ON OTHER TRANSACTIONS

	2002	*2001*	*2000*
Provisions on letters of credit and guarantees	1,123,431	379,620	124,489
Provisions/(recovery) for doubtful debtors	56,140	15,797	(142,952)
Recovery of previously written off assets	(3,300)	(410)	–
Unearned premium reserve and technical insurance provision	150,800	130,855	–
Provisions/(recovery) for losses on other transactions	1,327,071	525,862	(18,463)

9 INCOME TAXES

The provision for taxes on income for the years ended 31 December 2002, 2001 and 2000 consists of the following:

	2002	*2001*	*2000*
Current tax	477,990	23,646	53,339
Tax benefit	–	(153,085)	–
Deferred tax (credit)	(201,923)	407,994	(207,213)
	276,067	278,555	(153,874)

Temporary differences that give rise to deferred tax assets and liabilities are as follows at 31 December 2002 and 2001:

	2002	*2001*
Deferred tax assets:		
Provision for accrued interest receivable	1,694,726	605,982
Provision for guarantees and letters of credit	252,581	–
Provision for other accounts receivable	219,278	2,541
Loans discount amortization	58,990	–
Total deferred tax assets	2,225,575	608,523
Deferred tax liabilities:		
Provision for customer loan losses	2,064,726	1,490,490
Revaluation of investments	1,100,795	210,628
Depreciation and amortisation	243,562	73,562
Revaluation of loans in foreign currency	30,900	177,046
Other accruals	–	73,128
Total deferred tax liability	3,439,983	2,024,854
Net deferred tax liability	1,214,408	1,416,331

Reconciliation of income taxes from the statutory rate of 30% to actual income taxes provided for the years ended 31 December 2002, 2001 and 2000 are as follows:

	2002	*2001*	*2000*
Income before taxes on income	8,257,060	5,567,456	3,870,316
Tax at statutory rate of 30%	2,477,118	1,670,237	1,161,095
Tax effect of tax exempt income	(2,201,051)	(1,391,682)	(1,314,969)
Income taxes/(benefit)	276,067	278,555	(153,874)
Effective tax rate	3.34%	5.0%	(3.9%)

The tax-exempt income causing a lower effective tax rate as compared to the Bank's statutory rate results from net change in net unrealised exchange gain, gains on sale and revaluation gains of certain securities, and certain other gains.

10 EARNINGS PER SHARE

	2002	*2001*	*2000*
Earnings:			
Net income for the year	7,978,763	5,288,901	4,024,190
Minus:			
Dividends for preference shares	(346,626)	–	–
Adjusted earnings	7,632,137	5,288,901	4,024,190
Weighted average number of shares: for the purpose of basic and diluted earnings per share	294,182,278	287,982,090	284,677,841
Earnings per share – Basic & diluted (in KZT)	25.94	18.37	14.14

11 CASH AND BALANCES WITH THE NBRK AND NATIONAL BANK OF KYRGYZ REPUBLIC

The balances with the NBRK and National Bank of Kyrgyz Republic (''NBKR'') at 31 December 2002, 2001, and 2000 include KZT 4,172,372 thousand, KZT 4,342,440 thousand and KZT 3,467,516 thousand, respectively, which represent the minimum reserve deposits required by the NBRK and NBKR. The Bank is required to maintain the reserve balance at the NBRK and NBKR, which are computed as the percentage of certain liabilities of the Bank. The Bank is entitled to use such funds if it complies with regulations.

Cash and cash equivalents as presented in the statements of cash flows include the following:

	2002	*2001*	*2000*
Cash and balances with the NBRK and NBKR	19,394,771	11,478,415	5,011,922
Advances to banks in OECD countries (included in Note 12)	35,832,141	4,711,892	11,817,131
Cash and cash equivalents	55,226,912	16,190,307	16,829,053

12 LOANS AND ADVANCES TO BANKS, NET

	2002	*2001*
Loans to banks	32,554,375	7,394,177
Nostro accounts	11,020,905	10,469,854
	43,575,280	17,864,031
Less provisions for possible loan losses	(170,136)	(294,196)
	43,405,144	17,569,835
Analysis of the provisions for loan losses		
Provisions at beginning of the year	294,196	92,902
(Recovery)/provisions for the year	(124,060)	201,294
Total provisions for loan losses	170,136	294,196

13 TRADING SECURITIES

	Interest rate (%)	*2002*	*Interest rate (%)*	*2001*
Debt securities:				
Short-term notes of the NBRK	5.35-5.89%	5,602,484	–	–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	5.36-9.26%	5,286,027	8.38-13.63%	2,066,943
Government treasury bills	6.17-14.4%	2,362,216	7.1-16.3%	814,107
Eurobonds of Kaztransoil	7.76-13.36%	2,144,527	8.5%	579,522
Eurobonds of TuranAlem Finance B.V.	8.52-11.30%	1,953,191	8.5-11.5%	2,971,519
Karazhanbasmunai bonds	11-11.42%	953,851	11.0%	916,747
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	571,093	2.5-12.75%	5,190,912
Kaztransoil bonds	9.72 -10.12%	561,428	9.0%	592,369
Eurobonds of Hurricane Hydrocarbons Ltd	12.0%	149,429	–	–
Vostochno-Kazakhstan region's administration's bonds	7.83- 8.96%	114,947	6.3%	105,909
Kazakhtelecom bonds	7.11-10.25%	53,553	–	–
Almaty Kus bonds	12-12.22%	14,611	10.0%	13,994
SHNOS bonds	11.22%	7,715	–	–
Atyrau region's executive committee bonds	6.39-8.6%	6,331	8.0-8.6%	6,008
Kazakhoil bonds	–	–	9.0%	16,562
Subtotal debt securities		19,781,403		13,274,592
Equity securities:	*% Held*		*% Held*	
Kazakhmys shares	0.006%	348,008	–	–
Kazakhtelecom GDR	1.62%	247,904	–	–
Ust-Kamenogorsk titanium-magnesium plant shares	0.96%	56,134	–	–
Subtotal equity securities		652,046		–
Total trading securities		20,433,449		13,274,592

14 LOANS TO CUSTOMERS, NET

	2002	*2001*
Loans collateralised by mixed and other collateral	64,880,049	54,925,213
Loans collateralised by real estate	43,094,674	28,166,830
Loans collateralised by other guarantees	17,467,663	9,889,547
Loans collateralised by inventory	15,146,295	11,082,062
Loans collateralised by cash or government guarantees	11,518,467	7,545,635
Loans collateralised by equipment	11,407,946	6,682,223
Loans collateralised by shares of companies	9,589,736	13,357,898
Loans collateralised by financial institution guarantees	50,028	2,075,333
Unsecured loans	8,175,058	13,441,459
	181,329,916	147,166,200
Less provisions for loan losses	(11,242,456)	(9,504,700)
Loans to customers, net	170,087,460	137,661,500

Analysis of the provisions for loan losses	*2002*	*2001*
Provisions at beginning of year	9,533,747	6,566,011
Provisions for the year	6,787,170	5,424,494
Loans written-off	(5,078,461)	(2,485,805)
Provisions at end of year	11,242,456	9,504,700

Provisions at the beginning of year 2002 include opening provisions for Kazkommertsbank Kyrgyzstan amounting to KZT 29,047 thousand.

Analysis by sector	*2002*	*2001*
Oil and gas	32,790,589	14,555,728
Trade	31,747,962	22,397,584
Agriculture	27,744,107	24,153,219
Food	14,905,962	16,420,604
Construction	12,801,629	9,339,767
Individuals	11,993,728	6,474,365
Energy	10,185,699	11,107,440
Transport and communication	7,263,521	12,798,018
Mining / metallurgy	6,040,802	10,020,319
Real estate	6,001,187	3,367,485
Hotels	4,134,323	3,449,035
Finance	2,664,612	5,860,532
Engineering	2,328,420	1,074,959
Culture and arts	1,810,145	2,216,342
Other	8,917,230	3,930,803
	181,329,916	147,166,200
Less provisions for loan losses	(11,242,456)	(9,504,700)
Loans to customers, net	170,087,460	137,661,500

Included in loans to customers are non-accrual loans at 31 December 2002 and 2001 of KZT 2,312,351 thousand and KZT 1,213,472 thousand, respectively. Interest not recognised on non-accrual loans for the years ended 31 December 2002 and 2001, was KZT 107,540 thousand and KZT 51,264 thousand, respectively.

As of 31 December 2002 the Bank had 11 loans and advances totaling KZT 47,311,194 thousand and 11 loans and advances totaling KZT 41,168,401 thousand as of 31 December 2001, which individually exceeded 10% of the Bank's equity (see note 33).

15 SECURITIES AVAILABLE-FOR-SALE

	Interest rate (%)	*2002*	*Interest rate (%)*	*2001*
Debt securities:				
Short-term notes of the NBRK	5.7-5.8%	276,675	–	–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	8.9-9.7%	68,062	–	–
SHNOS bonds	–	–	10.0%	7,381
Astana administration's bonds	–	–	8.5%	60,080
Subtotal debt securities		344,737		67,461
Equity securities:	*% Held*		*% Held*	
ABN AMRO Bank Kazakhstan	29.0%	3,120,172	–	–
Air Kazakhstan	50.0%	2,390,700	–	–
Ust-Kamenogorsk titanium-magnesium plant shares	1.44%	84,067	2.5%	80,958
Kazakhtelecom, including:				
– common shares	0.04%	12,779	0.04%	8,232
– preference shares	0.008%	2,657	0.0005%	120
Aktubinsk chrome plant	3.07%	4,613	3.07%	4,613
Other	0.008-16.67%	8,098	0.008-16.67%	7,260
Subtotal equity securities		5,623,086		101,183
Total securities available-for-sale		5,967,823		168,644

In September 2002 the Bank entered into an agreement with the Government of Kazakhstan related to the sale of its shares in Air Kazakhstan. Subsequent to year-end these shares were sold for the value reflected in the contract. Previously the value of investment in Air Kazakhstan was written down to nil (see Note 32).

In 2001 the investment in ABN AMRO Bank Kazakhstan was considered to be an investment in associates, and was accounted for using the equity method of accounting (see Note 17). In 2002 the Bank determined that this treatment was no longer appropriate, as management assessed that the Bank ceased to have significant influence in the financial and operating decisions of ABN AMRO Kazakhstan, accordingly, the Bank now classifies this investment as securities available-for-sale.

On 31 December 2002 the shares of ABN AMRO Bank Kazakhstan were pledged to secure the loan from International Finance Corporation. The outstanding amount of this loan equals KZT 420,795 thousand, which is to be repaid by June 2004. The Bank is able to settle this loan before it matures, management considers that this pledge does not impair its ability to realize this investment.

16 SECURITIES HELD-TO-MATURITY

	Interest rate (%)	*2002*	*Interest rate (%)*	*2001*
Eurobonds of TuranAlem Finance B.V.	11.5%	85,602	–	–
Karazhanbasmunai bonds.	11.0%	32,656	11.0%	7,591
Vostochno-Kazakhstan region's administration's bonds.	6.3%	23,448	6.3%	22,132
Kyrgyztelecom bonds	9.0%	17,032	–	–
Kaztransoil bonds.	9.0%	15,452	9.0%	14,736
SHNOS bonds	10.0%	7,716	10.0%	7,374
Government treasury bills.	8.2%	6,211	–	–
Bonds of the Ministry of Finance of the Republic of Kyrgyzstan.	0%	35	–	–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan.	–	–	8.4-13.6%	261,784
Total securities held-to-maturity		188,152		313,617

17 INVESTMENTS IN ASSOCIATES

The Bank's investments in associates include:

	2002		*2001*	
	% Held	*Amount*	*% Held*	*Amount*
Pension fund ''UlarUmit''	29.0%	147,375	25.0%	110,047
ABN AMRO Asset Management	48.88%	82,742	48.88%	69,160
Sinooil	33.33%	55,800	–	–
ABN AMRO Bank Kazakhstan	–	–	29.0%	1,594,747
Total investments in associates		285,917		1,773,954

In 2002 the investment in ABN AMRO Bank Kazakhstan was reclassified as an investment available-for-sale. This change in classification results from the Bank's assessment that it ceased to have the ability to exercise significant influence over the operating and financial activities of ABN AMRO Bank Kazakhstan. (See Note 15).

The percentage held for associates above represents both direct and indirect ownership.

18 FIXED ASSETS, NET

	Buildings	*Furniture and equipment*	*Other*	*Total*
				2002
At cost or valuation				
At 31 December 2001	911,895	2,577,148	69,221	3,558,264
Additions	388,055	1,280,559	63,425	1,732,039
Additions from acquired subsidiary	2,495	20,478	5,947	28,920
Transfers	506	1,230	(1,736)	–
Disposal	(108,621)	(131,962)	(1,883)	(242,466)
At 31 December 2002	1,194,330	3,747,453	134,974	5,076,757
Accumulated depreciation				
At 31 December 2001	66,897	1,130,726	16,395	1,214,018
Depreciation expense	22,830	469,541	14,381	506,752
Additions from acquired subsidiary	55	9,124	2,004	11,183
Disposals	(1,426)	(98,536)	(2,847)	(102,809)
At 31 December 2002	88,356	1,510,855	29,933	1,629,144
Net book value				
At 31 December 2002	1,105,974	2,236,598	105,041	3,447,613

	Buildings	*Furniture and equipment*	*Other*	*Total*
				2001
At cost or valuation				
At 31 December 2000	797,992	2,020,127	55,023	2,873,142
Additions	94,138	674,595	41,518	810,251
Transfers	24,423	(82)	(24,341)	–
Disposals	(4,658)	(117,492)	(2,979)	(125,129)
At 31 December 2001	911,895	2,577,148	69,221	3,558,264
Accumulated depreciation				
At 31 December 2000	39,080	803,328	9,553	851,961
Depreciation expense	26,048	384,104	10,599	420,751
Transfers	1,897	(380)	(1,517)	–
Disposals	(128)	(56,326)	(2,240)	(58,694)
At 31 December 2001	66,897	1,130,726	16,395	1,214,018
Net book value				
At 31 December 2001	844,998	1,446,422	52,826	2,344,246

19 INTANGIBLE ASSETS, NET

At cost	*2002*	*2001*
Balance at beginning of the year	689,477	546,718
Additions	201,489	148,485
Additions from acquired subsidiary	2,776	–
Disposals	(14,008)	(5,726)
Balance at end of the year	879,734	689,477
Accumulated amortization		
Balance at beginning of the year	161,420	69,242
Amortisation charge	118,306	95,596
Additions from acquired subsidiary	1,194	–
Disposals	(9,763)	(3,418)
Balance at end of the year	271,157	161,420
Net book value		
Balance at end of the year	608,577	528,057

Intangible assets include software, patents and licences.

20 OTHER ASSETS, NET

	2002	*2001*
Interest receivable	10,433,539	9,811,115
Prepaid expenses	1,268,537	531,924
Other debtors	2,075,322	1,069,284
	13,777,398	11,412,323
Less provisions for interest receivable and other debtors	(2,835,006)	(2,181,676)
Other assets, net	10,942,392	9,230,647

Provisions for interest receivable are netted against interest income in the Bank's consolidated profit and loss account (see Note 3).

21 LOANS AND ADVANCES FROM BANKS

	2002	*2001*
Loans from banks and financial institutions, including:		
– Syndicated loan from a group of banks (due in December 2003, interest 4.18%)	23,377,500	15,020,000
– EBRD (due in 2003, interest 1.5-4.5%)	10,557,278	6,638,840
– Other	19,419,497	18,942,463
Loans from the NBRK	724,895	1,036,366
Loro accounts	449,085	1,262,603
Loans and advances from banks	54,528,255	42,900,272

The loans received from the NBRK consist of funds received under the Support and Development Programme of the gold-mining industry enterprises in the amount of KZT 502,030 thousand and 584,737 thousand at 31 December 2002 and 2001, respectively, and funds received under Construction and Manufacturing Industries Programme from the European Bank for Reconstruction and Development in the amount of KZT 222,866 thousand and KZT 451,629 thousand at 31 December 2002 and 2001, respectively.

22 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At 31 December 2001 securities sold under repurchase agreements are commitments of the Bank to repurchase euronotes of the Ministry of Finance of the Republic of Kazakhstan for the amount of

KZT 1,562,460 thousand with effective interest rates ranging from 4.17% to 10.5%. The maturity of the agreements is within 1 month. The securities sold under the said agreements are included in trading securities portfolio of the Bank.

23 CUSTOMER ACCOUNTS

	Interest rate (%)	*2002*	*Interest rate (%)*	*2001*
Time deposits	0-13%	99,757,812	0-16%	74,188,084
Demand accounts	0-2%	38,654,476	0-2%	34,787,217
Customer accounts		138,412,288		108,975,301

24 DEBT SECURITIES ISSUED

	2002	*2001*
Eurobonds of Kazkommerts International B.V. (due in May 2007 coupon rate 10.125 %):		
Tranche A issued in May 2002 at price of 99.04	23,377,500	–
Tranche B issued in December 2002 at price of 107.00	7,792,500	–
	31,170,000	–
Less: Eurobonds repurchased by the Bank	(1,555,850)	–
Debt Securities issued	29,614,150	–

Eurobonds were issued in US dollars and represent KZT equivalent of nominal value of USD 200,000 thousand. Issuance was made by the Bank's subsidiary, Kazkommerts International B.V, and guaranteed by the Bank. Net premium of KZT 185,746 thousand (equivalent of USD 1,192 thousand) is recorded in other liabilities (see Note 26). Coupon payments are made semi-annually on 8 May and 8 November.

25 OTHER BORROWED FUNDS

	2002	*2001*
Funding from the Ministry of Finance of the Republic of Kazakhstan (weighted average interest rate 5.41% and 5.79% at 31 December 2002 and 2001, respectively)	1,594,937	2,049,268
Funding from Small Business Support Fund (weighted average interest rate 8.49% and 8.17% at 31 December 2002 and 2001, respectively)	2,952,022	3,172,317
Other borrowed funds	4,546,959	5,221,585

Funding from the Ministry of Finance of the Republic of Kazakhstan is provided under the Agriculture Industry Development Programme through the Asian Bank of Development, International Bank for Reconstruction and Development, and Kreditanstalt fur Wideraufbau (KFW) in the amount of KZT 1,464,393 thousand and KZT 1,895,587 thousand at 31 December 2002 and 2001 respectively; and from the local divisions sources in the amount of KZT 130,544 thousand and KZT 132,115 thousand at 31 December 2002 and 2001, respectively.

Funding from the Small Business Support Fund is provided through the European Bank for Reconstruction and Development in the amount of KZT 2,587,110 thousand and KZT 2,253,000 thousand at 31 December 2002 and 2001, respectively; Asian Bank of Development in the amount of KZT 364,912 thousand and KZT 502,095 thousand at 31 December 2002 and 2001, respectively.

26 OTHER LIABILITIES

	2002	*2001*
Accrued interest payable	3,792,532	2,356,792
Provisions for guarantees and letters of credit	1,790,207	666,776
Deferred income tax liability	1,214,408	1,416,331
Insurance reserves of Kazkommerts Policy	420,504	269,704
Other taxes payable	336,819	300,430
Net premium on eurobonds of Kazkommerts International B.V.	185,746	–
Other	1,759,674	2,072,688
Other Liabilities	9,499,890	7,082,721

27 SUBORDINATED DEBT

Security	*Maturity date*	*Interest rate (%)*	*2002*	*2001*
Subordinated notes	2007	11%	3,062,997	2,941,815
Subordinated debt of Deutsche Investitions-und Entwicklungsgesellschaft	2008	9.31%	1,624,600	–
International subordinated bonds	2007	5.5%	1,324,725	–
Subordinated debt			6,012,322	2,941,815

The international subordinated bonds were issued in April 2002 in accordance with the Decision of Shareholders' Meeting (see Note 32). These bonds were issued in US dollars and represent the KZT equivalent of USD 8,500 thousand at 31 December 2002.

28 SHARE CAPITAL

As of 31 December 2002 and 2001 the Bank's share capital comprised the following:

	2002	*2001*
Authorized at 31 December:		
Ordinary shares of KZT 10 each	3,750,000	3,750,000
Preference shares of KZT 10 each	1,250,000	1,250,000
	5,000,000	5,000,000
Issued and fully paid at 31 December:		
Ordinary shares of KZT 10 each	2,942,201	2,942,201
Preference shares of KZT 10 each	557,632	555,901
	3,499,833	3,498,102
Repurchased back at 31 December:		
Ordinary shares of KZT 10 each	(145)	(411)
	(145)	(411)
Total share capital authorized, issued and fully paid at 31 December	3,499,688	3,497,691

At a special Shareholders Meeting held in July 2001 shareholders decided to increase Share capital up to KZT 5 billion. Shareholders also decided to issue and place preference shares for the total amount of KZT 1,250,000 thousand, or 25% from total authorised capital. On 28 December 2001 the Bank registered its issuance documents for preference shares. The Bank intends to register ordinary shares emission prospectus and make a placement in the first quarter of 2003.

Ordinary share capital: Authorised 375,000,000 shares, issued and partially paid 294,220,100 shares of par value of KZT 10 at 31 December 2002 and 2001.

Preference share capital: Authorized issue of up to 125,000,000 of non-participating, non-convertible, non-cumulative preference shares. At 31 December 2002 the partially paid shares equalled to 55,763,155 shares of par value of KZT 10 each. At 31 December 2001 authorised issue of up to 125,000,000 shares and partially paid 55,590,138 shares of KZT 10 each, with dividend of up to USD 0.04 per share.

In 2002 the Meeting of Shareholders of the Bank took a decision to pay dividends on preference shares for 2002 in the total amount of KZT 346,626 thousand. The dividends were accrued and paid in 2002.

29 SEPARATE SUMMARIZED PROFIT AND LOSS ACCOUNTS FOR EACH OF THE THREE YEARS ENDING 31 DECEMBER 2002, 2001 and 2000 AND BALANCE SHEETS OF THE BANK ONLY AT 31 DECEMBER 2002 AND 2001

PROFIT AND LOSS ACCOUNTS

	2002	*2001*	*2000*
Interest income, net	22,492,166	17,443,830	12,283,580
Interest expense	11,356,324	7,919,862	5,797,484
Net interest income before provisions for loan losses	11,135,842	9,523,968	6,486,096
Provisions for loan losses	5,450,933	4,237,906	1,334,043
NET INTEREST INCOME	5,684,909	5,286,062	5,152,053
Fee and commission income	5,526,436	3,711,080	2,688,609
Fee and commission expense	(1,072,067)	(711,308)	(1,016,566)
Net gain on sale of trading securities	489,308	418,951	304,233
Net unrealised gain on trading securities	354,781	1,009,721	904,884
Unrealised gain/(loss) on securities available-for-sale	3,916,126	–	(1,427,000)
Realised (loss)/gain on securities available-for-sale	–	(1,415)	6,921
Equity income from associates	33,869	389,083	358,202
Equity income from subsidiaries	225,249	207,986	134,057
Net gain on foreign exchange operations	624,585	731,006	482,390
Net unrealised foreign exchange gain	554,300	606,603	602,047
Dividends received	443,990	–	–
Other income	88,686	66,502	814,687
NET NON-INTEREST INCOME	11,185,263	6,428,209	3,852,464
OPERATING INCOME	16,870,172	11,714,271	9,004,517
Operating expenses	7,530,296	5,775,454	5,159,107
INCOME BEFORE PROVISIONS/(RECOVERY) FOR LOSSES ON OTHER TRANSACTIONS AND INCOME TAX	9,339,876	5,938,817	3,845,410
Provisions/(recovery) for losses on other transactions	1,136,657	395,007	(18,463)
INCOME BEFORE INCOME TAX	8,203,219	5,543,810	3,863,873
Income tax expense/(recovery)	224,456	254,909	(160,317)
NET INCOME	7,978,763	5,288,901	4,024,190

BALANCE SHEETS OF THE BANK ONLY AT 31 DECEMBER 2002 AND 2001

	2002	*2001*
ASSETS		
Cash and balances with the National Bank of the Republic of Kazakhstan	19,024,089	11,451,823
Loans and advances to banks, net	43,270,143	17,427,104
Trading securities	19,473,456	13,060,871
Loans to customers, net	169,932,124	137,661,743
Securities available-for-sale	5,516,540	72,814
Investments in subsidiaries	1,153,352	679,608
Investments in associates	230,117	1,773,954
Fixed assets, net	3,275,442	2,299,546
Intangible assets, net	587,740	522,178
Other assets, net	10,007,052	8,753,859
TOTAL ASSETS	272,470,055	193,703,500
LIABILITIES, SHARE CAPITAL AND RESERVES		
Loans and advances from banks	54,388,968	42,900,272
Securities sold under agreements to repurchase	–	1,562,460
Customer accounts	138,112,756	109,232,213
Debt securities issued	29,621,942	–
Other borrowed funds	4,546,959	5,221,585
Other liabilities	7,718,047	6,182,356
Subordinated debt	6,013,865	2,943,287
Dividends payable to shareholders	374	1,236,325
TOTAL LIABILITIES	240,402,911	169,278,498
COMMITMENTS AND CONTINGENCIES	–	–
SHARE CAPITAL AND RESERVES:		
Share capital	3,499,833	3,498,102
Reserves	28,567,311	20,926,900
TOTAL SHARE CAPITAL AND RESERVES	32,067,144	24,425,002
TOTAL LIABILITIES, SHARE CAPITAL AND RESERVES	272,470,055	193,703,500

30 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet. At 31 December 2002, the Bank had issued guarantees totalling KZT 18,951,094 thousand, had open letters of credit totalling KZT 18,465,695 thousand and had open forward contracts totalling KZT 3,604,380 thousand.

The Bank's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements.

The provisions for losses for contingent liabilities were KZT 1,790,207 thousand and KZT 666,776 thousand at 31 December 2002 and 2001, respectively (see note 26). The charge in respect of the provision for losses related to letters of credit and guarantees was KZT 1,123,431 thousand, KZT 379,620 thousand and KZT 124,489 thousand for the years ended 31 December 2002, 2001 and 2000, respectively (see note 8).

At 31 December 2002, such commitments and contingent liabilities expire as follows:

	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Total*
Guarantees	3,062,258	1,610,104	3,265,618	8,960,850	2,052,264	18,951,094
Letters of credit.....	4,528,845	11,206,760	1,944,611	785,479	–	18,465,695
Forward contracts.....	2,045,880	1,558,500	–	–	–	3,604,380
Option contract.....	3,117,000	–	1,558,500	–	–	4,675,500

The put options sold expired unexercised in January 2003, as a result of the restructuring of the debt instrument that they were linked to.

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

31 COMMITMENTS AND CONTINGENCIES

Capital commitments – The Bank had no material commitments for capital expenditures outstanding at 31 December 2002.

Taxes – Due to the presence in Kazakhstan commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may by assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for five years. From 1 January 2002 a new Tax code was imposed.

Legal Proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers. Management is of the opinion that no material unaccrued losses will be incurred and, accordingly, no provision has been made for legal proceedings in these financial statements.

Operating environment – The Bank's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

32 RELATED PARTY TRANSACTIONS

Related parties include entities that are shareholders, affiliates or entities under common management or control of the Bank. The below table summarises the turnover of loans and advances and deposits with these related parties.

	KZT'000			
	31 December 2001	*Total issued in 2002*	*Total paid in 2002*	*31 December 2002*
Loans and advances	8,181,619	1,757,202	8,313,214	1,625,607
Deposits	1,021,611	5,705,232	5,773,614	953,229

	KZT'000		
	2002	*2001*	*2000*
Interest income	275,541	215,720	225,729
Interest expense	99,341	46,384	61,288

The significant decrease of the loans to related parties at 31 December 2002 relates to ''Central Asian Industrial Investments N.V.'' loan redemption in the amount of KZT 5,596,953 thousand and CJSC ''Air Kazakhstan'' loan write off in the amount of KZT 2,375,277 thousand. In accordance with the Decree #1004 of the Government of the Republic of Kazakhstan, regarding the signing of the Agreement of loan write off, as of 13 September 2002, between Government of the Republic of Kazakhstan and Bank, the Government pays KZT 2,390,700 thousand to the Bank for the belonging CJSC ''Air Kazakhstan'' 150,000 shares (50% of share capital) and Bank, in its turn, writes them off.

At 31 December 2002 and 2001 the Bank had outstanding guarantees issued for related parties for the amount of KZT 27,274 thousand and KZT 19,526 thousand, , and the letters of credit issued to related parties amounted to KZT 5,455 thousand and 108,935 thousand, respectively.

During 2002 and 2001, the Bank purchased and sold trading securities from and to related parties for the total amount of KZT 67,573 thousand and KZT 2,305,110 thousand, respectively.

Equity investments of the Bank in related companies amounted to KZT 147,529 thousand and KZT 110,048 thousand at 31 December 2002 and 2001, respectively.

In accordance with the decision of the Shareholders Meeting as of 30 March 2001 on distribution of dividends on common shares, in April 2002 the Bank issued international subordinated notes in the amount of KZT 1,324,725 thousand (Tenge equivalent of USD 8,500 thousand) and placed them among the shareholders of common shares pro rata basis (see Note 27).

At 31 December 2002, the interest free deposit was placed at the Bank's subsidiary Kazkommerts International BV by Central Asian Industrial Holdings N.V. in the amount of KZT 5,143,050 thousand (Tenge equivalent of USD 33,000 thousand), which is recorded in customer accounts (see Note 23). This deposit was later pledged to secure a loan issued to Karakudukmunai company.

In 2002, the dividends on preference shares were declared and paid in the amount of KZT 346,626 thousand.

In 2002, the Bank's subsidiary Kazkommerts Securities received from related parties KZT 31,078 thousand and KZT 13,728 thousand for placement of bonds and consulting services, respectively.

33 LARGE EXPOSURES

At 31 December 2002 and 2001 the Bank had loans to customers in excess of ten percent of equity to the following enterprises:

	2002	*2001*
Tolkynneftegaz holding	6,014,472	–
Prodcontract corporation	4,844,615	–
Golden Grain group holding	4,760,687	–
Kazpolmunai Holding	4,519,554	3,592,276
Ai-Dan holding	4,231,572	–
Assets Ltd	4,205,645	–
Almaty International Airport	3,994,142	3,609,791
Ordabasy corporation	3,879,845	–
Seimar Holding	3,750,303	3,234,498
ALIBI Holding	3,673,649	3,825,385
Kazakh Zangar trade center	3,436,710	–
Central Asian Holding	–	5,892,066
Ispat-Karmet	–	3,861,616
AMZ Holding	–	3,637,781
KGP Energosberejenie	–	3,512,048
Agrocenter Astana	–	3,465,569
Capital investments Ltd	–	3,418,852
Zhuldyz Holding	–	3,118,519
	47,311,194	41,168,401

34 PENSIONS AND RETIREMENT PLANS

In accordance with the Law of the Republic of Kazakhstan ''Pension provisioning in the Republic of Kazakhstan'' acting from 1 January 1998, and replacing the previous solidarity system of pension provisioning for accumulating system, all employees have the right to receive guaranteed pension benefits if they have a working time record as of 1 January 1998, in proportion to their accumulated working time record. They also have the right to receive pension payments from accumulating pension funds from the individual pension accumulations accounts provided by compulsory pension contributions of 10% from income.

At 31 December 2002 and 2001, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. As no readily available market exists for a large part of the Bank's financial instruments, judgement is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from its sale of its full holdings of a particular instrument.

At 31 December 2002 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with the NBRK and NBKR, and loans and advances to banks – For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Trading securities – Such securities are stated at fair value.

Loans to customers – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimate of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees, and collateral obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required reflecting the impact of credit risk.

Securities available-for-sale – Such securities are stated at fair value, determined with reference to market prices, or, in the event that such prices are not available, determined based on management's valuation.

Securities held-to-maturity – Such securities are stated at cost and adjusted for accretion and amortization of premiums and discounts, which approximates fair value.

Investments – Investments in associates are recorded using the equity method. Subsidiaries that are considered insignificant for the Bank taken as a whole, or control of which is intended to be temporary, are stated at cost or at market value, if it is less than the purchase cost. The recorded amount is considered as reasonable approximisation of fair value.

Loans and advances from banks, customer accounts – The carrying amount is a reasonable estimate of fair value.

Securities sold under repurchase agreements – The carrying value of securities sold under agreement to repurchase is a reasonable estimate of their fair value.

Debt securities issued – Debt securities issued are stated at nominal value. Premium and discounts are amortized over the life of an instrument, unamortized balances are offset and recorded in other assets or other liabilities section.

36 ACQUISITION OF SUBSIDIARY

In June 2002 the Bank acquired a controlling 73.84% stake in Kyrgyzavtobank, a commercial bank incorporated within the Republic of Kyrgyzstan. In December 2002 the name of this bank was changed to Kazkommertsbank Kyrgyzstan.

The assets and liabilities of this bank, at the date of acquisition were as follows:

Assets/(Liabilities)	*KZT'000*
Cash and balances with the NBKR	475,784
Loans and advances to banks	40,481
Loans and advances to customers, net	168,244
Held-to-maturity securities	756
Available-for- sale securities	967
Fixed assets, net	17,305
Intangible assets, net	1,544
Other assets, net	45,441
Tax assets	855
Deposits from banks	(50,787)
Customer accounts	(424,938)
Other liabilities	(19,523)
Amounts owing to Ministry of Finance	(667)
Net assets	255,462
Goodwill	(5,622)
Consideration Paid	249,840

These assets were incorporated into the consolidated financial statements as of the date of acquisition. The purchase price of KZT 249,840 was paid for the shares acquired and the business was acquired as a going concern.

37 REGULATORY MATTERS

The Bank is subject to certain minimum capital and prudential requirements as defined by the NBRK. At 31 December 2002 and 2001, the Bank is in compliance with the minimum requirements.

The Bank has computed capital requirements using guidelines recommended by the Bank for International Settlements.

The Bank's capital amounts and ratios are presented in the following table:

	For capital adequacy purposes		*Required minimum for capital adequacy purposes*	
	Amount in KZT'000	*Ratio*	*Amount in KZT'000*	*Ratio*
At 31 December 2002				
Total capital	37,484,463	16.4%	18,321,433	8.0%
Tier 1 capital	24,080,153	10.5%	9,160,717	4.0%
At 31 December 2001				
Total capital	29,607,201	17.2%	13,746,566	8.0%
Tier 1 capital	19,126,002	11.1%	6,873,283	4.0%

38 POST BALANCE SHEET EVENTS

The Bank and EBRD had mutually agreed to EBRD's participation in the Bank's share capital. On 5 March 2003 the Board of Directors of EBRD approved the purchase of up to 15% of the unissued ordinary shares of the Bank during the first half of 2003.

By the end of 2003 the Bank intends to finalise the acquisition of 50% common shares of JSC Moskommertsbank, a commercial bank operating in the Russian Federation.

On 15 November 2002 the Bank has registered a new issuance of subordinated securities for KZT 7,500 mln. Subsequent to the reporting date, the Bank issued KZT 3,700 mln of these securities, with a coupon rate of 8% and maturity of 7 years.

39 RISK MANAGEMENT POLICY

The Bank manages the following types of risk:

Credit risk – Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Commercial Directorate. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower' limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Department of Risk Management. Daily risk management is performed by the Head's of Credit Departments and Branch Credit Divisions.

Liquidity and cash flow risk – The Assets and Liabilities Management Committee (''ALMC'') controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals on the money markets for current liquidity support and cash flow optimisation.

Currency risk – The ALMC controls currency risk by management of the open currency position on the estimated basis of Tenge devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the NBRK.

Interest rate risk and market risk – The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with the interest margin safety. The Department of Financial Control conducts monitoring of the current Bank's financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

Country risk – The ALMC conducts the control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Bank's Commercial Directorate sets up country limits, which mainly applies to banks of Commonwealth of Independent States and former Soviet Baltic countries.

40 MATURITY ANALYSIS

The following table presents an analysis of interest rate risk and liquidity risk. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are repriced only at maturity dates.

	2002 KZT thousands						
	Up to 1 month	*1 month to 3 months*	*3 months to 1 year*	*1 year to 5 years*	*Over 5 years*	*Provisions/ reserves*	*Total*
ASSETS							
Loans and advances to banks, net	43,575,280	–	–	–	–	(170,136)	43,405,144
Trading securities	1,924,299	1,256,413	11,215,700	6,031,369	5,668	–	20,433,449
Loans to customers, net	11,487,070	13,923,107	46,547,690	97,214,900	12,157,149	(11,242,456)	170,087,460
Securities available-for-sale	2,562,528	104,847	3,300,448	–	–	–	5,967,823
Securities held-to-maturity	–	–	–	188,152	–	–	188,152
Total interest earning assets	59,549,177	15,284,367	61,063,838	103,434,421	12,162,817	(11,412,592)	240,082,028
Cash and balances with National Banks	19,394,771	–	–	–	–	–	19,394,771
Investments in associates	–	–	–	–	285,917	–	285,917
Fixed assets, net	–	–	–	–	3,447,613	–	3,447,613
Intangible assets, net	–	–	–	–	608,577	–	608,577
Other assets, net	3,778,090	2,579,402	3,719,781	3,405,308	294,817	(2,835,006)	10,942,392
TOTAL ASSETS	82,722,038	17,863,769	64,783,619	106,839,729	16,799,741	(14,247,598)	274,761,298
LIABILITIES							
Loans and advances from banks	9,968,303	284,785	38,261,304	5,504,772	509,091	–	54,528,255
Debt securities issued	–	–	–	29,614,150	–	–	29,614,150
Customer accounts	54,531,114	23,753,871	40,408,715	19,718,545	43	–	138,412,288
Other borrowed funds	399	467	325,858	3,537,525	682,710	–	4,546,959
Subordinated debt	–	–	–	1,272,265	4,740,057	–	6,012,322
Total interest bearing liabilities	64,499,816	24,039,123	78,995,877	59,647,257	5,931,901	–	233,113,974
Other liabilities	1,557,925	960,358	2,892,101	664,387	1,214,408	2,210,711	9,499,890
Dividends payable	406	–	–	–	–	–	406
TOTAL LIABILITIES	66,058,147	24,999,481	81,887,978	60,311,644	7,146,309	2,210,711	242,614,270
Interest sensitivity gap	(4,950,639)	(8,754,756)	(17,932,039)	43,787,164	6,230,916		
Cumulative interest sensitivity gap	(4,950,639)	(13,705,395)	(31,637,434)	12,149,730	18,380,646		
Cumulative interest sensitivity gap as a percentage of total assets	(1.80%)	(4.99%)	(11.51%)	4.42%	6.69%		
OFF-BALANCE SHEET COMMITMENTS							
Payable under forward deals	(2,045,880)	(1,558,500)	–	–	–		(3,604,380)
Receivable under forward deals	2,044,177	1,565,000	–	–	–		3,609,177
Interest sensitivity gap	(1,703)	6,500	–	–	–		
Cumulative interest sensitivity gap	(1,703)	4,797	4,797	4,797	4,797		
Aggregated cumulative interest sensitivity gap, balance sheet and off-balance sheet	(4,952,342)	(13,700,598)	(31,632,637)	12,154,527	18,385,443		

41 CURRENCY ANALYSIS

	2002 KZT thousands					
	KZT	*USD 1 USD = KZT 155.85*	*EUR 1 EUR = KZT 162.46*	*Other currencies*	*Provisions/ reserves*	*Total*
ASSETS						
Cash and balances with National Banks	8,613,309	9,734,538	666,027	380,897	–	19,394,771
Loans and advances to banks, net	121,773	41,043,691	470,545	1,939,271	(170,136)	43,405,144
Trading securities	8,373,204	12,058,361	1,848	36	–	20,433,449
Loans to customers, net	43,992,601	131,649,095	5,595,330	92,890	(11,242,456)	170,087,460
Securities available-for-sale	5,899,761	68,062	–	–	–	5,967,823
Securities held-to-maturity	–	188,152	–	–	–	188,152
Investments in associates	285,917	–	–	–	–	285,917
Fixed assets, net	3,428,847	–	–	18,766	–	3,447,613
Intangible assets, net	592,880	–	–	15,697	–	608,577
Other assets, net	6,963,263	6,516,391	288,449	9,295	(2,835,006)	10,942,392
TOTAL ASSETS	78,271,555	201,258,290	7,022,199	2,456,852	(14,247,598)	274,761,298
LIABILITIES						
Loans and advances from banks	1,191,548	48,712,442	3,055,794	1,568,471	–	54,528,255
Customer accounts	35,859,377	100,395,367	1,318,849	838,695	–	138,412,288
Debt securities issued	–	29,614,150	–	–	–	29,614,150
Other borrowed funds	130,544	3,733,705	682,710	–	–	4,546,959
Other liabilities	3,186,159	4,035,043	53,276	14,701	2,210,711	9,499,890
Subordinated debt	–	4,387,722	1,624,600	–	–	6,012,322
Dividends payable to shareholders	374	–	–	32	–	406
TOTAL LIABILITIES	40,368,002	190,878,429	6,735,229	2,421,899	2,210,711	242,614,270
NET BALANCE SHEET POSITION	37,903,553	10,379,861	286,970	34,953		
OFF-BALANCE SHEET COMMITMENTS						
Payable under forward deals	–	(3,117,000)	(487,380)	–		(3,604,380)
Receivable under forward deals	3,124,000	485,177	–	–		3,609,177
OFF-BALANCE SHEET COMMITMENTS, NET	3,124,000	(2,631,823)	(487,380)	–		
TOTAL OPEN POSITION	41,027,553	7,748,038	(200,410)	34,953		

42 GEOGRAPHICAL ANALYSIS

	2002 KZT thousands			
	OECD countries	*Non-OECD countries*	*Provisions/ reserves*	*Total*
ASSETS				
Cash and balances with National Banks	5,727,509	13,667,262	–	19,394,771
Loans and advances to banks, net	35,832,141	7,743,139	(170,136)	43,405,144
Trading securities	1,814,247	18,619,202	–	20,433,449
Loans to customers, net	178,760	181,151,156	(11,242,456)	170,087,460
Securities available-for-sale	1,848	5,965,975	–	5,967,823
Securities held-to-maturity	–	188,152	–	188,152
Investments in associates	–	285,917	–	285,917
Fixed assets, net	–	3,447,613	–	3,447,613
Intangible assets, net	–	608,577	–	608,577
Other assets, net	3,276,462	10,500,936	(2,835,006)	10,942,392
TOTAL ASSETS	46,830,967	242,177,929	(14,247,598)	274,761,298
LIABILITIES				
Loans and advances from banks	41,114,851	13,413,404	–	54,528,255
Customer accounts	6,107,669	132,304,619	–	138,412,288
Debt securities issued	29,614,150	–	–	29,614,150
Other borrowed funds	–	4,546,959	–	4,546,959
Other liabilities	882,423	6,406,756	2,210,711	9,499,890
Subordinated debt	4,687,597	1,324,725	–	6,012,322
Dividends payable to shareholders	–	406	–	406
TOTAL LIABILITIES	82,406,690	157,996,869	2,210,711	242,614,270
NET BALANCE SHEET POSITION	(35,575,723)	84,181,060		
OFF-BALANCE SHEET COMMITMENTS				
Payable under forward deals	(487,380)	(3,117,000)	–	(3,604,380)
Receivable under forward deals	485,177	3,124,000	–	3,609,177
OFF-BALANCE SHEET COMMITMENTS, NET	(2,203)	7,000		
TOTAL OPEN POSITION	(35,577,926)	84,188,060		

ANNEX A

REPUBLIC OF KAZAKHSTAN

Introduction

Kazakhstan is a sovereign democratic republic and, after Russia, is the largest in terms of landmass of the nations formed upon the dissolution of the Soviet Union in 1991. The country is rich in natural resources, including oil, gas and minerals. Kazakhstan is a leading producer of copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country is also a significant exporter of oil, grain, wool and meat. Kazakhstan has relatively high levels of foreign direct investment, particularly in the oil and gas sector.

Economic and structural reforms undertaken since 1991 have helped to revive Kazakhstan's economy following several years of falling GDP after the dissolution of the Soviet Union. Real GDP in Kazakhstan grew by 9.8 per cent. in 2000, by 13.5 per cent. in 2001 and by 9.5 per cent. in 2002. Further, over the period year-on-year consumer price inflation in Kazakhstan decreased from 1,258.3 per cent. at the end of 1994 to 6.4 per cent. at the start of 2002. By the end of December 2002, the year-on-year consumer price inflation rate had risen to 6.6 per cent.

Steps have been taken to put in place a legal framework for the development of a market-oriented economy, including tax, securities, bankruptcy, joint-stock company and auditing laws. In January 1998, a pension reform programme, the first of its type in the former Soviet Union, was commenced with the aim of transforming the historic ''pay as you go'' system into a ''fully funded'' private system, regulated by the State. To date, the pension reform programme is the most successful in the CIS.

Area and Population

Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China's Xinjiang-Uigur Autonomous Region to the east, The Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea. The capital, Astana, is located in central Kazakhstan but Almaty, in the south east of the country is the principal financial centre in the country and is by far its largest city.

The country covers an area of 2,725 million square kilometres, approximately the same size as Western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east. In terms of landmass, Kazakhstan is the ninth largest country in the world and the second largest country, after Russia, belonging to the CIS.

As of January 2003, the population of Kazakhstan was approximately 14.8 million making Kazakhstan one of the most sparsely populated countries in the world with an average population density of approximately 5.5 people per square kilometre. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for 53 per cent. of the population, followed by Russians (31 per cent), Ukrainians (4.4 per cent), Tartars, Germans, Uzbeks, Poles and others. The relative size of the Kazakh ethnic group has increased since the country's independence, mainly because of the emigration of non-Kazakh ethnic groups and because of the return of many ethnic Kazakhs to the country.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50 per cent. of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government.

Kazakhstan's adult literacy rate exceeds 97 per cent.

Constitution, Government and Political Parties

Constitution

Kazakhstan has been one of the most politically stable countries of the CIS. The country's current constitution (the ''Constitution''), adopted in August 1995, provides for a tripartite structure of government in which power is divided between the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council and local governments and administrations and establishes an independent judicial system. Under President Nazarbayev, the Presidency has dominated the other branches of government.

Executive Branch

Under the Constitution, the President is the head of state and its highest official with primary responsibility for domestic and foreign policy and the function of representing Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of Kazakhstan's central bank, the NBK, whose appointment is subject to the approval of Parliament.

The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of death, resignation or impeachment. New presidential elections must be held within two months of any such early termination.

The Government comprises the Prime Minister, as its executive head, and deputy prime ministers and ministers as members of the cabinet. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the President. Neither the Prime Minister nor the members of the cabinet are members of Parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy, carrying out social policy and defending the rights and freedoms of citizens.

Mr Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President with the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency has been confirmed in referenda in December 1991 and April 1995. President Nazarbayev was re-elected in elections held in January 1999 and his current term of office expires in 2006. President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country and, following two Parliamentary dissolutions, from December 1993 until April 1994 and from March 1995 through January 1996, legislative functions were vested solely in the President. During these periods, the President brought into effect over 100 ordinances and decrees representing a substantial part of the legislative framework for the economic and structural reforms which have been made in the country.

The President appointed the current Prime Minister, Imangali Tasmagambetov, in January 2002.

Legislative Branch

The legislative branch of the State is the Parliament, which consists of an upper chamber (the ''Senate'') of 39 deputies and a lower chamber (the ''Majilis'') of 77 deputies. The President appoints seven of the deputies in the Senate and the remainder are appointed by representative bodies of the regional and city authorities. The deputies in the Majilis are elected by direct popular vote.

Judicial Branch

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairman of the Supreme Court, the chairpersons of the Supreme Court benches and judges of the Supreme Court are elected by the Senate from the candidacies submitted by the President based on the recommendations of the Supreme Judicial Council.

Constitutional Council

The Constitution provides for a seven member Constitutional Council which is vested with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the constitution for the removal of the President from office and investigating claims brought under the Constitution in relation

to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the Majilis appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairman.

Local Government

Local government is effected through representative bodies (''maslikhats'') and executive bodies (''akims'') for each of the country's 14 regions (''oblasts'') and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts (''rayons'') and a further 82 cities together make up the second tier of territorial administration. The maslikhats and akims are responsible for collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

Political Parties

Although the principle of political plurality is enshrined in the Constitution political parties have not played a significant role to date. This is due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies, but also due to changing requirements in the laws relating to the registration of political parties. These have made it increasingly difficult to register a party for participation in the constitutional political process. Such changes have, generally, strengthened the President's Position and under current legislation only four out of 16 previously registered parties meet the applicable requirements.

International Organisations and International Relations

Kazakhstan's Position in the International Community

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (the ''IMF''), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the EBRD, the ADB, the International Development Association, the Multilateral Investment Guarantee Agency, the IFC, the International Organisation of Securities Commissions and the Islamic Development Bank, although its voting rights in some of these organisations or agencies thereof have been suspended pending payment of overdue contributions. Kazakhstan has observer status with the World Trade Organisation and the Government is actively pursuing full membership of the World Trade Organisation, expecting to achieve this within the next few years.

Kazakhstan has followed an economic stabilisation programme agreed with the IMF and has in the past been granted both standby and extended fund facilities. No drawings were made under the last extended fund facility, which expired in March 2003.

Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union (''EU''), which came into force in 1999 and cooperates with the EU in various scientific and environmental programmes. In 1994, Kazakhstan joined NATO's Partnership for Peace Programme under which various exercises have taken place involving troops from the United States, Russia, Kazakhstan, Uzbekistan, The Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia. As of 31 December 2002, Kazakhstan had signed double taxation treaties with 36 countries, of which 34 are in effect, including treaties with the United States, Russia and the United Kingdom.

Kazakhstan and CIS Cooperation

Kazakhstan, Russia and Belarus entered into a customs union in January 1995, which, among other things, provides for the removal of trade restrictions between the signatory countries and establishes a common external tariff. The Kyrgyz Republic joined in March 1996 and Tajikistan joined in February 1999. In October 2000, all five member states signed a treaty establishing a new Eurasian Economic Union. The Kazakhstan Government advocates further economic co-operation with other CIS countries and in June 1995, Kazakhstan ratified a treaty for the creation of a single economic zone between Kazakhstan, The Kyrgyz Republic and Uzbekistan (which has since been extended to Tajikistan) in order to promote free trade, movement of capital and workers and to harmonise credit, budget, tax, price, customs and currency policies. This treaty is still in the process of being implemented.

Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, Kazakhstan agreed with Russia that in return for Russia's acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, Kazakhstan waived all claims on former Soviet Union

assets located outside its own territory. Kazakhstan and Russia have also reached agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations.

In 1997, Kazakhstan and Russia (together with other parties) signed the Caspian Pipeline Consortium (the ''CPC'' or the ''Consortium'') agreement for the construction of a pipeline linking the Tengiz oil field in the western part of Kazakhstan with the Black Sea port of Novorossiisk in Russia. Successful completion of the project is expected to increase substantially Kazakhstan's ability to take advantage of its oil reserves and to attract foreign investment. Work on the pipeline began in January 1999. The first phase was completed in 2001 and the second phase is expected to be completed before 2004.

Kazakhstan and Russia have a general agreement regarding the division, on a sectoral basis, of mineral rights in the Kazakhstan-Russian part of the Caspian basin, which is estimated to contain significant liquid hydrocarbon deposits, and that these deposits would be exploited by them on a broadly simultaneous basis. In 2002 they agreed on the borders of their respective sectors in relation to subsurface usage rights and on the development of three major oil and gas deposits situated basin. The Government has stated that it hopes to reach agreement on similar sectoral divisions with the other littoral states but the absence of such agreements is not anticipated to delay exploitation in the Kazakhstani or Russian sectors. Test drilling in both sectors started in August 1999. See ''– Natural Resources – Oil and Gas''. In addition, both countries have reached agreement relating to the long-term use by Kazakhstan of the Russian oil pipeline network.

The Kazakhstan Economy

Overview

Kazakhstan has experienced extensive economic transformation since independence; for example, real GDP, which fell by 38.6 per cent. between 1990 and 1995, is estimated to have grown by roughly the same amount since then, assisted substantially by the flotation of the Tenge in April 1999 and its subsequent devaluation, improvement in the global economic environment and rising commodity prices over the period.

Gross Domestic Product

The informal, or ''black'', sector constitutes a significant portion of Kazakhstan's economy and the NSA makes adjustments to its GDP data in accordance with approved IMF practices in order to reflect this. The NSA's estimate of the size of the informal economy (including the household sector) has been that at times it has exceeded 35 per cent. of GDP. Others have, however, given even higher estimates of the contribution of the informal economy.

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

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
Nominal GDP (KZT millions)	3,747,200	3,285,400	2,595,965	2,016,240	1,733,264	1,672,142
Real GDP (per cent., change to the previous year)	9.5	13.5	9.8	2.7	(1.9)	–
Nominal GDP per capita (KZT)	252,677	219,169	174,853	135,088	114,991	109,045
Population (millions average annual)	14.83	14.82	14.84	14.9	15.1	15.3

Source: NSA

Real GDP increases over the period are principally the result of systemic reforms (including price and trade liberalisation as well as privatisation) foreign investment (particularly in the oil and gas and non-ferrous metallurgy sectors), increases in agricultural production, strong commodity prices in recent years and the flotation of the Tenge in April 1999.

GDP by Source

The following table sets forth the composition of nominal GDP by source for the periods indicated:

	Year ended 31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
			(per cent. share of GDP)			
Industry	29.3	30.7	31.9	28.2	24.4	21.4
Construction	6.1	5.5	5.3	4.8	4.9	4.2
Agriculture	7.9	8.7	8.7	9.9	8.6	11.4
Transportation and Telecommunications	11.5	11.2	12.0	12.0	13.9	11.7
Trade	12.0	12.1	12.6	13.6	15.2	15.6
Other[1]	33.2	31.8	29.5	31.5	33.0	35.7
Total[2]	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

Notes:

1 Includes finance and non-production sectors such as medicine, education, culture, defence and state administration, as well as taxes.

2 Components of GDP by source are measured on the basis of factor cost, whereas total GDP is at market prices (including net taxes).

The composition of Kazakhstan's GDP has changed over recent years, with the shares of construction and agriculture decreasing and those of transportation and telecommunications, trade and industry increasing.

Inflation

The year-on-year rate of consumer price inflation has fallen from 1,258.3 per cent. at the end of 1994 to 6.6 per cent. as at the end of December 2002, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

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

	31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
Consumer Prices	6.6	6.4	9.8	17.8	1.9	11.2
Producer Prices	(11.9)	(14.1)	19.4	57.2	(5.5)	11.7

Source: NSA

Principal Sectors of the Economy

Historically, metallurgy (including mining and mineral processing) was the main industrial activity in Kazakhstan, although oil and gas related industries are now the most important component of the country's industrial base. The mineral products sector is Kazakhstan's largest employer. See also "– Natural Resources".

Agriculture has traditionally been the second largest sector in the economy, both in terms of employment and contribution to GDP. However, its relative importance has diminished in recent years due to reduced trade with the countries of the former Soviet Union, the breakdown of the agricultural credit system, and a lack of vital components such as fuel, fertilisers and spare parts for machinery. All agricultural production is now in the private sector and, generally, producer prices reflect world market

prices. Cereals are an important component of agricultural output and Kazakhstan is a major producer of hard wheat, with production in 2002 estimated to be 12.7 million tonnes.

Employment and Wages

In 2002, on average 6.7 million people were employed in Kazakhstan representing approximately 90.7 per cent. of the eligible workforce. In 2001, of the eligible workforce, approximately 22.7 per cent. were employed in the public sector, and approximately 66.9 per cent. of the eligible workforce were employed in the private sector.

Officially registered unemployment was close to zero in the 1980s. At the end of 2002, the officially registered unemployment figure was 690,700 or 9.6 per cent. of those eligible to work compared with 780,000 (10.4 per cent.) at the end of 2001. The fall is primarily attributable to the fact that since 2002 the NSA began using International Labour Organisation methods of calculating unemployment figures.

Average wages vary significantly from sector to sector. In 2002, the financial sector had the highest average wage (2.5 times the national average) while wages were lowest in the agricultural sector, nearly 2.5 times less than the national average. Wages in industry currently average 32.0 per cent. higher than the national average. In 2001, the average monthly wage was KZT17,303, an increase of 10.4 per cent. in real terms and 26.0 per cent. in nominal terms compared with 2000. In 2002, the average monthly wage was estimated as KZT20,305, an increase of 10.1 per cent. in real terms and 16.6 per cent. in nominal terms compared with 2001.

Social Security System

Although in the past there have been substantial arrears in State pensions, since 1999 the State has been current in payments.

The pension system in Kazakhstan has been the subject of one of the most radical reform programmes in the CIS. Pension reforms in 1997 established a legal framework for the transformation of the pension system from a State ''pay-as-you-go'' system to a ''fully-funded'' accumulative pension system. The object of the reforms being that private individual retirement accounts should be the main source of pensions, although individuals can still contribute towards a State-run accumulative pension scheme. Individual retirement accounts are maintained with pension funds managed by pension asset management companies licensed and supervised by the NBK. In 2002, Parliament adopted amendments to the Pension laws which *inter alia*, abolished the privileged position of the State accumulative pension fund as a default fund and allowed pension funds to manage pension assets directly. Pension asset management companies are subject to regulations, including various financial ratios (such as capital adequacy requirements) similar to those imposed on banks and investment requirements. As of 1 January 2003, pension fund assets amounted to KZT269.8 billion compared to KZT182.4 billion as of 1 January 2002 and KZT112.9 billion as of 1 January 2001. The assets of the State-run accumulative pension scheme amounted to 28.05 per cent. of total accumulated pension fund assets as of 1 January 2003 (compared to 32.3 per cent. as of 1 January 2002 and 38.9 per cent. as of 1 January 2001).

The pension reforms increased the pensionable age from 55 to 58 for women and from 60 to 63 for men. Although the changeover to a fully funded system will take many years to complete and until then the legacy of the old system will remain a burden on the State's resources, the introduction of a ''fully funded'' pension system has been successful and it has achieved significant results within its first four years. The sound growth of the pension industry provides the basis for expectations of a rapid development in the Kazakhstan's financial and capital markets in the near future.

Pensions are funded through a social tax of 21 per cent. of total wages paid by employers and a deduction of 10 per cent. of employees' salaries is paid into their pension fund. Additional contributions may also be made into private pension funds.

Environment

Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north-east Kazakhstan, has a military facility which until 1990 was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in Kazakhstan were used by the Soviet Union for the testing of biological weapons and are as a result contaminated with various pathogens.

The former Soviet Union's ''Virgin Lands'' policy of the 1950s and 1960s, whereby large areas of Kazakhstan's steppe land were ploughed to increase Soviet grain production, has led to soil erosion on a wide scale and up to 66 per cent. of Kazakhstan's agricultural land is under threat of desertification. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan exposing land, which is unsuitable for agriculture. Further, the Caspian Sea suffers from serious pollution due to industrial dumping.

Natural Resources

Introduction

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and minerals are the most significant industries in the Kazakhstan economy. Exports of hydrocarbons and minerals accounted for 58.0 per cent. of total exports in 2001 and 61.0 per cent. in January to November of 2002.

The actual recoverable level of Kazakhstan's significant oil and gas reserves has not yet been established. *The BP Statistical Review of World Energy* of June 2002 estimated Kazakhstan's total oil reserves in 2001 at 1.1 billion tonnes, or 0.8 per cent. of world reserves, with a reserves/production ratio of 27.6 per cent. Kazakhstan's potentially large Kashagan field in the Caspian has been estimated by Agip Kazakhstan North Caspian Operating Company N.V. (''Agip KCO''), the international consortium which is exploiting the Kashagan field, to have geological reserves of 38 billion barrels, of which 7 to 9 billion are considered extractable reserves.

Oil and Gas

The largest deposits of explored oil reserves are located in the Tengiz, Zhetybai, Kalamkas and Uzen fields in the Caspian region, the Karachaganak and Zhanazhol fields in north-western Kazakhstan and the Kumkol field in central Kazakhstan. The Tengiz field has the potential to produce up to 50 million tonnes (up to 365 million barrels) of oil annually, although revised estimates by Tengiz Chevroil indicate that geological reserves could be several times higher than previous estimates of 3 billion tonnes. 13 million tonnes of oil were produced at the Tengiz field in 2002. The Karachaganak field has the potential to produce 17 million tonnes of gas condensate and 25 billion tonnes of gas annually, but currently production is limited due to a lack of available refining capacity. In 2002, the Karachaganak field produced 5.16 million tonnes of gas condensate and 4.8 billion cubic metres of gas. The liquid hydrocarbon reserves in the Kazakhstan sector of the Caspian Sea have been estimated at 12 billion tonnes (87 billion barrels). Here, following a prospecting program in the north eastern part of the Caspian Sea which started in 1999, Agip KCO, the concessionaire, announced a discovery in East Kashagan, 75km south east of Atyrau.

Kazakhstan produced 47.2 million tonnes of oil and gas condensate in 2002, 12.0 per cent. more than in 2001, of which 39.6 million tonnes were exported.

The BP Statistical Review of World Energy of June 2002 estimated Kazakhstan's total reserves of natural gas in 2001 at approximately 1.84 trillion cubic metres, or 1.2 per cent. of world reserves. In 2002, Kazakhstan produced 10.5 billion cubic metres of gas compared to 8.4 billion cubic metres in 2001.

Exports of Oil and Gas

Despite Kazakhstan's substantial hydrocarbon resources, the production and export of hydrocarbons has been constrained by Kazakhstan's land-locked position and its significant dependence on Russia's transportation infrastructure for export routes. Until recently there was only one pipeline connected to the Russian export network. Russia retains the right to suspend and impose restrictions on the flow of Kazakh oil from this pipeline into Russia's transportation network and Russian enterprises have priority access to Russian export terminals. In the past, Russia has imposed an annual quota on Kazakhstan's exports through Russia. However, a recently signed agreement between Russia and Kazakhstan on oil transportation has significantly improved Kazakhstan's export position. Starting from 2003, the agreement provides for an automatically renewable quota for the next 14 years of not less than 15 million tonnes through the Atyran-Samara pipeline and 2.5 million tonnes through the Makhachkala – Tikhoretsk – Novorissiisk pipeline.

Nevertheless, other export outlets will be needed in order for Kazakhstan to realise the full economic potential of its oil and gas reserves and the Government is participating in several projects to diversify Kazakhstan's export routes and to expand its export capacity.

The principal of these projects is the Caspian Pipeline Consortium (the ''CPC'') which was established for the purpose of developing a 1,500 kilometre export pipeline from the Tengiz oil field to the Russian seaport of Novorossiysk on the Black Sea, together with oil pumping stations and oil storage and loading facilities. The CPC was formed in July 1992 and is currently owned by the Russian, Kazakhstan and Omani Governments and a number of Russian and international oil companies.

The first stage of construction, a pipeline with a capacity of 28 million tonnes (204 million barrels) per year, was completed in September 2001 at a cost of U.S.$2.6 billion. The second stage comprising reconstruction of existing systems and construction of new facilities has not started yet but is expected to take up to three years. Upon completion of the second stage, the capacity of the pipeline is expected to be 67 million tonnes (490 million barrels) per year. Although no formal budget has been prepared, it is anticipated that the second stage will cost in the region of U.S.$500 million.

The CPC started commercial operations in November 2001.

The construction of the Kenkiyak-Atyrau pipeline will provide the Aktobe region oil producing companies with access to the existing export pipelines and will also be used as the first part of the pipeline from West Kazakhstan to China, started in May 2002 and completed by 2006-2007.

Foreign Investment in Oil and Gas

By the end of 2001, foreign investors had invested approximately U.S.$3.3 billion in Kazakhstan's oil and gas sector. The most significant foreign investment thus far has been in the Tengiz oil field where, under the terms of a 40 year joint-venture agreement, Tengizchevroil is expected to invest a total of approximately U.S.$20 billion in the field.

In addition to direct investment in transportation, exploration and production projects, there have also been significant purchases by foreign investors of State-owned oil and gas enterprises. In 1997, the Government sold 60 per cent. of JSC Mangistaumunaigas to Indonesia's Central Asian Petroleum (part of the Medco group) in a transaction valued at U.S.$4.35 billion (which amount includes a planned investment programme) and 60 per cent. of JSC Aktobemunaigas to China National Petroleum. China National Petroleum, as controlling shareholder in JSC Aktobemunaigas, has agreed to invest up to U.S.$4 billion over a period of 20 years in developing the Aktyubinsk field.

An international consortium of oil companies are party to a development agreement relating to Karachaganak's oil and gas fields. The agreement has a term of 40 years and provides for investments of U.S.$16 billion. It is anticipated that Kazakhstan will be paid approximately 80 per cent. of the shared income over the 40-year concession period. The consortium members plan to construct an oil pipeline connecting the Karachaganak fields to the CPC's pipeline. Another international consortium of oil companies has a production sharing agreement relating to the north Caspian Sea. This agreement also has a term of 40 years and provides that Kazakhstan will be paid approximately 80 per cent. of the shared income, including taxes and other payments to the budget, over the concession period and provides for certain investments.

Mineral Resources

Despite being a major mineral producer with an annual production valued at over KZT1,070 billion, Kazakhstan's mining output has been relatively modest in relation to its estimated reserves. Moreover, further reserves are known to exist which have not yet been fully surveyed. Although much of Kazakhstan's mineral production has historically been exported in unprocessed form, with a view to retaining domestically part of the value added by processing such minerals, it has recently started exporting a progressively greater proportion of semi-processed minerals. Significant investments will be required to take advantage of Kazakhstan's mineral resources.

According to the *BP Statistical Review of World Energy* of June 2002, Kazakhstan produced 40.4 million tonnes of coal in 2001, approximately 1.8 per cent. of total coal produced globally in 2001. According to Government estimates, less than 3 per cent. of the country's coal reserves have been mined so far.

Kazakhstan has uranium reserves estimated to be in excess of 1 million tonnes, of which reserves amounting to 469,777 tonnes have been prospected.

Kazakhstan produces a significant amount of precious metals. According to the Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tonnes and produced approximately

9.94 tonnes in the eleven months to November 2002. Kazakhstan also produces a significant amount of the world's silver, producing approximately 777.5 tonnes in the eleven months to November 2002.

Kazakhstan has substantial reserves of non-ferrous minerals, including lead, zinc, copper and manganese. By reserves, Kazakhstan is ranked second in the world in lead, first in zinc, third in manganese and fifth in copper. Kazakhstan's manganese reserves are exceeded only by those of South Africa and Ukraine. In the eleven months to November 2002, Kazakhstan produced 128,630 tonnes of lead, 261,468 tonnes of zinc and 415,529 tonnes of copper.

Balance of Payments and Foreign Trade

Current Account

Based on NBK data the current account deficit in 2002 was U.S.$596.0 million and U.S.$1,092.6 million in 2001 compared with a surplus of U.S.$674.6 million in 2000.

Capital and Financial Account

The current account deficit has been offset by inflows of foreign direct investment. The capital and financial account surplus in 2000 was U.S.$1,032.2 million resulting in a balance of payment surplus of U.S.$585.1 million. In 2001, foreign direct investments in the amount of U.S.$2,796.4 million resulted in a capital and financial account surplus of U.S.$2,415.9 million. Preliminary figures for 2002 indicate foreign direct investments for the year of US$2,138.1 million and a capital and financial account surplus of US$1,263.1 million.

Foreign Trade

The following table sets out Kazakhstan's foreign trade for the periods indicated:

	Year ended 31 December					
	2002[1]	*2001*	*2000*	*1999*	*1998*	*1997*
			(In U.S.$ millions)			
Exports	9,709.1	9,024.7	9,288.1	5,988.5	5,870.6	6,899.2
Imports	(6,490.5)	(7,849.9)	(6,848.2)	(5,648.2)	(6,671.5)	(7,175.6)
Trade balance	3,218.6	1,174.7	2,439.9	340.3	(800.9)	(276.4)

1 Unadjusted NSA data.

Source: NBK

General merchandise trade data are based on external trade statistics compiled by the NSA from customs declarations. The data are adjusted by the NBK in respect of coverage classification and valuation for balance of payments purposes. The main adjustments are to exclude the cost of freight and insurance from imports, to include ''shuttle'' and undeclared trade and to adjust for barter operations.

Official International Reserves

Kazakhstan's international reserves are administered and controlled by the NBK, which is a separate legal entity. Kazakhstan law provides that such international reserves may not be pledged, nor may the NBK be required to make international reserves available to support the Government's borrowings. As at the end of 2002, Kazakhstan's gross international reserves amounted to U.S$3,141 million, covering 3.5 months of imports of goods and services. By the end of February 2003, due to high oil prices and a number of other factors, gross international reserves amounted to U.S.$3,881 million.

Similar to the Norwegian model, the Government established the National Fund of Kazakhstan (the ''National Fund'') in August, 2000 to accumulate state revenues earned from the sale of Kazakhstan's hydrocarbons and mineral resources. By December 2002, the National Fund had U.S.$1,917.3 million in assets.

The following table sets forth certain information regarding Kazakhstan's international reserves as at the dates indicated:

	31 December					
	2002	*2001*	*2000*	*1999*	*1998*	*1997*
			(in U.S.$ millions)			
Foreign exchange reserves	2,548.3	1,990	1,594.0	1,479.9	1,460.2	1,767.4
Gold[1]	585.6	510.7	501.8	522.8	503.6	523.9
Gross international reserves	3,141.0	2,507.7	2,095.8	2,002.7	1,963.8	2,291.2
Import coverage (including gold) (months)	3.5	3.6	3.0	3.6	3.1	3.3

1 Gold is valued at the market price prevailing at the beginning of the relevant period.

Source: NBK

Public Finance

Introduction

Fiscal policy since Kazakhstan's independence has been characterised by fiscal tightening in order to reduce inflation and limit expenditure. The general Government deficit as a percentage of GDP has been reduced sharply, from 7.2 per cent. of GDP in 1996 to a deficit of 0.2 per cent. in 2001. The Government has increasingly financed this deficit through sales of Treasury bills and foreign borrowings, although in the past it has used postponement of expenditures including wages and pensions. In 2002 the state budget was, broadly, in balance.

The following table sets forth information on certain trends in Kazakhstan's actual State revenues and expenditures (excluding quasi-fiscal operations) for the periods indicated:

	Year ended 31 December					
	2002[2]	*2001*	*2000*	*1999*	*1998*	*1997*
			(in KTZ millions)[1]			
Revenues	821,153	746,612	598,746	430,900	379,623	405,623
Expenditures	820,162	759,610	602,024	498,978	451,594	469,622
Budget surplus (deficit)	991	(12,998)	(3,278)	(68,078)	(72,074)	(63,998)
Surplus (deficit) as a percentage of GDP	0	(0.2)	0.1	(3.7)	(4.2)	(3.8)

1 Includes extra-budgetary funds.

2 Preliminary data.

Source: Ministry of Finance

Taxation

Kazakhstan's tax system has been significantly reformed and simplified during recent years. A comprehensive reform of the tax system took place in 1995 and as a result the principal taxes are now corporate income tax (''CIT''), personal income tax (''PIT''), a value added tax on goods and services (''VAT'') and various property taxes. The Government has developed a new tax code that is intended to further simplify the tax structure and facilitate tax administration in order to improve the collection rate, which came into effect on 1 January 2002.

The CIT rate is currently 30 per cent., reduced to 10 per cent. for farming corporations. Dividends are subject to a 15 per cent. withholding of CIT. PIT is levied at progressive rates, ranging from 5 per cent. to 30 per cent. This maximum PIT rate was reduced to 30 per cent. from 40 per cent. in 1998.

In general, all business activity in Kazakhstan is subject to a flat rate VAT of 16 per cent. Corporations are subject to property tax at the rate of 1 per cent. of the value of basic production and non-production assets. The rate imposed on real property of individuals ranges from 0.1 per cent. to 0.3 per cent. Fees to the Government relating to the extraction of oil, gas and other natural resources are established by individual agreements with the Government or its agencies.

In 1998, the Government amended the tax code to provide tax-free periods to foreign investors investing in designated priority sectors of the economy, which do not include the oil and gas sector. Eligible investors received exemption on income, property and land taxes on an individual basis.

Revenues

Primarily as a result of improved efficiency in tax administration, increases in property tax rates, the extension of excise tax to further products, including crude oil and gas condensate, and changes in the method of tax calculation. Tax revenues have increased from 16.4 per cent. of GDP in 1999 to 20 per cent. of GDP in 2002.

Inter-Enterprise Arrears

Although the level of inter-enterprise arrears (debts which are due but unpaid) is significant and has been so since independence, there has been a marked reduction in overdue inter-enterprise net debt (overdue debts payable minus overdue debts receivable) from KZT241.0 billion (or 19.8 per cent. of GDP) at the end of 1997 to KZT105.7 billion (or 4.2 per cent. of GDP) in December 2002. The Government has stated that it expects that the problem of inter-enterprise arrears will ultimately be resolved by the continuation of the privatisation process and the implementation of new bankruptcy legislation and banking reform.

Monetary and Financial System

Overview

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. At the end of 2002, the annualised rate of consumer price inflation was 6.6 per cent. There has been a significant overall decrease in the annualised rate of consumer price inflation over the last ten years, during which it fell from 1,158.3 per cent. at year-end 1994, mainly as a result of co-ordinated policies by the Government and the NBK. The devaluation of the Tenge following its flotation in April 1999, however, caused inflation to rise in 1999 but since the end of 2000 the annualised rate of consumer price inflation has fallen.

The NBK has managed to keep the Tenge relatively stable and inflation on a slow trend of decline. This has resulted in the benchmark interest rate, the NBK's refinancing rate, falling to 7.5 per cent. at the end of 2002.

Monetary Policy

The main targets of the monetary policy of the NBK are low inflation rates, positive real interest rates and improvement of the quality of financial intermediation. The NBK has stated that it expects to continue policies aimed at financial stabilisation and long-term price and exchange rate stability, as well as sustainable economic growth.

Currently, the NBK implements monetary policy through instruments such as regulation of the volume of credits to commercial banks; determination of the refinancing rate; foreign exchange market interventions and Treasury bill operations, including repurchase and reverse repurchase operations. In addition to the refinancing rate, the NBK also maintains Lombard and overnight rates.

In February 2002, the NBK introduced a repurchase rate as a new tool to regulate liquidity. The NBK currently establishes weekly overnight, seven day, 14 day repurchase and reverse repurchase rates. On 31 December 2002 all these rates were 5.5 per cent.

Money Supply

The exchange rate regime adopted in April 1999 positively affected money supply aggregates. The monetary base grew in 1999 by 55.7 per cent. as compared to the 1998 monetary base and amounted to KZT126.7 billion. An increase in the NBK's net international reserves contributed to the expansion of the monetary base.

The following table presents the main monetary aggregates in Kazakhstan as at the dates indicated:

	31 December			
	2002	*2001*	*2000*	*1999*
	(in KTZ millions)			
Monetary base	208,171	174,959	134,416	126,749
M0 (cash in circulation)	161,701	131,200	106,400	103,486
M1	287,236	222,400	195,400	162,115
M2	498,013	344,600	290,600	237,260
M3 (money supply)	764,954	569,100	397,000	273,880

Source: NBK

Interest Rates

One of the objectives of the NBK's monetary policy has been to maintain a positive real refinancing interest rate to stimulate investments in the real economy and to promote an effective functioning of financial markets. The following table sets out the annual refinancing rates and average yields of Treasury bills and the NBK's own short-term notes as at the dates indicated:

	31 December			
	2002	*2001*	*2000*	*1999*
	(per cent.)			
Refinancing	7.5	9.0	14.0	18.0
Treasury Bill Yields[1]	6.67	5.40	6.75	16.57
NBK Note Yields[2]	5.93	5.8	7.87	14.28

Source: NBK

Notes:

1 Effective annual yield of three-month Treasury bills.

2 Effective annual yield of short-term NBK Notes.

Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April, 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate being limited to interventions in the internal currency market in order to prevent volatile exchange rate fluctuations caused by short-term changes in supply and demand. In 1995 and 1996, this resulted in a real appreciation of the Tenge against the U.S. Dollar and a real depreciation against the U.S. Dollar in 1997 and 1998.

As a result of the economic crises in Asia and Russia and the resulting currency devaluations, primarily in Russia and other former Soviet Republics, Kazakhstan's exports became less competitive while imports from such countries increased. In addition, the decline in world commodity prices, particularly of oil, base and precious metals and grain, reduced Kazakhstan's foreign currency revenues. The resulting trade imbalance, as well as lower than expected privatisation revenues, weakened the Tenge. The NBK supported the Tenge by intervening in the foreign exchange markets. Such intervention, together with the servicing of Kazakhstan's external debt, resulted in a decline of foreign exchange reserves. See ''– Balance of Payments and Foreign Trade—Official International Reserves.''

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. Such decision was supported by international financial organisations such as the IMF. As a result, the Tenge devalued from a pre-announcement rate of KZT88 per U.S. Dollar to a rate of about KZT130 per U.S. Dollar by May 1999. Since then, the Tenge has continued to decline in nominal terms against the U.S. Dollar. The following table sets out certain average and period-end Tenge/U.S. Dollar exchange rates on the Kazakhstan Stock Exchange as reported by the NBK:

	Average	*Period-end*
December 1999	120.06	138.20
December 2000	142.12	145.40
December 2001	146.73	150.94
31 December 2002	153.86	155.85
February 2003	–	151.66

Source: NBK

The Tenge exchange rate was stable in 2002 with monthly exchange rate fluctuations between 151.10 KZT/USD and 156.29 KZT/USD. As of December 2002 the real effective exchange rate was 6.9 per cent. lower than in December 2001. The Tenge devalued in real terms by 4.5 per cent. against the currencies of other CIS trading partners, 1.4 per cent. against the US dollar, 11 per cent. against the euro and by 5.5 per cent. against the Russian rouble.

Foreign Exchange Regulations

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

New licensing rules adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules in the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of dollars into Kazakhstan due to high market prices for Kazakh export goods by directing export revenues abroad. A draft law submitted by the NBK to the Parliament in March 2003, provides for step-by-step liberalisation resulting *inter alia* in full internal convertibility of the Tenge, unlicensed investments in foreign investment-grade securities and unlicensed openings of bank accounts in OECD Banks by 2007.

Public Debt

As a percentage of GDP, total public debt decreased from 17.5. per cent. of GDP at 31 December 2001 to 15.5 per cent. of GDP in 2002. In nominal terms, Kazakhstan's total public debt has grown from KZT139.6 billion at 31 December 1994 to KZT579.9 billion at 31 December 2002. The growth in public debt has come primarily from external borrowing and has been used to finance budget deficits.

The following table sets forth data regarding Kazakhstan's nominal public debt (i.e., excluding private sector debt or State-guaranteed debt) as at the dates indicated:

	31 December			
	2002	*2001*	*2000*	*1999*
Internal Public Debt (KZT millions)	121,802	83,976.8	87,418.0	136,339.4
As a percentage of GDP	3.3	2.6	3.4	6.8
External Public Debt[1] (KZT millions)	458,094	489,982.4	472,799.0	400,568.0
As a percentage of GDP	12.2	14.9	18.2	19.9
Total Public Debt (KZT million)	579,896	573,959.2	560,217.0	536,907.4
As a percentage of GDP	15.5	17.5	21.6	26.7

Source: NBK

Note

1 External Public Debt comprises only debt of the Government and the NBK.

The Government is required annually to adopt a ten-year borrowing programme. The current ten-year programme, covering the years 1999 to 2008, provides for external and domestic capital market borrowing to finance the State budget deficit. The current ten-year programme also contains estimates of Kazakhstan's increasing debt burdens and related debt servicing costs and provides recommendations as to the most effective utilisation of borrowed funds.

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