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OFFERING CIRCULAR



JSC HALYK BANK

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

U.S.\$200,000,000 8.125% Notes due 2009 Issue Price 98.996%

The U.S.\$200,000,000 8.125% Notes due 2009 (the "Notes") are issued by JSC Halyk Bank ("Halyk Bank" or the "Bank"). Interest on the Notes will accrue from 7 October 2004 and will be payable semi-annually in arrear on 7 April and 7 October of each year, commencing on 7 April 2005. The Notes will be constituted by, subject to, and have the benefit of, a trust deed dated 7 October 2004 (the "Trust Deed") between the Bank and J.P. Morgan Corporate Trustee Services Limited as trustee for the holders of the Notes (the "Trustee").

The Notes will be offered and sold in an offering in the United States to "qualified institutional buyers" (as defined in Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in reliance on Rule 144A and in offshore transactions outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "Subscription and Sale" and "Form of Notes and Transfer Restrictions".

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

See "Risk Factors" beginning on page 16 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Payments of interest on the Notes are subject to withholding taxes in Kazakhstan. The Bank is, however, obliged to pay additional amounts in certain circumstances if there is such a withholding. See Condition 9 (Taxation), "Risk Factors—Risk Factors Relating to the Notes—Taxation in Kazakhstan" and "Taxation—Kazakhstan Taxation".

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

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 7 October 2004 (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 ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "Restricted Global Note" and together with the Unrestricted Global Note, the "Global Notes") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with JPMorgan Chase Bank, as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company ("DTC"). Notes sold (i) in offshore transactions in reliance on Regulation S 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 and (ii) to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of U.S.\$100,000 or any amount in excess thereof which is an integral multiple of U.S.\$1,000. See "Terms and Conditions of the Notes". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "Form of Notes and Transfer Restrictions". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Joint Lead Managers

CREDIT SUISSE FIRST BOSTON

JPMORGAN

Co-Manager

OJSC BANK ZENIT

The date of this Offering Circular is 5 October 2004

The Bank, having made all reasonable inquiries, confirms that this Offering Circular contains all information with regard to the Bank and the Notes which is material in the context of the issue and offering of the Notes, that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions, expectations and intentions of the 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 Bank and of an investment in the Notes, (ii) the omission of which made or makes any statement herein misleading in any material respect or (iii) in the context of the issue and offering of the Notes was or is material for disclosure herein. Save as provided below, the Bank accepts responsibility for the information contained in this Offering Circular. The information in section “The Banking Sector in Kazakhstan” and Annex A to this Offering Circular entitled “The Republic of Kazakhstan” has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in the Republic of Kazakhstan (“Kazakhstan”). There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Bank only accepts responsibility for accurately reproducing such extracts as they appear in section “The Banking Sector in Kazakhstan” and Annex A to this Offering Circular. It accepts no further or other responsibility in respect of such information.

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

None of the Managers (as defined in “Subscription and Sale”), the Trustee nor any of their respective directors, affiliates, advisers or agents has made an independent verification of the information contained in this Offering Circular in connection with the issue and offering of the Notes and no representation or warranty, expressed or implied, is made by the Managers, the Trustee or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Offering Circular is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Managers, the Trustee or any of their respective directors, affiliates, advisers or agents in any respect. Furthermore, none of the Managers nor the Trustee makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes, the performance and observance by the Bank of its obligations in respect of the Notes or the recoverability of any sums due or to become due from the Bank under the Notes.

No person is authorised to give any information or make any representation not contained in this Offering Circular in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Bank, the Trustee or any of the Managers or any of their respective directors, affiliates, advisers or agents. No representation or warranty, express or implied, is made by either the Bank, the Trustee or any of the Managers 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 Bank since the date hereof or that the information herein is correct as of any time subsequent to its date.

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

The Bank has not authorised any offer of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulation 1995 (the “Regulations”). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

This Offering Circular does not, and is not intended to, constitute or contain an offer to sell or a solicitation of an offer to purchase the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Offering Circular and the offer or sale of

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

IN CONNECTION WITH THIS ISSUE, CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED (OR ANY PERSON ACTING ON ITS BEHALF) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE ISSUE DATE. HOWEVER, THERE IS NO OBLIGATION ON CREDIT SUISSE FIRST BOSTON (EUROPE) LIMITED (OR ANY AGENT OF CREDIT SUISSE FIRST BOSTON (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.

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NOTICE TO RESIDENTS OF NEW HAMPSHIRE

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 LICENCED 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.

AVAILABLE INFORMATION

The Bank is currently not required to file periodic reports under Sections 13 or 15 of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”) with the Securities and Exchange Commission (“SEC”). In order to preserve the exemption for resales and transfers under Rule 144A, the Bank has agreed that so long as any of the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will, if it is not exempt from the reporting requirements of the Exchange Act pursuant to Rule 12g3-2(b) thereunder and does not thereafter become subject to and comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act, provide to any holder of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder, upon the request of such holder or prospective purchaser, any information required to be provided by Rule 144A(d)(4) under the Securities Act.

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. 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 obtain in respect of the Trust Deed in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

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

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as “estimates”, “believes”, “expects”, “may”, “are expected to”, “intends”, “will”, “will continue”, “should”, “would be”, “seeks”, “approximately”, or “anticipates”, or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include, but are not limited to, the Bank’s objective to achieve higher average returns on equity and on assets and to increase profitability by consolidating the Bank’s position as the leading retail bank in Kazakhstan, anticipated expansion of the Bank’s corporate customer base, expansion of the Bank’s revenue base through selective regional growth and development of subsidiary operations, the impact of the anticipated improvements in operational efficiency and management, statements regarding planned capital expenditures, expectations regarding the increase of the Bank’s equity capital, and improving the composition of the Bank’s loan portfolio. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions; the demand for the Bank’s services; competitive factors in the industries in which the Bank competes; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); results of litigation or arbitration; interest rate fluctuations and other market conditions, including foreign currency rate fluctuations; economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders and the timing, impact and other uncertainties of future actions. See “Risk Factors” for a discussion of important factors that could cause actual results to differ materially from these forward-looking statements.

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

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Until 1 January 2003, the Bank was required to maintain its books of account in Tenge in accordance with the relevant laws and with the regulations in Kazakhstan, including the regulations of the National Bank of Kazakhstan (the “NBK”) and since January 2004, the Bank is required to comply with the requirements of the Agency of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations (the “FMSA”) (collectively, “Kazakhstani Regulations”). Starting 1 January 2003, the Bank has maintained its books of account and prepared its accounts for regulatory purposes in accordance with International Financial Reporting Standards (“IFRS”). If not otherwise specified, for the sake of the financial analysis and management discussion herein, the term “the Bank” shall mean Halyk Bank and its consolidated subsidiaries.

The Bank’s audited consolidated financial statements, including the notes thereto, as of and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements, including the notes thereto, as of and for the six-month periods ended 30 June 2004 and 2003 have been prepared in accordance with IFRS. The Bank’s audited consolidated financial statements as of and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements for the six-month period ended 30 June 2004 and 2003 were audited by Ernst & Young, Kazakhstan, independent auditors (“Ernst & Young”), whose audit reports for the respective periods is included elsewhere in this Offering Circular. See the consolidated financial statements and the interim condensed consolidated financial statements, including the relevant notes thereto, included elsewhere in this Offering Circular and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

In this Offering Circular, references to “Tenge” or “KZT” are to Kazakhstani Tenge, the lawful currency of Kazakhstan; references to “U.S. Dollars” or “U.S.\$” are to United States Dollars, the lawful currency of the United States; references to “Russian Roubles” are to Russian Roubles, the lawful currency of the Russian Federation; and references to “Euros” or “€” are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union and as further amended by the Treaty of Amsterdam. References to “Kazakhstan”, the “Republic” or the “State” are to the Republic of Kazakhstan, references to the “Government” are to the government of the Republic of Kazakhstan and the references to the “CIS” are to the Commonwealth of Independent States.

Solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate, in each case calculated in accordance with the official exchange rates for U.S. Dollars on the KASE as reported by the NBK. On 30 June 2004, the official exchange rates for U.S. Dollars on the KASE as reported by the NBK was KZT 136.45 per U.S.\$1.00 and the official average exchange rate for the six-month period ended 30 June 2004 as reported by the NBK was KZT 138.42 per U.S.\$1.00. On 31 December 2003, the official U.S. Dollar rate on the KASE as reported by the NBK was KZT 144.22 per U.S.\$1.00 and the official average exchange rate for the year ended 31 December 2003 as reported by the NBK was KZT 149.58 per U.S.\$1.00. On 5 October 2004, the exchange rate for U.S. Dollars published by the KASE as reported by the NBK was KZT 134.32 per U.S.\$1.00. For further details of applicable exchange rates, see “Annex A—The Republic of Kazakhstan—Monetary and Financial System—Exchange Rates” and the consolidated financial statements included herein.

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

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

MARKET SHARE, INDUSTRY AND ECONOMIC DATA

It is difficult to obtain precise industry and market information on the Kazakhstani banking industry or economic information on Kazakhstan. Generally, information as to the market and competitive position data included in this Offering Circular have been obtained from the NBK, the National Statistics Agency (the “NSA”), the FMSA, published financial information and from surveys or studies conducted by third-party sources that are believed to be reliable. The information contained in “The Banking Sector in Kazakhstan” and in Annex A to this Offering Circular entitled “The Republic of Kazakhstan” has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. No assurance can be given as to the accuracy and completeness of any such information and such market, industry and economic data has not been independently verified but the Bank accepts responsibility for the correct reproduction of such information.

SUMMARY

The following summary information is qualified in its entirety by, and should be read in conjunction with, the more detailed information and consolidated financial statements, including the related notes thereto, appearing elsewhere in this Offering Circular. For a discussion of certain factors that should be considered in connection with an investment in the Notes, see "Risk Factors".

Overview

Established in 1923 as a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe, Halyk Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1994. Following the introduction of the privatisation programme in 1998, the Government gradually decreased its ownership interest in the Bank and subsequently sold its remaining shares in the Bank in November 2001 through a public tender process.

According to statistics published by the NBK, Halyk Bank is the largest bank in Kazakhstan in terms of total customer deposits, which amounted to KZT 186,738 million as of 30 June 2004, and the Bank's retail deposits of KZT 107,428 million represented approximately 26% of the total market share as of 30 June 2004. Halyk Bank is also the third largest bank in Kazakhstan according to statistics published by the NBK, based on total assets of KZT 289 billion as of 30 June 2004. In 2003, the Bank's net income amounted to KZT 7,460 million, compared to KZT 1,871 million in 2002. For the six-month period ended 30 June 2004, the Bank had net income of KZT 4,032 million, compared to KZT 2,382 million for the six-month period ended 30 June 2003.

The Bank's core business is focused on retail and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through 526 retail outlets, including regional and district branches in 20 regions throughout Kazakhstan. In addition, based on agency agreements with OJSC Kazpost ("Kazpost"), the Bank offers certain basic banking services, including accepting some utility payments and repayments of consumer loans, through outlets operated by Kazpost to the Bank's customers in certain remote areas. Other distribution channels used by the Bank include Automated Teller Machines ("ATMs"), the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan.

The Bank offers a wide range of retail banking products and services including current accounts, time deposits, consumer loans, mortgages, credit and debit cards, traveller's cheques, currency exchange, Internet banking and ATM services. The corporate banking business provides a range of wholesale banking products and services to corporate and small and medium size business customers, financial institutions and Government entities. As of 30 June 2004, the Bank had 4,644,204 retail accounts and 56,472 corporate accounts.

Halyk Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both Treasury bills and short-term notes of the NBK and according to statistics published by the NBK, in 2003 the Bank's purchases of Treasury bills and NBK notes represented 4% and 15% of total issued volume, respectively. Since sovereign Eurobonds were listed on the KASE, the Bank became an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three Eurobond issues by the Republic of Kazakhstan in 1997, 1999, and 2000.

Shares of the Bank have been listed on the KASE since 1998. As of 27 September 2004, ALMEX LLP owned approximately 81% of the voting shares of the Bank. See "Principal Shareholders". The Bank's principal offices are located at 97 Rozybakiev Street, Almaty 480046, Kazakhstan.

Business Strategy

The Bank's objective is to achieve higher average returns on equity and on assets and to increase profitability by consolidating its position as the leading retail bank in Kazakhstan and by expanding its market share of the Kazakhstani corporate banking sector, with a continued focus on credit quality. In addition, the Bank plans to further expand its revenue base through selective regional expansion and development of subsidiary operations and to improve its internal operational efficiency and management to support its growth.

Credit Ratings

Currently, the Bank is rated by three rating agencies: Fitch IBCA (“Fitch”), Moody’s Investors Service (“Moody’s”) and Standard and Poor’s Rating Services, a division of McGraw Hill Companies (“Standard & Poor’s”). The current ratings of the Bank are as follows:

<u>Fitch</u>		<u>Moody’s</u>		<u>Standard & Poor’s</u>	
Individual	D	Strength	D-		
Long-term	BB-	Long-term	Ba1	Long-term	B+
Short-term	B	Short-term	NP	Short-term	B
Outlook	Positive	Outlook	Positive	Outlook	Positive

It is expected that, on issue, Fitch, Moody’s and Standard & Poor’s will assign BB-, Baa2 and B+ ratings, respectively, to the Notes. A security 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 OF THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular and related documents referred to herein. Capitalised terms not specifically defined in this summary have the meaning set out in the “Terms and Conditions of the Notes”.

Issuer:	JSC Halyk Bank.
Issue:	U.S.\$200,000,000 principal amount of 8.125% Notes due 2009.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 8.125% per annum. Interest on the Notes will accrue from the Closing Date and will be payable semi-annually in arrear on the interest payment dates falling on 7 April and 7 October of each year, commencing on 7 April 2005.
Maturity Date:	7 October 2009.
Status:	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5) unsecured obligations of the Bank and shall at all times rank <i>pari passu</i> and without any preference among themselves and (save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 5) with all other present and future unsecured and unsubordinated obligations of the Bank from time to time outstanding.
Negative Pledge:	So long as any Note remains outstanding (as defined in the Trust Deed), the Bank shall not, and shall not permit any Material Subsidiary to, create, incur, assume or permit to arise or subsist any Security Interest (as defined in Condition 5) (other than a Permitted Security Interest (as defined in Condition 5)) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness (as defined in Condition 5) of the Bank, any such Subsidiary or any other person unless, at the same time or prior thereto, the Bank’s obligations under the Trust Deed 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 interests of the Noteholders.
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 Condition 5 under “Terms and Conditions of the Notes”.
Taxation:	<p>Under Kazakhstan’s laws as presently in effect, interest payable by a Kazakhstani obligor to non-residents and certain categories of residents is subject to Kazakhstan withholding tax at a rate of 15%. See “Taxation—Kazakhstan Taxation”.</p> <p>The Bank has, however, undertaken, pursuant to Condition 9 of the Terms and Conditions, to pay additional amounts such that Noteholders would receive (after any withholding required to be made on account of Kazakhstani taxes in respect of any payments under the Notes) such amount as would have been received by the holders had no such withholding been required. The enforceability in Kazakhstan of such an undertaking has not to date been determined by the courts in Kazakhstan and as such there may be some doubt as to whether they would enforce such an undertaking. See “Risk Factors—Risk Factors Relating to the Notes—Taxation in Kazakhstan”.</p>

Tax Redemption:

The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See Condition 6(b).

Governing Law:

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

Listing:

Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has also been made for the Notes to be designated as eligible for trading on PORTAL.

After their issue, the Bank will apply for the Notes to be listed on the KASE. No assurance can be given that such listing will be obtained.

Selling Restrictions:

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person, except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in the United Kingdom and Kazakhstan. See “Form of Notes and Transfer Restrictions”.

Use of Proceeds:

The net proceeds to the Bank from the sale of the Notes are expected to be U.S.\$196,182,480. The net proceeds will be used by the Bank to fund loans to its customers and for other general corporate purposes.

Risk Factors:

For a discussion of certain investment considerations relating to Kazakhstan, the Bank and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see “Risk Factors”.

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as of and for the three years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements for the six-month period ended 30 June 2004 and 2003 have been derived from, should be read in conjunction with, and are qualified in their entirety by, the Bank's audited consolidated financial statements, including the notes thereto, contained elsewhere in this Offering Circular.

The Bank's audited consolidated financial statements, including the notes thereto, as of and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements, including the notes thereto, as of and for the six-month periods ended 30 June 2004 and 2003 have been prepared in accordance with IFRS. The Bank's audited consolidated financial statements as of and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements for the six-month period ended 30 June 2004 and 2003 were audited by Ernst & Young, whose audit reports for the respective periods is included elsewhere in this Offering Circular. Interim results are not necessarily indicative of the results which may be expected for any other interim period or for the full year.

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

	Six Months ended 30 June		Years ended 31 December			
	2004	2003	2003	2003	2002	2001
	<i>(KZT millions)⁽¹⁾</i>		<i>(U.S.\$ millions)⁽¹⁾⁽²⁾</i>	<i>(KZT millions)⁽¹⁾</i>		
			<i>(Unaudited)</i>			
INCOME STATEMENT DATA						
Interest income	14,089	11,693	161.8	24,197	15,324	10,985
Interest expense	(5,584)	(4,103)	(61.4)	(9,184)	(7,517)	(5,121)
Net interest income before impairment charge	8,505	7,590	100.4	15,013	7,807	5,864
Impairment charge	(2,949)	(2,954)	(27.7)	(4,136)	(6,650)	(4,072)
Net interest income	5,556	4,636	72.7	10,877	1,157	1,792
Fees and commission, net	3,708	2,851	43.9	6,564	4,184	3,106
Non-interest income	1,323	1,019	18.8	2,818	5,831	2,355
Non-interest expense	(5,969)	(5,529)	(80.1)	(11,987)	(8,999)	(7,180)
Income before income tax expense.....	4,618	2,977	55.3	8,272	2,173	73
Income tax expense	(627)	(555)	(5.2)	(774)	(302)	(42)
Net income before minority interest	3,991	2,422	50.1	7,498	1,871	31
Minority interest.....	41	(40)	(0.2)	(38)	—	—
Net income	4,032	2,382	49.9	7,460	1,871	31
Basic earnings per share	52.0	30.0	0.6	96.0	27.2	0.6
Basic weighted average number of shares.	74,065,274	74,490,245	74,073,617	74,073,617	54,241,298	54,226,000
Dividends accrued per share ⁽³⁾	7.1	6.8	0.1	14.3	17.4	—

(1) Except for the share and per share data.

(2) See "Presentation of Financial and Certain Other 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—Monetary and Financial System—Exchange Rates" for historical exchange rate date.

(3) Consists of dividends accrued on the Bank's preferred shares, which carry a cumulative fixed annual dividend of a minimum of KZT 15.75 per preferred share. The Bank did not pay any dividends on its common shares in 2003, 2002 and 2001.

	As of 30 June		As of 31 December		
	2004	2003	2003	2002	2001
	(KZT millions)	(U.S.\$ millions) ⁽¹⁾ (Unaudited)	(KZT millions)		
BALANCE SHEET DATA					
Assets					
Cash and cash equivalents	19,569	93.0	13,415	17,688	12,408
Obligatory reserves.....	5,471	36.1	5,212	4,525	4,663
Trading securities	33,829	276.8	39,914	23,507	—
Amounts due from credit institutions.....	1,822	50.6	7,291	—	50
Investment securities	19,280	67.1	9,675	8,766	14,751
Loans to customers.....	197,750	1,136.4	163,888	125,816	83,664
Current tax assets.....	86	1.4	200	—	—
Property and equipment, net	7,176	50.8	7,322	7,046	6,817
Other assets	3,700	18.0	2,606	1,934	1,972
Total assets.....	288,683	1,730.2	249,523	189,282	124,325
Liabilities, shareholders' equity and minority interest					
Amounts due to the Government	797	3.7	529	449	102
Amounts due to credit institutions	64,360	429.0	61,877	32,107	13,712
Amount due to customers.....	186,738	1,073.7	154,846	136,918	100,381
Dividends payable.....	175	2.5	366	394	3
Tax liabilities	259	1.3	182	—	9
Provisions	1,160	6.4	920	60	98
Other liabilities.....	1,576	5.4	779	698	752
Subordinated debt securities issued.....	8,377	59.5	8,583	4,469	2,365
Total liabilities	263,442	1,581.5	228,082	175,095	117,422
Minority interest	178	1.4	203	—	—
Total shareholders' equity.....	25,063	147.3	21,238	14,187	6,903
Total liabilities, shareholders' equity and minority interest	288,683	1,730.2	249,523	189,282	124,325

(1) See "Presentation of Financial and Certain Other 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—Monetary and Financial System—Exchange Rates" for historical exchange rate date.

	Six Months ended	Years ended 31 December		
	30 June	2003	2002	2001
	2004			
SUMMARY FINANCIAL RATIOS AND ECONOMIC DATA⁽¹⁾				
Profitability Ratios				
Return on shareholders' equity	32.2% ⁽³⁾	35.1%	13.2%	0.5%
Return on average shareholders' equity	34.8% ⁽³⁾	42.1%	17.7%	0.5%
Return on average assets	3.0% ⁽³⁾	3.4%	1.2%	0.0%
Net interest margin	7.2% ⁽³⁾	7.93%	6.1%	6.5%
Net interest spread	7.3% ⁽³⁾	8.18%	6.8%	7.3%
Non-interest expense/net interest income before impairment charge plus non-interest income	60.7%	66.2%	66.0%	87.4%
Non-interest expense as a percentage of net interest income before impairment charge	70.2%	76.4%	115.3%	122.4%
Non-interest expense as a percentage of average total assets	4.4% ⁽³⁾	5.2%	5.7%	6.3%
Loan Portfolio Quality				
Classified loans/gross loans	7.9%	11.1%	8.5%	3.7%
Non-performing loans/gross loans	2.5%	1.9%	0.5%	1.3%
Allowance for loan losses/gross loans	6.0%	6.0%	5.9%	4.3%
Allowance for loan losses/classified loans	75.3%	54.3%	68.5%	116%
Allowance for loan losses/non-performing loans	237.5%	325.6%	1,181.3%	329.2%
Balance Sheet Ratios and Capital Adequacy				
Customer deposits as a percentage of total assets	64.7%	62.1%	72.3%	80.7%
Total net loans as a percentage of total assets	68.5%	65.7%	66.5%	67.3%
Total shareholders' equity as a percentage of total assets	8.7%	8.5%	7.5%	5.6%
Liquid assets as a percentage of total assets	27.7%	30.3%	28.8%	25.6%
Risk weighted capital adequacy ratio ⁽²⁾	12.3%	14.6%	13.0%	10.7%
Economic Data				
Period end exchange rate (KZT/U.S.\$)	136.45	144.22	155.60	150.20
Average exchange rate for period (KZT/U.S.\$)	138.42	149.58	153.28	146.74
Inflation rate, consumer price index ("CPI")	6.9%	6.4%	6.6%	6.4%
Growth for the gross national product ("GDP")	9.1%	9.2%	9.8%	13.5%
(1) For the definitions of certain ratios, see "Selected Consolidated Financial Data—Selected Financial Ratios and Economic Data".				
(2) Calculated in accordance with BIS standards.				
(3) Annualised.				

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with all other information contained in this Offering Circular, the following risk factors associated with investment in Kazakhstan entities generally and in 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 Risk Relating to Emerging Markets

Investors in emerging markets, such as in Kazakhstan, should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging markets, such as in Kazakhstan, 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 prospective investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Risk Factors Relating to the Republic of Kazakhstan

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

Political and Regional Considerations

Kazakhstan became an independent sovereign state in 1991 as 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 economy. The transition was marked in the earlier years by political uncertainty and tension, a recessionary economy marked by high inflation and instability of the local currency and rapid, but incomplete, changes in the legal environment.

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

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

Like other countries in Central Asia, Kazakhstan could be affected by continuing unrest in the region and the effect such military action may have on the world economy and political stability of other countries. Also, in common with other countries in Central Asia, Kazakhstan could be affected by military or other action taken against sponsors of terrorism in the region. In particular, countries in Central Asia, such as Kazakhstan, whose economies and state budgets rely in part on the export of oil, oil products and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil and

other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects.

Macroeconomic Considerations and Exchange Rate Policies

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

The Government began implementing market-based economic reforms following independence (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last 12 years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. Whilst GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5% in 2001, by 9.8% in 2002 9.2% in 2003 and 9.1% during the one year period ended on 30 June 2004, there can be no assurance that the GDP will continue to grow and any fall in GDP in subsequent years could adversely effect Kazakhstan’s economy.

The Tenge is convertible for current account transactions, although it is not fully convertible currency outside Kazakhstan. Depressed export markets in 1998 and early 1999 caused considerable pressure on Kazakhstan’s managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 64.6% against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7% in the year ended 31 December 1998. Following the adoption of a floating exchange rate policy in 1999, the Tenge continued to depreciate in value against the U.S. Dollar, although at a much lower rate, depreciating by 3.8% in 2001 and by 3.3% in 2002. However, the Tenge appreciated in value against the U.S. Dollar during 2003 to KZT 144.22:U.S.\$1.00 as of 31 December 2003 compared to KZT 155.60:U.S.\$1.00 as of 31 December 2002. As of 30 June 2004, the exchange rate was KZT136.45:U.S.\$1.00. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK’s exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan’s public finances and economy.

Implementation of Further Market-Based Economic Reforms

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

increasing the size of the country's tax base. Implementation of 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 new tax code in January 2002, laws relating to investments, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Moreover, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. 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. Any expansion of the circumstances in which withholding tax is applicable may give the Bank the right to redeem the Notes prior to their stated maturity.

It is expected that the tax legislation in Kazakhstan will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these provisions may affect the Bank's overall tax efficiency and may result in significant additional taxes becoming payable. Although the Bank will endeavour to minimise such exposures with tax planning, it cannot offer any assurance that additional tax exposure will not arise while the Notes are outstanding. Additional tax exposure could have a material adverse effect on the Bank's business, financial condition and results of operations.

On 1 January 2004, the Government implemented changes to the 2002 tax code, as a result of which the principal taxes are now a corporate income tax of 30%, a personal income tax of between 5% and 20% (the top rate was lowered from 30%) and a value added tax on goods and services of 15% (lowered from 16%), in addition to various property and other taxes. Payments from Kazakhstani sources to non-residents without permanent establishment in Kazakhstan are subject to withholding tax at rates of between 15% and 20% on dividends, interest and other types of income, unless reduced by an applicable double taxation treaty. However, Kazakhstan's tax system is still in a transitional phase and no assurance can be given that new taxes and duties or new tax rates will not be introduced during the tenor of the Notes.

Less Developed Securities Market

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

Risk Factors Relating to the Bank

Loan Portfolio Growth

The Bank's gross loan portfolio has increased rapidly in recent years, growing 21% in the first half of 2004 to KZT 210,282 million as of 30 June 2004 from KZT 174,418 million as of 31 December 2003, which in turn represented an increase of 31% from KZT 133,627 million as of 31 December 2002. The growth in the gross loan portfolio is attributable to an overall increase in the growth rate of lending activity, especially to small and medium size businesses and retail customers. Classified loans, being loans classified by the Bank as unsatisfactory, doubtful or loss, as a percentage of gross loans, increased from approximately 3.7% in 2001 to approximately 8.5% in 2002 and to approximately 11.1% in 2003. As of 30 June 2004, classified loans as a percentage of gross loans amounted to approximately 7.9%, compared to 6.7% as of 30 June 2003. See "Selected Statistical and Other Information—Lending Policies and Procedures".

The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued and improved monitoring by the Bank's management of credit quality and the adequacy of its provisioning levels and continued and anticipated improvement in the Bank's credit risk management programme. Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain a significant number of qualified personnel and to train new personnel appropriately, not only to monitor asset quality but also to ensure access to appropriately flexible funding sources which do not impose inappropriate constraints on the Bank's future funding strategy. In addition, the increased levels of lending to small and medium size businesses as well as to retail customers may increase further the credit risk of the Bank. Small and medium size businesses and retail customers typically have less financial strength, and negative developments in the Kazakhstani economy could affect these borrowers more significantly than large companies. This could result in higher levels of provisioning, as well as implementation and application of credit policies and provisioning procedures that differ from those used for large corporations. Failure to manage growth and development successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the Bank's financial condition and results of operations.

Risk Management

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

The Bank is also exposed to a number of market risks, including interest rate risk resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets and foreign currency exchange risk resulting from fluctuations in the prevailing foreign currency exchange rates. As discussed below in "—Relatively High Industry and Borrower Concentrations of the Bank's Loan Portfolio", the Bank has a significant exposure to companies operating in the agricultural and oil and gas sectors, which may also expose the Bank to commodity price risks.

Management of these risks also requires substantial resources. Currently, the Bank does not have a fully centralised database allowing it to automatically measure and monitor its exposure to liquidity, interest rate, foreign exchange and other market risks. The Bank is currently upgrading its information technology systems to allow it to better monitor and manage the risks discussed. Although the Bank believes that it has policies and procedures in place to measure, monitor and manage liquidity and market risks, maturity mismatches or any significant volatility in interest rate movements, exchange rates or commodity market prices could have a material adverse affect on the Bank's business, financial condition, results of operations, foreign currency positions and prospects of the Bank. In addition, there can also be no assurance that the improved information technology systems will be

developed according to schedule or that the new system will address all of the shortcomings of the current system.

Relatively High Industry and Borrower Concentrations of the Bank's Loan Portfolio and Financial Commitments and Contingencies

The Bank's loan portfolio shows relatively high industry and borrower concentration. Loans to the Bank's ten largest customers represented approximately 22% of the gross loan portfolio as of 30 June 2004, compared to 30% as of 31 December 2003. As of 30 June 2004, the Bank's exposure to the single largest borrower was KZT 11,134 million, constituting 5.3% of total gross loans to customers and as calculated for purposes of the NBK rules, the Bank's exposure to any single unrelated party was 21.25%. In March 2003, the Bank exceeded the threshold of 10% of capital established for loans from a single related party. The Bank has remedied this breach in 2004 and is currently in compliance with the requirements of the NBK. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy" and "Transactions with Related Parties".

In terms of industry concentration, as of 30 June 2004, the wholesale trading, the construction sector, the agriculture sector, the mining sector and the oil and gas sector accounted for 17%, 11%, 9%, 5% and 5%, respectively, of the Bank's gross loan portfolio. A downturn in any of these sectors may negatively impact the financial condition of the companies operating in such sectors and may result, among other things, in a decrease of funds that such corporate customers hold on deposit with the Bank, or a default, or a need for increased provisions, on their obligations to the Bank. Furthermore, management believes that the Bank's total exposure to the oil and gas sector is significantly higher than 5% as companies engaged in the oil and gas trading business are classified as trading companies and not oil and gas companies. The Bank will require continued emphasis on credit quality and the further development of financial and management controls to monitor this credit exposure, and the failure to achieve this could have a material adverse effect on the Bank's financial condition and results of operations.

In addition to the concentration of the Bank's loan portfolio, as of 30 June 2004, the Bank's top ten guarantees represented approximately 50% of the Bank's total financial guarantees and 42% of the total shareholders' equity. Similarly, the top ten letters of credit represented 80% of the Bank's total commercial letters of credit and 29% of the total shareholders' capital. See "Selected Statistical and Other Information—Guarantees and Other Contingent Liabilities".

Capital Adequacy and Need for Additional Capital

The Bank's business depends on the availability of adequate capital, both in terms of compliance with applicable capital adequacy ratios, and in respect of the conduct of its business. The Bank has generally maintained its capital at adequate levels, although on one occasion in 2002 it was found by the NBK to be in violation of the Tier 1 minimum capital adequacy ratio, which it subsequently remedied. As of 30 June 2004, the Bank's Tier 1 capital adequacy ratio was 6.0% which is the minimum required under the NBK rules. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy".

The rapid increase of the Bank's loan portfolio will require further equity capital to strengthen the Bank's capital base. Increased levels of debt financing from financial institutions and capital markets, including the offering of the Notes, will also require the Bank to raise additional capital to meet the required capital adequacy levels. On 14 September 2004, the Bank announced that it would offer an aggregate of 13,100,611 common shares in two separate lots through an auction process, at a minimum price of KZT 400 per common share. After the expiry of the ten-day notice period required under Kazakhstan law, the auction took place and was completed on 27 September 2004, when the Bank received gross proceeds of approximately KZT 5.9 billion (U.S.\$4.3 million) from the issue of all 13,100,611 common shares offered. All new shares were subscribed for by ALMEX LLP, the principal and controlling shareholder of the Bank. As of 27 September 2004, ALMEX LLP owned approximately 81% of the voting shares of the Bank. See "Principal Shareholders". The Bank needed to raise the additional capital prior to the issue of the Notes offered hereby in order to be able to use the funds raised in the offering of the Notes as described in "Use of Proceeds" while remaining compliant with its capital adequacy requirements under local rules. Furthermore, even with this proposed capital increase, the Bank will need additional capital in the future to continue to grow its business and remain compliant with its capital adequacy requirements. The principal shareholder of the Bank has indicated its willingness to participate in an additional capital issue during 2005. However, the existing shareholders of the Bank have no obligation to inject additional capital in the Bank and there can be no assurance that this capital increase will take place as scheduled, or at all,

or that it will take place on commercially acceptable terms. The failure to raise capital as planned could substantially limit the Bank's ability to increase the size of its loan portfolio in compliance with applicable capital adequacy requirements and may result in breach of the capital adequacy rules and breach of covenants relating to its capital adequacy contained in certain of its outstanding financing documents. Any such events could have a material adverse effect on the Bank's prospects, business, financial condition and results of operations.

Exposure to the State Treasury and the NBK

Government securities, such as treasury bills, Government bonds, short-term notes issued by the NBK and Eurobonds issued by the Government, represent the most significant part of the Bank's total investments in securities (76% of total investments as of 30 June 2004, over 89% at the end of 2003, 85% at the end of 2002 and 90% at the end of 2001) and the significant part of the Bank's total assets (14% of total assets as of 30 June 2004, 18% at the end of 2003, 14.4% at the end of 2002 and 11% at the end of 2001). Although neither the Government nor the NBK has failed to pay its obligations under such securities, there can be no assurance that, if either failed to do so in the future, this would not adversely affect the business, financial condition or results of operations of the Bank.

Competition

Although the Bank believes that it is well positioned to compete in the Kazakhstani banking sector due to its extensive branch network and customer deposit base, it faces competition from a number of existing and prospective participants in the Kazakhstani banking sector. The Bank is subject to competition from both domestic and foreign banks. As of 30 June 2004, there were a total of 35 banks, excluding the NBK and the Development Bank of Kazakhstan ("DBK"), licenced to operate in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. Of these banks, a small number of banks dominate the banking industry in Kazakhstan. According to the NBK, as of 31 December 2003, the Bank, together with its main competitors JSC Kazkommertsbank ("Kazkommertsbank") and JSC Bank TuranAlem ("Bank TuranAlem"), held approximately 73% of the total loan portfolio and 60% of total bank assets in Kazakhstan. In addition, the Bank is experiencing increased competition from smaller banks in certain rural areas where it has traditionally had a strong market share due to its extensive branch network. The Bank also expects that DBK, established in 2001, whilst not licenced to accept deposits or provide corporate settlement services, may become an important competitor in the corporate lending sector. See "The Banking Sector in Kazakhstan".

Regional Expansion

According to its strategy, the Bank plans to further expand its revenue base through selective regional expansion. In furtherance of this strategy, in April 2004, the Bank acquired a small regional Russian bank in the Chelyabinsk industry region bordering Kazakhstan and expects to complete an acquisition of a small regional bank in Kyrgyzstan during the last quarter of 2004. Although the Bank monitors closely the risks associated with its foreign operations, this international presence exposes the Bank to risks the Bank would not face as a purely domestic bank, including certain regulatory risks, compliance risks, foreign currency exchange risk and failure to market adequately to potential customers in other countries. To the extent the Bank expands its international operations further, it will be exposed to additional risks. Any failure to manage such risks may cause the Bank to incur increased liabilities in respect of such operations. For more information on the recent acquisitions discussed above, see "The Bank—Subsidiaries".

Dependence on the Ability to Recruit and Retain Key Personnel

To meet business challenges and retain the effectiveness of its operations, the Bank must continue to recruit and retain appropriately skilled personnel. The Bank relies on its senior management for the implementation of its strategy and operation of its day-to-day activities. As competition for skilled personnel, especially on the senior management level, is intense, the Bank seeks to further develop its compensation and to take other measures to attract and motivate skilled personnel. If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business and results of operations could be adversely affected. For a discussion on recent changes in the Bank's management, see "Management—General".

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and capital adequacy of banks operating in Kazakhstan in conformity with the recommendations of

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

Reform of the International Capital Adequacy Framework

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

Risk Factors Relating to the Notes

Taxation in Kazakhstan

Tax legislation in Kazakhstan currently levies an income tax of 20% on gains from the sale of securities issued by Kazakhstan companies where such securities are not listed on the official "A" or "B" lists of the KASE. Such income tax would be applicable to holders of securities (including the Notes until they are listed on KASE), regardless of whether the holder is resident in Kazakhstan for tax purposes, unless reduced by an applicable double tax treaty. Under the terms of double tax treaties Kazakhstan has concluded with certain countries, including, among others, the United States, United Kingdom, France, Germany and the Netherlands, gains made by tax residents in such countries are not subject to such Kazakh income tax. Holders who are resident for tax purposes in other countries, however, would be subject to such tax.

Under the terms of the current legislation, holders that realise such a gain and do not qualify for an exemption under the appropriate double tax treaty are obliged to file a tax declaration with the Kazakhstani tax authorities. There is, however, uncertainty as to how the Kazakhstani tax authorities would assess such tax on non-resident foreign holders of the Notes. Prospective purchasers and holders of Notes should consult their own professional advisers as to the tax consequences of them holding or transferring the Notes.

Upon the issue of the Notes, the Bank intends to apply to the KASE for listing of the Notes. However, there can be no assurance that the KASE will list the Notes or, if a listing is obtained, that such listing can be maintained by the Bank.

In addition, as discussed in "Taxation—Kazakhstan Taxation", payments of interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15%. The Bank has agreed to pay additional amounts in respect of such withholding. See "Terms and Conditions of the Notes—Condition 9". The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts in Kazakhstan and there may be some doubt as to whether they would enforce such an agreement. The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at

the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See “Terms and Condition of the Notes—Condition 6(b)”.

Credit Rating

Outstanding Eurobonds of the Republic of Kazakhstan are rated Baa3 by Moody’s and BBB- by Standard & Poor’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank has received a long-term rating of “BB-” from Fitch, “Ba1” from Moody’s and “B+” from Standard and Poor’s. Any change in the credit rating of either the Bank or the Republic of Kazakhstan could affect the trading price of the Notes.

Absence of Trading Market for the Notes

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

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. Accordingly the Notes may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank.

USE OF PROCEEDS

The net proceeds to the Bank from the sale of the Notes are expected to be U.S.\$196,182,480. Such proceeds will be used by the Bank to fund loans to its customers and for other general corporate purposes.

CAPITALISATION

The following table sets out the consolidated capitalisation of the Bank as of 30 June 2004 (i) on an actual basis and (ii) as adjusted to reflect the issuance of the Notes in this offering. This information should be read in conjunction with “Use of Proceeds”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Selected Consolidated Financial Data” and the Bank’s interim condensed consolidated financial statements, and related notes thereto, included elsewhere in this Offering Circular.

	As of 30 June 2004			
	Actual		As adjusted	
	<i>(U.S.\$ thousands)⁽¹⁾</i>	<i>(KZT millions)</i>	<i>(U.S.\$ thousands)⁽¹⁾</i>	<i>(KZT millions)</i>
Liabilities				
Senior long-term liabilities ⁽²⁾	402,059	54,861	602,059	82,151
Subordinated long-term debt	61,136	8,342	61,136	8,342
Total long-term liabilities	463,195	63,203	663,195	90,493
Shareholders’ equity				
Share capital	72,532	9,897	72,532	9,897
Additional paid-in capital	16,057	2,191	16,057	2,191
Treasury stock	(123)	(17)	(123)	(17)
Reserves	2,462	336	2,462	336
Retained earnings	92,751	12,656	92,751	12,656
Total shareholders’ equity	183,679	25,063	183,679	25,063
Total capitalisation	646,874	88,266	846,874	115,556

(1) See “Presentation of Financial and Certain Other 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—Monetary and Financial System—Exchange Rates” for historical exchange rate data.

(2) Senior long-term liabilities represent liabilities that fall due after one year and are not subordinated. Subordinated long-term debt represents subordinated debt that falls due after one year.

In addition to long-term liabilities, the Bank had short-term liabilities (including subordinated debt) maturing within one year of KZT 200,238 million (U.S.\$1,467 million) as of 30 June 2004. After 30 June 2004, the Bank issued KZT 5 billion floating rate subordinated bonds maturing in 2010 under its Tenge denominated subordinated bond programme in July 2004. In addition, the Bank extended its existing trade finance facility agreement arranged by Deutsche Bank London and Raiffeisen Zentralbank Österreich Aktiengesellschaft on 7 July 2004 for one additional year and, in connection with the extension, increased the principal amount available under the facility from U.S.\$150 million to U.S.\$200 million. This facility was fully drawn down in July 2004.

On 14 September 2004, the Bank announced that it would offer an aggregate of 13,100,611 common shares in two separate lots through an auction process, at a minimum price of KZT 400 per common share. The auction took place and was completed on 27 September 2004, when the Bank received gross proceeds of approximately KZT 5.9 billion (U.S.\$4.3 billion) from the issue of all 13,100,611 common shares offered. See also “Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital”.

Save as disclosed above, there has been no material change in the Bank’s capitalisation since 30 June 2004.

SELECTED CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data presented below as of and for the three years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements for the six-month period ended 30 June 2004 and 2003 have been derived from, should be read in conjunction with, and are qualified in their entirety by, the Bank's audited consolidated financial statements, including the notes thereto, contained elsewhere in this Offering Circular.

The Bank's audited consolidated financial statements, including the notes thereto, as of and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements, including the notes thereto, as of and for the six-month periods ended 30 June 2004 and 2003 have been prepared in accordance with IFRS. The Bank's audited consolidated financial statements as of and for the years ended 31 December 2003, 2002 and 2001 and the interim condensed consolidated financial statements for the six-month period ended 30 June 2004 and 2003 were audited by Ernst & Young, whose audit reports for the respective periods is included elsewhere in this Offering Circular. Interim results are not necessarily indicative of the results which may be expected for any other interim period or for the full year.

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

	Six Months ended 30 June		Years ended 31 December			
	2004	2003	2003	2003	2002	2001
	<i>(KZT millions)⁽¹⁾</i>		<i>(U.S.\$ millions)⁽¹⁾⁽²⁾ (Unaudited)</i>	<i>(KZT millions)⁽¹⁾</i>		
INCOME STATEMENT DATA						
Interest income	14,089	11,693	161.8	24,197	15,324	10,985
Interest expense	(5,584)	(4,103)	(61.4)	(9,184)	(7,517)	(5,121)
Net interest income before impairment charge	8,505	7,590	100.4	15,013	7,807	5,864
Impairment charge.....	(2,949)	(2,954)	(27.7)	(4,136)	(6,650)	(4,072)
Net interest income.....	5,556	4,636	72.7	10,877	1,157	1,792
Fees and commission, net.....	3,708	2,851	43.9	6,564	4,184	3,106
Non-interest income	1,323	1,019	18.8	2,818	5,831	2,355
Non-interest expense.....	(5,969)	(5,529)	(80.1)	(11,987)	(8,999)	(7,180)
Income before income tax expense..	4,618	2,977	55.3	8,272	2,173	73
Income tax expense.....	(627)	(555)	(5.2)	(774)	(302)	(42)
Net income before minority interest	3,991	2,422	50.1	7,498	1,871	31
Minority interest.....	41	(40)	(0.2)	(38)	—	—
Net Income	4,032	2,382	49.9	7,460	1,871	31
Basic earnings per share	52.0	30.0	0.6	96.0	27.2	0.6
Weighted average number of shares:						
Basic.....	74,065,274	74,490,245	74,073,617	74,073,617	54,241,298	54,226,000
Dividends accrued per share ⁽³⁾	7.1	6.8	0.1	14.3	17.4	—

(1) Except for the share and per share data.

(2) See "Presentation of Financial and Certain Other 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—Monetary and Financial System—Exchange Rates" for historical exchange rate data.

(3) Consists of dividends accrued on the Bank's preferred shares, which carry a cumulative fixed annual dividend of a minimum of KZT 15.75 per preferred share. The Bank did not pay any dividends on its common shares in 2003, 2002 and 2001.

	As of 30 June		As of 31 December		
	2004	2003	2003	2002	2001
	(KZT millions)	(U.S.\$ millions) ⁽¹⁾ (Unaudited)	(KZT millions)		
BALANCE SHEET DATA					
Assets					
Cash and cash equivalents	19,569	93.0	13,415	17,688	12,408
Obligatory reserves	5,471	36.1	5,212	4,525	4,663
Trading securities	33,829	276.8	39,914	23,507	—
Amounts due from credit institutions....	1,822	50.6	7,291	—	50
Investment securities	19,280	67.1	9,675	8,766	14,751
Loans to customers	197,750	1,136.4	163,888	125,816	83,664
Current tax assets	86	1.4	200	—	—
Property and equipment, net.....	7,176	50.8	7,322	7,046	6,817
Other assets	3,700	18.0	2,606	1,934	1,972
Total assets.....	288,683	1,730.2	249,523	189,282	124,325
Liabilities, shareholders' equity and minority interest					
Amounts due to the Government	797	3.7	529	449	102
Amounts due to credit institutions	64,360	429.0	61,877	32,107	13,712
Amount due to customers.....	186,738	1,073.7	154,846	136,918	100,381
Dividends payable	175	2.5	366	394	3
Tax liabilities	259	1.3	182	—	9
Provisions	1,160	6.4	920	60	98
Other liabilities	1,576	5.4	779	698	752
Subordinated debt securities issued.....	8,377	59.5	8,583	4,469	2,365
Total liabilities.....	263,442	1,581.5	228,082	175,095	117,422
Minority interest.....	178	1.4	203	—	—
Total shareholders' equity.....	25,063	147.3	21,238	14,187	6,903
Total liabilities, shareholders' equity and minority interest.....	288,683	1,730.2	249,523	189,282	124,325

(1) See "Presentation of Financial and Certain Other 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—Monetary and Financial System—Exchange Rates" for historical exchange rate data.

	Six months ended	Years ended 31 December		
	30 June	2003	2002	2001
	2004			
SELECTED FINANCIAL RATIOS AND ECONOMIC DATA				
Profitability Ratios⁽¹⁾				
Return on shareholders' equity	32.2% ⁽¹⁰⁾	35.1%	13.2%	0.5%
Return on average shareholders' equity	34.8% ⁽¹⁰⁾	42.1%	17.7%	0.5%
Return on average assets ⁽²⁾	3.0% ⁽¹⁰⁾	3.4%	1.2%	0.0%
Net interest margin ⁽³⁾	7.2% ⁽¹⁰⁾	7.93%	6.1%	6.5%
Net interest spread ⁽⁴⁾	7.3% ⁽¹⁰⁾	8.18%	6.8%	7.3%
Non-interest expense/net interest income before impairment charge plus non-interest income	60.7%	66.2%	66.0%	87.4%
Non-interest expense as a percentage of net interest income before impairment charge	70.2%	76.4%	115.3%	122.4%
Non-interest expense as a percentage of average total assets	4.4% ⁽¹⁰⁾	5.2%	5.7%	6.3%
Loan Portfolio Quality⁽⁵⁾				
Classified loans/gross loans ⁽⁶⁾	7.9%	11.1%	8.5%	3.7%
Non-performing loans/gross loans ⁽⁷⁾	2.5%	1.9%	0.5%	1.3%
Allowance for loan losses/gross loans	6.0%	6.0%	5.9%	4.3%
Allowance for loan losses/classified loans ⁽⁶⁾	75.3%	54.3%	68.5%	116%
Allowance for loan losses/non-performing loans ⁽⁷⁾	237.5%	325.6%	1,181.3%	329.2%
Balance Sheet Ratios and Capital Adequacy				
Customer deposits as a percentage of total assets	64.7%	62.1%	72.3%	80.7%
Total net loans as a percentage of total assets	68.5%	65.7%	66.5%	67.3%
Total shareholders' equity as a percentage of total assets	8.7%	8.5%	7.5%	5.6%
Liquid assets as a percentage of total assets ⁽⁸⁾	27.7%	30.3%	28.8%	25.6%
Risk weighted capital adequacy ratio ⁽⁹⁾	12.3%	14.6%	13.0%	10.7%
Economic Data				
Period end exchange rate (KZT/U.S.\$)	136.45	144.22	155.60	150.20
Average exchange rate for period (KZT/U.S.\$)	138.42	149.58	153.28	146.74
Inflation rate (CPI)	6.9	6.4%	6.6%	6.4%
GDP growth (real)	9.1	9.2%	9.8%	13.5%

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

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

(3) Net interest margin comprises net interest income before impairment charge as a percentage of average earning assets.

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

(5) Calculated using gross loan balances excluding recognised interest.

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

(7) Non-performing loans comprise loans where recognition of interest has been suspended.

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

(9) Calculated in accordance with BIS standards.

(10) Annualised.

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

The following discussion should be read in conjunction with the audited consolidated financial statements and the interim condensed consolidated financial statements, including the related notes thereto, prepared in accordance with IFRS and included elsewhere in this Offering Circular. This discussion includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in "Risk Factors" appearing elsewhere in this Offering Circular.

Overview

According to the statistics published by the NBK, Halyk Bank is the largest bank in Kazakhstan in terms of total customer deposits, which amounted to KZT 186,738 million as of 30 June 2004, and the Bank's retail deposits of KZT 107,428 million represented approximately 26% of the total market share as of 30 June 2004. Halyk Bank is also the third largest bank in Kazakhstan according to statistics published by the NBK, based on assets of KZT 289 billion as of 30 June 2004. In 2003, the Bank's net income amounted to KZT 7,460 million, compared to KZT 1,871 million in 2002. For the six-month period ended 30 June 2004, the Bank had total net income of KZT 4,032 million compared to KZT 2,382 million for the six-month period ended 30 June 2003. The Bank's major sources for its operations are customer deposits, which accounted for approximately 68% of its total funding in 2003.

External Factors Affecting the Bank's Results of Operations

Kazakhstani Economy

Substantially all of the Bank's operations and customers are located in Kazakhstan. Accordingly, the Bank's financial condition and results of operations are dependent upon economic conditions prevailing in Kazakhstan. The Kazakhstani economy has experienced growth during the past years, but any significant decline in its growth could adversely affect consumer and corporate confidence, which in turn could have a negative impact on the Bank's financial condition and results of operations. In addition, due to the relatively high industry concentration of its corporate customer base, the Bank is exposed to adverse changes in companies operating in the oil and gas sector, the agriculture sector and the sector. As of 30 June 2004, the wholesale trading, the construction sector, the agriculture sector, the mining sector and the oil and gas sector accounted for 17%, 11%, 9%, 5% and 5%, respectively, of the Bank's loan portfolio. A downturn in any of these sectors may result, among other things, in a decrease of funds that such corporate customers hold on deposit with the Bank, or a default, or a need for increased provisions, on their obligations to the Bank. See "Risk Factors—Risk Factors Relating to the Bank—Relatively High Industry and Borrower Concentrations of the Bank's Loan Portfolio".

The recent growth of the Kazakhstani economy has generated a demand for financial services from an increasing number of individuals in all income segments of the population and from an increasing number of companies. The Bank's business strategy is to target the growing demand for banking products and services to small and medium size businesses. The Bank's strategy also aims to increase lending and cross selling to all customer segments. While management believes that this strategy has the potential to provide higher net interest margins, it also has the potential to expose the Bank to a higher degree of credit risk. The Bank continuously seeks to improve the quality of its loan portfolio and risk management procedures through the adherence of its loan approval procedures and credit management policies. See "Risk Factors—Risk Factors Relating to the Bank—Loan Portfolio Growth" and "Risk Factors—Risk Factors Relating to the Bank—Risk Management".

Interest Rates

Interest rates earned and paid on the Bank's assets and liabilities reflect, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the NBK and movements in long-term real rates. Because the Bank's liabilities generally reprice faster than its assets, changes in the rate of inflation or short-term rates in the economy are reflected in the rates of interest paid by the Bank on its liabilities before such interest rates are reflected in the rates of interest earned by the Bank on its assets. Therefore, when short-term interest rates fall, the Bank's interest margin is positively impacted, but when short-term rates increase, the Bank's interest margin is negatively affected. An increase in long-term rates has a positive effect on the Bank's net interest margin, because the Bank's interest-earning assets generally have a longer duration than its interest-bearing liabilities.

Taxation

Kazakhstani tax regulations do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. From 2001 to 2003, Kazakhstan was the only jurisdiction in which the Bank's income was taxable. Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional Governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and other taxes. Implementing regulations are often unclear or non-existent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within Government ministries and organisations; thus creating uncertainties and areas of conflict. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems. Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues. See "Risk Factors—Risk Factors Relating to the Republic of Kazakhstan—Underdevelopment and Evolution of Legislative and Regulatory Framework".

The current statutory corporate income tax rate in Kazakhstan is 30%. The Bank's effective tax rate was approximately 9%, 14% and 58% in 2003, 2002 and 2001, respectively. The Bank's effective tax rate as of 30 June 2004 was approximately 13.6%. The principal reason for the current low effective tax rate is that income from long-term Government obligations, certain financing instruments, mortgages having maturity over three years and loans granted to corporations for certain investment projects having maturity of over three years are exempted from income tax in Kazakhstan. Although management does not currently believe that there will be any changes in the Kazakhstani tax regime in the near future with this regard, there can be no assurance that the position of the Government will not change in the future.

Critical Accounting Policies

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

The Bank's management believes that the following critical significant accounting policies require more critical judgments or estimates or involve a greater degree of complexity in application of accounting policies that affect the Bank's financial condition and results of operations:

Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of the related loans issued, investment securities held-to-maturity and other financial assets, which are carried at cost and amortised. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realise the value of the financial instrument.

These allowances, in particular allowances for loan losses, involve significant estimates and are regularly evaluated by the Bank's management for adequacy. The allowances are based on management's own loss experience and judgement of the level of losses that will most likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the audited consolidated financial statements and the interim condensed consolidated financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a

position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods. See “Selected Statistical and Other Information—Loan Classification and Provisioning Policy”.

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

Deferred Income Taxes

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Future taxable profit could be materially different than amounts estimated, in which case the carrying amount would need to be adjusted.

Valuation of Property and Equipment

The carrying amounts of the property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the estimated recoverable amount, assets are written down, and the impairment amount is included in administrative and operating expenses. Factors that could affect the estimation include, among others, adverse economic trends or negative industry developments, and changes in the manner or use of assets.

Valuation of Trading and Investment Securities

Trading and investment securities are initially recognised at cost, which is the fair value of the consideration paid, net of any transaction costs incurred. Investment securities held-to-maturity are subsequently measured at amortised cost using effective interest method, with allowance for impairment estimated on a case-by-case method. Trading securities and investment securities available-for-sale are subsequently measured at fair value, based on market values as of the date of the balance sheet.

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices for trading securities are not available, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management’s estimates of the amounts that can be realised. When no information on market prices for investment securities available-for-sale or similar instruments is available, the fair value of debt securities with fixed maturities is estimated as the discounted future cash flows using current interest rates and securities that do not have fixed maturities are stated at cost, less allowance for diminution in value.

Results of Operations For the Six-Month Periods ended 30 June 2004 and 2003

Net Income

The Bank’s net income is affected by several factors, including: the volume of business; interest margins; changes in the mix of assets and liabilities; provisions; the ability to generate non-interest income; level of operating expenses; and taxes. The Bank’s net income for the six-month period ended 30 June 2004 was KZT 4,032 million, compared to KZT 2,382 million for the six-month period ended 30 June 2003.

The increase of KZT 1,650 million, or 69%, in reported net income for the six-month period ended 30 June 2004 compared to the six-month period ended 30 June 2003 was primarily attributable to a KZT

2,396 million increase in interest income and, to a lesser extent, a KZT 889 million increase in fees and commissions and a KZT 305 million increase in non-interest income, which was partially offset by a KZT 1,513 million increase in interest expense and a KZT 440 million increase in non-interest expense.

Interest Income

The following table sets out the principal components of the Bank's interest income for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Interest on loans to customers.....	12,169	10,274
Interest on securities	1,439	1,362
Interest on deposits with other banks	481	57
Total	<u>14,089</u>	<u>11,693</u>

The following table sets out the effective average annual interest rates payable to the Bank on its interest-earning assets for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(%)</i>	
Loans to customers, total.....	13.51	13.18
KZT	15.08	17.45
Foreign currency	12.04	11.67
Loans to other banks, total.....	3.61	5.67
KZT	—	—
Foreign currency	3.61	5.67
Securities, total	6.26	7.34
KZT	5.78	6.87
Foreign currency	7.15	8.63

Interest income increased 20% for the six-month period ended 30 June 2004 to KZT 14,089 million from KZT 11,693 million for the six-month period ended 30 June 2003, reflecting mainly a KZT 1,894 million, or a 18%, increase in interest income on loans to customers and, to a lesser extent, a KZT 424 million increase in interest income on deposits with other banks and a KZT 77 million, or a 6%, increase in interest income on securities.

Interest income on loans to customers increased for the six-month period ended 30 June 2004 to KZT 12,169 million from KZT 10,274 million for the six-month period ended 30 June 2003. The increase in interest income on loans to customers was primarily attributable to an increase in the Bank's average loan portfolio and, to a lesser extent, a slight increase in the average interest rates payable to the Bank on its loan portfolio. The Bank's average loan portfolio increased to KZT 192,350 million for the six-month period ended 30 June 2004 from KZT 145,275 million for the six-month period ended 30 June 2003. The increase in the average loan portfolio was attributable to an overall increase of lending activity, especially on long-term loans to corporate customers and loans to retail customers under the "Ipoteka Lights" programme, a promotional mortgage lending product offered by the Bank to its retail customers. Average interest rates earned on the loan portfolio increased slightly from 13.18% for the six-month period ended 30 June 2003 to 13.51% for the six-month period ended 30 June 2004. This increase in average interest rates resulted from an increase in the proportion of foreign currency loans in the loan portfolio, which earned a higher average interest rate as compared to Tenge denominated loans.

Interest on securities, principally treasury bills, Government bonds, short-term notes issued by the NBK and Eurobonds issued by the Government, increased 6% for the six-month period ended 30 June 2004 to KZT 1,439 million from KZT 1,362 million for the six-month period ended 30 June 2003. The increase resulted mainly from an increase in the Bank's average securities portfolio, which was partially offset by a decrease in interest rates earned on the securities portfolio. The Bank's average securities portfolio increased to KZT 51,349 million for the six-month period ended 30 June

2004 from KZT 32,858 million for the six-month period ended 30 June 2003 of as a result of increased investments in NBK notes, U.S. Treasury bills, treasury bills of Ministry of Finance and corporate bonds. Average interest rates earned on the securities portfolio decreased from 7.34% for the six-month period ended 30 June 2003 to 6.26% for the six-month period ended 30 June 2004. This decrease resulted mainly from a decline in market interest rates generally.

Interest on deposits with other banks increased by KZT 424 million for the six-month period ended 30 June 2004 to KZT 481 million from KZT 57 million for the six-month period ended 30 June 2003. The increase was mainly attributable to increased levels of deposits with other banks. As of 30 June 2004, the Bank's deposits with local and CIS banks amounted to KZT 5,658 million, whereas as of 30 June 2003, these deposits amounted to KZT 596 million.

Interest Expense

The following table sets out the principal components of the Bank's interest expense for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Interest on deposits from customers.....	3,775	3,115
Interest on deposits and loans from credit institutions.....	1,394	753
Interest on debt securities.....	415	235
Total	5,584	4,103

The following table sets out the average cost of the Bank's interest-bearing liabilities for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Deposit from customers, total.....	4.70	4.59
KZT	4.36	4.11
Foreign currency	5.21	5.13
Deposits and loans from credit institutions, total	2.2	2.3
KZT	1.5	2.2
Foreign currency	2.2	13.8
Debt securities, total.....	4.7	4.9
KZT	4.6	0
Foreign currency	4.9	3

Interest expense increased 36% for the six-month period ended 30 June 2004 to KZT 5,584 million from KZT 4,103 million for the six-month period ended 30 June 2003. Interest expense increased mainly due to an increase in interest paid on deposits from customers and loans from credit institutions.

Interest expense on deposits from customers increased 21% for the six-month period ended 30 June 2004 to KZT 3,775 million from KZT 3,115 million for the six-month period ended 30 June 2003. The increase resulted mainly from the growth in volume of the customer term deposits. Average interest rates paid on deposits from customers increased slightly from 4.59% for the six-month period ended 30 June 2003 to 4.70% for the six-month period ended 30 June 2004. KZT deposits grew from KZT 42,083 million for the six-month period ended 30 June 2003 to KZT 114,972 million for the six-month period ended 30 June 2004. Average effective interest rates paid on these deposits also increased from 4.11% to 4.36%, respectively. Foreign currency deposits decreased from KZT 120,622 million for the six-month period ended 30 June 2003 to KZT 71,766 million for the six-month period ended 30 June 2004. Average effective interest paid on foreign currency deposits increased slightly from 5.13% to 5.21%.

Interest expense on deposits and loans from credit institutions increased 85% for the six-month period ended 30 June 2004 to KZT 1,394 million from KZT 753 million for the six-month period ended 30 June 2003. This increase was primarily attributable to increased levels of deposits and borrowings from credit institutions. The volume of loans in foreign currencies increased during the second half of

2003 to KZT 57,680 million as a result of which interest paid on these loans increased significantly for the first half of 2004.

Interest paid on debt securities increased 77% for the six-month period ended 30 June 2004 to KZT 415 million as compared to KZT 235 million for the six-month period ended 30 June 2003. This was primarily attributable to the issue of subordinated bonds in the amount of KZT 4.5 billion in June 2003.

Net Interest Income before Impairment

Net interest income before impairment charge increased 12% for the six-month period ended 30 June 2004 to KZT 8,505 million from KZT 7,590 million for the six-month period ended 30 June 2003.

The Bank's net interest margin, defined as net interest income before the impairment charge as a percentage of average interest earning assets, was 7.19% for the six-month period ended 30 June 2004, compared to 8.71% for the six-month period ended 30 June 2003. The decrease in the net interest margin was mainly attributable to lower than average interest rates earned on the Bank's interest-earning assets.

Impairment Charge

For the six-month period ended 30 June 2004, the Bank's impairment charge amounted to KZT 2,949 million, compared to KZT 2,954 million for the six-month period ended 30 June 2003.

Fees and Commissions

Net fee and commission income increased 30% for the six-month period ended 30 June 2004 to KZT 3,708 million from KZT 2,851 million for the six-month period ended 30 June 2003.

Fee and Commission Income

The following table provides information on fee and commission income for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Transfer operations.....	1,075	736
Cash operations	694	458
Letters of credit and guarantees issued	547	377
Debit/credit cards.....	501	353
Servicing utility payments.....	286	222
Purchase – sale of currencies	260	282
Fees for banking services on pension payments.....	236	234
Servicing customer accounts.....	69	46
Custodian.....	33	21
Trust operations.....	—	97
Factoring.....	—	66
Other	368	320
Total	4,069	3,212

Fee and commission income increased 26.7% for the six-month period ended 30 June 2004 to KZT 4,069 million from KZT 3,212 million for the six-month period ended 30 June 2003. The increase was primarily attributable to increasing volumes of debit/credit card operations, transfer operations and cash operations. These increases were partly offset by decreases in fees and commissions on trust operations and factoring.

Fee and Commission Expense

The following table sets out information on the Bank's fee and commission expense for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Debit/credit cards.....	157	103
Foreign currency operations.....	95	147
Transfer operations.....	38	33
Custodian services.....	27	5
Nostro and loro accounts.....	24	25
Cash operations.....	6	18
Letters of credit and guarantees.....	3	5
Other.....	12	25
Total.....	<u>362</u>	<u>361</u>

Fee and commission expense increased slightly for the six-month period ended 30 June 2004 to KZT 362 million from KZT 361 million for the six-month period ended 30 June 2003. The increase in fees and commissions for debit/credit cards from KZT 103 million for the six-month period ended 30 June 2003 to KZT 157 million for the six-month period ended 30 June 2004 was mainly attributable to the increase in the volume of transactions. The decrease in fees and commissions from foreign currency operations from KZT 147 million for the six-month period ended 30 June 2003 to KZT 95 million for the six-month period ended 30 June 2004 was mainly attributable to the cancellation of a 1% duty that was charged on currency imports in 2003.

Non-Interest Income

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

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Gains less losses from trading securities.....	17	301
Gains less losses from available-for-sale securities.....	45	42
Gains less losses from foreign currencies		
Dealing.....	529	267
Translation differences.....	330	70
Dealing profits.....	2	(3)
Other income.....	400	342
Total.....	<u>1,323</u>	<u>1,019</u>

Gains From Trading Securities and Available-for-Sale Securities

Trading securities are securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin. Realised and unrealised gains and losses resulting from operations with trading securities are recognised as gains less losses from trading securities.

Net gains from trading securities decreased 94% to KZT 17 million for the six-month period ended 30 June 2004 from KZT 301 million for the six-month period ended 30 June 2003.

Net gains from available-for-sale securities increased slightly to KZT 45 million for the six-month period ended 30 June 2004 from KZT 42 million for the six-month period ended 30 June 2003. This increase was mainly attributable to increased net gains from available-for-sale securities due to the positive changes in market prices of the Bank's available-for-sale securities portfolio.

Gains from Foreign Currencies

Gains from dealings in foreign currencies increased to KZT 529 million for the six-month period ended 30 June 2004 from KZT 267 million for the six-month period ended 30 June 2003. The increase was attributable to increasing volumes of dealing activity.

Gains arising from the translation of foreign currency denominated assets and liabilities are reported in the income statement as gains less losses from foreign currencies, which amounted to a gain of KZT 330 million for the six-month period ended 30 June 2004, compared to a gain of KZT 70 million for the six-month period ended 30 June 2003. This increase was primarily attributable to income received from changes in foreign exchange rates, mainly U.S. Dollars.

Dealing Profits

Dealing profits increased to a profit of KZT 2 million for the six-month period ended 30 June 2004 from a loss of KZT 3 million for the six-month period ended 30 June 2003. The increase was primarily attributable to sales of gold that were purchased by the Bank in 2003 and sold during the first half of 2004.

Other Income

Other income consists principally of gains from disposal of fixed assets, fines and penalties and other income from non-banking activities. Other income increased 17% for the six-month period ended 30 June 2004 to KZT 400 million from KZT 342 million for the six-month period ended 30 June 2003. The increase was mainly attributable to income from non-banking activities for providing consulting services.

Non-Interest Expense

Non-interest expense increased 8% for the six-month period ended 30 June 2004 to KZT 5,969 million from KZT 5,529 million for the six-month period ended 30 June 2003. The following table sets out the composition of the Bank's non-interest expense for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	<i>(KZT millions)</i>	
Salaries and benefits	3,116	2,339
Depreciation and amortisation	515	444
Taxes other than income tax	389	329
Administrative and operating expenses	1,731	1,530
Other (provisions) reversal	218	887
Total	<u>5,969</u>	<u>5,529</u>

The increase in non-interest expenses was mainly due to an increase in salaries. Administrative and operating expenses increased due to increased use of audit and consulting services, expenses incurred with regard to subsidiaries and increased costs relating to obligatory insurance of retail deposits.

Salaries and Benefits

Salaries and benefits costs increased 33% for the six-month period ended 30 June 2004 to KZT 3,116 million from KZT 2,339 million for the six-month period ended 30 June 2003. The increase was primarily attributable to an increase in salaries since March 2004.

The following table sets out the composition of the Bank's salaries and benefits for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	(KZT millions)	
Salaries and bonuses.....	2,313	1,522
Social security costs.....	317	341
Other payments.....	486	476
Salaries and benefits, total.....	<u>3,116</u>	<u>2,339</u>

Depreciation and Amortisation

Depreciation and amortisation expenses increased 16% for the six-month period ended 30 June 2004 to KZT 515 million from KZT 444 million for the six-month period ended 30 June 2003. The increase was attributable to an increase in expenses relating to the purchase of intangible assets and computer hardware.

Taxes other than Income Taxes

Taxes other than income taxes increased 18% for the six-month period ended 30 June 2004 to KZT 389 million from KZT 329 million for the six-month period ended 30 June 2003. The increase was largely attributable to the fact that during the first half of 2004 the Bank had higher VAT payments relating to goods and services than during the first half of 2003.

Administrative and Operating Expenses

Administrative and operating expenses increased 13% for the six-month period ended 30 June 2004 to KZT 1,731 million from KZT 1,530 million for the six-month period ended 30 June 2003. The following table sets out the composition of the Bank's administrative and operating expenses for the periods indicated:

	Six Months ended 30 June	
	2004	2003
	(KZT millions)	
Insurance of deposits.....	284	160
Repair and maintenance.....	223	145
Communication.....	251	238
Advertisement.....	127	178
Stationeries.....	127	188
Business trip expenses.....	112	115
Professional services.....	74	20
Security.....	72	80
Transportation.....	62	53
Rent.....	68	63
Charity.....	46	73
Loss from disposal of premises and equipment.....	39	4
Trainings.....	13	8
Fines and penalties.....	3	1
Social events.....	2	19
Insurance expense.....	2	0
Other.....	226	185
Total.....	<u>1,731</u>	<u>1,530</u>

Other Provisions

Other provisions includes provisions on contingent liabilities. Other provisions decreased from KZT 887 million for the six-month period ended 30 June 2003 to KZT 218 million for the six-month period ended 30 June 2004. This decrease resulted mainly from the Bank's improved monitoring processes.

The following table sets out the effective average annual interest rates payable to the Bank on its interest-earning assets for the periods indicated:

	Year ended 31 December		
	2003	2002	2001 ⁽¹⁾
		(%)	
KZT loans to customers.....	16.3	17.1	17.7
Foreign currency loans to customers	12.0	12.5	16.6
KZT loans to other banks.....	1.3	5.6	5.9
Foreign currency loans to other banks	4.1	5.0	4.0
KZT denominated trading securities.....	5.9	8.0	0.0
Foreign currency denominated trading securities.....	8.5	7.1	0.0
KZT denominated investment securities:			
Available-for-sale	7.4	8.0	10.1
Held-to-maturity	7.3	8.0	0.0
Foreign currency denominated investment securities			
Available-for-sale	8.5	12.4	16.1
Held-to-maturity	9.5	8.8	0.0

(1) The Bank's entire securities portfolio was classified as available-for-sale in 2001. Commencing from year-end 2002, the Bank began classifying its securities as trading securities, investment securities available-for-sale and investment securities held-to-maturity. Accordingly, the numbers are not comparable.

Interest income increased 58% in 2003 to KZT 24,197 million from KZT 15,324 million in 2002, reflecting mainly a KZT 8,586 million, or a 66%, increase in interest income on loans to customers and, to a lesser extent, a KZT 494 million, or a 27%, increase in interest income on securities, which were partially offset by a KZT 207 million, or a 45%, decrease in interest income on deposits with other banks. In 2002, interest income increased by KZT 4,339 million, or 40%, from 2001 interest income of KZT 10,985 million, mainly reflecting a KZT 3,654 million increase in interest income on loans to customers.

Interest income on loans to customers increased 66% in 2003 to KZT 21,594 million from KZT 13,008 million in 2002, which in turn represented a further 39% increase from KZT 9,354 million in 2001. The increase in interest income on loans to customers in 2003 and 2002 was primarily attributable to an increase in the Bank's average balances of its loan portfolio to KZT 154,022 million, or 39%, in 2003 from KZT 110,514 million in 2002, which in turn represented an increase of 26% from KZT 87,401 million in 2001. The growth in the average balances of the Bank's loan portfolio was attributable to an overall increase in the growth rate of lending activity, especially to small and medium size businesses and retail customers. Lending to small and medium size businesses increased 57% as of 31 December 2003 to KZT 34,059 million from KZT 21,741 million as of 31 December 2002, which in turn represented an increase of 37% from KZT 15,922 million as of 31 December 2001. Loans to retail customers increased 148% as of 31 December 2003 to KZT 18,650 million from KZT 7,512 million as of 31 December 2002, which represented an increase of 70% from KZT 4,414 million as of 31 December 2001. Average interest rates on the loan portfolio increased from 11% in 2001 to 12% in 2002 and to 14% in 2003 as a result of higher interest rates on consumer loans and mortgages. Average loans in foreign currencies represented 62% of the Bank's total average loan portfolio in 2003, compared to 65% in 2002. As of 31 December 2001, loans in foreign currencies represented 61% of the Bank's total loan portfolio. In 2003, the amount of foreign currency denominated loans in the Bank's loan portfolio increased as a result of customer demand, which resulted from the lower rates available on foreign currency loans as compared to Tenge denominated loans.

Interest on securities, principally treasury bills, Government bonds, short-term notes issued by the NBK and Eurobonds issued by the Government, increased 27% in 2003 to KZT 2,355 million from KZT 1,861 million in 2002, which in turn represented an increase of 26% from KZT 1,478 million in 2001. The increases in 2003 and 2002 resulted from the growth in the average balance of the Bank's securities portfolio, which was partially offset by decreases in average interest rates earned on the securities portfolio, especially on Government securities. The average balance of the Bank's securities portfolio increased 74% to KZT 40,931 million in 2003 from KZT 23,512 million in 2002, which in turn represented a 7% increase from KZT 21,982 million in 2001. Average interest rates earned on the securities portfolio for 2003, 2002 and 2001 were 5.8%, 7.9% and 10%, respectively.

Interest on deposits with other banks decreased 45% in 2003 to KZT 248 million from KZT 455 million in 2002, which in turn represented a 197% increase from KZT 153 million in 2001. The decrease in 2003 was mainly attributable to greater levels of cash balances being allocated to other short-term interest earning asset categories. Average rates on deposits with other banks increased from 0.2% in 2001 to 0.9% in 2002 and 6.8% in 2003.

Interest Expense

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

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i>		
Interest on deposits from customers.....	6,629	6,189	4,171
Interest on deposits and loans from credit institutions.....	1,896	921	661
Interest on debt securities.....	659	407	289
Total	<u>9,184</u>	<u>7,517</u>	<u>5,121</u>

Total interest expense increased 22% in 2003 to KZT 9,184 million from KZT 7,517 million in 2002, which in turn represented a 47% increase from KZT 5,121 million in 2001. Total interest expense has increased over the past three years due to the growth in the Bank's deposit base and increased foreign currency borrowings from credit institutions, being partially offset by a slight reduction in average interest rates paid on customer accounts and a more significant decrease paid on rates paid on bank borrowings and debt securities.

Interest expense on deposits from customers increased 7% in 2003 to KZT 6,629 million from KZT 6,189 million in 2002, which in turn represented a 48% increase from KZT 4,171 million in 2001. The increase resulted mainly from an overall increase in customer deposits. Average annual interest-bearing customer deposit balances, both corporate and retail, increased 23% in 2003 to KZT 145,882 million from KZT 118,650 million in 2002, which in turn represented an increase of 18% compared to KZT 100,381 million in 2001. The increase in customer deposits, including interest bearing deposits, for both years was attributable to the improved economy and the general growth in customer confidence in banks generally. The average interest rates paid on interest bearing customer balances for 2003, 2002 and 2001 were 4.5%, 5.2% and 4.2%, respectively. The Bank's customer deposits in foreign currencies are substantially denominated in U.S. Dollars and, to a lesser extent, in Euros. Average foreign currency customer deposit balances for 2003, 2002 and 2001 accounted for 51%, 57% and 54%, respectively, of the total average balances of customer accounts for each year.

Interest expense on deposits and loans from credit institutions increased by KZT 975 million in 2003 to KZT 1,896 million from KZT 921 million in 2002, which in turn represented a 39% increase from KZT 661 million in 2001. This was primarily attributable to increased levels of borrowings from foreign OECD based banks, which amounted to KZT 51,633 million in 2003, compared to KZT 20,584 million in 2002 and KZT 5,120 million in 2001, which was partially offset by a decline in interest paid on foreign currency borrowings, with the average interest rate reduced from 5.4% in 2001 to 3.7% in 2002 and further to 3.9% in 2003. Average foreign currency balances on deposits and loans from credit institutions for 2003, 2002 and 2001 accounted for 22%, 14% and 9%, respectively, of the total average interest bearing liabilities for each year.

As a result of additional subordinated debt issued in 2003, interest paid on debt securities increased 62% in 2003 to KZT 659 million as compared to KZT 407 million in 2002, which in turn represented a 41% increase from KZT 289 million in 2001.

The following table sets out the average cost of the Bank's deposits for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	(%)		
KZT deposits			
Time deposits	9.07	11.58	12.16
Demand deposits.....	0.40	0.69	0.91
Foreign currency deposits			
Time deposits	6.34	7.72	8.07
Demand deposits.....	0.57	0.67	0.53

The average interest rate on demand deposits fell to 0.43% in 2003 from 0.7% in 2002, whilst the average interest rate on time deposits decreased slightly from 8.47% in 2002 to 7.17% in 2003. The average interest rate on Tenge time deposits decreased to 9.07% in 2003 from 11.58% in 2002 whereas the average interest rate of foreign currency deposits decreased to 6.34% in 2003 from 7.72% in 2002. The Bank's time deposits are predominantly Tenge denominated accounts. As of 31 December 2003, corporate time deposits accounted for 47% of total corporate deposits and retail time deposits accounted for 73% of total retail deposits.

Net Interest Income Before Impairment

Net interest income before impairment charge increased by KZT 7,206 million in 2003 to KZT 15,013 million from KZT 7,807 million in 2002, which in turn represented a 33% increase from KZT 5,864 million in 2001.

The Bank's net interest margin, defined as net interest income before the impairment charge as a percentage of average interest-earning assets, was 7.93% in 2003, compared to 6.1% in 2002 and 6.4% in 2001. The increase in the net interest margin in 2003 was mainly attributable to an increase in average interest rates on loans to customers and a decrease in average cost of funds. The increase in the Bank's net interest margin in 2002 compared to 2001 was mainly attributable to the Bank's total loan portfolio growth of 30% in 2002 and an increase in interest rates on U.S. dollar denominated loans from 10.25% in 2001 to 10.69% in 2002. In 2002, the average interest rate on loans to customers increased to 12% from 10.7% in 2001 and the average interest on interest-bearing liabilities increased from 4.4% to 5.2% in 2001 and 2002, respectively.

Impairment Charge

In 2003, the Bank's impairment charge amounted to KZT 4,136 million, which represented a 38% decrease from KZT 6,650 million in 2002. The decrease in 2003 was primarily attributable to an improvement in the Bank's loans underwriting and monitoring processes. The Bank's higher impairment charge of KZT 6,650 million in 2002 was primarily attributable to the growth of the Bank's loan portfolio. In 2003, the Bank's net write-offs were KZT 1,917 million (representing gross write-offs of KZT 2,166 million less KZT 249 million in recoveries) compared to KZT 2,197 million in 2002 (representing gross write-offs of KZT 2,471 million less KZT 274 million in recoveries) and KZT 2,304 million in 2001 (representing gross write-offs of KZT 2,927 million plus KZT 623 million in recoveries). The allowance for losses as a percentage of total loans increased to 6% as of 31 December 2003, compared to 5.8% as of 31 December 2002 and 4.3% as of 31 December 2001. See "Selected Statistical and Other Information—Lending Policies and Procedures".

Fees and Commissions

Net fee and commission income increased 57% in 2003 to KZT 6,564 million from KZT 4,184 million in 2002, which in turn represented a 35% increase from KZT 3,106 million in 2001.

Fee and Commission Income

The following table sets out information on the Bank's fee and commission income for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i>		
Transfer operations.....	1,530	986	466
Cash operations.....	1,200	845	960
Pension fund and asset management.....	972	—	—
Letters of credit and guarantees issued.....	741	255	173
Servicing customer accounts.....	653	421	170
Servicing utility payments.....	576	440	355
Debit/credit cards.....	540	168	106
Purchase—sale of currencies.....	535	673	860
Fees for banking services on pension payments.....	449	912	1,174
Factoring.....	66	115	—
Custodian.....	47	37	38
Other.....	250	465	205
Total.....	<u>7,559</u>	<u>5,317</u>	<u>4,507</u>

Fee and commission income increased 42% in 2003 to KZT 7,559 million from KZT 5,317 million in 2002, which in turn represented an increase of 18% from KZT 4,507 million in 2001. The increase in 2003 was primarily attributable to an increased volume of operations, in particular transfer operations, which include transfers relating to debit card accounts and between corporate accounts, and cash operations. These increases were partly offset by a lower level of fees from banking services for pension payments. Fees from banking services for pension payments decreased 51% to KZT 449 million in 2003 from KZT 912 million in 2002, which in turn represented a 22% decrease from KZT 1,174 million in 2001. This decrease was a result of lower volumes of pension payments made through the Bank, which amounted to KZT 120,871 million, KZT 138,548 million and KZT 147,359 million in 2003, 2002 and 2001, respectively. Commissions from debit and credit card services increased to KZT 540 million in 2003 from KZT 168 million in 2002, which in turn represented a 58% increase from KZT 106 million in 2001. In 2003, the Bank earned KZT 972 million as income from pension fund and asset management fees and commissions as a result of acquiring a majority interest in CJSC Accumulated Pension Fund of Halyk Bank.

Fee and Commission Expense

The following table sets out information on the Bank's fee and commission expense for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i>		
Foreign currency operations.....	268	509	732
Debit/credit cards.....	260	143	105
Transfer operations.....	60	64	125
Nostro and loro accounts.....	54	53	29
Cash operations.....	41	242	257
Custodian services.....	22	2	—
Letters of credit and guarantees.....	4	6	19
Other.....	286	114	134
Total.....	<u>995</u>	<u>1,133</u>	<u>1,401</u>

Fee and commission expense decreased by 12% in 2003 to KZT 995 million from KZT 1,133 million in 2002, which represented a decrease of 19% from KZT 1,401 million in 2001. The decreases were primarily attributable to lower fee and commission expense paid for foreign currency operations,

which amounted to KZT 268 million, KZT 509 million and KZT 732 million in 2003, 2002 and 2001, respectively. The decrease in fees paid on cash operations in 2002 and 2003 was primarily attributable to the transfer of pension payment operations to Kazpost. See “The Bank—Distribution Channels”.

These decreases in fee and commission expenses were partially offset by increased fees and commissions paid for debit and credit card services, which increased 82% to KZT 260 million in 2003 from KZT 143 million in 2002, which in turn represented an increase of 37% from KZT 105 million in 2001. The increase in fees from debit and credit card services was attributable to an increased number of debit and credit cards issued.

Non-Interest Income

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

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i>		
Gains from trading securities	827	660	—
Gains from available-for-sale securities.....	442	17	296
Gains from foreign currencies			
Dealing	1,224	1,176	1,306
Translation differences.....	(113)	62	(112)
Dealing profits	8	(390)	20
Write-back of dormant accounts.....	—	3,698	—
Other income	430	608	845
Total	<u>2,818</u>	<u>5,831</u>	<u>2,355</u>

Gains From Trading Securities and Available-for-Sale Securities

In 2001, the Bank did not realise any gain or loss from trading securities because the Bank’s classification of its securities portfolio consisted of only available-for-sale securities. Starting from 2002, the Bank has classified its securities portfolio to trading, available-for-sale securities and held-to-maturity securities. As a result, the net gain on available-for-sale securities decreased from KZT 296 million in 2001 to KZT 17 million in 2002. In 2003, the net gain on available-for-sale securities increased to KZT 442 million. The increase resulted mainly from realising gains on the available-for-sale securities sold in 2003 as a result of which the Bank’s available-for-sale securities portfolio decreased 44% in 2003. The net gain from trading securities increased by 25% to KZT 827 million from KZT 660 million in 2002. The increase in the net gains on trading securities was attributable to the increasing volumes of trading operations.

Gains from Foreign Currencies

Gains from dealing in foreign currencies increased slightly to KZT 1,224 million in 2003 from KZT 1,176 million in 2002. The increase was attributable to increased trading volumes activity. Compared to 2002, gains from foreign currency dealing were slightly higher in 2001, amounting to KZT 1,306 million. The decrease in 2002 was principally attributable to lower volumes of foreign currency dealing operations.

Gains arising from the translation of foreign currency denominated assets and liabilities are reported in the income statement as gains less losses from foreign currencies, which amounted to a loss of KZT 113 million in 2003, compared to a gain of KZT 62 million in 2002. The loss from foreign currency translation in 2003 was primarily attributable to translation losses arising from the decline in the value of the U.S. Dollar. In 2001, translation differences amounted to a loss of KZT 112 million, which was a result of the short foreign currency position held by the Bank.

Dealing Profits

In 2003, dealing profits increased to a profit of KZT 8 million from a loss of KZT 390 million in 2002. The loss in 2002 was mainly attributable to a loss of KZT 319 million from option trading transactions in Government securities that resulted in the reduction in the Bank’s income taxes. In 2002, Kazakhstani tax laws were amended and the Bank could no longer use such dealing transactions for tax planning in 2003. In addition, the Bank incurred a loss of KZT 71 million from precious

metals trading transactions in 2002 as a result of an increase in customs fees on precious metals export transactions. The Bank has decided to liquidate its positions under such transactions in precious metals as a result of changes in the tax laws imposing VAT on transactions in precious metals which reduced the profitability of such transactions. In 2001, dealing profits amounted to a profit of KZT 20 million.

Write-Back of Dormant Accounts

In 2002, as allowed by the banking regulations in Kazakhstan, the Bank wrote back certain dormant customer accounts taken over from the State Bank of Kazakh SSR (the predecessor of the Bank) amounting to KZT 3,698 million which had been dormant for nine years or more. The write-back of dormant accounts in 2002 had a significant impact on the Bank's net income in 2002. There were no write-backs of dormant accounts in 2003 and the six-month period ended 30 June 2004 because the amounts were not significant.

Following an introduction of a programme by the Government to compensate the depositors of the State Bank of Kazakh SSR, the Bank decided to repay the amounts written back in 2002 to the depositors who would submit a claim for compensation. Payments are made upon demand and the relevant expenses incurred by the Bank in connection with such payments are covered by provisions made by the Bank for contingent liabilities. As a result of the claims submitted, the Bank paid back KZT 524 million in 2003. The Bank will continue to pay back amounts that are subsequently claimed by the depositors. Management believes that the number of claims will decrease from the number of claims made in 2003 and adequate provisions have been made in respect of the claims.

Other Income

Other income decreased 29% in 2003 to KZT 430 million from KZT 608 million in 2002. Other income decreased by KZT 238 million in 2002 to KZT 608 million from KZT 845 million in 2001.

Non-Interest Expense

Non-interest expense increased 33% in 2003 to KZT 11,987 million from KZT 8,999 million in 2002, which in turn represented an increase of 25% from KZT 7,180 million in 2001. The following table sets out the composition of the Bank's non-interest expense for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i>		
Salaries and benefits	5,285	3,726	2,796
Depreciation and amortisation	1,007	1,207	973
Taxes other than income tax	735	875	935
Administrative and operating expenses	3,575	3,230	2,476
Other (provisions) reversal	1,385	(39)	—
Total	<u>11,987</u>	<u>8,999</u>	<u>7,180</u>

The increase in non-interest expense in 2003 was mainly attributable to an increase in salaries and benefits as well as in administrative and operating expenses, partially offset by decrease in depreciation and amortisation. The increase in non-interest expenses in 2002 compared to 2001 was mainly attributable to increased salary and benefit costs as well as administrative and operating expenses.

Salaries and Benefits

Salaries and benefits costs increased 42% in 2003 to KZT 5,285 million from KZT 3,726 million in 2002, which in turn represented an increase of 33% from KZT 2,796 million in 2001. The increase in 2003 was primarily attributable to salary and bonus increases, mainly in the head office, partially offset by an overall decrease in headcount from 8,663 as of 31 December 2002 to 8,424 as of 31 December 2003. The increase in 2002 was primarily attributable to a 5% growth in personnel and an increase in salaries.

The following table sets out the composition of the Bank's salaries and benefits for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	(KZT millions)		
Salaries and bonuses.....	3,772	2,651	2,056
Social security costs.....	778	569	467
Other payments.....	735	506	273
Salaries and benefits, total.....	5,285	3,726	2,796

Depreciation and Amortisation

Depreciation and amortisation decreased 17% in 2003 to KZT 1,007 million from KZT 1,207 million in 2002, which in turn represented an increase of 24% from KZT 973 million in 2001. The decrease in 2003 was attributable to a cessation of accrual of depreciation expense on some assets that had been fully depreciated. The increase in 2002 from 2001 was due to purchases of certain fixed assets in 2001 and 2002.

Taxes other than Income Taxes

Taxes other than income taxes decreased 16% in 2003 to KZT 735 million from KZT 875 million in 2002, which in turn represented a decrease of 6% from KZT 935 million in 2001. The decreases in 2003 and 2002 were primarily attributable to decreased rates of customs duty paid by the Bank in connection with imports of foreign currency.

Administrative and Operating Expenses

Administrative and operating expenses increased 11% to KZT 3,575 million in 2003 compared to KZT 3,230 million in 2002. In 2002, administrative and operating costs increased 30% to KZT 3,230 million from KZT 2,476 million in 2001.

The following table sets out the composition of the Bank's administrative and operating expenses for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	(KZT millions)		
Repair and maintenance.....	446	404	318
Communication.....	375	347	358
Advertisement.....	441	323	152
Insurance of deposits.....	358	355	214
Stationary and office supplies.....	406	428	437
Professional services.....	280	54	11
Business trip expenses.....	279	214	139
Security.....	154	145	143
Transportation.....	122	106	104
Rent.....	108	112	227
Charity.....	127	17	79
Social events.....	125	27	29
Insurance expenses.....	74	207	10
Loss (gain) from disposal of premises and equipment.....	(71)	77	(148)
Information technology services.....	55	35	42
Fines and penalties.....	3	6	119
Other.....	293	373	242
Administrative and operating expenses.....	3,575	3,230	2,476

Other (provisions) Reversal

In 2003, the Bank recorded a KZT 1,385 million charge for guarantees and commitments as a result of providing provisions for certain guarantees and letters of credit, including KZT 524 million paid to

settle claims in respect of dormant accounts written back in 2002. In 2002, the Bank reversed a KZT 39 million provision relating to contingent liabilities.

Taxation

As discussed above in “—External Factors Affecting the Bank’s Results of Operations”, the Bank’s effective tax rate was approximately 9%, 14% and 58% in 2003, 2002 and 2001, respectively. The Bank reported income tax expense of KZT 774 million in 2003, KZT 302 million in 2002 and KZT 42 million in 2001. The Bank was able to reduce its effective tax rate from 2001 through 2003 because it increased its non-taxable income on long-term loans granted for modernisation of property and equipment from KZT 162 million in 2001 to KZT 830 million in 2002 and to KZT 1,844 million in 2003 and its non-taxable income on Government securities from KZT 1,713 million in 2001 to KZT 4,962 million in 2002 and to KZT 5,599 million in 2003.

Financial Condition

Total Assets

As of 30 June 2004, the Bank had total assets of KZT 288,683 million, an increase of 16% over the figure as of 31 December 2003. As of 31 December 2003, the Bank had total assets of KZT 249,523 million, an increase of 32% from KZT 189,282 million as of 31 December 2002. The increase in the first half of 2004 was mainly attributable to an increase in the net loan portfolio and, to a lesser extent, increases in the cash balance and the trading securities portfolio. The increase in 2003 was primarily attributable to a 30% increase in the net loan portfolio and a 70% increase in the trading securities portfolio. The growth in the loan portfolio was attributable to an overall increase in lending activity, especially to small and medium size businesses and retail customers. Lending to small and medium size businesses increased by 57% in 2003 to KZT 34,059 million and to retail customers 148% in 2003 to KZT 18,650 million. The increase in trading securities was mainly a result of increased investments in NBK notes. Also, in 2002, the Bank did not have deposits with other banks, compared to deposits of KZT 7,291 million in 2003.

The total asset base of the Bank as of 31 December 2002 grew KZT 64,957 million, or 52%, from KZT 124,325 million as of 31 December 2001 to KZT 189,282 million as of 31 December 2002. This increase was primarily attributable to a 50% increase in the net loan portfolio. In addition, as of 31 December 2002, the Bank’s trading securities portfolio amounted to KZT 23,507 million. Prior to 2002, all of the Bank’s securities were classified as available-for-sale.

Total Liabilities

As of 30 June 2004, the Bank had total liabilities of KZT 263,442 million, an increase of 16% over the figure as of 31 December 2003. The Bank’s total liabilities increased 30% as of 31 December 2003 to KZT 228,082 million from KZT 175,095 million as of 31 December 2002, which in turn represented an increase of 49% to KZT 117,422 million as of 31 December 2001. The increase in the first half of 2004 was mainly attributable to an increase in customer deposit balances. The increase in total liabilities in 2003 from 2002 was primarily attributable to an increase in bank borrowings of KZT 29,770 million, an increase in subordinated debt securities issued of KZT 4,114 million and an increase in deposit balances of KZT 17,928 million. The 49% increase in 2002 from 2001 of KZT 57,673 million primarily reflected the growth in customer deposits of KZT 36,537 million and an increase in bank borrowings of KZT 18,395 million.

Shareholders’ Equity

As of 30 June 2004, the Bank’s total shareholders’ equity amounted to KZT 25,063 million, an increase of 18% over the figure as of 31 December 2003. The Bank’s total shareholders’ equity amounted to KZT 21,238 million as of 31 December 2003, or 8.5% of total assets, compared to KZT 14,187 million as of 31 December 2002 (7.5% of total assets) and KZT 6,903 million as of 31 December 2001 (5.6% of total assets). Shareholders’ equity increased in 2003 mainly as a result of new capital invested by the Bank’s shareholders and an increase in retained earnings from KZT 1,668 million in 2002 to KZT 8,797 million in 2003. The increase of the shareholders’ equity in 2002 was principally due to an increase in share and additional paid-in capital from KZT 6,379 million as of 31 December 2001 to KZT 11,769 million as of 31 December 2002, an increase in securities revaluation reserves to KZT 431 million in 2002 and an increase in retained earnings from KZT 158 million in 2001 to KZT 1,668 million compared to 2002. In 2003 and 2002, the Bank accrued total dividends of KZT 355 million and KZT 394 million on its preferred shares, respectively. As of 30 June 2004, the Bank had 74,226,278 common shares and 24,742,000 preferred shares outstanding.

On 14 September 2004, the Bank announced that it would offer an aggregate of 13,100,611 million common shares in two separate lots through an auction process, at a minimum price of KZT 400 per common share. The auction took place and was completed on 27 September 2004, when the Bank received gross proceeds of approximately KZT 5.9 billion (U.S.\$4.3 million) from the issue of all 13,100,611 common shares offered. Even with this proposed capital increase, the Bank will need additional capital in the future to continue to grow its business and remain compliant with its capital adequacy requirements. In this regard, the Bank intends to raise additional capital during 2005. For more information, see “Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital”.

Each common share is entitled to one vote and has an equal right to dividends declared. The Bank paid no dividends on common shares in 2003, 2002 and 2001. The preferred shares are non-voting and carry a cumulative fixed annual dividend of a minimum of KZT 15.75 per preferred share, which is indexed to the Tenge:U.S. Dollar exchange rate on the payment date.

The Bank is also considering entering into a deposit agreement with a depository bank, which would allow existing shareholders to deposit the Bank’s common shares into this facility against delivery of depository receipts by the depository bank. This would not result in an increase in the outstanding share capital of the Bank.

Capital Expenditures

The following table provides information on the Bank’s capital expenditures for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i>		
Buildings	279	333	90
Transportation	89	125	23
Computer and banking equipment	339	698	423
Other fixed assets	665	311	349
Intangible assets	111	132	135
Total	<u>1,483</u>	<u>1,599</u>	<u>1,020</u>

Management estimates that the Bank’s capital expenditures will increase significantly in 2004. The total capital expenditures for 2004 are expected to be approximately KZT 3,164 million, out of which KZT 1,165 million is planned to be committed to office equipment, KZT 710 million to computer and banking equipment, KZT 634 million to buildings, KZT 480 million to intangible assets (mainly software and licences), KZT 88 million to transportation and KZT 87 million to other fixed assets. Increased capital expenditure on office equipment is mainly attributable to eight new VIP centres and centres for personal service in eight regions of Kazakhstan, the purchase of 100 new ATMs, cash machines and equipment for networks and communication. The majority of the increased expenditures on information technology will be part of the upgrade of the Bank’s information technology systems in 2004. The increase of capital expenditures on buildings is a result of construction of two new regional branch buildings in Aktobe and Burlinsk and several cash outlets.

Funding of Operations

The following table shows the Bank's sources of funding as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Amounts due to the Government	797	0.3	529	0.2	449	0.2	102	0.1
Amounts due to credit institutions	64,360	24.4	61,877	27.1	32,107	18.3	13,712	11.7
Amounts due to customers	186,738	70.9	154,846	67.9	136,918	78.2	100,381	85.5
Subordinated debt securities	8,377	3.2	8,583	3.8	4,469	2.6	2,365	2
Other liabilities.....	3,170	1.2	2,247	1.0	1,152	0.7	862	0.7
Total.....	263,442	100.0	228,082	100.0	175,095	100.0	117,422	100.0

The Bank's major sources of funds for its operations are customer deposits, which accounted for approximately 70% of total funding as of 30 June 2004. Other sources of funding include foreign borrowings, including borrowings secured by the sale of certain of the Bank's future payments (as described in "Selected Statistical and Other Information—The Bank's Funding Sources—Other Sources of Funding—Borrowings Secured by Certain Future Payment Rights"), repurchase commitments and, to a lesser extent, interbank borrowings. The availability of deposits is influenced by factors such as prevailing interest rates, market conditions and levels of competition. The issuance of the Notes is one of the steps being taken by management in an effort to diversify and lengthen the maturity of its funding sources. For a more detailed breakdown of the Bank's source of funds, see "Selected Statistical and Other Information—The Bank's Funding Sources".

The 2004 annual General Meeting of Shareholders authorised the Bank to borrow U.S.\$650 million and KZT 85 billion during 2004 and 2005, which amount includes this offering. Under the authorisation, on 4 May 2004, the Bank registered with the NBK its first bond programme under which the Bank may issue subordinated, KZT denominated bonds for the total principal amount of KZT 35 billion, subject to market conditions. The maturity of these bonds is expected to be between three and seven years. In July 2004, the Bank issued KZT 5 billion floating rate subordinated bonds maturing in 2010 under the programme. The Bank also extended its existing trade finance facility agreement arranged by Deutsche Bank London and Raiffeisen Zentralbank Osterreich Aktiengesellschaft on 7 July 2004 for one additional year and, in connection with the extension, increased the principal amount available under the facility from U.S.\$150 million to U.S.\$200 million. This facility was fully drawn down in July 2004. In addition, the Bank expects to raise further funds, up to U.S.\$100 million, through its existing programme relating to the borrowings secured by the sale of certain of the Bank's future payments (as described in "Selected Statistical and Other Information—The Bank's Funding Sources—Other Sources of Funding—Borrowings Secured by Certain Future Payment Rights") and to issue another KZT 5 billion of bonds maturing in 2007 under the programme before the end of 2004. However, there can be no assurance that these additional sources of funds will be available for the Bank on acceptable terms or at all.

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 Bank's balance sheet. As of 31 December 2003, the Bank had issued commercial letters of credit totalling KZT 7,794 million, guarantees totalling KZT 20,344 million, commitments to extend credits of KZT 39,207 million and had open forward currency contracts outstanding totalling KZT 685 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 of 31 December 2003, the loss allowance for contingent liabilities was KZT 921 million, compared to KZT 60 million as of 31 December 2002. The increase was mainly attributable to a slight deterioration in the credit rating of few customers with significant guarantees and letter of credit. The

following table sets out the commitments and contingent liabilities of the Bank by maturity as of 30 June 2004:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over five years	Total
<i>(KZT millions)</i>							
Letters of credit	6,101	3,236	1,434	—	—	—	10,771
Guarantees.....	4,342	20,337	5,668	—	—	—	30,347
Promissory notes	—	—	2,787	682	—	—	3,469
Forward currency contracts	25	—	—	—	—	—	25

The Bank did not have any other significant commitments as of 31 December 2003 and 2002. The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for its on-balance sheet operations.

Contractual Obligations

The following table summarises the Bank's contractual obligations as of 30 June 2004:

	Payments due by Period			Total
	Less than 1 year	1-5 years	More than 5 years	
<i>(KZT millions)</i>				
Contractual Obligations				
Purchase obligations ⁽¹⁾	1,078	289	—	1,367

(1) Not reflected on the balance sheet.

For a breakdown of the Bank's liabilities, including liabilities to credit institutions, by maturity see "Asset and Liability Management—Maturity Analysis".

Capital Adequacy

The capital adequacy requirements currently in effect in Kazakhstan exceed guidelines adopted by the Basel Committee on Banking Regulations and Supervision Practices of the Bank for International Settlements (the "BIS Guidelines"). See "The Banking Sector in Kazakhstan". The FMSA requires banks to maintain a Tier 1 capital adequacy ratio of 6% of risk-weighted assets based on the unconsolidated financial statements and the calculation is based on risk weights that depart from the Basel Committee recommendations.

Although the Bank has generally maintained its capital on adequate levels, on one occasion in 2002 the Bank violated the Tier 1 minimum capital adequacy ratio, which it subsequently remedied. In addition, the Bank exceeded the threshold of 10% of capital established for loans from a single related party in early 2003. The Bank has remedied this breach in 2004 and is now in compliance with the minimum requirements of the NBK.

The Bank announced on 14 September 2004 that it would offer new common shares through an auction process. The auction took place and was completed on 27 September 2004, when the Bank received gross proceeds of approximately KZT 5.9 billion (U.S.\$4.3 million) from the issue of 13,100,611 common shares. The Bank needed to raise the additional capital prior to the issue of the Notes offered hereby in order to be able to use the funds raised in the offering of the Notes as described in "Use of Proceeds" while remaining compliant with its capital adequacy requirements under local rules. For more information, see "Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital".

The following table sets out the Bank's capital adequacy ratios calculated in accordance with the requirements of the NBK as of the dates indicated:

	NBK's minimum requirements	As of 30 June	As of 31 December	
		2004	2003	2002
		<i>(Unaudited)</i>		
Minimum Charter fund ⁽¹⁾	Not less than KZT 2,000 million ⁽²⁾	KZT 9,880 million	KZT 9,897 million	KZT 9,684 million
Capital Adequacy Ratios				
K1 – tier I capital to total assets	6%	6.0%	6.1%	6.7%
K2 – own capital to total assets weighted for risk ...	12%	12.0%	13.8%	13.6%
K4 – Current Liquidity ratio ⁽⁴⁾	Greater than 30%	83.0%	96.0%	71.3%
K5 – Short-term Liquidity Ratio	Greater than 50%	78.0%	91.0%	60.0%
K6 – investments into fixed assets and non financial assets to equity	Not more than 50%	30.0%	27.0%	35.5%
Maximum aggregate net open foreign currency position ⁽⁴⁾	50% of bank's own capital ⁽³⁾	14.40%	1.81%	15.7%
Maximum net open position for an single currency.	30% of bank's own capital	13.49%	1.38%	18.6%
Maximum net open long position in U.S. Dollars ⁽⁵⁾	30% of bank's own capital	13.49%	1.38%	18.6%
Maximum net open short position in Russian roubles ⁽⁶⁾	15% of bank's own capital	0.23%	0.71%	(1.4)%
Maximum net open short position in Kyrgyz Soms ⁽⁷⁾	5% of bank's own capital	0.0%	0.0%	0.0%
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties.....	Must not exceed own capital	13.1%	12.1%	30.8%
Maximum exposure to any single:				
– not-related party	Not more than 25%	21.25%	16.3%	21.4%
– related party ⁽⁸⁾	Not more than 10%	6.67%	6.7%	9.2%
– on unsecured loans.....	Not more than 10%	1.45%	0.2%	0.4%

(1) Under Kazakhstani 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 FMSA'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% of risk weighted assets) plus subordinated debt (but not more than 50% 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.

(8) In March 2003, the Bank exceeded the threshold of 10% of capital established for loans from a single related party. The Bank has, in 2004, remedied this breach and is currently in compliance with the requirements of the NBK. See “Transactions with Related Parties”.

The following table gives certain information regarding the Bank's Tier I and Tier II capital and its risk weighted capital adequacy ratio as of the dates indicated based on BIS Guidelines and the consolidated financial statements of the Bank:

	Six Months ended 30 June	Year ended 31 December		
	2004	2003	2002	2001
		<i>(KZT millions, except ratios)</i>		
Tier I capital.....	22,107	18,396	11,162	6,537
Tier II capital	9,607	12,326	8,474	3,947
Gross tier I and tier II available capital	31,714	30,722	19,636	10,484
Less investments	(739)	(632)	(205)	(41)
Tier I and tier II capital.....	30,975	30,090	19,431	10,443
Total risk weighted assets.....	251,660	205,498	149,942	97,305
Tier I capital adequacy ratio	8.8%	9.0%	7.4%	6.7%
Total risk weighted capital adequacy ratio ⁽¹⁾	12.3%	14.6%	13.0%	10.7%

(1) Comprising Tier 1 + Tier 2 capital divided by total risk weighted assets.

ASSET, LIABILITY AND RISK MANAGEMENT

General

The principal risks inherent to the Bank's business are credit risk, liquidity risk, interest rate risk and foreign currency exchange rate risk. The Bank monitors and manages the mismatch of maturities, the size and degree of its interest rate and foreign currency exchange rate exposure and credit quality in order to minimise the effect of these risks on profitability, while ensuring sufficient liquidity and capital adequacy. Through its asset and liability management, the Bank aims to structure its balance sheet in light of interest rate, liquidity, foreign currency exchange risks, as well as demands for credit, existing asset-liability positions and general market conditions.

The asset, liability and risk management functions are divided among the Management Board, the Assets and Liabilities Management Committee ("ALCO"), the credit committees located in branches and in the head office, the Credit Risks Department, the Financial Risks Department and the Treasury. The Bank's asset and liability management policy is formulated by the Management Board and approved by the Board of Directors. The ALCO establishes major balance sheet parameters for use in asset and liability management and, with the assistance of the Financial Risks Department and the Treasury, monitors compliance with them. The Financial Risks Department is responsible for co-ordinating the establishment and development of the Bank's risk management system in the various departments, assessing and analysing the risks associated with new products and services, business processes and key performance indicators, supervision of the Bank's compliance with the prudential standards established by the NBK and analysis of activities of other market participants. Until 2002, the responsibilities of the Financial Risks Department were performed by a division of the Financial Department. Starting from 2002, the Financial Risks Department was established as an independent department. It reports weekly to the Management Board. The Credit Risks Department was created in 2001 and is responsible for reviewing the credit applications made to the head office and those applications that exceed the approval limit of the credit committees located in branches. The Credit Risks Department reports to the Management Board. Various credit committees are responsible for managing the credit risk. The Bank has a credit committee located in each branch and the following three main credit committees located within its head office: (i) the Retail Lending Credit Committee, (ii) the Branch Network Credit Committee, and (iii) the Commercial Direction Credit Committee.

Assets and Liabilities Management Committee

Currently, the ALCO has seven members and is chaired by the Chairperson of the Management Board. However, due to recent departures of members of senior management of the Bank, the Bank is looking to nominate two new members on the ALCO for the positions of Risk Management Director and Investment Banking Director. For more information about the changes in the Bank's senior management, see "Management—General". The ALCO reports to the Management Board. The ALCO is responsible for formulating and overseeing the implementation of the asset and liability management strategy of the Bank. The functions of the ALCO include regular monitoring of the Bank's interest sensitive assets and liabilities, maturity gap, liquidity position, characteristics of the loan portfolio, interest income and expense on various assets and liabilities and conditions on foreign currency and financial markets. Based on the above mentioned information, the ALCO makes weekly decisions on the amount of interbank loans, foreign exchange transactions, transactions with precious metals, liquid government securities within funds received from securities' redemption, and other assets, level of open currency positions and overall funding structure as well as regular determining of the amount of money resources for commercial lending. The ALCO is also responsible for determining basic interest rates on consumer and corporate loans and, together with the Commercial Direction Credit Committee, sets overall interest rate levels and terms for both interest-earning assets and interest-bearing liabilities and makes decisions regarding maturities and pricing of assets and liabilities.

The Bank is committed to further develop its risk management capability, including introducing more sophisticated analysis techniques in addition to gap analysis currently used by the Bank. For example, the Bank started to use value-at-risk analysis to measure its foreign exchange in January 2004.

Funding and Liquidity

The Bank's funding and liquidity management policy seeks to ensure that, even in adverse conditions, the Bank maintains sufficient funds available to meet its operational needs, including maturing liabilities, and to ensure compliance with NBK regulations. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial

instruments and the risk of being unable to liquidate a position in a timely manner at a reasonable price. The risk arises in the general funding of the Bank's financing, trading and investment activities and in the management of its positions. To meet its funding needs, the Bank historically has relied principally on customer deposits, which accounted for approximately 68% of total funding in 2003. Other sources of funding include foreign borrowings, including borrowings secured by the sale of certain of the Bank's future payments (as described in "Selected Statistical and Other Information—The Bank's Funding Sources—Other Sources of Funding—Borrowings Secured by Certain Future Payment Rights"), repurchase commitments and, to a lesser extent, interbank borrowings. The issuance of the Notes is one of the steps being taken by management in an effort to diversify and lengthen the maturity of its funding sources. For a more detailed breakdown of the Bank's source of funds, see "Selected Statistical and Other Information—The Bank's Funding Sources".

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows. The Management Board sets the limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowings that should be in place to cover withdrawals at unexpected levels of demand.

The following table provides certain information as to the Bank's liquidity as of the dates indicated:

	As of 30 June	As of 31 December		
	2004	2003	2002	2001
		(%)		
Loans/assets (excluding accrued income on loans).....	69.8	66.8	70.1	67.8
Loans/deposits (excluding accrued income on loans).....	108	108	97	84
Loans/shareholders' equity (excluding accrued income on loans)	803.7	784.6	935.6	1,220.5
Liquid assets ⁽¹⁾ /total assets.....	27.7	30.3	28.8	25.6
Liquid assets/total amounts owed to customers	42.8	48.8	39.8	31.8

(1) Liquid assets comprise investment and trading securities, cash and cash equivalents, obligatory reserves and amounts due from credit institutions.

Maturity Analysis

The following table summarises the Bank's assets and liabilities by maturity as of the dates indicated and contains certain information regarding the liquidity risk facing the Bank.

	As of 30 June 2004						Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
	(KZT millions)						
Assets:							
Cash and cash equivalents.	17,290	—	2,279	—	—	—	19,569
Obligatory reserves	—	—	—	—	—	5,471	5,471
Trading securities.....	33,829	—	—	—	—	—	33,829
Amounts due from credit institutions.....	4	—	—	1,778	50	—	1,832
Investment securities:							
Available-for-sale	3,105	—	—	—	—	—	3,105
Held-to-maturity	—	945	—	4,994	1,581	8,655	16,175
Loans to customers.....	—	16,582	7,495	56,356	66,458	63,391	210,282
Tax assets.....	—	86	—	—	—	—	86
Others assets	3,787	—	—	—	—	—	3,787
	58,015	17,613	9,774	63,128	68,089	77,517	294,136
Liabilities:							
Due to Government.....	349	1	7	192	173	75	797
Due to credit institutions...	10,245	21,691	1,886	13,523	1,243	15,772	64,360
Due to customers.....	71,468	16,648	15,322	45,961	24,753	12,586	186,738
Subordinated debt securities issued	—	—	175	—	—	—	175
Dividends payable	—	—	—	—	259	—	259
Tax liabilities	1,160	—	—	—	—	—	1,160
Provisions	1,576	—	—	—	—	—	1,576
Other liabilities	—	—	—	35	8,342	—	8,377
	84,798	38,340	17,390	59,711	34,770	28,433	263,442
Net Position.....	(26,783)	(20,727)	(7,616)	3,417	33,319	49,084	30,694
Accumulated gap	(26,783)	(47,510)	(55,126)	(51,709)	(18,390)	30,694	

As of 31 December 2003

	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<i>(KZT millions)</i>							
Assets:							
Cash and cash equivalents	12,357	—	1,058	—	—	—	13,415
Obligatory reserves	—	—	—	—	—	5,212	5,212
Due from banks, net	24	—	—	7,283	—	—	7,307
Trading securities	39,914	—	—	—	—	—	39,914
Investment securities:							
Available-for-sale	3,232	—	—	—	—	—	3,232
Held-to-maturity	—	—	450	3,106	1,768	1,119	6,443
Loans to customers	—	13,743	12,459	45,668	68,468	34,080	174,418
Tax Assets	—	200	—	—	—	—	200
Others assets	2,661	—	—	—	—	—	2,661
	<u>58,188</u>	<u>13,943</u>	<u>13,967</u>	<u>56,057</u>	<u>70,236</u>	<u>40,411</u>	<u>252,802</u>
Liabilities:							
Due to Government	—	15	7	91	416	—	529
Due to credit institutions	197	13,338	2,211	28,916	16,196	1,019	61,877
Due to customers	51,982	25,991	16,679	30,336	16,986	12,872	154,846
Subordinated debt securities issued	—	—	—	37	4,130	4,416	8,583
Dividends payable	—	—	366	—	—	—	366
Tax liabilities	—	—	—	—	182	—	182
Provisions	920	—	—	—	—	—	920
Other liabilities	779	—	—	—	—	—	779
	<u>53,878</u>	<u>39,344</u>	<u>19,263</u>	<u>59,380</u>	<u>37,910</u>	<u>18,307</u>	<u>228,082</u>
Net position	<u>4,310</u>	<u>(25,401)</u>	<u>(5,296)</u>	<u>(3,323)</u>	<u>32,326</u>	<u>22,104</u>	<u>24,720</u>
Accumulated gap	<u>4,310</u>	<u>(21,091)</u>	<u>(26,387)</u>	<u>(29,710)</u>	<u>2,616</u>	<u>24,720</u>	

The tables above do not include the effect of allowances for impairment of loans to customers, amounts due from credit institutions and other assets amounting to KZT 12,629 million, KZT 10,601 million and KZT 8,382 million as of 30 June 2004, 31 December 2003 and 31 December 2002, respectively.

The above maturity gap analysis does not reflect the historical stability of the Bank's current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

The issuance of the Notes is one of the steps being taken by management in an effort to diversify and lengthen the maturity of its funding sources. In addition, on 4 May 2004, the Bank registered with the NBK its first bond programme under which the Bank may issue subordinated KZT denominated bonds up to KZT 35 billion in principal amount, subject to market conditions, and the Bank expects to raise further funds, up to U.S.\$100 million, through its existing programme relating to borrowings secured by the sale of certain of the Bank's future payment rights. For further information on the Bank's financing sources, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Funding of Operations".

Increased levels of debt financing from financial institutions and capital markets, including the offering of the Notes, will also require the Bank to raise additional capital to meet the required capital adequacy levels. As discussed in "Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital", on 14 September 2004, the Bank announced that it would offer an aggregate of 13,100,611 common shares in two separate lots through an auction process, at a minimum price of KZT 400 per common share. After the expiry of the ten-day notice period required under Kazakhstan law, the auction took place and was completed on 27 September 2004, when the Bank received gross proceeds of approximately KZT 5.9 billion (U.S.\$4.3 million) from the issue of all 13,100,611 common shares offered. Even with this capital increase, the Bank will need additional capital in the future to continue to grow its business and remain compliant with its capital adequacy requirements. The principal shareholder of the Bank has indicated its willingness to participate in an additional capital issue during 2005. However, the existing shareholders of the Bank have no obligation to inject additional capital in the Bank and there can be no assurance that this capital increase will take place as scheduled, or at all, or that it will take place on commercially acceptable terms.

The Bank's capability to discharge liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. Although the Bank currently has a negative short-to-medium-term liquidity gap, management believes that the Bank's access to domestic and international funds will continue to allow it to meet its liquidity needs. The majority of customer account liquidation has historically taken place over a period longer than their contractual maturity. However, there can be no assurance as to the Bank's ability to continue to expand the maturity of customer accounts beyond their contractual maturity. See "Risk Factors—Risk Factors Relating to the Bank—Risk Management".

Long-term credits and overdrafts are generally not available in Kazakhstan except for programmes set up by international financial institutions. However, in the Kazakhstani market, many short-term credits are granted with the exception of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. Currently, account balances are included in amounts due in less than one month in the table above. While trading and investment securities available-for-sale are shown at demand, realising such asset upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. The principal objective of the Bank's interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements and increasing interest income by managing interest rate exposure. The Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments. This analysis includes any trading and investment securities, as well as commercial banking assets and liabilities.

The following table summarises the effective average interest rates by currencies.

	As of 30 June		As of 31 December			
	2004		2003		2002	
	U.S.\$	KZT	U.S.\$	KZT	U.S.\$	KZT
	(%)					
Trading securities	8.15	5.59	8.45	5.94	7.13	8.00
Investment securities:						
Available-for-sale....	10.13	8.50	8.45	7.40	12.38	8.00
Held-to-maturity.....	5.46	6.98	9.53	7.34	8.75	8.00
Loans to customers	12.04	15.08	12.00	16.26	12.52	17.05
Due to credit						
institutions	2.20	1.5	4.08	1.25	5.01	5.62
Customer deposits	5.21	4.36	5.34	4.00	6.53	4.08
Subordinated debt						
securities issued	4.90	4.60	11.80	8.70	11.80	8.00

Additionally, as disclosed in the maturity analysis above, management believes that the structure of its balance sheet, including the short-term structure of its major assets and liabilities, reduces the Bank's exposure to interest rate risk. However, although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the ability of the Bank to reprice its assets and liabilities. While the majority of its loans are at fixed interest rates, the Bank believes that its sensitivity to interest rate changes is largely reduced by the relatively short-term maturity of approximately 55% of its loan portfolio and its ability under the majority of its loan agreements to adjust the applicable rate of interest. Furthermore, 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. Nevertheless, as the average maturity of the Bank's loan portfolio increases, it will, without a matching increase in the average maturity of its liabilities, face increasing interest rate risk and will be obliged to introduce more sophisticated risk management techniques and/or more sophisticated standard terms and conditions in its loan

agreements. Currently, the Bank does not use derivative instruments to reduce its interest rate exposure.

Foreign Currency Management

The Tenge has been generally stable against the U.S. Dollar in recent years with the U.S. Dollar appreciating 3.8% in 2001 and 3.2% in 2002 and depreciating 8.0% in 2003 against the Tenge.

The Bank is subject to exchange rate risk due to adverse movements in currency exchange rates in the currencies in which the Bank maintains assets or liabilities. As discussed below, the Bank is also exposed to the effects of fluctuations in the foreign currency exchange rates on its cash flows. The Bank's foreign currency position arises primarily through its purchases and sales of foreign exchange (primarily U.S. Dollars) on the spot market and the mismatch of foreign currency assets and liabilities. Currently, the Bank does not use any derivative instruments to limit its foreign exchange risk.

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

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

	As of 30 June	As of 31 December		
	2004	2003	2002	2001
		<i>(Unaudited)</i>		
Net (short)/long position (KZT millions).....	4,108	647	(2,539)	1,222
Net (short)/long position (U.S.\$ millions).....	30.1	4.5	(16.3)	8.1
Net position as a percentage of risk weighted capital.....	14.4	2.2%	12.3%	11.3%
Net position as a percentage of foreign currency liabilities	2.9%	0.5%	2.2%	1.8%

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

	As of 30 June			As of 31 December					
	2004			2003			2002		
	<i>KZT</i>	<i>Freely convertible</i>	<i>Total</i>	<i>KZT</i>	<i>Freely convertible</i>	<i>Total</i>	<i>KZT</i>	<i>Freely convertible</i>	<i>Total</i>
	<i>(Unaudited)</i>			<i>(KZT millions)</i>					
Assets:									
Cash and cash equivalents	10,399	9,170	19,569	4,821	8,594	13,415	4,835	12,853	17,688
Obligatory reserves	5,471	—	5,471	5,212	—	5,212	4,525	—	4,525
Trading securities.....	27,630	6,199	33,829	33,166	6,748	39,914	16,358	7,149	23,507
Amounts due from credit institutions ...	40	1,792	1,832	238	7,069	7,307	—	—	—
Investment securities:									
Available-for-sale	1,828	1,277	3,105	443	2,789	3,232	2,979	2,804	5,783
Held-to-maturity	10,209	5,966	16,175	3,462	2,981	6,443	1,458	1,525	2,983
Loans to customers.....	91,468	118,814	210,282	72,795	101,623	174,418	42,884	90,743	133,627
Tax assets.....	86	—	86	200	—	200	—	—	—
Other assets.....	2,809	978	3,787	2,346	315	2,661	2,347	158	2,505
	<u>149,940</u>	<u>144,196</u>	<u>294,136</u>	<u>122,683</u>	<u>130,119</u>	<u>252,802</u>	<u>75,386</u>	<u>115,232</u>	<u>190,618</u>

	As of 30 June			As of 31 December					
	2004			2003			2002		
	KZT	Freely convertible	Total	KZT	Freely convertible	Total	KZT	Freely convertible	Total
	(Unaudited)			(KZT millions)					
Liabilities:									
Due to Government....	722	75	797	433	96	529	449	—	449
Due to credit institutions	725	63,635	64,360	4,197	57,680	61,877	352	31,755	32,107
Due to customers.....	114,972	71,766	186,738	88,064	66,782	154,846	55,371	81,547	136,918
Subordinated debt securities issued.....	175	—	175	4,415	4,168	8,583	—	4,469	4,469
Dividends payable	259	—	259	366	—	366	394	—	394
Tax liabilities	1,160	—	1,160	182	—	182	—	—	—
Provisions	907	669	1,576	920	—	920	60	—	60
Other liabilities	4,434	3,943	8,377	33	746	779	698	—	698
	<u>123,354</u>	<u>140,088</u>	<u>263,442</u>	<u>98,610</u>	<u>129,472</u>	<u>228,082</u>	<u>57,324</u>	<u>117,771</u>	<u>175,095</u>
Net balance sheet position	<u>26,586</u>	<u>4,108</u>	<u>30,694</u>	<u>24,073</u>	<u>647</u>	<u>24,720</u>	<u>18,062</u>	<u>(2,539)</u>	<u>15,523</u>

The above table does not include the effect of allowances for impairment of loans to customers, amounts due from credit institutions and other assets amounting to KZT 12,629 million, KZT 10,601 million and KZT 8,382 million as of 30 June 2004, 31 December 2003 and 31 December 2002, respectively.

Freely convertible currencies represent mainly U.S. Dollar amounts, but also include currencies from other OECD countries. The Bank's principal cash flows (revenues, operating expenses) are largely generated in Tenge. As a result, future movements in the exchange rate between the Tenge and the U.S. Dollar or Euro will affect the carrying value of the Bank's U.S. Dollar denominated monetary assets and liabilities. Such changes may also affect the Bank's ability to realise investments in non-monetary assets as measured in U.S. Dollars in these financial statements.

Treasury Operations

The main objective of the Treasury is to achieve efficient management of the Bank's liquidity, interest rate and market risk by using the foreign exchange and money markets; thus managing foreign currency exposure and funding costs and maximising investment returns. The Treasury is supervised by the Financial Risks Department and the ALCO. The Treasury reports to the Deputy Chairman on the Bank's currency position, securities portfolio, level of deposits, cash position and gains or losses made in currency operations. The Treasury interacts closely with the Financial Risks Department, which is responsible for controlling the limits and ratios set forth for treasury operations. The Treasury Department provides the Financial Risks Departments with the information on balances on correspondent accounts, currency position and securities transactions on a daily basis.

The Bank's treasury operations consist largely of spot and forward transactions in Tenge and foreign currencies, transactions in Government securities and foreign currency swap transactions. Due to the undeveloped framework and trading and accounting mechanisms in the derivatives market in Kazakhstan, use of futures, options and forward currency instruments is rare.

Credit Risk Management

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank limits the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or counterparty, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower, industry sector and region are set up by the Management Board and approved annually by the Board of Directors. Credit risk is monitored by the Management Board on a continuous basis and subject to annual or more frequent reviews. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Financial Risks Department. See "Selected Statistical and Other Information—Lending Policies and Procedures", "Selected Statistical and Other Information—Loan Classification and Provisioning Policy" and "Selected Statistical and Other Information—Portfolio Supervision and Non-Performing Loans".

Systems Risk Management

Information technology and the impact of potential systems failures have become increasingly significant with the growth in the volume of transactions involving computers and telecommunications networks and the importance of on-line management information systems. Accordingly, the Bank has devoted substantial resources to ensure the development and reliability of its computer and related systems. For example, the Bank maintains its main computer facility in one of the head office buildings in Almaty, with a back-up disaster system available in a separate building in Almaty. As part of its system risk management, the Bank prepares and stores back-up files for all banking activities and conducts testing to monitor the functioning of its computer systems and back-up procedures on a weekly basis. As discussed in “The Bank—Information Systems”, the Bank plans to upgrade its current IT systems by the end of 2004 allowing it to centrally manage its customer database and to provide better quality data to assist in processing and analysing specific risks inherent to its operations.

The Bank’s IT activities are regulated by internal rules and procedures approved by the Management Board. The Bank’s IT systems are administered and monitored by a special unit consisting of 7 persons within the Security Department which is responsible for the Bank’s information security and works in cooperation with the IT Department. The Security Department is supervised by the Deputy Chairman on Security.

THE BANK

General

Overview

Established in 1923 as a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe, Halyk Bank became a separate legal entity wholly owned by the Republic of Kazakhstan in 1994. Following the introduction of the privatisation programme in 1998, the Government gradually decreased its ownership interest in the Bank and subsequently sold its remaining shares in the Bank in November 2001 through a public tender process.

According to statistics published by the NBK, Halyk Bank is the largest bank in Kazakhstan in terms of total customer deposits, which amounted to KZT 186,738 million as of 30 June 2004, and the Bank's retail deposits of KZT 107,428 million represented approximately 26% of the total market share at 30 June 2004. Halyk Bank is also the third largest bank in Kazakhstan according to statistics published by the NBK, based on total assets of KZT 289 billion as of 30 June 2004. In 2003, the Bank's net income amounted to KZT 7,460 million, compared to KZT 1,871 million in 2002. For the six-month period ended 30 June 2004, the Bank had net income of KZT 4,032 million compared to KZT 2,382 million for the six-month period ended 30 June 2003.

The Bank's core business is focused on retail and corporate banking. The Bank also acts as a non-exclusive paying and collection agent for the Government for pension and other social security payments. With the most extensive retail distribution network in Kazakhstan, the Bank is able to serve its customers through 526 retail outlets, including regional and district branches in 20 regions throughout Kazakhstan. In addition, based on agency agreements with Kazpost, the Bank offers certain basic banking services, including accepting some utility payments and repayments of consumer loans, through outlets operated by Kazpost to the Bank's customers in certain remote areas. Other distribution channels used by the Bank include ATMs, the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan.

The Bank offers a wide range of retail banking products and services including current accounts, time deposits, consumer loans, mortgages, credit and debit cards, traveller's cheques, currency exchange, Internet banking and ATM services. The corporate banking business provides a range of wholesale banking products and services to corporate and small and medium size business customers, financial institutions and Government entities. As of 30 June 2004, the Bank had 4,644,204 retail accounts and 56,472 corporate accounts.

Halyk Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both Treasury bills and short-term notes of the NBK and according to statistics published by the NBK, in 2003 the Bank's purchases of Treasury bills and NBK notes represented 4% and 15% of total issued volume, respectively. Since sovereign Eurobonds were listed on the KASE, the Bank became an active investor in external obligations of the Government. In addition, the Bank has acted as co-manager of three Eurobond issues by the Republic of Kazakhstan in 1997, 1999 and 2000.

Shares of the Bank have been listed on the KASE since 1998. As of 27 September 2004, ALMEX LLP owned approximately 81% of the voting shares of the Bank. See "Principal Shareholders". The Bank's principal offices are located at 97 Rozybakiev Street, Almaty 480046, Kazakhstan.

History

The Bank's history dates back to an opening of a cashier outlet of the Soviet Sberbank (Savings Bank of the former Soviet Union) in Aktobe in 1923 followed by the establishment of a branch in Almaty of the Soviet Sberbank in 1936. In 1994, the Bank became a separate legal entity wholly owned by the Republic of Kazakhstan. In 1995, the Bank was re-incorporated as a closed joint stock bank and, in 1998, reorganised into an open joint stock company. In 1998, in connection with the reorganisation and as part of the privatisation programme, the Government authorised an issue of new common shares of the Bank comprising approximately 20% of the paid in share capital. These new shares were allocated in an open tender to various shareholders.

In November 1999, the Bank issued new common shares to various existing shareholders (excluding the Government) and, as a result, the Government's shareholding reduced to approximately 66.7% of the paid in share capital. In December 1999, the Government decided to further reduce its shareholding in the Bank and sold common shares of the Bank comprising approximately 16.7% of the then paid in share capital of the Bank in a closed tender process organised by the Ministry of Finance of Kazakhstan (the "Ministry of Finance"). The tender was awarded to a consortium of

companies comprising Asia Invest LLP, Komirbank OJSC and ATF Bank (formerly, Almaty Merchant Bank). As a result of such tender, the Government's shareholding was reduced to 50% plus one share.

In November 2000, the Bank issued new common shares to the Bank's existing shareholders (excluding the Government) and the Government's shareholding was diluted to 33.3% plus one share. In November 2001, the Government sold its remaining shares through a public tender organised by the State Privatisation Committee of the Ministry of Finance. The tender was awarded to a consortium of legal entities comprising MangistauMunaiGas OJSC, Mercury LLP, Raimbek Bottlers LLP, Rakhimzhan LLP and trade finance company Altyn Taraz for total consideration of U.S.\$41,000,000 (KZT 340 per one share). In December 2001, the consortium sold the acquired shares of the Bank to a group of Kazakhstani companies, including Agys Ltd., Dakot LLP, Karat 24 LLP, Tara Invest LLP and ATF Bank. In July 2004, Almex LLP acquired additional shares on the secondary market as a result of which its ownership of the Bank increased to 77.55%. ALMEX LLP further consolidated its holding in September 2004 increasing its interest in the Bank to 93%. After subsequent sales of shares by ALMEX LLP on the secondary market and the completion of the capital issue on 27 September 2004, ALMEX LLP owned on 27 September 2004 approximately 81% of the voting shares of the Bank. See "Risk Factors—Risk Factors Relating to the Bank—Capital Adequacy and Need for Additional Capital" for more information on the issue of new shares on 27 September 2004 and "Principal Shareholders" for more information on the Bank's current principal shareholders.

In 2003, the Bank completed its re-registration as a joint stock company and adopted a new charter, each in accordance with the Law on Joint Stock Companies of 2003. The Bank is incorporated for an unlimited duration.

Corporate Strategy

The Bank's objective is to achieve higher average returns on equity and on assets and to increase profitability by consolidating its position as the leading retail bank in Kazakhstan and by expanding its market share of the Kazakhstani corporate banking sector, with a continued focus on credit quality. In addition, the Bank plans to further expand its revenue base through selective regional expansion and development of subsidiary operations and to improve its internal operational efficiency and management to support its growth. Elements of the Bank's strategy include:

- *Further development of retail banking services and products to consolidate the Bank's position as the leading retail bank in Kazakhstan.* In the retail banking sector, the Bank intends to consolidate its position as the leading retail bank in Kazakhstan. The principal objective is to capitalise on the Bank's widespread branch and ATM network to grow its traditional range of retail products and to develop new services and products such as electronic and mobile banking services as well as new deposit, consumer lending and mortgage products. The Bank also intends to develop cross-selling activities that will enable it to offer a wide range of products and services, including new deposit products, credit and debit card services, electronic banking services, consumer loans, mortgages, insurance products and pension fund services. In January 2002, the Bank adopted a retail customer segmentation programme to meet the diversified needs of the identified customer segments and introduced, among other things, "VIP" customer centres for high net worth individuals. Management believes that the effective use of customer segmentation will not only assist the Bank in establishing new client relationships but also allow it to strengthen its relationships with existing customers while ensuring that products and services are effectively delivered.
- *Focused expansion of the corporate customer base.* The Bank aims to further expand its corporate banking business, with a continued emphasis on credit quality. During the past few years, the Bank has been focusing on building an established corporate customer base in strategically important sectors of the economy such as oil and gas, construction and agriculture. Lending to corporate customers increased 8% during the first six months of 2004, 17% in 2003 and 56% in 2002. The Bank will also continue to target financially strong small and medium size businesses, offering them access to high quality and diverse banking products and services, and place increased emphasis on developing its service offering to its corporate customers, including providing investment banking and other advisory services. Management believes that it is well positioned to increase its business with small and medium size businesses by capitalising on the Bank's extensive branch network.

- *Selective regional growth.* As part of its growth strategy, the Bank intends to expand its presence within strategically important financial and industrial centres in Kazakhstan and nearby regions that have high growth potential. Management believes that selective regional expansion will improve and further diversify its funding base and provide additional revenue sources. In Kazakhstan, the Bank is reviewing plans to selectively expand its presence in major oil and gas extraction, transportation and processing regions. The Bank is also identifying opportunities to expand internationally, particularly in areas bordering Kazakhstan. Currently, the Bank has representative offices in Beijing, London and Moscow. In April 2004, the Bank acquired a 76.88% interest in Joint Stock Bank Khlebnyi (“Bank Khlebnyi”), a small regional Russian bank in the Chelyabinsk industry region which has strong links to the Kazakhstani industry due to its location close to the Russia-Kazakhstan border. In addition, in May 2004, the Bank won through a tender process, the right to purchase the entire share capital of AOOT Kairat Bank for approximately U.S.\$1.25 million. Kairat Bank is a small regional bank in Kyrgyzstan. The Bank expects to complete the acquisition during the last quarter of 2004. Expansion to Kyrgyzstan is primarily driven by growing trade between Kazakhstan and Kyrgyzstan and existing opportunities in the Kyrgyzstan banking sector, in particular in operations relating to precious metals.
- *Improve Internal Operational Efficiency and Management.* The Bank plans to continue to improve its internal operational efficiency and the management of its banking operations within an increasingly competitive Kazakhstani banking sector by implementing enhanced internal management systems and controls within each of its various operations, departments and branches. In addition, management believes that by integrating and centralising its risk management systems, it will be able to achieve controlled growth of its business with large as well as small and medium size corporate customers and retail customers. For example, the Bank has created a new Financial Risks Department to monitor areas of risk management that the Credit Risk Department did not previously monitor and appointed a new Managing Director who is responsible for supervising both of these departments. In addition, the Bank plans to upgrade its current IT systems by the end of 2004 allowing it to centrally manage its customer database and to provide better quality data to assist in processing and analysing specific risks inherent to its operations. The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in IT to support the efficient growth of its operations.
- *Development of Subsidiary Operations.* Kazakhstan’s capital markets are evolving and developing. As the economy and the financing needs of its customers grow, the Bank anticipates an expansion of the local capital markets. Accordingly, the Bank is committed to developing its investment banking services by separating these operations into a new subsidiary to assist companies to optimise their capital structure. In addition, management believes that pension funds and the insurance sector will provide strong revenue growth opportunities and is positioning itself to capitalise on these opportunities. CJSC Accumulated Pension Fund of Halyk Bank, a majority owned subsidiary of the Bank, is the biggest pension fund in Kazakhstan in terms of total assets held. The Bank also has a 42% interest in CJSC Kazinstrakh which provides a full range of insurance products to retail and corporate customers.

The Bank may also seek opportunities to enter into a strategic alliance with an international bank to obtain access to Western know-how and expertise in exchange for providing access to the local market and its extensive branch network.

Business Operations

General

Under the terms of the Bank’s licences, the Bank is currently authorised to offer the following products and services: accepting deposits from individuals and legal entities; maintaining correspondence and other accounts for banks and banking organisations; cash and transfer operations; discount operations; lending; settlements on behalf of its clients; trust operations; safekeeping; pawnshop operations; issuance of payments cards; cash collection; foreign currency exchange operations; precious metals transactions; guarantee operations; leasing; issuing securities; factoring; forfeiting; broker-dealer and custody operations.

Retail Banking

According to statistics published by the NBK, the Bank's retail deposits of KZT 107,428 million represented approximately 26% of the total market share as of 30 June 2004. Loans to individuals represented 11% of the Bank's gross loan portfolio as of 31 December 2003 and 20% as of 30 June 2004. As of 30 June 2004, the Bank had 4,644,204 individual retail customer accounts. Retail deposits represented 57% of the Bank's total deposits as of 31 December 2003 and 58% as of 30 June 2004.

The Bank conducts its retail banking operations through the Bank's branch network, which is the largest in Kazakhstan, and other distribution channels such as ATMs, the Internet and in-store service points located at certain shopping centres and supermarkets in Kazakhstan. In addition, based on an agency agreement with Kazpost, the Bank offers certain basic banking services, including accepting some utility payments and repayments of consumer loans through outlets operated by Kazpost to its customers in certain remote areas. See "—Distribution Channels".

Customer Segmentation

In order to better serve individual needs of its customers, the Bank has, since January 2002, divided its retail customers into the following three segments based on annual income levels:

- The first segment, "VIP", comprises high net-worth individuals having annual income levels of above U.S.\$120,000. This group consists of owners and management of large and mid-size companies and top Government officials.
- The second segment, "mid-market", comprises individuals having annual income levels of above U.S.\$12,000 but less than U.S.\$120,000. This group consists of owners of small-size businesses, mid-level management and specialists as well as mid-level Government officials.
- The third segment, "mass-market", comprises individuals having annual income levels of less than U.S.\$12,000. This group consists of workers, Government employees, students and pensioners.

The Bank uses the customer segmentation to offer its customers with services and products tailored for their individual needs. VIP customers benefit from service centres where a personal fund manager has been appointed to assist them. Mid-market customers also benefit from personal service centres while mass-market customers are served through the Bank's extensive branch network.

Products and Services

The Bank's retail banking operations include personal banking services, branch banking, deposit taking activities (demand, time and currency deposits), credit and debit card services, car leasing, consumer lending and mortgages.

The Bank is an active participant in the mortgage and consumer lending market, which accounted for 14.2% of its gross loan portfolio as of 30 June 2004. In 2002, the Bank introduced a new product, the "Halyk Programme" and "Halyk Plus Programme", both targeted for its mass-market retail customer base. Under these programmes, customers may apply for a credit up to the lower of their monthly salary or U.S.\$4,000 (or equivalent) for Halyk Programme and U.S.\$1,000 (or equivalent) for Halyk Plus Programme. As of 30 June 2004, 159,254 customers participated in these programmes. Halyk Bank is currently the only bank offering this product in Kazakhstan.

In April 2004, the Bank launched a new promotional mortgage product called "Ipoteka Lights" targeted for its retail customers. Under the terms of this product, the Bank's customers may apply for a credit against a deposit of 10-15% of the principal amount of the loan with the Bank. The Bank pays no interest on the deposit and it is recorded as a collateral in the Bank's accounts.

By 30 June 2004, the Bank had issued a total of 1,388,618 debit and credit cards, including VISA, Mastercard, American Express, VISA Electron, Cirrus and Maestro cards. The Bank has also established the largest ATM network in the country, consisting of 399 ATMs as of 30 June 2004. In addition, customers of the Bank may use ATMs of other Kazakhstani banks for a small fee per withdrawal. The volume of cash withdrawals through the Bank's ATM network amounted to KZT 105.3 billion for the six-month period ended 30 June 2004. Total fees generated from payment card services amounted to KZT 501 million for the six-month period ended 30 June 2004.

Corporate Banking

In line with the Bank's strategy for focused expansion of its corporate banking business, lending to large corporate customers increased 8% to KZT 131,895 million as of 30 June 2004 from KZT 121,709 million as of 31 December 2003, which in turn represented an increase of 17% from KZT

104,374 million as of 31 December 2002. Lending to small and medium size businesses increased 9% to KZT 37,168 million as of 30 June 2004 from KZT 34,059 million as of 31 December 2003, which in turn represented an increase of 57% from KZT 21,741 million as of 31 December 2002. According to statistics published by the NBK, as of 31 December 2003, the Bank's share of the corporate lending market in Kazakhstan was 17%. The number of corporate accounts held by the Bank as of 30 June 2004 amounted to 56,472.

Customer Segmentation

The Bank provides commercial banking products and services to small, medium and large sized businesses in Kazakhstan. Since May 2004, the Bank has classified large corporate customers as those businesses that have a total monthly turnover of more than KZT 200 million on their accounts with the Bank. The Bank classifies medium size corporate customers as those businesses that have a total monthly turnover of more than KZT 90 million but less than KZT 200 million on their accounts with the Bank and small size corporate customers as those businesses that have a total monthly turnover of less than KZT 90 million on their accounts with the Bank.

Products and Services

Products and services offered to corporate customers include Tenge and foreign currency denominated loans, guarantees, export financing, documentary credits (principally letters of credit), promissory notes, safe-keeping, foreign exchange services, capital markets and investment banking products, deposit taking and advisory services.

Loans to large corporate customers consist principally of secured loans with maturities ranging from one month to seven years. Loans to small and medium size businesses are also principally secured and have maturities ranging from one month to five years.

International Banking

The Bank provides services for customers engaged in international trading. Currently, the Bank has representative offices in Beijing (China), London (the United Kingdom) and Moscow (Russia) through which it intends to diversify its clientele and the range of banking products in international trade finance. In April 2004, the Bank acquired a 76.88% interest in Bank Khelebnyi for a total consideration of KZT 161 million. Bank Khelebnyi is a small regional Russian bank in the Chelyabinsk industry region which has strong links to the Kazakhstani industry due to its location close to the Russia-Kazakhstan border. This acquisition is primarily driven by the growing levels of trade between the Chelyabinsk region and Kazakhstan, especially in the construction, mining and oil and gas sectors.

Other Banking and Financial Services

In addition to providing personal and corporate banking services, the Bank is a primary dealer of Government securities, consisting primarily of treasury bills, short-term notes of the NBK and national savings bonds. The Bank has acted as a co-manager of three sovereign Eurobond issues by the Republic of Kazakhstan. As of 30 June 2004, the size of the Bank's portfolio of Government securities was KZT 40,101 million compared to KZT 44,192 million and KZT 27,347 million as of 31 December 2003 and 2002, respectively. The Bank is also an active participant in the foreign exchange markets and has a licence to engage in certain precious metal transactions in Kazakhstan and abroad.

The Bank also acts as a paying agent on behalf of the Government in respect of certain Government programmes, such as pension payments and wage arrears. As of 30 June 2004, the Bank's share of total pension payments in Kazakhstan was approximately 56%. During the first six months of 2004, the total volume of pension payments paid through the Bank amounted to approximately KZT 60.8 billion, compared to KZT 140 billion in 2003.

Distribution Channels

As of 30 June 2004, the Bank's branch network consisted of 20 regional branches (which report to the head office), 126 district branches and 380 savings outlets (which each report to their respective regional branches) distributed across all regions of Kazakhstan. In addition, the Bank has in-store service points located at certain shopping centres and supermarkets in Kazakhstan. Each regional and district branch provides a broad range of banking services. In comparison to branches, cash settlement units and in-store service points provide a limited number banking services such as utility payments, cash withdrawals and money transfers. Large corporate customers are generally customers of the head

office. The Bank's head office is responsible for the co-ordination of the branch network operations, marketing strategy and placement of assets, management of the Bank's balance sheet, the Bank's development and restructuring and the Bank's international operations.

In 1997, the Bank entered into an agency agreement with the Ministry of Labour and Social Support to render exclusive payment agency services to make pension payments and other social security payments. In 1998, the agency agreement was replaced with a general agreement for acting as a payment agent for pension and other social compensation payments with the State Centre for Pension Payments under the Ministry of Labour and Social Support and the Bank continued to act as an exclusive payment agent until 2000. In 2000, the State Centre for Pension Payments announced a tender for selection of additional payment agents. The tender did not take place as only the Bank and Kazpost submitted bids and the Bank retained its status as the exclusive payment agent for the pension and other social compensation payments. As part of its programme for optimisation of its branch network in 2000 and 2001, the Bank entered into a cooperation agreement with Kazpost pursuant to which the Bank transferred to Kazpost its functions as payment agent in locations where the Bank did not have its own branches or outlets. Under the cooperation agreement, the Bank paid a commission fee of 0.45% (which was later increased to 0.53%) to Kazpost based on the volume of payments paid through Kazpost's outlets. Starting from 2001, the State Centre for Pension Payments abandoned the exclusive payment agency structure and entered into payment agency agreements with various commercial banks in Kazakhstan, including the Bank and Kazpost. The Bank, however, did not terminate the cooperation agreement with Kazpost until January 2004 and continued to use the Kazpost outlets for making certain pension and social payments on behalf of the Bank through 2003. In 2003, the Bank paid total fees of KZT 496 million to Kazpost under the cooperation agreement.

In addition, the Bank is party to two agency agreements with Kazpost dated 11 August 2003 and 28 April 2003. Pursuant to the agency agreements, the Bank outsourced certain basic retail banking services to Kazpost, including acceptance of some utility gas payments in the Aktobe region and repayments of consumer loans in areas where the Bank does not have branches or outlets. This reduces the Bank's operating expenses and, at the same time, allows the Bank to be present in these remote areas. The Bank pays a commission fee of 0.45% and 0.7% to Kazpost based on the volume of utility and consumer loan payments paid through Kazpost's outlets, respectively. In 2003, the Bank paid total fees of KZT 115,000 million to Kazpost under the agency agreement. During the first six months of 2004, these fees amounted to KZT 164,381 million.

The Bank's other distribution channels include ATMs and the Internet. The Bank's ATM network is the largest in Kazakhstan, consisting of 399 ATMs as of 30 June 2004. Customers can withdraw cash, pay bills and print their pension statements using the Bank's ATMs. The Bank launched its Internet banking services in 2000. As of 30 June 2004, the Bank had 7,227 registered Internet banking users. The Bank is also developing mobile banking services to allow its customers to access account information and transfer money using mobile phones and other wireless communication units. The Bank expects to launch this service to its customers during the first quarter of 2005.

Subsidiaries

As of the date of this Offering Circular, the Bank had the following subsidiaries.

CJSC Halyk Leasing, a wholly-owned subsidiary of the Bank, was established on 1 September 2000 to provide leasing services in Kazakhstan. As of 30 June 2004, it had shareholders' equity of KZT 261.7 million and total assets of KZT 2,758 million.

CJSC Accumulated Pension Fund of Halyk Bank was established on 8 January 1998, among other things, to collect pensions contributions, provide pension payments, manage pension assets and develop pension programmes for its customers in Kazakhstan. The Bank currently holds approximately 85% of its share capital. As of 30 June 2004, the pension fund had total assets of KZT 1,146 million and had a 24.8% share of the aggregate pension assets of the Kazakhstani pension system.

CJSC Kazteleport, a wholly-owned subsidiary of the Bank, was established on 9 November 1999. The company was established to build and develop a telecommunications network and to sell and lease telecommunication equipment to the Bank and third-party customers. Currently, CJSC Kazteleport provides services for 28 clients including the NBK, Kazkommertzbank and the KASE. The Bank does not act as a general telecommunication operator. As of 30 June 2004, the company had total assets of KZT 40 million and shareholders' equity of KZT 38 million.

HSBK (Europe) B.V., a wholly-owned subsidiary of the Bank, was established on 1 May 1998 for the purpose of raising funds for the Bank outside Kazakhstan, but has not yet been used for such purpose.

In February 2004, the Bank acquired the entire share capital of AIRI LLP for a total consideration of KZT 87,200. The consideration was paid in June 2004. Activities of AIRI LLP include analysis of the Kazakhstani market and publication of research reports. As of 30 June 2004, AIRI LLP had total assets of KZT 131 million and shareholders' equity of KZT 38 million.

In April 2004, the Bank acquired a 76.88% interest in Bank Khlebnyi for a total consideration of approximately U.S.\$ 1 million. Bank Khlebnyi is a small regional Russian bank in the Chelyabinsk region. Bank Khlebnyi was established in Russia on 14 February 1995. As of 30 June 2004, Bank Khlebnyi had total assets of KZT 178 million and shareholders' equity of KZT 70 million.

As of 31 December 2003, the Bank had one associate company, CJSC Kazinstrakh. CJSC Kazinstrakh is a successor of the former Soviet Union's insurance system which was created as a separate legal entity in 1995 and privatised in 2001, with a current shareholders' equity of KZT 1,632 million. The company provides a full range of property and casualty insurance services. The Bank currently holds approximately 42% of its share capital. CJSC Kazinstrakh is accounted for using equity method. As of 30 June 2004, the Bank's share in its net assets was approximately KZT 595 million.

Sales and Marketing

The Department for Commercial Sales Support is responsible for coordinating the development and introduction of the Bank's new products and services and to process and analyse market information received from the Marketing Department and the Department for Development of Client Relationships. The Marketing Department is responsible for the Bank's marketing strategy based on information gathered from the market while the Department for Development of Commercial concentrates on creating new customer contacts and coordinates activities between subdivisions. All three departments cooperate in gathering information on client behaviour and reception of the Bank's products and services on the market. All three departments also interact with the Bank's operational departments in creating new customer contacts and coordinating sales and marketing initiatives through the Bank's distribution channels.

The Bank utilises a variety of marketing programmes to market its services and products. The Bank's marketing initiatives include face-to-face contacts and advertising in print-media, television, radio, targeted mailings and the organisation of fairs, seminars and other events focused on promoting its services and products.

Competition

As of 30 June 2004, there were 35 banks operating in Kazakhstan, excluding the NBK and DBK. Of these, 15 were banks under foreign ownership, including subsidiaries of foreign banks. The commercial banks in Kazakhstan can be divided into three groups: large local banks, such as the Bank, Kazkommertsbank and Bank TuranAlem, banks under foreign ownership, such as ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, and smaller local banks. Management believes that the Bank is in a strong position to compete in the Kazakhstan banking sector due to its large branch network and customer base.

In terms of competition from large domestic banks, Kazkommertsbank and Bank TuranAlem are considered as the major competitors of the Bank. Kazkommertsbank was established in 1990 and is the largest bank in Kazakhstan in terms of assets according to the NBK. Bank TuranAlem resulted from a merger initiated by the Government between two state-owned banks, Turan Bank and Alem Bank, in 1997 and was privatised in 1998 to a group of Kazakhstani investors. As of 31 December 2003, Bank TuranAlem was the second largest private bank by assets and the third largest bank in terms of equity in Kazakhstan. Furthermore, it has the second largest market share in terms of its deposit base.

In 2001, the Government established DBK to facilitate industrial projects in Kazakhstan and to provide longer term financing for projects within Kazakhstan. DBK was established with a charter fund of KZT 30 billion and is the largest bank in Kazakhstan in terms of shareholders' equity. Inside the commercial banking sector, DBK is not considered to be a competitor of the major commercial banks as it is not licensed to accept corporate or retail deposits or to provide corporate settlement services. The DBK is not treated as a commercial bank for the purposes of market share data and ranking in this Offering Circular.

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

The following table sets out certain financial information as of 31 December 2003 relating to the Bank and the largest local and foreign banks which the Bank considers will be its major competitors in the Kazakhstani banking sector:

	Assets	Shareholders' Equity
	(KZT millions)	
Kazkommertsbank	434,241	45,579
Bank TuranAlem.....	373,064	30,683
Halyk Bank	249,523	21,238
Citibank Kazakhstan.....	35,168	6,303
ABN AMRO Bank Kazakhstan	30,650	5,139

Source: Published financial statements.

Insurance

The Bank maintains cash collection and transportation insurance. The Bank has neither business interruption nor third-party liability insurance.

Employees

As of 30 June 2004, the Bank had 8,152 employees, of which approximately 90% were employed in the branches and retail outlets in Kazakhstan. As of 27 July 2004, the Bank employed 7,969 full-time employees and 668 part-time employees. The average age of the Bank's employees is currently approximately 35 years.

	As of 30 June	As of 31 December		
	2004	2003	2002	2001
Head office	861	857	905	651
Branches and retail outlets	7,291	7,567	7,758	7,610
Total	8,152	8,424	8,663	8,261

Although there are currently no labour unions in the Bank or its subsidiaries, some employees of the Bank are members of some local labour unions. The Bank has never experienced any industrial action or other work stoppages resulting from labour disputes.

Properties

As of 30 June 2004, the total net book value of the fixed assets (comprising land, land improvements, buildings, computer hardware and others) of the Bank amounted to KZT 7,176 million. The Bank leases 25% of its branch offices and retail outlets from third parties pursuant to long-term renewable leases and owns the remaining 75% of its offices. In 2003, the Bank paid a total amount of approximately KZT 108 million under its leases.

Information Systems

The Bank has made substantial investments in technology with the aim of improving customer service, increasing its operating efficiencies and enhancing its overall competitive position. In 2003, the Bank's information technology related capital expenditures amounted to approximately KZT 663 million, and it has budgeted approximately KZT 1.4 billion for information technology in 2004.

Currently, the Bank's banking system is not fully integrated and information from some branches is still processed manually and sent to the head office for processing. The Bank is in a process of upgrading its current information technology systems to allow full integration of its banking and

payment systems and centralised management of its customer database. After the upgrade, which is planned to be completed by the end of 2004, the Bank will have access to better quality data to assist in processing and analysing specific risks inherent to its operations. The Bank considers information technology to be an integral component of its daily operations and is committed to continued investment in information technology to support the efficient growth of its operations. Management believes that this upgrade will significantly improve its risk management capabilities, asset and liability management, liquidity management and monitoring of lending activities.

Legal Proceedings

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

In January 2004, the Bank became a party to a litigation proceeding with the Kazakhstan tax authorities in Almaty who imposed an additional tax of KZT 1,315 million on the Bank relating to the income derived by the Bank from options entered into by the Bank in respect of certain state securities. The tax authorities claimed that the Bank wrongfully exempted such income from taxable income for the fiscal year 2002. In March 2004, the court of first instance issued a verdict in favour of the Bank rejecting the claims of the tax authorities. The verdict was subsequently appealed by the tax authorities and, in April 2004, the court of second instance rejected the appeal, thus holding the initial verdict issued by the court of the first instance in March 2004. As of the date of this Offering Circular, the tax authorities have not appealed the verdict of the court of second instance to the Supreme Court and, based on the information available to it, management believes that it is unlikely that the tax authorities would appeal the verdict and, should they decide to do so, that the verdict would be overturned by the Supreme Court. Therefore, no additional provisions were made in the interim consolidated financial statements of the Bank.

Other than disclosed above, the Bank is not party to any material legal proceedings and there are no legal proceedings pending or, to the best knowledge of management, threatened, with respect to the properties, assets and or business of the Bank.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical information and ratios for the Bank as of and for the periods indicated. Accordingly, the information below should be read in conjunction with the consolidated financial statements, including the notes thereto, prepared in accordance with IFRS and included elsewhere in this Offering Circular and the information included in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Certain of the information included below has been derived from management accounts, being the unaudited accounts prepared from the Bank’s accounting records, and used by management for monitoring and control purposes.

Average Balances

The following table sets out the average balances of assets and liabilities of the Bank for the periods indicated. For purposes of the following tables, the average balances represent the average of the opening and closing balances for the year. Were these balances to be calculated on “weighted average” or “daily” basis, differences may result and such differences could be material.

	Six months ended 30 June			Year ended 31 December						
	2004		2003		2002		2001			
	Average Balance	Average Balance	Interest	Average Rate ⁽¹⁾	Average Balance	Interest	Average Rate ⁽¹⁾	Average Balance	Interest	Average Rate ⁽¹⁾
<i>(KZT millions)</i> <i>(Unaudited)</i>										
ASSETS										
Interest-Earning Assets										
Loans to customers										
KZT	82,132	57,840	10,159	17.6%	38,312	5,289	13.8%	33,741	3,856	11.4%
Foreign currency	110,218	96,182	11,435	11.9%	72,202	7,719	10.7%	53,660	5,498	10.3%
Total	192,350	154,022	21,594	14.0%	110,514	13,008	12.0%	87,401	9,354	10.7%
Amounts due from credit institutions										
KZT	139	119	106	89.1%	49,589	455	0.9%	99,177	153	0.2%
Foreign currency	4,430	3,534	142	4.0%	-	-	0.0%	0	0	0.0%
Total	4,569	3,653	248	6.8%	49,589	455	0.9%	99,177	153	0.2%
Securities										
KZT	38,369	28,932	1,619	5.6%	11,014	1,341	12.2%	10,442	1,053	10.1%
Foreign currency	12,980	11,999	736	6.1%	12,499	519	4.2%	4,309	425	9.9%
Total	51,349	40,931	2,355	5.8%	23,513	1,860	7.9%	14,751	1,478	10.0%
Total Interest-Earning Assets	248,268	198,606	24,197	12.2%	183,616	15,323	8.4%	201,329	10,985	5.5%
Non-Interest-Earning Assets										
Cash and non-interest deposits	10,756	6,576			5,985			5,376		
Obligatory reserves	5,341	4,869			4,594			4,663		
Property and equipment	7,250	7,184			6,932			6,817		
Tax assets	143	100			-			-		
Other non-interest earning assets	3,153	2,270			1,953			1,972		
Total Non-Interest Earning Assets	26,643	20,999			19,464			18,828		
Total Assets	274,911	219,605			203,080			220,157		

(1) Average rates on foreign currency assets and liabilities are based on U.S. Dollar rates. Foreign currency assets and liabilities mainly include U.S. Dollars, but the Bank also has foreign currency assets and liabilities denominated in other OECD-based currencies.

	Six months ended 30 June				Year ended 31 December					
	2004	2003		2002			2001			
	Average Balance	Average Balance	Interest	Average Rate ⁽¹⁾	Average Balance	Interest	Average Rate ⁽¹⁾	Average Balance	Interest	Average Rate ⁽¹⁾
	<i>(KZT millions)</i> <i>(Unaudited)</i>									
LIABILITIES										
Interest-Bearing Liabilities										
Amounts due to the Government										
KZT	577	882	5.0	0.6%	267	3.0	1.1%	85	1.0	1.2%
Foreign currency	85	48	1.0	2.1%	9	0.0	0.0%	17	0.0	0.0%
Total.....	662	930	6.0	0.7%	276	3.0	1.1%	102	1.0	1.0%
Amounts due to credit institutions										
KZT	2,461	2,274	127	5.6%	1,882	134	7.1%	3,413	101	3.0%
Foreign currency	60,657	44,718	1,763	3.9%	21,027	784	3.7%	10,299	559	5.4%
Total.....	63,118	46,992	1,890	4.0%	22,909	918	4.0%	13,712	660	4.8%
Amounts due to customers										
KZT	101,518	71,717	2,983	4.2%	50,680	1,985	3.9%	45,988	1,573	3.4%
Foreign currency	69,274	74,165	3,646	4.9%	67,970	4,204	6.2%	54,393	2,598	4.8%
Total.....	170,792	145,882	6,629	4.5%	118,650	6,189	5.2%	100,381	4,171	4.2%
Subordinated debt securities issued	8,480	6,526	659	10.1%	3,417	407	11.9%	2,365	288	12.2%
Total Interest-Bearing Liabilities	243,052	200,330	9,184	4.6%	145,252	7,517	5.2%	116,560	5,120	4.4%
Non-Interest-Bearing Liabilities										
Dividends payable	271	380			197			3		
Tax liabilities	221	92			–			9		
Provisions.....	1,040	491			79			98		
Other non-interest bearing liabilities	1,177	739			1,526			752		
Total Non-Interest Bearing Liabilities	2,709	1,702			1,802			862		
Total Liabilities.....	245,761	202,032	9,184		147,054	7,517		117,422	5,120	

(1) Average rates on foreign currency assets and liabilities are based on U.S. Dollar rates. Foreign currency assets and liabilities mainly include U.S. Dollars, but the Bank also has foreign currency assets and liabilities denominated in other OECD-based currencies.

Interest Earning Assets, Yields, Margins and Spreads

The following table shows the net interest income, yields, margins and spreads for the Bank for the periods indicated:

	Year ended 31 December		
	2003	2002	2001
	<i>(KZT millions)</i> <i>(Unaudited)</i>		
Net Interest Income			
KZT	8,386	4,313	3,244
Foreign currency	6,627	3,494	2,620
Total.....	<u>15,013</u>	<u>7,807</u>	<u>5,864</u>
Yield⁽¹⁾			
KZT	14.4%	9.4%	7.6%
Foreign currency	11.5%	15.2%	23.2%
Total.....	<u>12.8%</u>	<u>11.9%</u>	<u>12.1%</u>
Margin⁽²⁾			
KZT	10.2%	6.1%	5.0%
Foreign currency	6.2%	6.1%	10.0%
Total.....	<u>7.9%</u>	<u>6.1%</u>	<u>6.5%</u>
Spread⁽³⁾			
KZT	9.9%	5.0%	3.8%
Foreign currency	6.9%	9.5%	17.6%
Total.....	<u>8.2%</u>	<u>6.8%</u>	<u>7.3%</u>

(1) Yield represents interest income as a percentage of average interest-earning assets.

(2) Margin represents net interest income as a percentage of average interest-earning assets.

(3) Spread represents the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities.

Analysis of Changes in Net Interest Income

The following table presents certain information regarding changes in interest income and interest expense of the Bank during the periods indicated. For each category of interest earning assets and interest bearing assets, information is provided on changes attributable to: (1) changes in volume (changes in average outstanding balances multiplied by the prior period's average interest rate) and (2) changes in interest rate (changes in average interest rate times the average outstanding balances at end of the period). Net changes attributable to changes in both volume and interest rate has been allocated proportionately to the changes in volume and the changes in interest rate:

	Year ended 31 December					
	2003/2002			2002/2001		
	Increase/(decrease) due to changes in Volume	Rate	Net change	Increase/(decrease) due to changes in Volume	Rate	Net change
	<i>(KZT millions)</i> <i>(Unaudited)</i>					
Interest Income						
Loans to customers						
KZT	2,696	2,174	4,870	523	910	1,433
Foreign currency.....	2,564	1,152	3,716	1,900	321	2,221
Amounts due from credit institutions						
KZT	(454)	105	(349)	(76)	378	302
Foreign currency.....	—	143	143	—	—	—
Securities						
KZT	2,182	(1,905)	277	58	230	288
Foreign currency.....	(20)	238	218	807	(713)	94
Total interest income.....	6,967	1,907	8,874	3,210	1,127	4,337
Interest Expense						
Amounts due to the Government						
KZT	7	(5)	2	2	—	2
Foreign currency.....	—	1	1	—	—	—
Amounts due to credit institutions						
KZT	28	(36)	(8)	(45)	78	33
Foreign currency.....	883	96	979	582	(357)	225
Amounts due to customers						
KZT	824	174	998	161	251	412
Foreign currency.....	383	(941)	(558)	649	957	1,606
Subordinated debt securities issued..	370	(118)	252	128	(9)	119
Total interest expense.....	2,495	(828)	1,667	1,476	921	2,397
Net changes in net interest income ..	4,472	2,735	7,207	1,734	206	1,940

Return on Assets and Equity

The following table sets out certain selected financial ratios of the Bank for the periods indicated:

	Six Months ended 30 June	Year ended 31 December		
	2004	2003	2002	2001
<i>(KZT millions, except percentages)</i>				
Net income	4,032	7,460	1,871	31
Average total assets ⁽²⁾	269,103	219,403	156,804	113,255
Average shareholders' equity ⁽²⁾	23,151	17,713	10,545	6,896
Net income as a percentage of:				
Average total assets ⁽²⁾	3%	3.4%	1.2%	0.03%
Average shareholders' equity ⁽²⁾	34.8%	42.1%	17.7%	0.5%
Declared cash dividends ⁽¹⁾	175	354	394	—
Average shareholders' equity as a percentage of average total assets ⁽²⁾	8.6%	8.1%	6.7%	6.1%

(1) Consist of dividends accrued on the Bank's preferred shares.

(2) Unaudited.

Securities Portfolio

As of 30 June 2004, the Bank's aggregate securities portfolio amounted to KZT 53,109 million, an increase of 7% over the figure as of 31 December 2003. The increase was attributable to an increase in the Bank's portfolio of investment securities held-to-maturity, which increased KZT 9,732 million to KZT 16,175 million as of 30 June 2004 from KZT 6,443 million as of 31 December 2003 mainly as a result of increased portfolio of U.S. Treasury bills. This increase was partly offset by a decrease of 15% in the Bank's trading securities portfolio, which amounted to KZT 33,829 million as of 30 June 2004 and KZT 39,914 million as of 31 December 2003. This decrease in the trading securities portfolio resulted mainly from a sale of NBK notes in June 2004 to finance the Bank's lending operations. The size of the Bank's aggregate securities portfolio grew 54% as of 31 December 2003 to KZT 49,589 million from KZT 32,273 million as of 31 December 2002, which in turn represented an increase of 119% from KZT 14,751 million as of 31 December 2001. This growth was mainly in the Bank's trading portfolio, which increased 70% to KZT 39,914 million as of 31 December 2003 from KZT 23,507 million as of 31 December 2002.

Commencing December 2002, the Bank classified its securities portfolio as (i) trading securities, (ii) investments securities available-for-sale, and (iii) investment securities held-to-maturity. In 2001, all securities held by the Bank were classified as available-for-sale.

The following table shows a breakdown of securities held by the Bank as of the dates indicated:

	As of 30 June	As of 31 December		
	2004	2003	2002	2001
<i>(KZT millions)</i>				
Trading securities	33,829	39,914	23,507	—
Investment securities:				
Available-for-sale	3,105	3,232	5,783	14,751
Held-to-maturity	16,175	6,443	2,983	—
Total securities	53,109	49,589	32,273	14,751

Trading Portfolio

Securities purchased with the intention of recognising short-term profits are classified as trading securities. After initial recognition, securities which are classified as held for trading are measured at estimated fair value. Changes in the estimated fair value are included in the accompanying consolidated statements of income within gains less losses from securities. In determining estimated fair value, trading securities are value at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference

to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realised.

The following table shows a breakdown of the Bank's trading portfolio as of the dates indicated:

	As of 30 June	As of 31 December	
	2004	2003	2002
		<i>(KZT millions)</i>	
Notes of the NBK.....	17,908	23,958	10,148
Treasury bills of the Ministry of Finance.....	9,721	9,208	6,210
Sovereign bonds of the Republic of Kazakhstan.....	3,708	4,085	4,550
Eurobonds of Kazakhstani banks.....	2,330	2,494	2,129
Bonds of Development Bank of Kazakhstan.....	162	169	470
Total trading securities.....	33,829	39,914	23,507
Subject to repurchase agreement.....	—	5,657	4,283

As of 30 June 2004, the Bank's trading securities portfolio amounted to KZT 33,829 million, a decrease of 15% over the figure as of 31 December 2003. This decrease resulted mainly from decreased portfolio of NBK notes. The size of the Bank's trading portfolio increased 70% as of 31 December 2003 to KZT 39,914 million from KZT 23,507 million as of 31 December 2002. The increase in 2003 was mainly attributable to an increased portfolio of NBK notes which increased by KZT 13,810 million from KZT 10,148 million as of 31 December 2002 reflecting the Bank's policy of increasing its holding of liquid securities. Investment in treasury bills of the Ministry of Finance also increased 48% as of 31 December 2003 to KZT 9,208 million from KZT 6,210 million as of 31 December 2002. The portfolio of Eurobonds comprises Eurobonds issued by two Kazakhstani banks and decreased slightly as of 30 June 2004 to KZT 2,330 million from KZT 2,494 million as of 31 December 2003. The average return on the trading securities portfolio was 5.8% in 2003 compared to 7.9% in 2002, reflecting the general trend in reduction of yields on NBK notes and treasury bills of the Ministry of Finance. For the six-month period ended on 30 June 2004, the average return on the trading securities portfolio amounted to 9.8%.

The following table sets out information on maturities and interest rates of the Bank's trading securities portfolio as of the dates indicated:

	As of 31 December			
	2003		2002	
	(%)	Maturity	(%)	Maturity
Notes of the NBK.....	4.7%-5.4%	2004	6%	2003
Treasury bills of the Ministry of Finance.....	5.7%-16.9%	2004-2013	7-17%	2003-2006
Sovereign bonds of the Republic of Kazakhstan..	11.1%	2007	11.1%	2007
Eurobonds of Kazakhstani banks.....	7.38%-8.6%	2007-2013	7.1%	2007-2013
Bonds of Development Bank of Kazakhstan.....	9.1%-9.8%	2007	9.1%	2007-2013

Investment Portfolio

The Bank classifies its investment securities into two categories: (i) securities that are not classified by the Bank as held-to-maturity or trading securities are included in the available-for-sale portfolio; and (ii) securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity. The Bank classifies investment securities depending upon the intent of management at the time of the purchase.

Securities Available-for-Sale

The Bank's portfolio of securities available-for-sale consists primarily of Government securities and bonds of Kazakhstani banks. As of 31 December 2003 and 2002, bonds of two Kazakhstani banks represented 67% and 100% of the Bank's Kazakhstani bank bond portfolio, respectively. As of 30 June 2004, bonds of these two banks represented 77% of the Bank's bank portfolio.

The following table sets out certain information relating to the Bank's portfolio of available-for-sale securities as of the dates indicated:

	As of 30 June	As of 31 December		
	2004	2003	2002	2001 ⁽¹⁾
		<i>(KZT millions)</i>		
Sovereign bonds of Kazakhstan	1,277	1,828	1,956	3,569
Bonds of Kazakhstani banks	1,114	848	317	—
Treasury bills of the Ministry of Finance.....	300	301	2,903	4,919
Corporate bonds	202	148	592	1,039
Notes of the NBK.....	212	107	15	4,769
World Bank bonds.....	—	—	—	2
Local municipal bonds.....	—	—	—	453
Available-for-sale securities, total	3,105	3,232	5,783	14,751
Subject to repurchase agreement	—	1,182	1,484	2,450

(1) The Bank's entire securities portfolio was classified as available-for-sale in 2001. Commencing from year-end 2002, the Bank began classifying its securities as trading, investment securities available-for-sale and investment securities held-to-maturity. Accordingly, the numbers are not comparable.

The following table sets out information on maturities and interest rates of the Bank's portfolio of available-for-sale securities as of the periods indicated:

	As of 31 December					
	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance.....	5.5%-6.1%	2005-2010	7%-17%	2003-2007	8.67%-11.05%	2002-2006
Sovereign bonds of Kazakhstan.....	3.9%-13.5%	2004-2007	11.13%	2004-2007	4%-16.9%	2002-2007
Corporate bonds	7.5%-10.9%	2004-2009	8.5%-9%	2003-2005	5.37%-5.89%	2002
Bonds of Kazakhstani banks	10.5%-13.3%	2004-2010	7%-11%	2003-2007	7.12%-13.15%	2002-2007
Notes of the NBK.....	4.63%-4.9%	2004	6%	2003	8.4%-9.8%	2002-2004
Local municipal bonds.....	—	—	—	—	7%	2005

Securities Held-to-Maturity

The Bank's portfolio of securities held-to-maturity consists of Government securities, corporate bonds, bonds issued by municipalities and World Bank bonds. The following table sets out certain information relating to the Bank's portfolio of held-to-maturity securities as of the dates indicated:

	As of 30 June		As of 31 December			
	2004		2003		2002	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
	<i>(KZT millions)</i>					
Treasury bills of the Ministry of Finance	6,973	6,690	4,706	4,460	1,566	1,573
Corporate bonds	2,412	2,356	1,334	1,307	1,153	767
U.S. Treasury bills	4,612	6,125	—	—	—	—
Euro notes of Kazakh banks	1,355	1,365	—	—	—	—
Bonds of Kazakh banks.....	446	442	—	—	—	—
Local municipal bonds.....	377	360	402	381	262	167
World Bank bonds.....	—	—	1	1	2	1
Held-to-maturity securities total	16,175	17,338	6,443	6,149	2,983	2,508

The following table sets out information on maturities and interest rates of the Bank's portfolio of held-to-maturity securities as of the dates indicated:

	As of 31 December			
	2003		2002	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	3.9%-8.2%	2004-2005	7%-17%	2003-2005
Corporate bonds.....	7.4%-11.5%	2004-2014	8.5%-9%	2003-2005
Local municipal bonds	6%-8.5%	2005-2008	6%-8.5%	2005-2008
World Bank bonds.....	7.1%	2005	7.1%	2005

The Bank's Loan Portfolio

Loans to Customers

Loans to customers represents the largest part of the Bank's assets. As of 30 June 2004, the Bank's total loans to customers, net of allowance for loan impairment, amounted to KZT 197,750 million, or 69% of total assets, compared to KZT 163,888 million, or 66% of total assets, as of 31 December 2003. As of 31 December 2002, the Bank's net loan portfolio amounted to KZT 125,816 million, or 66% of total assets, which represented a 50% increase from KZT 83,664 million, or 67% of total assets, as of 31 December 2001. The Bank's net loan portfolio increased 30%, 50% and 70% as of 31 December 2003, 2002 and 2001, respectively. The growth was attributable to an overall increase in lending to small and medium size businesses and retail customers following the overall growth in these sectors in Kazakhstan. Loans to the Bank's ten largest customers represented approximately 22% of the gross loan portfolio as of 30 June 2004, compared to 30% as of 31 December 2003 and 27% as of 31 December 2002. As of 30 June 2004, the Bank's exposure to the single largest borrower was KZT 11,134 million, constituting 5.3% of total gross loans to customers.

Average interest rates on the loan portfolio increased slightly from 11% in 2001 to 11.7% in 2002 and further to 14% in 2003 and decreased to 12.6% for the six-month period ended 30 June 2004 due to increased price competition, particularly in the small and medium business sector and a decline in market rates generally.

The average balance of the Bank's net loans to customers was KZT 144,852 million in 2003, KZT 104,740 million in 2002 and KZT 66,519 million in 2001. As of 31 December 2003, 86% of the Bank's loans were fixed rate and 14% variable rate. As of 30 June 2004, 85.15% were fixed rate and 14.85% variable rate.

The following table (derived from management accounts) provides a breakdown of loans granted by the head office and by the branches as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Head office.....	133,313	63.4	118,105	66.2	98,037	73.1	69,184	79.2
Branches.....	76,969	36.6	56,313	33.8	35,590	26.9	18,217	20.8
Total loans, gross.....	210,282	100.0	174,418	100.0	133,627	100.0	87,401	100.0

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

Distribution of Loans by Sector

During the past few years, the Bank has been focusing on building an established corporate customer base in strategically important sectors of the economy such as oil and gas, construction and agriculture. The Bank's primary focus is to diversify into different sectors of the economy which management believes offer good opportunities for further growth.

The following table sets out the composition of the Bank's gross loan portfolio by economic sector as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)	<i>(KZT millions)</i>	(%)
Individuals	41,219	20	18,650	11	7,512	6	4,415	5
Wholesale trading	35,059	17	28,709	17	16,375	12	17,438	20
Construction	22,364	11	16,524	10	9,059	7	5,157	6
Agriculture (grain trading).....	18,313	9	27,435	16	21,962	17	12,639	14
Chemical processing.....	3,913	2	5,904	3	5,485	4	1,546	2
Energy	10,181	5	3,114	2	1,494	1	2,745	3
Oil and gas.....	11,889	5	13,898	8	9,808	7	10,996	13
Real estate.....	8,319	4	4,021	2	4,107	3	1,045	1
Food industry	7,827	4	9,276	5	8,088	6	2,500	3
Retail trade	6,050	3	5,808	3	7,303	6	3,693	4
Metallurgy.....	5,317	3	7,033	4	6,955	5	2,674	3
Communication.....	5,256	2	464	0	1,701	1	1,631	2
Transportation.....	3,487	2	4,389	3	6,069	5	8,280	9
Research and development	3,065	1	3,730	2	3,801	3	2,489	3
Mining.....	11,833	5	12,237	7	1,550	1	1,506	2
Textile production.....	1,026	1	924	1	4,242	3	2,223	2
Machinery and equipment production	875	0	615	0	1,309	1	562	1
Hotel industry	513	0	391	0	41	0	665	1
Entertainment	507	0	475	0	1,496	1	203	0
Financial	—	—	1,616	1	1,789	1	3,132	4
Other	13,269	6	9,205	5	13,481	10	1,862	2
Total loans, gross.....	210,282	100	174,418	100	133,627	100	87,401	100

As of 30 June 2004, the wholesale trading, the construction sector, the agriculture sector, the mining sector and the oil and gas sector accounted for 17%, 11%, 9%, 5% and 5%, respectively, of the Bank's gross loan portfolio. The Bank's total exposure to the oil and gas sector is significantly higher than 5% as companies engaged in the oil and gas trading business are classified as trading companies and not oil and gas companies.

Distribution of Loans by Type of Borrower

The Bank serves a large number of small, medium and large-size Kazakhstani businesses. In addition, the Bank has during recent years increased its lending to individuals (mainly mortgages and automobile financing). Lending to large corporations increased 8% to KZT 131,895 million as of 30 June 2004 from KZT 121,709 million as of 31 December 2003, which in turn represented an increase of 17% from KZT 104,374 million as of 31 December 2002. Lending to small and medium size businesses increased 9% to KZT 37,168 million as of 30 June 2004 from KZT 34,059 million as of 31 December 2003, which in turn represented an increase of 57% from KZT 21,741 million as of 31 December 2002. Loans to individuals increased 121% to KZT 41,219 million as of 30 June 2004 from KZT 18,650 million as of 31 December 2003, which in turn represented an increase of 148% from KZT 7,512 million as of 31 December 2002.

The following table (derived from management accounts) sets out certain information relating to the Bank's gross loan portfolio by reference to the type of borrower as of the dates indicated:

	As of	As of 31 December		
	30 June	2003	2002	2001
	2004	2003	2002	2001
		<i>(KZT millions)</i>		
Corporations				
Small and medium size businesses.....	37,168	34,059	21,741	15,922
Large corporations.....	131,895	121,709	104,374	67,065
Individuals	41,219	18,650	7,512	4,414
Total loans, gross	210,282	174,418	133,627	87,401

Collateralisation of Loan Portfolio

The following table (derived from management accounts) sets out certain information relating to the collateralisation of the Bank's net loan portfolio as of the dates indicated. For a description of the Bank's collateralisation policy, see “—Lending Policies and Procedures—Collateralisation.”

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Collateralised	209,434	99.6	174,153	99.8	133,423	99.8	87,385	99.98
Uncollateralised	848	0.4	265	0.2	204	0.2	16	0.02
Total loans, gross.....	210,282	100.0	174,418	100.0	133,627	100.0	87,401	100.0

Collateral on loans extended by the Bank includes but is not limited to real estate, machinery and motor vehicles, industrial equipment, industrial goods, food-stock and other commercial goods, as well as cash deposits, securities and personal third party and corporate guarantees.

Composition by Maturity

The following table (derived from management accounts) sets out certain information relating to the maturity profile of the Bank's gross loan portfolio as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Less than 1 month.....	16,582	7.9	13,743	7.9	10,809	8.1	5,694	6.5
Between 1 and 3 months .	7,495	3.6	12,459	7.1	12,794	9.6	5,265	6.0
Between 3 months and 1 year	56,356	26.8	45,669	26.2	10,697	8.0	31,521	36.1
Between 1 and 5 years.....	66,458	31.6	68,468	39.3	30,249	22.6	43,119	49.3
Over 5 years.....	63,391	30.1	34,079	19.5	69,078	51.7	1,802	2.1
Total loans, gross.....	210,282	100.0	174,418	100.0	133,627	100.0	87,401	100.0

The significant drop in loans with a maturity of over five years from KZT 69,078 million as of 31 December 2002 to KZT 34,079 million as of 31 December 2003 was primarily attributable to the general policy of the Bank to reduce its exposure to longer-term assets. As of 30 June 2004, these loans amounted to KZT 63,391 million. Loans with maturity between three months and one year increased significantly to KZT 45,669 million, or 26.2% of the total gross loan portfolio as of 31 December 2003 from KZT 10,697 million, or 8.0% of the total gross loan portfolio, as of 31 December 2002 as a result of use by the Bank of short-term banking products such as overdrafts, factoring and discounting the promissory notes. As of 30 June 2004, these loans amounted to KZT 56,356 million. As of 31 December 2001, these loans represented 36.1% of the total portfolio and amounted to KZT 31,521 million. The reason for the decrease of loans with maturity between one and five years in 2002 was attributable to repayment of several loans of such maturity.

Composition of Loan Portfolio by Currency

Non-Tenge loans comprise the major part of the Bank's loan portfolio, of which U.S. Dollar obligations are the most significant. As of 30 June 2004, non-Tenge loans comprised 57% of the Bank's loan portfolio, compared to 58% as of 31 December 2003, 68% as of 31 December 2002 and 61% as of 31 December 2001. In 2003, the amount of Tenge denominated loans in its loan portfolio increased as a result of appreciation of the Tenge against U.S. Dollar as well as domestic customer demand. Tenge denominated loans represented 42%, 32% and 39% of the total loan portfolio as of 31 December 2003, 2002 and 2001, respectively, and 43% as of 30 June 2004.

The following table sets forth an analysis of the exposure by currency of the Bank's gross loan portfolio as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Tenge.....	91,468	43	72,795	42	42,884	32	33,741	39
Freely convertible	118,814	57	101,623	58	90,743	68	53,660	61
Total loans, gross.....	210,282	100.0	174,418	100.0	133,627	100.0	87,401	100.0

Distribution of Loans by Size

The following table (derived from management accounts) provides information on the Bank's gross loan portfolio by size of loans as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Less than KZT 5 million .	20,361	9.7	19,007	10.9	11,042	8.2	6,658	7.6
Greater than KZT 5 million and up to KZT15 million.....	17,686	8.4	6,579	3.7	4,110	3.1	2,601	3.0
Greater than KZT 15 million and up to KZT 50 million	18,337	8.7	12,980	7.4	7,634	5.7	5,491	6.3
Greater than KZT 50 million and up to KZT 100 million.....	13,889	6.6	14,385	8.2	9,438	7.1	5,510	6.3
Greater than KZT 100 million KZT and up to 500 million.....	54,498	25.9	51,959	29.9	36,612	27.4	23,248	26.6
Greater than KZT 500 million	85,511	40.7	69,508	39.9	64,791	48.5	43,993	50.2
Total loans, gross.....	210,282	100.0	174,418	100.0	133,627	100.0	87,401	100.0

Lending Policies and Procedures

General

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

Legal Entities

All applications for credit by corporate customers must be submitted to the Bank on its standard forms. Depending on the amount and the borrower, the application is reviewed and approved by a credit committee located in a branch, the Branch Network Credit Committee or the Commercial Direction Credit Committee. Three Corporate Lending Departments (each responsible for a certain industry sector) and Four Financing Divisions (responsible for small and medium sized businesses) are responsible for pre-reviewing the completed credit applications made to the head office and those applications that exceed the approval limit of the credit committee of each branch before being submitted to the relevant decision making body. The Credit Risks Department undertakes a thorough analysis of each credit applicant, including carrying out feasibility studies, financial analysis, financial standing and reputation and experience of the potential borrower and then prepares a credit dossier for each applicant, based upon the results of such analysis. Once such analysis is completed, the Credit Risks Department prepares its opinion on each application in terms of overall risks related to

the project, the borrower and the related industry sector. All corporate customers of the Bank are required to have an internal credit rating assigned by the Credit Risks Department. The credit rating analysis takes a number of items into consideration, including (i) the ability to repay, (ii) financial condition of the borrower, (iii) value of the collateral, (iv) management of the borrower, (v) purpose of the loan and (vi) the industry of borrower. Information is obtained from various external sources including the state taxation authorities where appropriate. If the loan is collateralised and as required by the Bank's policy, an outside firm makes an independent assessment of the collateral being offered, including valuation, legality and enforceability. The Bank also employs independent legal advisers, from time to time, to review the loan agreements and other legal documentation involved in the lending process.

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

- a credit committee of each branch is authorised to take decisions within lending limits established for each branch by the Management Board. This authority generally covers loans up to U.S.\$100,000 (or the equivalent), with some bigger branches having a higher limit up to U.S.\$375,000 (or the equivalent);
- the Branch Network Credit Committee takes decisions on loans and guarantees in excess of a branch's limit but in any event less than U.S.\$3,000,000 (or the equivalent);
- the Commercial Direction Credit Committee takes decisions on loans and guarantees in excess of U.S.\$3,000,000 (or the equivalent); and
- the Board of Directors takes decisions on loans and guarantees in excess of 10% of the Bank's capital and on all loans and guarantees to related parties.

All credit limits are established by the Management Board of the Bank based on the recommendation of the Financial Risks Department and the Credit Risks Department.

Individuals

Loan applications from individuals are in the first instance reviewed by the Deputy Head of each branch. As part of their applications, individuals must provide information on their income, the purpose of the loan and the proposed collateral. Managers located in branches verify the information provided in the loan application.

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

- the Deputy Head of each branch is authorised to take decisions within lending limits established by the Branch Network Credit Committee for certain retail products. This limit varies between branches but generally covers loans up to U.S.\$4,000 (or the equivalent) with a tenor up to three years, subject to an aggregate lending limit;
- a credit committee of each branch is authorised to take decisions within lending limits established for each branch by the Branch Network Committee for mortgages, car loans and other consumer credit loans. This limit varies between branches but generally covers loans up to U.S.\$40,000 (or the equivalent) for Astana and Almaty branches and between U.S.\$5,000 (or the equivalent) and U.S.\$20,000 (or the equivalent) for other branches, subject to an aggregate lending limit;
- the Retail Lending Credit Committee of the head office takes decisions on loans and guarantees up to U.S.\$100,000 (or the equivalent); and
- the Branch Network Credit Committee of the head office takes decisions on retail loans in excess of the limits established for a branch and for all applications exceeding U.S.\$100,000 (or the equivalent).

Maturity Limit

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

Nature of the Loan	Maximum Maturity
Financing of working capital	Up to 36 months
Consumer loans	Up to 6 years
Mortgage loans	Up to 15 years
Investments	Up to 10 years
Interbank deposit	Up to 7 years
Leasing	Up to 7 years

Collateralisation

The Bank seeks to reduce its credit risk by requiring collateral from borrowers. Collateral on loans extended by the Bank includes but is not limited to real estate, machinery and motor vehicles, industrial equipment, industrial goods, food-stock and other commercial goods, as well as cash deposits, securities and personal third party and corporate guarantees. Currently, over 99% of the Bank's loan portfolio is collateralised. The Bank estimates the net realisable value of the collateral provided and regularly monitors the quality of the collateral taken as security. In certain cases, additional collateral may be sought from the borrower. The following table sets out the loan amount as a percentage of collateral value based on the type of collateral:

Collateral Categories	Loan/Collateral Value
Cash	100%
Guarantees from financial institutions	100%
Government debt securities	100%
Real estate	70-85%
Commodities	60-75%
Fixed assets	60-70% less amortisation
Equity securities	100%, at market value

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

Loan Classification and Provisioning Policy

General

The Commercial Direction Credit Committee is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto based on reports provided by the Credit Risks Department. In order to establish adequate allowances and provisions, loans are classified by their perceived risk criteria in accordance with the Bank's policy and the requirements of IFRS taking into account NBK classification and provisioning guidelines. The Credit Risks Department also conducts evaluations of other assets and off-balance sheet contingent liabilities.

NBKIFMSA Classification and Provisioning Guidelines

Until 2003, banks classified their portfolio and established allowances for loan losses under NBK policy based on event-oriented criteria relying primarily on the timeliness of a borrower's payment of interest and principal. Effective as of 2003, the NBK revised its policies regarding loan classifications and requirements for provisions and allowances to conform them more closely to the guidelines provided under IFRS.

Pursuant to revised NBK guidelines, the Commercial Direction Credit Committee, in classifying the Bank's loans and off-balance sheet exposures, performs detailed credit reviews and assesses the borrower's financial condition and operating results, if these have deteriorated since the origination of the loan, the current performance of the borrower with regard to the timely repayment of principal and interest, if there has been any extensions of interest or principal payments granted or if other modifications have been made to the original loan agreement, the quality and quantity of any

collateral provided, the basic fundamentals of the purpose of the loan and whether there has been any unauthorised use of the loan proceeds. In addition to these assessments, the Financial Department together with Financial Risks Department also performs other analytical procedures and takes into consideration any macro and micro economic factors specifically relating to the Kazakhstani economy and industry sectors.

Based on these assessments and other analytical procedures, the respective Corporate Lending Department or Financing Division classifies loans according to their risk and the exposure that they potentially present to the Bank, which classification is verified by the Credit Risks Department. At present, the Credit Risks Department uses classifications as set out in the NBK regulations that are broadly as follows:

Standard loans – The financial condition of the borrower is assessed as good and there is no indication of any external or internal factors to suggest that the financial condition of the borrower has deteriorated. Interest and principal are repaid in full and in a timely fashion. The borrower is considered as having the capability of repaying the loan in accordance with its terms and conditions. Security provided for the loan is highly liquid (which may include a guarantee of the Government or a bank with an individual rating not lower than AA from one of the rating agencies, cash collateral, government securities or precious metals, the value of which covers 100% of exposure).

Doubtful 1st category – There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of a market share. However, there is evidence to suggest that the borrower will be able to cope with such temporary difficulties and there is a low probability that the borrower will be unable to repay the loan and interest in full. The borrower is repaying the loan principal and the interest without delay and in full.

Doubtful 2nd category – There is evidence of a temporary deterioration in the financial condition of the borrower, including a decrease in income or a loss of a market share. However, there is evidence to suggest that the borrower will be able to cope with such temporary difficulties and there is a low probability that the borrower will be unable to repay the loan and interest in full. However, the borrower is repaying the loan with delays and not in full. The value of collateral covers 90% of the Bank's exposure.

Doubtful 3rd category – There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower raises concerns as to the ability of the borrower to stabilise and improve its current financial performance and casts doubt on the borrower's ability to repay the loan and the interest in full. However, the borrower is repaying the loan and interest in full and without a delay.

Doubtful 4th category – There is evidence of a more severe deterioration in the financial condition of the borrower, including negative operating results and a declining liquidity position. The current financial condition of the borrower raises concerns as to the ability of the borrower to stabilise and improve its current financial performance and impairs the borrower's ability to repay the loan and the interest in full. The borrower is repaying the loan with delays and not in full. The quality of collateral is classified as satisfactory, covering not less than 100% of borrower's outstanding debt (including both principal and interest), or is highly liquid collateral, the value of which covers not less than 75% of the borrower's outstanding debt.

Doubtful 5th category – The deterioration in the financial condition of the borrower has reached a critical level, including significant operating losses, a loss of market position, negative shareholders' equity and it is probable that the borrower will be unable to repay the loan and the interest in full. The quality of collateral is classified as unsatisfactory, the value of which covers nearly but not less than 50% of borrower's outstanding debt.

Loss – In the absence of any information to the contrary, the borrower's financial condition and operations have reached the point where it is evident that the borrower cannot repay the loan and the collateral value is negligible. The loan is uncollateralised or the value of the collateral covers less than 50% of borrowers' outstanding debt.

The loan classifications described above are used to determine the adequacy of the allowance for impairment of loans and the adequacy of the allowance for other assets and off balance sheet risks for the regulatory purposes in accordance with NBK requirements. The following provisioning rates are used by the Bank to establish regulatory allowances:

<u>Classification Categories</u>	<u>Provisioning Rate(s)</u>
Standard loans	0%-5%
Doubtful 1st category	5%
Doubtful 2nd category	10%
Doubtful 3rd category	20%
Doubtful 4th category	25%
Doubtful 5th category	50%
Loss loans	100%

In addition, the Bank fully provisions a loan if interest and principal have not been paid for more than 90 days.

The following table provides information on the Bank's gross loan portfolio by credit quality classification as of the dates indicated:

	<u>As of 30 June</u>		<u>As of 31 December</u>					
	<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>	
	<i>(KZT millions)</i>	<i>(% of gross loans)</i>	<i>(KZT millions)</i>	<i>(% of gross loans)</i>	<i>(KZT millions)</i>	<i>(% of gross loans)</i>	<i>(KZT millions)</i>	<i>(% of gross loans)</i>
Standard loans.....	160,855	76	123,008	71	110,482	83	57,628	66
Doubtful 1st category.....	21,658	10	20,844	12	7,243	5	24,514	28
Doubtful 2nd category	11,127	5	11,168	6	4,506	3	2,047	2
Doubtful 3rd category.....	2,363	1	3,277	2	3,323	2	1,645	2
Doubtful 4th category	4,339	2	5,716	3	907	1	81	0
Doubtful 5th category	6,094	3	5,972	3	4,324	3	141	0
Loss loans.....	3,846	2	4,433	3	2,842	2	1,345	2
Gross loans.....	210,282	100	174,417	100	133,627	100	87,401	100

IFRS Provisioning

For the purposes of IFRS, the Bank makes specific allowances for possible loan losses on a case-by-case basis and actual allowances established take into account the value of any collateral or third party guarantees. The allowances for impairment of loans are defined as the difference between the carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. The allowances are based on the Bank's own loss experience and management's judgment as to the level of losses that will most likely be recognised from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for loan impairment in the consolidated financial statements of the Bank are determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment for financial assets in future periods.

Management believes that the allowances created for IFRS purposes are, taken as a whole, substantially consistent with the allowances created for NBK/FMSA regulatory purposes.

The following table sets out certain information relating to the Bank's gross loans and allowances in relation to them in accordance with IFRS as of the dates indicated:

	As of 30 June			As of 31 December					
	2004			2003			2002		
	Gross Loans	Total Allowance	Percentage Reserved	Gross Loans	Total Allowance	Percentage Reserved	Gross Loans	Total Allowance	Percentage Reserved
	<i>(KZT millions)</i>								
Risk Category									
Provisioning rates									
0 up to 5% loans.....	160,855	2,742	1.7%	123,008	0	0%	110,482	1,994	1.8%
5 up to 10% loans.....	32,785	2,075	6.3%	32,012	2,045	6.4%	11,749	764	6.5%
	<u>193,640</u>			<u>155,020</u>			<u>122,231</u>		
10 up to 25% loans	6,702	1,460	21.8%	8,993	1,967	21.8%	4,230	826	19.5%
25 up to 50% loans	6,094	2,511	41.2%	5,972	2,465	41.3%	4,324	1,846	42.7%
50 up to 100% loans.....	3,846	3,745	97.3%	4,433	4,052	91.4%	2,842	2,381	83.8%
Total classified.....	<u>16,642</u>			<u>19,398</u>			<u>11,396</u>		
Gross loans/allowance..	<u>210,282</u>	<u>12,533</u>	6.0%	<u>174,418</u>	<u>10,529</u>	6.0%	<u>133,627</u>	<u>7,811</u>	5.8%

The effective level of allowances in accordance with IFRS increased slightly to 6.0% in 2003 from 5.8% in 2002. Allowances are made against off-balance sheet exposures when it is more likely than not that there will be a loss. In such cases, an allowance for the estimated actual exposure is made.

Portfolio Supervision and Non-Performing Loans

The Credit Risks Department provides monthly reports to the Management Board detailing all aspects of the Bank's credit activity. Senior management pays strict attention to the timeliness of debt repayments and the classified loans and contingent liabilities. Immediate action is taken by the appropriate departments having responsibility for supervising and monitoring loan repayments if any principal or accrued interest repayment problems arise. The Bank's determination of whether a repayment problem has arisen is based on a number of objective and subjective criteria, including changes to the borrower's turnover in accounts held by the Bank, changes to the borrower's economic and financial activity giving rise to the suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfill the terms and conditions of its loan agreement and refusal of a borrower to co-operate in supplying current information.

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

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

As of 30 June 2004, the aggregate amount of non-performing loans on which interest accrual was suspended amounted to KZT 5,277 million. As of 31 December 2003, 2002 and 2001, such loans amounted to KZT 3,234 million, KZT 661 million and KZT 1,135 million, respectively. As of 30 June 2004, the percentage of non-performing loans to gross loans was 2.5%, compared to 1.9%, 0.5% and 1.29% as of 31 December 2003, 2002 and 2001, respectively.

Write-off Policy

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

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

	Six Months ended 30 June	Year ended 31 December		
	2004	2003	2002	2001
	<i>(Unaudited)</i>		<i>(KZT millions)</i>	
Beginning reserve balance	10,601	8,382	3,929	2,160
Charge	2,949	4,136	6,650	4,073
Net write-offs				
Write-offs	(1,054)	(2,166)	(2,471)	(2,927)
Recoveries	133	249	274	623
	(921)	(1,917)	(2,197)	(2,304)
Ending reserve balance	12,629	10,601	8,382	3,929

The following table provides information on the movements in the allowance for provisions as of the dates indicated:

	Guarantees and commitments
	<i>(KZT millions)</i>
31 December 2000	201
Recoveries	(103)
31 December 2001	98
(Reversal)	(38)
31 December 2002	60
Charge	1,385
Write-offs	(524)
31 December 2003	921
	Guarantees and commitments
	<i>(KZT millions)</i>
31 December 2002	60
Charge	725
30 June 2003	785
Charge	660
Write offs	(524)
31 December 2003	921
Charge Reversal	218
Write offs	(47)
Recoveries	68
30 June 2004	1,160

Allowances for impairment of assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

Write-offs decreased by 12% in 2003, compared to write-offs of KZT 2,471 million in 2002, which in turn represented a decrease of 16% from KZT 2,927 million in 2001. In 2003 and 2002, the decrease in write-offs was primarily attributable to improvement in the quality of the loan portfolio.

Over the past three years, the percentage of net write-offs to gross loans has been decreasing. Write-offs as a percentage on the opening reserve balance have also decreased over the same period.

In 2001, the Bank revised its monitoring and collection procedures, as a result of which the Bank's ratio of recoveries to write-offs improved significantly in 2002 and since then have remained relatively constant.

	Six Months ended 30 June	Year ended 31 December		
	2004	2003	2002	2001
		(%)		
Percentage of net write-offs to gross loans	0.4%	1.1	1.6	2.6
Percentage of net write-offs to the opening reserve balance	8.7%	22.9	55.9	106.6
Percentage of recoveries to write-offs.....	12.6%	11.5	11.1	21.3

Amounts due from Credit Institutions

Loans to and deposits with other financial institutions represent a relatively small percentage of the Bank's total assets (0.6% as of 30 June 2004, 2.9% as of 31 December 2003, no loans/deposits as of 31 December 2002 and 0.04% as of 31 December 2001). Time deposits with other credit institutions have increased significantly between 2001 and 2003, amounting to KZT 7,306 million as of 31 December 2003. Loans to local financial institutions have in turn decreased significantly, amounting to KZT 1 million as of 31 December 2003. As of 31 June 2004, time deposits with other credit institutions decreased significantly to KZT 1,039 million from KZT 7,306 million as of 31 December 2003. This decrease in time deposits resulted mainly from a withdrawal of a large time deposit with a foreign bank. Loans to local financial institutions in turn increased by KZT 792 million to KZT 793 million as of 30 June 2004 from KZT 1 million as of 31 December 2003. In general, deposits with other financial institutions are made for liquidity management purposes.

The following table provides a breakdown of amounts due from credit institutions as of the dates indicated:

	As of 30 June	As of 31 December		
	2004	2003	2002 ⁽¹⁾	2001
	<i>(KZT millions)</i>		<i>(KZT millions)</i>	
	<i>(Unaudited)</i>			
Time deposits	1,039	7,306	—	99
Loans to local financial institutions.....	793	1	—	—
	1,832	7,307	—	99
Less allowance for losses	(10)	(16)	—	(49)
Total.....	1,822	7,291	—	50

(1) Amounts due from credit institutions were nil as of 31 December 2002 as the Bank's deposits with other banks with maturity up to 90 days were included in cash and cash equivalents.

The Bank's Funding Sources

Customer deposits represent the largest part of the Bank's funding source which the Bank believes is relatively insensitive to short-term fluctuations in interest rates, and is more dependent on the Bank's ability to provide a good level of customer service and a range of banking products and services. As of 30 June 2004, the Bank's total deposits amounted to KZT 186,738 million, approximately 19% of the total deposits in the Kazakhstani banking system. The Bank has a large number of corporate customers, including many of the country's leading industrial companies and trading corporations as well as a number of medium and smaller sized enterprises and individuals.

The Bank's other sources of funding include foreign borrowings, including borrowing secured by the sale of certain of the Bank's future payments (as described in "—Other Sources of Funding—Borrowings Secured by Certain Future Payment Rights"), repurchase commitments and, to a lesser extent, interbank borrowings. The issuance of the Notes is one of the steps being taken by management in an effort to diversify and lengthen the maturity of its funding sources.

The 2004 annual General Meeting of Shareholders authorised the Bank to borrow U.S.\$650 million and KZT 85 billion during 2004 and 2005, which amount includes this offering. Under the authorisation, on 4 May 2004, the Bank registered with the NBK its first bond programme under

which the Bank may issue KZT denominated bonds for the total principal amount of KZT 35 billion, subject to market conditions. The maturity of these bonds is expected to be between three and seven years. In July 2004, the Bank issued KZT 5 billion floating rate subordinated bonds maturing in 2010 under the programme. The Bank also extended its existing trade finance facility agreement arranged by Deutsche Bank London and Raiffeisen Zentralbank Osterreich Aktiengesellschaft on 7 July 2004 for one additional year and, in connection with the extension, increased the principal amount available under the facility from U.S.\$150 million to U.S.\$200 million. This facility was fully drawn down in July 2004. In addition, the Bank expects to raise further funds, up to U.S.\$100 million, through its existing programme relating to the borrowings secured by the sale of certain of the Bank's future payments (as described in "—Other Sources of Funding—Borrowings Secured by Certain Future Payment Rights") and to issue another KZT 5 billion of bonds maturing in 2007 under the programme before the end of 2004. However, there can be no assurance that these additional sources of funds will be available for the Bank on acceptable terms or at all.

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

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions) (Unaudited)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
Amounts due to customers								
Current accounts.....	78,488	30.0	58,488	25.8	54,093	31.0	39,007	33.3
Term deposits	107,923	41.2	94,920	41.9	81,616	46.7	61,142	52.2
Held as security against letters of credit ...	327	0.1	1,438	0.6	1,209	0.7	232	0.2
Total	186,738	71.3	154,846	68.3	136,918	78.4	100,381	85.7
Amounts due to credit institutions.....	64,360	24.6	61,877	27.3	32,107	18.3	13,712	11.7
Subordinated debt securities.....	8,377	3.2	8,583	3.8	4,469	2.6	2,365	2.0
Amounts due to the Government	797	0.3	529	0.2	449	0.3	102	0.1
Other liabilities	1,576	0.6	779	0.4	698	0.4	752	0.5
Total	261,848	100.0	226,614	100.0	174,641	100.0	117,312	100.0

Customer Deposits

The Bank's deposits consist of customer current accounts and term deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For term deposits, different interest rates are paid on the various types of account offered by the Bank. As of 30 June 2004, rates on Tenge based term accounts offered by the Bank to corporate customers ranged between 1.5% and 9.5%, while the interest rates paid on foreign currency denominated accounts ranged between 1.0% and 8.5%. The following table sets out a breakdown of the Bank's current and time deposits as of the dates indicated:

	As of 30 June		As of 31 December		
	2004		2003	2002	2001
	(KZT millions)	(%)	(KZT millions)		
	<i>(Unaudited)</i>				
Current accounts					
Individuals	32,794	17.6	23,675	19,251	20,694
Commercial entities	45,655	24.4	33,307	29,446	14,481
Government entities.....	39	–	1,506	5,396	3,832
Total current accounts.....	78,488	42.0	58,488	54,093	39,007
Term deposits					
Individuals	74,634	40.0	65,105	53,267	34,237
Commercial entities	33,289	17.8	29,815	28,186	23,128
Government entities.....	—	—	—	163	3,777
Total term deposits.....	107,923	57.8	94,920	81,616	61,142
Held as security against letters of credit.....	327	0.2	1,438	1,209	232
Total.....	186,738	100.0	154,846	136,918	100,381

As of 30 June 2004, total deposits by individuals represented approximately 60% of all customer deposits. In addition, customers in the mining sector and the oil and gas sector represented approximately 7% and 14%, respectively, of the total deposits.

The following table sets out certain information relating to the amounts owed to customers in Tenge and foreign currency as of the dates indicated:

	As of 30 June		As of 31 December					
	2004	(%)	2003	(%)	2002	(%)	2001	(%)
	<i>(KZT millions, except percentages)</i>							
Tenge deposits ...	114,972	61.6	88,063	56.9	55,371	40.4	45,988	45.8
Foreign currency deposits	71,766	38.4	66,783	43.1	81,547	59.6	54,393	54.2
Total	186,738	100.0	154,846	100.0	136,918	100.0	100,381	100.0

The following table sets out information on the maturity profile of the Bank's time deposits as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)	(KZT millions)	(%)
On demand	71,468	38.3	51,982	33.5	52,570	38.4	43,716	43.6
Less than 1 month.....	16,648	8.9	25,991	16.8	18,832	13.8	20,963	20.9
Between 1 and 3 months	15,322	8.2	16,679	10.8	11,490	8.4	6,500	6.5
Between 3 months and 1 year	45,960	24.6	30,336	19.6	14,993	11.0	20,523	20.4
Between 1 and 5 years.....	24,753	13.3	16,986	11.0	11,866	8.6	7,275	7.2
Over 5 years.....	12,587	6.7	12,872	8.3	27,167	19.8	1,404	1.4
Total	186,738	100.0	154,846	100.0	136,918	100.0	100,381	100.0

Other Sources of Funding

Amounts Due to Credit Institutions

The following table sets out certain information as to the currency of the Bank's principal borrowings outstanding as of the periods indicated:

	As of	As of 31 December		
	30 June	2003	2002	2001
	2004			
		(KZT millions)		
Tenge	725	4,197	352	3,413
Foreign currencies	63,635	57,680	31,755	10,299
Total	64,360	61,877	32,107	13,712

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

	As of	As of 31 December		
	30 June	2003	2002	2001
	2004			
		(KZT millions)		
		(Unaudited)		
Loans from OECD based banks	59,133	52,111	16,379	2,459
Overnight deposits	—	3,481	1,925	—
Loans from Small Business Development Fund	1,259	1,961	2,401	2,232
Loans from Kazakhstani Banks	521	1,734	6,908	2,899
Loans from EBRD	1,121	1,379	4,205	2,588
Short-term deposits from Kazakhstani banks	1,467	707	60	3,301
Correspondent accounts	367	197	229	233
Short-term deposits from non-OECD based banks	—	145	—	—
Loans from financial institutions	492	81	—	—
Loans from non-OECD based banks	—	81	—	—
Total	64,360	61,877	32,107	13,712

The Bank has entered into a number of financings with foreign banks and other financial institutions. These financings are typically trade related and include short-term import/export financings and medium-term financings insured or guaranteed by foreign export credit agencies. These financings are borrowed by the Bank and then on-lent by the Bank to its customers. These loans amounted to KZT 54,443 million as of 30 June 2004 and KZT 46,538 million as of 31 December 2003. These loans include:

- a U.S.\$150 million trade finance facility dated 16 July 2003 arranged by Raiffeisen Zentralbank Österreich Aktiengesellschaft and Deutsche Bank AG London for a one year period, which was, on 7 July 2004, extended for an additional one year period and, in conjunction with the extension, increased to U.S.\$200 million, which amount has been fully drawn; and
- a U.S.\$60 million trade finance facility agreement dated 3 February 2004 as amended and restated by an agreement dated 15 March 2004 arranged by Raiffeisen Zentralbank Österreich Aktiengesellschaft, which has been fully drawn.

At 31 December 2003, the Bank had several loans from the European Bank for Reconstruction and Development (“EBRD”) bearing annual interest at rates between 3.92% and 6.4% and maturing between 2004 and 2006.

The Bank also participates in the Governmental Programme for State Support of Small Business Development funded by EBRD. Under such programme, EBRD provides funds to the Small Business Development Fund (a “quasi-governmental” financial institution) which in its turn disburses funds to various Kazakhstani banks for on-lending to small sized businesses. The Bank grants loans to small sized businesses on the basis of its analysis of their creditworthiness under terms and conditions

comparable to similar credit facilities. The facilities mature between 2004 and 2005 and bear contractual annual interest rates between 5% and 10%. The amounts received under this facility have been advanced to borrowers and included within commercial loans in the balance sheet.

Under various financing documents, the Bank is obliged to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy and lending exposures. In addition, and in accordance with the terms of those loans, the Bank is required to obtain an approval from the respective lender before distributing any dividends to the holders of the common shares of the Bank, excluding share dividends. As of the date of this Offering Circular, the Bank is in compliance with these ratios. Certain of the Bank's outstanding financing agreements also include covenants restricting the Bank's ability to create security interests over its assets. In the past, the Bank has breached these restrictions as a result of giving pledges over certain of its bank accounts with creditor banks and agreeing to assign its rights under certain customer loans to EBRD. In addition, the Bank's default under these covenants could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. However, the relevant lenders were informed of, and have waived, these breaches.

Borrowings Secured by Certain Future Payment Rights

In September 2003, the Bank entered into a future-flow transaction by executing a Purchase Agreement with Halyk Remittances Finance Company Limited ("HRFC"), an unaffiliated company located in Jersey. Pursuant to the Purchase Agreement, HRFC acquired all of the Bank's right, title, and interest in certain payment rights for a purchase price of U.S.\$100 million. As a result of this purchase, HRFC owns the right to receive payments from four of Halyk's correspondent banks located in the United States and three of Halyk's correspondent banks located in Germany in respect of various types of cash remittances otherwise owed by such correspondent banks to Halyk. All funds collected from the correspondent banks in respect of the payment rights are deposited with and administered by WestLB. The purchased portion of the payment rights is equal to the amount necessary for HRFC to pay debt service on a five-year U.S.\$100 million amortising term loan facility at the specified interest rate. Any excess collections are remitted by WestLB to the Bank. Certain events can give rise to early amortisation or termination of the future-flow programme. In the event of early amortisation, any and all collections are applied by WestLB on behalf of HRFC to pay down the term loan facility as and when such collections are available, and no excess collections are remitted to the Bank until the term loan facility is fully paid. In the case of termination, Halyk is required to make a termination payment to HRFC equal to HRFC's outstanding unpaid obligations in respect of the term loan, upon which ownership of the payment rights is reacquired by Halyk.

Subordinated Debt Securities

The following table provides information on the Bank's subordinated debt securities as of the dates indicated:

	Coupon rate	Maturity date	As of	As of 31 December		
			30 June	2003	2002	2001
			2004			
				<i>(KZT millions)</i>		
KZT denominated bonds	9.0%	19 June 2009	4,428	4,415	—	—
U.S.\$ denominated bonds	11.8%	20 June 2007	2,167	2,287	2,408	2,365
KZT denominated bonds						
Indexed to U.S.\$.....	8.0%	21 May 2007	1,782	1,881	2,061	—
Subordinated debt securities						
issued, total			8,377	8,583	4,469	2,365

The repayment of the securities of KZT 1,881 million is indexed to the Tenge/U.S. Dollar exchange rate as at the date of repayment of principal and interest. These subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

On 4 May 2004, the Bank registered with the NBK its first bond programme under which the Bank may issue subordinated, KZT denominated bonds for the total principal amount of KZT 35 billion.

In July 2004, the Bank issued KZT 5 billion floating rate subordinated bonds under the programme. The current interest rate of these subordinated bonds is 8.5%.

Amounts Due to the Government

Amounts due to the Government represent funding for loans to agricultural companies under the World Bank post privatisation programme. Under this programme, the Government provided financing to agricultural projects in Kazakhstan. As of 30 June 2004, these amounts bear interest at approximately 1.4% per annum and mature in December 2007.

Guarantees and Other Contingent Liabilities

As discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—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.

The table below provides details on the Bank’s guarantees and letters of credit as of the dates indicated:

	As of 30 June	As of 31 December		
	2004	2003	2002	2001
		<i>(KZT millions)</i>		
Commitments to extend credit	59,620	39,207	35,509	474
Guarantees.....	30,347	20,344	45,667	27,693
Commercial letter of credit.....	10,771	7,794	6,200	3,123
	100,738	67,345	87,376	31,290
Less cash collateral.....	(327)	(1,437)	(1,210)	(247)
Less allowances.....	(1,160)	(921)	(60)	(98)
Total	<u>99,251</u>	<u>64,987</u>	<u>86,106</u>	<u>30,945</u>

As of 30 June 2004, the top ten guarantees accounted for 50% of the Bank’s total financial guarantees and represented 42% of the Bank’s total shareholders’ equity.

As of 30 June 2004, the top ten letters of credit accounted for 80% of the Bank’s total commercial letters of credit and represented 29% of the Bank’s total shareholders’ equity.

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

The following table provides information the deliverable forward contracts of the Bank as of the dates indicated, all of which mature in 2004:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	Notional Amount	Unrealised Gains	Notional Amount	Unrealised Gains	Notional Amount	Unrealised Gains	Notional Amount	Unrealised Gains
	<i>(KZT millions)</i>							
U.S.\$-EURO contracts with OECD counteragents	—	—	631	—	—	—	—	—
U.S.\$-EURO contracts with non- OECD counteragents	—	—	54	—	—	—	820	—
U.S.\$-GBP contracts with non- OECD counteragents	25	—	—	—	—	—	—	—

MANAGEMENT

General

Pursuant to the laws of Kazakhstan and the Bank's Charter, the control and management of the Bank is divided among the shareholders, the Board of Directors and the Management Board. The shareholders have the exclusive authority to approve certain material issues of the Bank including the election of the Board of Directors. The shareholders participate in the control and management of the Bank through actions taken at General Meetings of Shareholders. The Board of Directors supervises the Management Board. The Management Board is headed by the Chairperson who is responsible for the day-to-day management of the Bank. The Revision Committee is an internal monitoring body which reports its findings at general shareholders meetings. In addition, the Bank has various committees and departments which are mandatory and required by banking legislation. The credit committee and the internal audit department are two such entities required by the banking legislation.

In June 2004, two members of the Bank's Management Board resigned to work for other Kazakhstani banks. These persons included an officer responsible for the Bank's international activities and operations of representative offices as well as an officer responsible for investment banking, risk management and strategy. As of the date of this Offering Circular, the position of Deputy Chairman of International Activities is still vacant.

The business address of the members of the Board of Directors and the Management Board is c/o 97 Rozybakiev Street, Almaty 480046, Kazakhstan.

Board of Directors

In accordance with the Bank's Charter, the members of the Bank's Board of Directors are elected at the annual General Meeting of Shareholders and must be approved by the NBK. Members of the Board of Directors may not be members of the Management Board, except for the Chairperson of the Management Board.

The Board of Directors of the Bank is responsible for setting strategic policy for the Bank, nominating members of the Management Board, determining and overseeing the remuneration of the Management Board members and convening annual and extraordinary General Shareholders' Meetings. Currently, the Board of Directors consists of seven members.

The directors serve a one-year term and they are elected at each annual General Shareholders Meeting. Currently, the Bank's Board of Directors consists of the following members:

Name	Position(s)	Year Born
Alexander Pavlov	Chairperson of the Board of Directors	1953
Mirbulat Abuov	Chairperson of Almex LLP	1958
Murat Amanbayev	Chairperson of JSC Open accumulative pension fund Otan	1955
Kamilya Arstanbekova	Chairperson of JSC Accumulative pension fund of Halyk Bank of Kazakhstan	1963
Berik Beisengaliyev	Managing Director of JSC ATF Bank	1965
Nurlan Moldakhmetov	Chairperson of JSC Kazakhinstrakh	1960
Assiya Syrgabekova	Chairperson of the Management Board of the Bank	1960

Management Board

The Bank's Management Board, which meets weekly, is responsible for the day-to-day management of the Bank and implements the decisions of the Shareholders' Meetings and the Board of Directors. Currently, the Management Board consists of the following members:

Name	Position(s)	Year Born
Assiya Syrgabekova	Chairperson of the Management Board	1960
Almas Chukin	Deputy Chairperson, Finance	1961
Marat Zairov	Deputy Chairperson, Client Relationships	1968
Nurlan Bizakov	Deputy Chairperson, Regional Lending	1964
Raushan Sagdieva	Deputy Chairperson, Lending	1962
Vasiliy Simachev	Deputy Chairperson, Security	1950

Assiya Syrgabekova, Chairperson of the Management Board, graduated from Kazakhstan State University in 1982 with a degree in economics and from Moscow Financial Institute in 1987 with a

graduate degree in economics. Ms. Syrgabekova served as the financial director of JSC Altyn-Alma from 1992 to 1994 and as the general director of Almex LLP from 1994 to 1998. From 1998 to 2002 she held the following positions with JSC Kazakhoil: Director of Financial-Economic Analysis Department, Vice-President on Economics and Finance, Managing Director on Economics, Finance and Corporate Management. From January 2003 to October 2003, she served as the Deputy General Director on corporate development of JSC KazTransGas. Ms. Syrgabekova joined the Bank in October 2003 as First Deputy Chairperson and was appointed as Chairperson of the Management Board in January 2004.

Almas Chukin, Deputy Chairperson, Finance, graduated from Moscow State University in 1983 with a bachelor's degree in economics and in 1986 with a graduate degree in economics. Between 1992 and 1996 he worked at the Ministry of Finance of the Kyrgyz Republic and as a counsellor and acting ambassador of the Kyrgyz embassy in the United States. From 1996 to 1998 he was Deputy Chairperson of State Property Fund of Kyrgyz Republic. Between 1998 and 2004 he served as the Managing Director of Fincorp LLP and Key Centyry LLP. Mr. Chukin joined the Bank in his current position in January 2004.

Marat Zairov, Deputy Chairperson, Client Relationships, graduated from Moscow State University named after M. Lomonosov in 1992 with a bachelor's degree in economics and from Kazakhstan State Law Academy in 2000 with a degree in law. Between 1993 and 1994 he held various positions in Kazpisheprom Kazakhstan State Cooperation Association, the Ministry of Finance of the Republic of Kazakhstan and Alemssystem Financial and Investment Corporation. From 1994 to 1997 Mr. Zairov worked in Alem Bank Kazakhstan, Exim Bank and Kazkommerzbank. Prior to joining the Bank in August 2000, Mr. Zairov worked as a Deputy Chairperson of Bank TuranAlem and held management positions in OJSC Temirbank. Mr. Zairov has been in his current position since August 2000.

Nurlan Bizakov, Deputy Chairperson, Regional Lending, graduated from Kazakhstan Polytechnic University in 1987 with a degree in construction engineering. Between 1996 and 2000 he was a Financial Director, First Vice-President, and then Chairperson of JSC Shymkentnefteorgsintez. From 2000 to 2001 he served as Chairperson of the Board of Directors of JSC Binur. Mr. Bizakov joined the Bank in October 2002 as Managing Director and was appointed as a Deputy Chairperson in March 2004.

Raushan Sagdieva, Deputy Chairperson, Lending, graduated from Almaty Institute of National Economy with a bachelor's degree in economics in 1983 and a degree of candidate in economics in 1990. She held various managing positions with Alem Bank between 1990 and 1996. In 1996, she served as the Deputy Chairperson of Temirbank. From 1996 to 1998 she was the First Deputy Chairperson of Almaty Merchant Bank. Mrs. Sagdieva joined the Bank as First Deputy Chairperson of the Management Board in February 1998 and has been in her current position since May 2000.

Vasily Simachev, Deputy Chairperson, Security, graduated from Kazakh State University named after Kirov with a bachelors degree in law in 1973. From 1995 to 2001, he served as the First Minister of Internal Affairs of Kazakhstan. From 2001 to 2002, he worked as executive director of Kazkommerzbank. In 2002, Mr. Simachev was reappointed as the First Minister of Internal Affairs of Kazakhstan, which position he held until January 2004, when he joined the Bank as a managing director responsible for supervision of security issues. Mr. Simachev was appointed as a Deputy Chairperson, Security, in May 2004.

Internal Audit Service

Internal Audit Service supervises financial and commercial activities of the Bank and reports directly to the Board of Directors of the Bank.

The current members of the Internal Audit Service are:

Name	Position
Marlen Zhakezhanov	Director of Internal Audit
Ernar Tashenov	Deputy Director of Internal Audit
Nurlan Zhumagulor	Head of Division of Audit Review of the Internal Audit

Committees

Assets and Liabilities Management Committee

The current members of the ALCO are as follows:

Name	Position
Assiya Syrgabekova	Chairperson of the Management Board
Almas Chukin	Deputy Chairperson of the Management Board, Finance
Raushan Sagdieva	Deputy Chairperson of the Management Board, Lending
Natalka Valentinova	Accounting and Budget
Aliya Karpykova	Managing Director, Risks
Galina Raiko	Director of Finance
Oskar Diyarov	Director of the Treasury
Alma Mustafayeva	Director of the Control Department

For a description of the duties of the ALCO, see “Asset, Liability and Risk Management—Assets and Liabilities Management Committee”.

Credit Committees

The following committees located at the head office of the Bank are responsible for administering the Bank’s internal credit policy:

- Commercial Direction Credit Committee—Lending to head office corporate customers.
- Branch Network Credit Committee—Lending through branches over the established limits of lending of each branch.
- Retail Lending Credit Committee—Retail lending.

In addition, Oblast and each regional branch have their own retail lending credit committees. Such committees are permanent corporate authorities of the Bank that are in charge of implementation of the rules on internal credit policy of the Bank on retail lending through branches. These regional credit committees report to the Branch Network Credit Committee. See also “Selected Statistical and Other Information—Lending Policies and Procedures”.

Commercial Direction Credit Committee

The current members of the Commercial Direction Credit Committee are as follows:

Name	Position
Assiya Syrgabekova	Chairperson of the Management Board
Almas Chukin	Deputy Chairperson of the Management Board, Supervision and Investment Banking
Raushan Sagdieva	Deputy Chairperson of the Management Board, Lending
Aliya Karpykova	Managing Director, Risks
Farkhat Karagussov	Managing Director, Legal

Branch Network Credit Committee

The current members of the Branch Network Credit Committee are as follows:

Name	Position
Assiya Syrgabekova	Chairperson of the Management Board
Nurlan Bizakov	Deputy Chairperson of the Management Board, Regional Lending
Marat Zairov	Deputy Chairperson of the Management Board, Client Relationships
Yerlan Mukanov	Managing Director
Rustam Yakupbaev	Director of the Credit Risks Department
Galymzhan Kembayev	Deputy Director of the Legal Department
Gulnara Elgezekova	Advisor of Chairperson

Retail Lending Credit Committee

The current members of the Retail Lending Credit Committee are as follows:

<u>Name</u>	<u>Position</u>
Marat Satubaldin	Managing Director, Retail
Samir Khasanov	Managing Director, Private Banking
Serik Abilkhasimov	Head of Card Centre
Kairat Ibragimov	Deputy Director of the Legal Department
Erlan Ermagambetov	Head of Risk Division of Retail Business, Credit Risks Department

Disciplinary Commission

Disciplinary Commission is responsible for monitoring the Bank's and its employees compliance with applicable laws of Kazakhstan and with the Bank's internal policies and regulations. If any violations are found, the Disciplinary Commission takes appropriate disciplinary actions.

The current members of the Disciplinary Commission are:

<u>Name</u>	<u>Position</u>
Marat Zairov	Deputy Chairman of the Management Board, Client Relationships
Marlen Zhakezhanov	Director of Internal Audit
Galymzhan Kembayev	Deputy Director of the Legal Department
Tatyana Mariyasova	Director of Retail sales support department
Alexander Goldobin	Head of Internal Security Department
Larisa Lavrenovich	Deputy Chief Accountant
Assiya Damitova	Director of Commercial Sales Support Department
Marat Kusainov	Deputy Head of bank's information system support division
Nurlan Ongarbek	Head of Coordination of branches' credit activities Division

Service Contracts

All members of the Management Board have entered into service agreements with the Bank which, among other things, provide standard employment terms. Under the service agreements, employment can typically be terminated upon a 30-day notice period. Such service agreements do not provide for any severance benefits upon termination of employment.

Management Compensation

In accordance with the Bank's Charter, the amount of the remuneration for the members of the Board of Directors is subject to approval by the General Shareholders' Meeting of the Bank. The amount of the remuneration for members of the Management Board and its Chairperson is subject to determination and approval by the Board of Directors. As of 31 December 2003, the total amount of annual remuneration for the Directors and members of the Management Board equalled KZT 591 million.

The following table sets out the principal amounts of outstanding loans and guarantees extended to members of the Management Board and Board of Directors as of 30 June 2004.

	<u>As of 30 June 2004</u>
	<i>(KZT thousands)</i>
Payable on first demand	—
1 to 3 years	—
Over 3 years	6,351
Total.....	<u>6,351</u>

As of 30 June 2004, the total amount of outstanding loans extended to members of the Management Board and Board of Directors comprised 0.06% of the Bank's charter capital. There are no outstanding loans, guarantees (or other contingent liabilities) extended by the Bank to any member of the Management Board or Board of Directors thereof other than those discussed above.

Share Ownership

As of 30 June 2004, none of the members of the Board of Directors and the Management Board owned shares of the Bank.

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to the ownership of the Bank's outstanding common shares as of 27 September 2004:

Shareholder	Number of Common Shares	Percentage of Common Shares
Almex LLP	70,533,075	80.92
Delta LLP	3,079,135	3.54
Others.....	13,548,862	15.54
Total.....	87,161,072	100.0

In addition, the Bank has issued preferred shares, which represent 25% of the Bank's total share capital as of the date of this Offering Circular. The preferred shares are held by various shareholders, including NC Kazakhstan Temir Zholy CJSC, NC Kazmunaigas CJSC, Kaztransoil CJSC and JSC Accumulative Pension Fund Halyk Bank.

Based on information available to the Bank, as of the date of this Offering Circular, Mr. Timur A. Kulibayev beneficially owns with his family 100% of Almex LLP. In addition, Almex LLP and Delta LLP are affiliated companies through Mr. Kulibayev and, accordingly, Mr. Kulibayev holds indirectly the controlling stake in the Bank. As such, the controlling shareholder has the ability to influence significantly the Bank's business through his ability to control all actions that require shareholder approval, including any increase of share capital and appointment of members of the Board of Directors.

Almex LLP is a holding company, which in addition to its controlling interest in the Bank, has interests in other Kazakhstani companies engaged in insurance activities, such as AON Kazakhstan CJSC and KazakhInstrakh CJSC, and in another holding company Caspian Financial Industrial Group LLP.

For a discussion on the history of the ownership of the Bank see "The Bank—General—History".

TRANSACTIONS WITH RELATED PARTIES

For a description of the definition of related parties under IAS 24 “Related Party Disclosures”, see Note 25 to the audited consolidated financial statements and Note 17 of the condensed consolidated financial statements included elsewhere in this Offering Circular.

The following table provides information on the Bank’s related party transactions as of the dates indicated:

	As of 30 June		As of 31 December					
	2004		2003		2002		2001	
	<i>(KZT millions)</i>	<i>(% of total)</i>	<i>(KZT millions)</i>	<i>(% of total)</i>	<i>(KZT millions)</i>	<i>(% of total)</i>	<i>(KZT millions)</i>	<i>(% of total)</i>
Loans to customers, gross.....	2,055	1.0	4,373	2.5	15,175	11.4	5,192	5.9
Amounts due to customers	24,181	13.0	29,881	19.3	30,116	22.0	1,648	1.6
Guarantees issued.....	1,732	5.7	59	—	1	0.0	—	—
Interest income.....	338	2.8	168	1.0	802	6.2	84	0.9
Interest expense.....	599	15.9	305	4.6	443	7.2	17	0.4

The interest income and expense figures above represent actual amounts for the six-month period ended 30 June 2004 and for the years ended 31 December 2003, 2002 and 2001.

In March 2003, the Bank exceeded the threshold of 10% of capital established for loans from a single related party. The Bank has remedied this breach in 2004 and is currently in compliance with the requirements of the NBK. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy”.

THE BANKING SECTOR IN KAZAKHSTAN

Introduction

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. The Government and the NBK have also undertaken structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system. See “Annex A—The Republic of Kazakhstan”.

The National Bank of Kazakhstan and the FMSA

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

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

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

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

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

Banking

Structure of the Banking System of Kazakhstan

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

Banking Reform and Supervision

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

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

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

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

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

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

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

Commercial Banks

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

As of 30 June 2004, two commercial banks failed to comply with prudential regulatory requirements, compared to one as of 31 December 2003 and one as of 31 December 2002. These banks did not meet the single borrower exposure ratio, the open currency position ratio and the maximum asset investment ratio. Provisions for bad debts as of 30 June 2004 amounted to KZT 33.4 billion.

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

Foreign Capital in the Banking Sector

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

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

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

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

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:

The issue of U.S.\$200,000,000 8.125% Notes due 2009 (the “Notes”, which expression includes, unless the context requires otherwise, any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of JSC Halyk Bank (the “Issuer”) was authorised by a resolution of the Board of Directors of the Issuer on 7 July 2004 and by a decision of the general shareholders’ meeting of the Issuer passed on 25 March 2004. The Notes are constituted by a Trust Deed (the “Trust Deed”) dated 7 October 2004 between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Notes. These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes. Copies of the Trust Deed and of the paying agency agreement (the “Agency Agreement”) dated 7 October 2004 relating to the Notes between the Issuer, the Trustee, JPMorgan Chase Bank (the “Principal Paying and Transfer Agent”, which expression shall include any successor principal paying and transfer agent under the Agency Agreement) and the paying and transfer agents for the time being (such persons, together with the Principal Paying and Transfer Agent, being referred to below as the Paying and Transfer Agents, which expression shall include their successors as Paying and Transfer Agents under the Agency Agreement) and JPMorgan Chase Bank in its capacity as Registrar (the “Registrar”, which expression shall include any successor registrar under the Agency Agreement), are available for inspection during usual business hours at the principal office of the Trustee (presently at Trinity Tower, 9 Thomas More Street, London E1W 1YT) and at the specified offices of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them.

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

1. Form, Denominations and Title

(a) Form and denomination

The Notes are in registered form, serially numbered. Notes sold (i) in offshore transactions in reliance on Regulation S under the Securities Act of 1933 (the “Securities Act”) 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 and (ii) to qualified institutional buyers in reliance on Rule 144A under the Securities Act will be issued in minimum denominations of U.S.\$100,000 or any amount in excess thereof which is an integral multiple of U.S.\$1,000 (each denomination referred to in (i) and (ii), an “authorised denomination”).

(b) Title

Title to the Notes will pass by transfer and registration as described in Conditions 2 and 3. The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) 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 in it, any writing thereon by any Person (as defined below) (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.

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, “Noteholder” or “holder” means the Person in whose name a Note is registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and “holders” shall be construed accordingly.

Notes sold to QIBs in the United States in reliance on Rule 144A under the Securities Act will be represented by a Restricted Global Note. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by a Unrestricted Global Note. The

Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg. The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee of DTC.

Ownership of beneficial interests in the Restricted Global Note will be limited to persons that have accounts with DTC or persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg or persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances.

2. Registration

The Issuer will cause a register (the “Register”) to be kept at the specified office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. Transfer of Notes

(a) Transfer

Notes may, subject to the terms of the Agency Agreement and to Conditions 3(b), 3(c) and 3(e), be transferred in whole or in part in an authorised denomination by lodging the relevant Note (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Note will be valid unless and until entered on the Register. A Note may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, deliver a new Note to the transferee (and, in the case of a transfer of part only of a Note, deliver a Note for the untransferred balance to the transferor), at the specified office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Note by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(c) Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) Business Day

In these Conditions, “Business Day” means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in both New York City and the city in which the specified office of the Principal Paying and Transfer Agent is located.

(e) 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 scheduled to the Trust Deed. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar and the Trustee.

4. Status

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves and (save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 5) with all other present and future unsecured and unsubordinated obligations of the Issuer from time to time outstanding.

5. Covenants

For so long as any Note remains outstanding (as defined in the Trust Deed):

(a) Negative Pledge

The Issuer shall not, and shall not permit any Material Subsidiary to, create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Financial Indebtedness of the Issuer, any such Subsidiary or any other Person unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed 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 interests of the Noteholders;

(b) Limitations on Certain Transactions

The Issuer shall not, 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 million unless such transaction or series of transactions is, or are, at a Fair Market Value;

(c) Limitation on Payment of Dividends

The Issuer shall 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 and (B) in an aggregate amount exceeding 50 per cent. of the Issuer'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 IFRS, for which purpose, the amount of the Issuer'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 the payment of any dividends in respect of any preferred shares of the Issuer;

(d) Provision of Financial Information

Such Notes are "restricted securities" within the meaning of Rule 144A(a)(3) under the Securities Act, the Issuer shall 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 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; and

(e) Maintenance of Capital Adequacy

The Issuer shall not permit its total capital ratio calculated in accordance with the recommendations of the Basel Committee on Banking Supervision (the "Committee") to fall below 10%, such recommendations to be as provided in the Committee's paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988 as amended in November 1991 and as further amended, replaced or substituted by the Committee, such calculation to be made by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS.

For the purposes of these Conditions:

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

“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 Issuer 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.

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

“IFRS” means the International Financial Reporting Standards issued by the International Accounting Standards Committee, consistently applied by a company or as between companies, as in effect from time to time.

“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 Notes, 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 on a “with recourse” basis) having the commercial effect of a borrowing.

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

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

- (i) the gross assets, gross revenues and pre-taxation profits of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and
- (ii) the consolidated gross assets, consolidated gross revenues and pre-taxation profits of the Issuer 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 Issuer by any Subsidiary to secure Financial Indebtedness owed by such entity to the Issuer, (ii) arising pursuant to any order of attachment, distraint or similar legal process arising in connection with court or arbitration proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being

contested in good faith by appropriate proceedings, (iii) being liens or rights of set-off arising by operation of law and in the ordinary course of business, 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 Issuer held by financial institutions, (iv) arising in the ordinary course of the Issuer's or a Subsidiary's business and (a) which are necessary in order to enable the Issuer 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 Issuer's or such Subsidiary's business or (b) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer'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 Issuer or any Subsidiary other than on a short-term basis as part of the Issuer's or such Subsidiary's liquidity management activities), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (c) the Issuer's and its Subsidiaries' foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (vii) arising out of the refinancing, extension, renewal or refunding of any Financial Indebtedness secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Financial Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Financial Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest, (viii) granted upon or with regard to any property hereafter acquired by the Issuer or any Subsidiary to secure the purchase price of such property or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition (other than a Security Interest created in contemplation of such acquisition), provided that the maximum amount of Financial Indebtedness thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property (ix) created or outstanding upon any property or assets of the Issuer or any Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Financial Indebtedness secured by such property or assets is limited to such property or assets, provided that, the amount of Financial Indebtedness so secured pursuant to this clause (ix) at any one time shall not exceed an amount in any currency or currencies equivalent to 18% of the Issuer's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS), (x) granted by the Issuer or any Subsidiary in favour of a Development Organisation to secure Financial Indebtedness owed by the Issuer or such Subsidiary to such a Development Organisation pursuant to any loan agreement or other credit facility entered into between the Issuer or any Subsidiary and such Development Organisation, provided, however, that the amount of Financial Indebtedness so secured pursuant to this clause (x) shall not exceed in aggregate an amount in any currency or currencies equivalent to 10% of the Issuer's loans and advances to customers before provisions for loan losses (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS) and (xi) not included in any of the above exceptions, in aggregate securing Financial Indebtedness with an aggregate principal amount at any time not exceeding U.S.\$55 million (or its equivalent in other currencies) at that time.

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

6. Redemption and Purchase

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 7 October 2009. The Notes may not be redeemed at the option of the Issuer other than in accordance with Condition 6(b).

(b) Redemption for Taxation 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 Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay on the next date on which any amount would be payable with respect to the Notes Additional Amounts in excess of the Additional Amounts the Issuer has agreed to pay such amounts as provided or referred to in Condition 9 (based upon withholding tax on interest of 15%) than would have been required had such payment been required to be made on 5 October 2004 as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (excluding any such change or amendment which obliges the Issuer to pay additional amounts in respect of Notes held by or on behalf of a person resident, domiciled or organised in Kazakhstan, in respect of whom no additional amounts would be required to be paid in relation to a payment of interest on the Notes required to be made on 5 October 2004), which change or amendment becomes effective on or after 5 October 2004 and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two authorised officers of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Noteholders and (b) a legal opinion in form and substance satisfactory to the Trustee to the effect that the Issuer has or will become obliged to pay such Additional Amounts as provided or referred to in Condition 9 including the reasoning behind such opinion.

(c) Notice of Redemption

All Notes in respect of which any notice of redemption is given under this Condition shall be redeemed on the date specified in such notice in accordance with this Condition.

(d) Purchase

The Issuer may at any time purchase Notes in the open market or otherwise at any price. Any purchase by tender shall be made available to all Noteholders alike. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 6(e) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 13(a).

(e) Cancellation

All Notes which are redeemed pursuant to Condition 6(b) or submitted for cancellation pursuant to Condition 6(d) will be cancelled and may not be re-issued or resold. For so long as the Notes are

listed on the Luxembourg Stock Exchange, the Issuer shall promptly inform the Luxembourg Stock Exchange of the cancellation of any Notes under this Condition 6(e).

7. Interest

The Notes bear interest from 7 October 2004 (the “Issue Date”) at the rate of 8.125% per annum, payable semi-annually in arrear on 7 April and 7 October in each year (each an “Interest Payment Date”). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an “Interest Period”. Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying and Transfer Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). If interest is required to be calculated for a period other than an Interest Period, it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

8. Payments

(a) Principal

Payment of the principal in respect of the Notes other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender of the Notes at the specified office of the Register or of the Paying and Transfer Agents.

(b) Interest and other Amounts

- (i) Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.
- (ii) Payments of all amounts other than as provided in Condition 8(a) and (b)(i) will be made as provided in these Conditions.

(c) Record Date

“Record Date” means the fifteenth Business Day (as defined in Condition 3) before the due date for the relevant payment.

(d) Payments

Each payment in respect of the Notes pursuant to Condition 8(a) and (b)(i) will be made by United States dollar cheque drawn on a branch of a bank in New York City mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the specified office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in New York City.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a), if later, on the business day on which the relevant Note is surrendered as specified in Condition 8(a) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

(e) Agents

The names of the initial Paying and Transfer Agents and Registrar and their specified offices are set out below. The Issuer reserves the right under the Agency Agreement at any time with the prior written approval of the Trustee to remove any Paying and Transfer Agent or the Registrar and to appoint other or further Paying and Transfer Agents or another Registrar, provided that it will at all times maintain (i) a Principal Paying and Transfer Agent, (ii) Paying and Transfer Agents in at least two major European cities approved by the Trustee, including Luxembourg, for so long as the Notes are listed on the Luxembourg Stock Exchange, (iii) a Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000

on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and (iv) a Registrar. Notice of any such removal or appointment and of any change in the specified office of any Paying and Transfer Agent or Registrar will as soon as practicable be given to Noteholders in accordance with Condition 17.

(f) Payments subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) Delay in Payment

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day, (ii) if a cheque mailed in accordance with this Condition arrives after the date for payment.

(h) Business Days

In this Condition, “business day” means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and London and, in the case of presentation or surrender of a Note, in the place of the specified office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Note is presented or surrendered.

9. Taxation

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Kazakhstan or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts (“Additional Amounts”) as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note presented for payment:

(a) Other Connection

by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Kazakhstan other than the mere holding of the Note;

(b) Presentation more than 30 days after the Relevant Date

more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such Additional Amounts on presenting such Note for payment on the last day of such period of 30 days;

(c) Payment to Individuals

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) Payment by another Paying and Transfer Agent

by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying and Transfer Agent in a Member State of the European Union.

“Relevant Date” means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any Additional

Amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Kazakhstan, references in this Condition 9 to Kazakhstan shall be construed as references to Kazakhstan and/or such other jurisdiction.

The Trust Deed provides that if and for so long as the Notes are represented by a Global Note Condition 9(a) will not apply to any of the Notes unless the Trustee agrees that such Condition shall apply.

10. Events of Default

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

(a) Non-payment

the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise and such failure continues for a period of three days 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 days;

(b) Breach of other obligations

the Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 15 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee;

(c) Cross-default

- (i) any Indebtedness of the Issuer or any Material Subsidiary becomes (or becomes capable of being declared) due and payable prior to the due date for payment thereof by reason of default, or 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 any Material Subsidiary in respect of Indebtedness of any other Person is not honoured when due and called,

provided that the aggregate principal amount of such Indebtedness and/or Indebtedness Guarantee, as the case may be, equals or exceeds U.S.\$10 million (or its equivalent in other currencies (as determined by the Trustee));

(d) 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 any Material Subsidiary or all or substantially all of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 60 days; or
- (ii) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary or in respect of their respective 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

any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the relevant Material Subsidiary, (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders;

(e) Substantial Change in Business

the Issuer 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;

(f) Maintenance of Business

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

(g) Material Compliance with Applicable Laws

the Issuer fails to comply in any material (in the opinion of the Trustee) respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it lawfully to exercise its rights or perform or comply with its obligations under the Notes, the 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;

(h) Invalidity or Unenforceability

- (i) the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer, or the Issuer shall deny any of its obligations under the Notes, the Trust Deed 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 to perform or comply with all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement; or
- (iii) all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10(h), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(i) Government Intervention

- (i) all, or any substantial part, of the undertaking, assets and revenues of the Issuer 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 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(i), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders.

11. Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 8 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or any Paying and Transfer Agent with its specified office in London subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to

evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Notes must be surrendered before replacements will be issued.

13. Meetings of Noteholders, Modification and Waiver

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10% in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on or to vary the method of calculating the rate of interest on the Notes, (iii) to change the currency of payment of the Notes, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75%, or at any adjourned meeting not less than 25%, in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

(b) Modification and Waiver

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

(c) Entitlement of the Trustee

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

14. 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 as it may think fit to enforce the terms of the Trust Deed and the Notes, 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 unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

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

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

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

16. Further Issues

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

17. Notices

Notices to Noteholders will be valid if published, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that 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 shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or 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).

18. Contracts (Rights of Third Parties) Act 1999

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

19. Governing Law

(a) Governing Law

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

(b) Jurisdiction

Subject to an election being made under Condition 19(d), the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes (“Proceedings”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waives any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Agent for Service of Process

The Issuer has, in the Trust Deed, irrevocably appointed Halyk Bank, London Branch of Gainsborough House, 33 Throgmorton Street, London EC2N 2BR as its agent in England to receive service of process in any Proceedings in England based on any of the Notes or the Trust Deed. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) Arbitration

(i) Disputes

The Issuer has agreed that the Trustee or, if the Trustee, having become bound to take proceedings, fails to do so, a Noteholder may elect, by notice in writing to the Issuer, to refer to arbitration in accordance with the provisions of this Condition 19 any claim, dispute or difference of whatever nature howsoever arising under, out of or in connection with the Notes (including a claim, dispute or difference as to the breach, existence or validity of the Notes) or the Trust Deed (each a “Dispute”).

(ii) UNCITRAL Arbitration Rules

The Issuer has agreed that (with respect to any Dispute subject to a notice of election in accordance with Condition 19(d)(i)), such Dispute may be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the “Rules”) as at present in force (which are deemed incorporated into this Condition 19(d)) by a panel of three arbitrators appointed in accordance with the Rules. The seat of arbitration shall be in London, England. The procedural law of any reference shall be English law. The Issuer shall appoint one arbitrator and the Trustee shall appoint one arbitrator and the two arbitrators thus appointed shall appoint the third arbitrator who shall be chairman of the arbitral tribunal. The language of any arbitral proceedings shall be English. The appointing authority for the purposes of the Rules shall be the London Court of International Arbitration. Section 45 of the Arbitration Act 1996 shall not apply to any arbitration proceedings pursuant to this Condition 19(d).

FORM OF NOTES AND TRANSFER RESTRICTIONS

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

1. Form of Notes

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

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

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

2. Transfer Restrictions

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

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

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

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

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

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

- (ii) The Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below.
- (iii) The Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Bank determines otherwise in accordance with applicable law:

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

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

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

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

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

- (i) It is, or will be at the time Notes are purchased, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate.
- (ii) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a

qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or the account of a qualified institutional buyer or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

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

3. Exchange of Interests in Global Notes for Note Certificates

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

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

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

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

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

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under “—Transfer Restrictions”, or upon specific request for removal of the legend on a Restricted Note Certificate, the Bank 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 Bank and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Bank that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act.

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

4. Euroclear, Clearstream, Luxembourg and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of their common depository is the registered holder of a Global Note, DTC, Euroclear, 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, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Bank, the Trustee, any Agent or the Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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

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

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

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because DTC, Euroclear 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 Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) Chase Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear 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 Euroclear, Clearstream, Luxembourg and DTC.

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

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear 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 Euroclear/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 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 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 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 Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear 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 Euroclear/Clearstream, Luxembourg and DTC Purchaser. When book-entry interests in the Notes are to be transferred from the account of 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), Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 5 p.m. Brussels or Luxembourg time, one Business Day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear 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 Euroclear or Clearstream, Luxembourg account holder, as the case may be. On the settlement date, the common depositary for Euroclear 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 Euroclear 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 Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, none of Euroclear, 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 Bank, the Trustee, any Agent or any of the Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited and J.P. Morgan Securities Ltd. (together, the “Joint-Lead Managers”) and OJSC Zenit Bank (together with the Joint-Lead Managers, the “Managers”), have, pursuant to a subscription agreement (the “Subscription Agreement”) dated 5 October 2004, agreed with the Bank, subject to the satisfaction of certain conditions, to subscribe for the Notes. The Bank has agreed to pay certain costs and expenses in connection with the issue of the Notes.

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

United States

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

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

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

United Kingdom

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

Kazakhstan

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

General

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

TAXATION

Kazakhstan Taxation

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

Under Kazakhstan's laws as presently in effect, interest payable by a Kazakhstani obligor to (i) 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 or actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") or (ii) residents in Kazakhstan, or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than individuals, banks resident in Kazakhstan and Kazakhstani accumulative pension funds, will be subject to Kazakhstan withholding tax at a rate of 15%. The Bank has agreed to pay additional amounts in respect of such withholding, subject to certain exceptions. See "Terms and Conditions of the Notes—Condition 9". The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts in Kazakhstan and as such there may be some doubt as to whether they would enforce such an agreement. The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See "Terms and Condition of the Notes—Condition 6(b)". See "Risk Factors—Risk Factors Relating to the Notes—Taxation in Kazakhstan".

Tax legislation in Kazakhstan currently levies an income tax of 20% on gains from the sale of securities issued by Kazakhstan companies where such securities are not listed on the official "A" or "B" lists of the KASE. Such income tax would be applicable to holders of securities (including the Notes until they are listed on KASE), regardless of whether the holder is resident in Kazakhstan for tax purposes, unless reduced by an applicable double tax treaty. Under the terms of double tax treaties Kazakhstan has concluded with certain countries, including, among others, the United States, United Kingdom, France, Germany and the Netherlands, gains made by tax residents in such countries are not subject to such Kazakh income tax. Holders who are resident for tax purposes in other countries, however, would be subject to such tax.

Under the terms of the current legislation, holders that realise such a gain and do not qualify for an exemption under the appropriate double tax treaty are obliged to file a tax declaration with the Kazakhstani tax authorities. There is, however, uncertainty as to how the Kazakhstani tax authorities would assess such tax on non-resident foreign holders of the Notes. Prospective purchasers and holders of Notes should consult their own professional advisers as to the tax consequences of them holding or transferring the Notes.

Upon the issue of the Notes, the Bank intends to apply to the KASE for listing of the Notes. However, there can be no assurance that the KASE will list the Notes or, if a listing is obtained, that such listing can be maintained by the Bank.

European Union Taxation

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income (Council Directive 2003/48/EC). The directive is scheduled to be applied by Member States from 1 July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State 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; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by member states and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

United States Federal Income Taxation

The following is a summary of the material U.S. federal income tax consequences of the acquisition, ownership and retirement of Notes by a holder thereof. This summary only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation

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

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

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

Interest

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

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

Sale, Exchange or Retirement

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

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

States for 183 days or more in the taxable year of such sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of Notes that are United States persons. 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 U.S. person that provides an appropriate certification and certain other persons). The payor will be required to withhold backup withholding tax from any such payment made within the United States on a Note 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 the backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 28% for years 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 such payor does not have actual knowledge or a reason to know that any information or certification stated in such certificate is incorrect.

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

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Unrestricted Global Note has been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code 020279958 and ISIN XS0202799580. The Restricted Global Note has been accepted for clearance through DTC. The CUSIP number for the Restricted Global Note is 46627J AA 2, the ISIN is US46627JAA25 and the Common Code is 020286997.
2. The issue of the Notes was authorised by a duly adopted resolution of the Board of Directors of the Bank dated 7 July 2004 and by a decision of the general shareholders' meeting of the Bank passed on 25 March 2004.
3. Except as otherwise disclosed in this Offering Circular, neither the Bank nor any of its subsidiaries is involved in any litigation or arbitration proceeding relating to claims or amounts which is material in the context of the issue of the Notes, nor, so far as the Bank is aware, is any such litigation or arbitration pending or threatened.
4. Except as otherwise disclosed in this Offering Circular, there has been no material adverse change, or development reasonably likely to involve a material adverse change, in the condition (financial or otherwise) or general affairs of the Bank or any of its subsidiaries, taken as a whole, since 31 December 2003.
5. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, a copy of a legal notice (*notice légale*) relating to the issue of the Notes will be deposited prior to listing with the *Registre de Commerce et des Sociétés, Luxembourg* where it, together with the Charter of the Bank, may be inspected and copies obtained upon request. Copies of the following documents (and English translations thereof where the documents in question are not in English) may be inspected at, are available from and (in the case of (a), (c) and (d) below) may be obtained free of charge upon request from the specified offices of the Paying and Transfer Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) so long as any of the Notes are listed on the Luxembourg Stock Exchange:
 - (a) a copy of this Offering Circular, together with any supplement to this Offering Circular;
 - (b) the Agency Agreement;
 - (c) the Trust Deed, which includes the forms of the Global Notes and the definitive Notes;
 - (d) the consolidated financial statements of the Bank as of and for the years ended 31 December 2003, 2002 and 2001 and interim financial statements as of and for the six-month periods ending 30 June 2004 and 2003. The Bank currently prepares audited consolidated accounts on an annual basis. The Bank does not publish non-consolidated financial statements. All financial statements produced by the Bank in the future will be made available as set out above; and
 - (e) copies (with an English translation) of the authorisations listed below:
 - the board minutes of the Bank authorising the issue of the Notes dated 7 July 2004;
 - the minutes of the general shareholders' meeting of the Bank authorising the issue of the Notes dated 25 March 2004.
6. Application has also been made for the Notes issued and sold in reliance on Rule 144A to be designated as eligible for trading on PORTAL.
7. As long as the Notes are listed on the Luxembourg Stock Exchange, the Bank will maintain a Paying and Transfer Agent in the City of Luxembourg. The name of the Paying and Transfer Agent initially appointed in the City of Luxembourg and the listing agent in the City of Luxembourg is set out at the end of this Offering Circular.
8. The Bank's independent auditors are Ernst & Young. The Bank's consolidated financial statements for the years ended 31 December 2001, 2002 and 2003 and the interim condensed consolidated financial statements for the six-month periods ended 30 June 2004 and 2003 were audited by Ernst & Young. The Bank does not publish non-consolidated financial statements. Ernst & Young's audit reports are included in this Offering Circular. Ernst & Young has agreed to the inclusion herein of its reports and references to its name in the form and context as it appears.

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of JSC Halyk Bank

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

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

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



May 12, 2004

CONSOLIDATED BALANCE SHEETS

(Thousands of Kazakhstani Tenge)

	Notes	December 31,		
		2003	2002	2001
Assets				
Cash and cash equivalents	4	13,415,347	17,687,828	12,407,453
Obligatory reserves	5	5,212,050	4,525,381	4,662,961
Trading securities	6	39,914,328	23,506,982	–
Amounts due from credit institutions	7	7,290,929	–	50,188
Investment securities:				
– available-for-sale	8	3,231,735	5,783,439	14,751,211
– held-to-maturity	8	6,443,297	2,982,832	–
Loans to customers	9	163,888,497	125,816,039	83,664,396
Current tax assets	10	199,373	–	–
Property and equipment	12	7,322,490	7,045,844	6,817,228
Other assets		2,605,196	1,933,832	1,972,013
Total assets		249,523,242	189,282,177	124,325,450
Liabilities				
Amounts due to the Government and the NBK	13	528,514	449,025	102,223
Amounts due to credit institutions	14	61,876,550	32,106,910	13,711,797
Amounts due to customers	15	154,845,698	136,918,002	100,381,303
Dividends payable		366,253	394,459	2,731
Tax liabilities	10	182,686	–	9,243
Provisions	11	920,576	59,563	98,066
Other liabilities		778,847	698,386	751,929
Subordinated debt securities issued	16	8,582,604	4,468,713	2,364,919
Total liabilities		228,081,728	175,095,058	117,422,211
Minority interest	2	203,256	–	216
Shareholders' equity				
Share capital				
– common shares	17	7,422,600	7,422,600	5,422,600
– preferred shares	17	2,474,200	2,261,150	–
Additional paid-in capital		2,191,872	2,085,600	956,415
Treasury stock		(15,739)	(14,043)	–
Reserves		367,951	763,824	366,115
Retained earnings		8,797,374	1,667,988	157,893
Total shareholders' equity		21,238,258	14,187,119	6,903,023
Total liabilities, shareholders' equity and minority interest		249,523,242	189,282,177	124,325,450
Commitments and contingencies	18			

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

Syrgabekova A. N. Chairwoman of the Board

Fedchenko A.G. Chief Accountant

May 12, 2004

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

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Kazakhstani Tenge, except for earnings per share)

	Notes	Years ended December 31,		
		2003	2002	2001
Interest income				
Loans.....		21,593,736	13,008,226	9,353,582
Securities.....		2,354,414	1,860,556	1,477,996
Deposits with other banks		248,360	454,887	153,042
		<u>24,196,510</u>	<u>15,323,669</u>	<u>10,984,620</u>
Interest expense				
Deposits from customers.....		(6,629,319)	(6,189,032)	(4,170,781)
Deposits and loans from credit institutions		(1,895,535)	(920,938)	(661,257)
Debt securities		(658,616)	(406,961)	(288,472)
		<u>(9,183,470)</u>	<u>(7,516,931)</u>	<u>(5,120,510)</u>
Net interest income before impairment		15,013,040	7,806,738	5,864,110
Impairment charge	11	(4,136,538)	(6,649,796)	(4,072,260)
Net interest income		<u>10,876,502</u>	<u>1,156,942</u>	<u>1,791,850</u>
Fee and commission income	19	7,558,880	5,316,807	4,507,422
Fee and commission expense	19	(995,099)	(1,132,756)	(1,400,772)
Fees and commissions		<u>6,563,781</u>	<u>4,184,051</u>	<u>3,106,650</u>
Gains less losses from trading securities		826,602	659,832	–
Gains less losses from available-for-sale securities		441,674	17,110	296,253
Gains less losses from foreign currencies:				
– dealing		1,223,983	1,176,115	1,305,633
– translation differences		(112,622)	62,106	(112,475)
Dealing profits less losses		8,415	(389,910)	19,973
Write-back of dormant accounts	20	–	3,698,298	–
Other income.....		430,510	608,092	845,539
Non interest income		<u>2,818,562</u>	<u>5,831,643</u>	<u>2,354,923</u>
Salaries and other employee benefits	21	(5,285,192)	(3,726,007)	(2,795,796)
Depreciation and amortisation.....	12	(1,007,296)	(1,207,001)	(973,237)
Taxes other than income tax.....		(735,339)	(875,218)	(935,398)
Administrative and operating expenses.....	21	(3,574,698)	(3,229,505)	(2,475,688)
Other (provisions) reversal	11	(1,384,671)	38,503	–
Non interest expense		<u>(11,987,196)</u>	<u>(8,999,228)</u>	<u>(7,180,119)</u>
Income before income tax expense and minority interest.....		8,271,649	2,173,408	73,304
Income tax expense	10	(773,465)	(302,245)	(42,232)
Net income after income tax		<u>7,498,184</u>	<u>1,871,163</u>	<u>31,072</u>
Minority interest in net income.....		(37,906)	–	(10)
Net income		<u>7,460,278</u>	<u>1,871,163</u>	<u>31,062</u>
Basic earnings per share (in Kazakhstani Tenge) ..	22	<u>96.00</u>	<u>27.22</u>	<u>0.57</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Kazakhstani Tenge)

	Share Capital- Common Shares	Share Capital- Preferred Shares	Additional paid-in capital	Treasury stock	Securities revaluation reserve	Property revaluation reserve	Retained earnings	Total shareholders' equity
December 31, 2000	5,422,600	–	955,571	(571)	–	384,691	126,831	6,889,122
Treasury stock sale	–	–	844	571	–	–	–	1,415
Revaluation of assets	–	–	–	–	–	(18,576)	–	(18,576)
Net income.....	–	–	–	–	–	–	31,062	31,062
December 31, 2001	5,422,600	–	956,415	–	–	366,115	157,893	6,903,023
Capital contributions	2,000,000	2,261,150	1,130,464	–	–	–	–	5,391,614
Treasury stock purchase	–	–	(1,488)	(14,876)	–	–	–	(16,364)
Treasury stock sale	–	–	209	833	–	–	–	1,042
Dividends – preferred shares	–	–	–	–	–	–	(394,459)	(394,459)
Fair value change of available- for-sale securities	–	–	–	–	431,100	–	–	431,100
Transfers	–	–	–	–	–	(33,391)	33,391	–
Net income.....	–	–	–	–	–	–	1,871,163	1,871,163
December 31, 2002	7,422,600	2,261,150	2,085,600	(14,043)	431,100	332,724	1,667,988	14,187,119
Capital contributions	–	213,050	106,272	–	–	–	–	319,322
Treasury stock purchase	–	–	–	(1,696)	–	–	–	(1,696)
Dividends – preferred shares	–	–	–	–	–	–	(354,936)	(354,936)
Fair value change of available- for-sale securities	–	–	–	–	(371,012)	–	–	(371,012)
Transfers	–	–	–	–	–	(24,861)	24,861	–
Translation difference	–	–	–	–	–	–	(817)	(817)
Net income.....	–	–	–	–	–	–	7,460,278	7,460,278
December 31, 2003	7,422,600	2,474,200	2,191,872	(15,739)	60,088	307,863	8,797,374	21,238,258

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Kazakhstani Tenge)

	Years ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net income before minority interest and income taxes.....	8,271,649	2,173,408	73,304
Adjustments for:			
Depreciation and amortization.....	1,007,296	1,207,001	973,237
Accrued interest, net.....	(4,321,681)	(1,504,292)	(1,756,504)
Provision for losses.....	5,521,209	6,611,293	(4,072,260)
Unrealised foreign exchange loss.....	549,182	113,188	209,596
Change in fair value of trading securities.....	(260,315)	(523,519)	–
(Gain) loss from disposal of property and equipment.....	(70,806)	76,632	(148,203)
Operating income before changes in net operating assets.....	10,696,534	8,153,711	(4,720,830)
(Increase) decrease in operating assets:			
Obligatory reserves.....	(686,669)	137,580	294,276
Trading securities.....	(15,863,891)	(22,946,011)	–
Amounts due from credit institutions.....	(7,267,202)	5,224,373	4,303,666
Loans to customers.....	(42,619,897)	(45,650,073)	(24,291,297)
Other assets.....	(220,104)	481,318	1,670,004
Increase (decrease) in operating liabilities:			
Amounts due to the Government and the NBK.....	79,994	–	518
Amounts due to credit institutions.....	16,058,643	13,727,017	799,948
Amounts due to customers.....	19,236,030	31,902,635	16,464,090
Other liabilities.....	(457,936)	(113,358)	(47,381)
Net cash outflow from operating activities before income taxes.....	(21,044,498)	(9,082,808)	(5,527,006)
Income tax paid.....	(790,152)	(250,058)	(64,500)
Net cash outflow from operating activities.....	(21,834,650)	(9,332,866)	(5,591,506)
Cash flows from investing activities			
Net cash paid on acquisition of subsidiaries.....	(241,803)	–	–
Purchase of available-for-sale securities.....	(18,359,448)	(273,463)	(8,660,199)
Sale of available-for-sale securities.....	20,569,557	9,525,815	23,159,172
Purchase of held-to-maturity securities.....	(6,949,461)	(2,982,832)	–
Proceeds from redemption of held-to-maturity securities.....	3,770,977	–	–
Purchase of property and equipment.....	(1,289,834)	(1,466,688)	(885,355)
Proceeds from sale of property and equipment.....	223,389	112,008	207,245
Net cash outflow from investing activities.....	(2,276,623)	4,914,840	13,820,863
Cash flow from financing activities:			
Proceeds from issue of share capital.....	319,322	5,391,614	–
Long term borrowings received from credit institutions.....	23,530,657	3,600,991	2,518,266
Long term borrowings repaid to credit institutions.....	(7,785,181)	(2,161,679)	(1,038,109)
Long term borrowings received from the Government.....	–	346,715	–
Purchase of treasury shares.....	(1,696)	(16,364)	–
Sale of treasury shares.....	–	1,042	1,415
Dividends paid.....	(383,142)	–	–
Subordinated debt securities issued.....	4,445,405	2,086,263	(232,558)
Change in minority interest.....	–	(216)	(127)
Net cash flow from financing activities.....	20,125,365	9,248,366	1,248,887
Effects of exchange rate changes on cash and cash equivalents.....	(286,575)	450,035	265,190
Net change in cash and cash equivalents.....	(4,272,483)	5,280,375	9,743,434
Cash and cash equivalents at the beginning of the year.....	17,687,828	12,407,453	2,664,019
Cash and cash equivalents at the end of the year.....	13,415,345	17,687,828	12,407,453
Supplementary information:			
Interest received.....	19,831,665	15,259,140	11,124,952
Interest paid.....	5,555,199	6,702,526	4,545,059

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

(Thousands of Kazakhstani Tenge)

1. Principal Activities

Halyk Bank and its subsidiaries (the “Bank”) provide retail and corporate banking, pension and asset management services in Kazakhstan. The parent company of the Bank, Joint Stock Company Halyk Bank (formerly “OJSC Halyk Bank of Kazakhstan”), was registered in 1995, and is domiciled in the Republic of Kazakhstan.

The Bank’s primary business consists of originating loans and guarantees, attracting deposits from legal entities and individuals, trading with securities, foreign currency and derivative instruments, execution and arrangement of precious metals transactions, conducting credit card operations and sale of state saving bonds. In addition, the Bank is authorized to accept pension fund deposits, acts as agent for the Government of the Republic of Kazakhstan and provide other banking services to its customers.

The address of the Bank’s registered office is: 97 Rozybakiyev Street, Almaty, 480046, Republic of Kazakhstan. The Bank has a primary listing in the Kazakhstani Stock Exchange. The Bank’s head office is in Almaty. As of December 31, 2003, the Bank had 20 regional branches, 129 sub-regional offices and 379 cash settlement units (December 31, 2002: 20 regional branches, 147 sub-regional offices and 457 cash settlements units; December 31 2001: 20 regional branches, 157 sub-regional offices and 455 cash settlements units) located throughout Kazakhstan.

The Bank had 8,424, 8,663 and 8,261 employees as of December 31, 2003, 2002 and 2001 respectively.

As of December 31, 2003, the following shareholders owned more than 5% of the outstanding common shares.

Shareholder	%
ALMEX LLP	43.71
Asia Invest Corporation	9.72
Delta LLP	9.66
Agys Ltd	6.95
Karat 24 LLP	5.06
Dakot LLP.....	5.06
Other.....	19.84
Total.....	100.00

2. Basis of Preparation**General**

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

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

During 2001, transactions denominated in foreign currencies are recorded using the official exchange rates quoted by the National Bank of Kazakhstan (the “NBK”).

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The primary estimates, which relate to the allowance for loan losses, deferred

(Thousands of Kazakhstani Tenge)

taxes and the carrying value of property and investments, are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

2003

Subsidiary	Holding %	Country	Activities
“Khalyk Leasing” CJSC	100	Kazakhstan	Leasing
“Accumulated Pension fund of Halyk Bank” JSC	85.012	Kazakhstan	Pension assets accumulation and management
“Kazteleport” CJSC	100	Kazakhstan	Telecommunication
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of Eurobonds

Total subsidiaries**2002**

Subsidiary	Holding %	Country	Activities
CJSC “Khalyk Leasing”	100	Kazakhstan	Leasing
CJSC “Kazteleport”	100	Kazakhstan	Telecommunication services
CJSC “Pension Assets Management Company of Halyk Bank of Kazakhstan”	100	Kazakhstan	Asset management
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of Eurobonds

Total subsidiaries**2001**

Subsidiary	Holding %	Country	Activities
CJSC “Khalyk Leasing”	100	Kazakhstan	Leasing
CJSC “Kazteleport”	100	Kazakhstan	Telecommunication services
CJSC ” Pension Assets Management Company of Halyk Bank of Kazakhstan”	100	Kazakhstan	Asset management
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of Eurobonds
CJSC “Khalyk Invest”	93.09	Kazakhstan	Project financing

Total subsidiaries

At December 31, 2002 the Bank held 20.77% of the issued and paid shares of OJSC “Accumulating Pension Fund of Halyk Bank” (“the Fund”). During 2003, the Bank acquired an additional 266,768 shares of the Fund (59.3% of all issued and paid shares) for KZT 302,419. The control was obtained on May 1, 2003, and, accordingly, the assets, liabilities and results of operations of the Fund are consolidated from that date.

(Thousands of Kazakhstani Tenge)

At the date of acquisition (May 1, 2003), the net identifiable assets of the Fund comprised:

Net identifiable assets acquired

	2003
Cash	101
Due from financial institutions	60,515
Investment securities available-for-sale	364,293
Premises and equipment	82,290
Other assets	52,948
Other creditors	(18,726)
Net identifiable assets	541,421
Less minority interest	(165,350)
Net assets less minority interest	376,071
Purchase consideration paid	(363,245)
Negative goodwill	12,826

The negative goodwill was presented as a deduction from assets. In September 2003, the Fund and CJSC "Pension Assets Management Company of Halyk Bank of Kazakhstan" merged their operations.

Associates accounted for under the equity method

The following associates are accounted for under the equity method and included into other assets:

Associates	Holding %	Country	Activities	Share in net assets	Share in net income
2003					
Kazinstrakh CJSC	41.69	Kazakhstan	Insurance	444,000	68,783
2002					
Pension Fund of Halyk Bank OJSC	20.77	Kazakhstan	Pension Fund	60,826	9,302
2001					
Pension Fund of Halyk Bank CJSC	20.77	Kazakhstan	Pension Fund	53,940	10,396

Reconciliation of KAS and IFRS Equity and Net Income

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

	2002		2001	
	Shareholders' equity	Net income	Shareholders' equity	Net income
Kazakh Accounting Legislation	16,824,703	2,770,771	8,246,540	565,610
Dividends on preferred shares	(394,459)	-	-	-
Allowance for losses	(2,220,535)	(899,608)	(1,320,927)	(511,819)
Income taxes	(9,243)	-	(9,243)	(9,243)
Other	(13,347)	-	(13,347)	(13,486)
International Financial Reporting Standards	14,187,119	1,871,163	6,903,023	31,062

(Thousands of Kazakhstani Tenge)

3. Summary of Significant Accounting Policies

Principles of consolidation

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

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

Recognition of Financial Instruments

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

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

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

Derivative Financial Instruments

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

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

(Thousands of Kazakhstani Tenge)

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of Kazakhstan (“NBK”) – excluding obligatory reserves, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Obligatory Reserves

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

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers’ margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

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

Amounts Due from Credit Institutions

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

Repurchase and Reverse Repurchase Agreements

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

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

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

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

Investment Securities

The Bank classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- Securities that are not classified by the Bank as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future

(Thousands of Kazakhstani Tenge)

disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

Loans to Customers

Loans and advances are originated by the Bank by providing money directly to the borrower and are carried at amortized cost. Loans and advances are recognized when cash is advanced to the borrowers. The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income. Subsequent payments by borrowers are applied to either principal or delinquent interest based on the estimated collectibility of the loan and delinquent interest at the time of payment. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period. Loans and advances to customers are carried net of any allowance for impairment.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan. The tax legislation in Kazakhstan requires each entity to file an annual individual tax return and group consolidated returns are not allowed.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences:

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

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

- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and

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- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Republic of Kazakhstan also has various operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of statement of income.

Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument. For instruments that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the financial instrument.

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

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

Leases

i. Finance – Bank as Lessor

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

ii. Operating – Bank as Lessee

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

iii. Operating – Bank as Lessor

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

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Property and Equipment

Property and equipment, except buildings, are stated at the lower of cost less accumulated depreciation and net recoverable amount. Buildings are stated in the consolidated balance sheets at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any accumulated depreciation and subsequent accumulated impairment losses. Revaluations of buildings are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

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

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives. Property and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings and constructions.....	15 – 50
Vehicles.....	7
Computers and banking equipment.....	4
Other.....	4 – 10

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

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

Amounts Due to NBK, Credit Institutions and to Customers

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

Subordinated Debt Securities Issued

Debt securities issued represent subordinated bonds issued by the Bank to its customers. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

Provisions

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

Retirement and Other Benefit Obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a

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percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

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

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Dividends on common shares are recognized as a reduction in shareholders' equity in the period in which they are declared. Dividends on preferred shares when guaranteed are reported as reduction of shareholders' equity in the related period. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Social Costs

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

Contingencies

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

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of contractual interest income is suspended when loans become overdue by more than ninety days. Bank commissions and other income are recognized when the related transactions are completed. Commission income from pension assets management is recognized as earned on an accrual basis. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the market exchange rate quoted by KASE at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies (translation differences).

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

Reclassifications

Certain of the 2002 and 2001 amounts were reclassified to conform with the presentation of the 2003 consolidated financial statements. None of these reclassifications impacted net income for the years ended December 31, 2002 and 2001 and total shareholders' equity as of December 31, 2002 and 2001.

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4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Overnight deposits in other banks.....	5,257,735	10,704,401	3,598,942
Cash on hand	4,850,482	2,641,976	3,674,007
Correspondent accounts with OECD based banks	1,270,400	3,342,021	1,499,755
Interest bearing deposits in Kazakh banks and financial institutions.....	1,087,822	372,623	2,332,617
Short-term loans to other non-OECD banks.....	510,892	-	-
Correspondent accounts with non-OECD based banks	436,766	611,807	202,309
Short term loans to other Kazakh banks and financial institutions.....	1,250	15,000	1,099,823
Cash and cash equivalents	<u>13,415,347</u>	<u>17,687,828</u>	<u>12,407,453</u>

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

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	<i>KZT</i>	<i>US Dollar</i>	<i>KZT</i>	<i>US Dollar</i>	<i>KZT</i>	<i>US Dollar</i>
Overnight deposits in other banks.....	1%	1-4%	-	1%	-	2.5%-8%
Deposits with Kazakh banks.....	1-14%	1-4%	9-13%	4%	12.75%	11%
Short-term loans to other non-OECD banks	-	4-8%	-	-	-	-
Short term loans to other Kazakh banks	5%	-	5%	-	-	5%

At December 31, 2003, 10 banks accounted for 49% of total cash and cash equivalents and represented 31% of the Bank's total shareholders' equity. At December 31, 2002, 10 banks accounted for 82% of total cash and cash equivalents and represented 102% of the Bank's total shareholders' equity. At December 31, 2001, 10 banks accounted for 57% of total cash and cash equivalents and represented 103% of the Bank's total shareholders' equity.

5. Obligatory Reserves

Obligatory reserves comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Due from the NBK allocated to obligatory reserves	2,018,559	1,576,240	2,010,204
Cash on hand allocated to obligatory reserves	3,193,491	2,949,141	2,652,757
Obligatory reserves.....	<u>5,212,050</u>	<u>4,525,381</u>	<u>4,662,961</u>

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

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6. Trading Securities

Trading securities owned comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Notes of the NBK	23,958,264	10,148,019	–
Treasury bills of the Ministry of Finance	9,207,605	6,209,751	–
Sovereign bonds of the Republic of Kazakhstan	4,085,513	4,549,879	–
Eurobonds of Kazakh banks	2,493,542	2,129,283	–
Bonds of Development Bank of Kazakhstan	169,404	470,050	–
Trading securities	<u>39,914,328</u>	<u>23,506,982</u>	<u>–</u>
Subject to repurchase agreements	5,656,840	4,283,405	–

Interest rates and maturity of these securities follow:

	<u>2003</u>		<u>2002</u>		<u>2001</u>	
	%	<i>Maturity</i>	%	<i>Maturity</i>	%	<i>Maturity</i>
Notes of the NBK	4.7%-5.4%	2004	6%	2003	–	–
Treasury bills of the Ministry of Finance	5.7%-16.9%	2004-2013	7-17%	2003-2006	–	–
Sovereign bonds of the Republic of Kazakhstan	11.1%	2007	11.1%	2007	–	–
Eurobonds of Kazakh banks	7.38%-8.6%	2007-2013	7.1%	2007-2013	–	–
Bonds of Development Bank of Kazakhstan	9.1-9.8%	2007	9.1%	2007-2013	–	–

At December 31, 2003 and 2002, eurobonds of two banks accounted for 100% of eurobonds of Kazakh banks and represented 11.7% and 15% of the Bank's total shareholders' equity, respectively.

7. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Time deposits	7,306,271	–	99,171
Loans to local credit institutions	422	–	–
	7,306,693	–	99,171
Less Allowance for impairment	(15,764)	–	(48,983)
Amounts due from credit institutions	<u>7,290,929</u>	<u>–</u>	<u>50,188</u>

At December 31, 2003, the annual interest rates earned by the Bank on time deposits ranged from 8% and 13.55% (2001: 1.5% – 12.75%) and the deposits matured in June and July 2004 (2001: in 2002).

At December 31, 2003, one OECD bank accounted for 89% of total amounts due from credit institutions (2001: nil) and represented 31% of the Bank's total shareholders' equity (2001: nil).

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8. Investment Securities

Available-for-sale securities comprise:

	2003	2002	2001
Sovereign bonds of Kazakhstan	1,827,400	1,955,666	3,568,479
Bonds of Kazakh banks	848,296	317,353	–
Treasury bills of the Ministry of Finance	301,224	2,902,792	4,919,227
Corporate bonds	148,152	592,649	1,039,159
Notes of the NBK	106,663	14,979	4,769,120
World bank bonds	–	–	1,502
Local municipal bonds	–	–	453,724
Available-for-sale securities	3,231,735	5,783,439	14,751,211
Subject to repurchase agreements	1,181,762	1,484,161	2,449,682

Interest rates and maturity of these securities follow:

	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Sovereign bonds of						
Kazakhstan	3.9%-13.5%	2004-2007	11.13%	2004-2007	4%-16.90%	2002-2007
Bonds of Kazakh banks	10.5%-13.3%	2004-2010	7%-11%	2003-2007	7.12%-13.15%	2002-2007
Treasury bills of the Ministry of Finance	5.5%-6.1%	2005-2010	7%-17%	2003-2007	8.67%-11.05%	2002-2006
Corporate bonds	7.5%-10.9%	2004-2009	8.5%-9%	2003-2005	5.37%-5.89%	2002
Notes of the NBK	4.63%-4.9%	2004	6%	2003	8.40%-9.80%	2002-2004
Local municipal bonds	–	–	–	–	7%	2005

At December 31, 2003, bonds of two banks accounted for 67% of Kazakh banks' bonds and represented 2.7% of the Bank's total shareholders' equity. At December 31, 2002, bonds of one bank accounted for 100% of Kazakh banks' bonds and represented 2.2% of the Bank's total shareholders' equity.

Held-to-maturity securities comprise:

	2003		2002		2001	
	Carrying value	Nominal value	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance	4,705,629	4,460,487	1,566,011	1,573,209	–	–
Corporate bonds	1,333,508	1,307,036	1,152,997	766,980	–	–
Local municipal bonds	402,675	380,813	262,222	166,580	–	–
World Bank bonds	1,485	1,441	1,602	1,000	–	–
Held-to-maturity securities	6,443,297	6,149,777	2,982,832	2,507,769	–	–

Interest rates and maturity of these securities follow:

	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	3.9%-8.2%	2004-2005	7%-17%	2003-2005	–	–
Corporate bonds	7.4%-11.5%	2004-2014	8.5%-9%	2003-2005	–	–
Local municipal bonds	6%-8.5%	2005-2008	6%-8.5%	2005-2008	–	–
World Bank bonds	7.1%	2005	7.1%	2005	–	–

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9. Loans to Customers

Loans to customers comprise:

	2003	2002	2001
Loans to customers.....	171,929,919	131,256,107	87,086,458
Promissory notes.....	1,067,525	868,318	–
Factoring.....	261,691	117,000	–
Overdrafts.....	729,363	957,120	169,500
Advances.....	429,345	428,498	145,037
	174,417,843	133,627,043	87,400,995
Less – Allowance for loan impairment.....	(10,529,346)	(7,811,004)	(3,736,599)
Loans to customers.....	163,888,497	125,816,039	83,664,396

At December 31, 2003, the annual interest rates charged by the Bank ranged from 11% to 28% per annum for KZT-denominated loans and advances (2002: 11% – 28%; 2001: 18%-30%) and from 10% to 23% per annum for US Dollar-denominated loans and advances (2002: 10%-23%; 2001: 14%-21%).

At December 31, 2003, 2002 and 2001 loans for which the accrual of interest has been suspended approximated KZT 3,234,219, KZT 661,211 and KZT 1,134,959, respectively.

Loans are made to individuals and private companies within Kazakhstan to the following sectors:

	2003	%	2002	%	2001	%
Wholesale trading.....	28,709,276	17%	16,375,035	12%	17,438,441	20%
Agriculture (grain trading)	27,434,880	16%	21,962,277	17%	12,638,873	14%
Individuals.....	18,650,359	11%	7,511,974	6%	4,414,448	5%
Construction.....	16,523,929	10%	9,059,167	7%	5,157,305	6%
Oil and gas.....	13,897,785	8%	9,807,910	7%	10,996,281	13%
Mining.....	12,237,027	7%	1,550,402	1%	1,506,378	2%
Food industry.....	9,275,568	5%	8,087,824	6%	2,500,116	3%
Metallurgy.....	7,032,601	4%	6,955,365	5%	2,674,106	3%
Chemical processing.....	5,903,525	3%	5,484,874	4%	1,546,414	2%
Retail trade.....	5,808,358	3%	7,302,901	6%	3,693,163	4%
Transportation.....	4,388,802	3%	6,068,759	5%	8,279,708	9%
Research and development....	3,730,121	2%	3,800,526	3%	2,488,788	3%
Real estate.....	4,020,749	2%	4,107,039	4%	1,045,037	1%
Energy.....	3,114,309	2%	1,493,995	1%	2,745,249	3%
Financial.....	1,616,499	1%	1,788,962	1%	3,132,072	4%
Textile production.....	923,809	1%	4,241,613	3%	2,222,507	2%
Machinery and equipment production.....	614,854	1%	1,309,541	1%	561,394	1%
Entertainment.....	475,261	1%	1,495,929	1%	203,405	0%
Communication.....	464,380	0%	1,701,241	1%	1,630,616	2%
Hotel industry.....	390,771	0%	41,016	0%	665,276	1%
Other.....	9,204,980	5%	13,480,693	10%	1,861,418	2%
	174,417,843	100%	133,627,043	100%	87,400,995	100%

At December 31, 2003, 2002 and 2001, the top 10 borrowers accounted for 30%, 27% and 27% of the Bank's gross commercial loans to customers, respectively.

(Thousands of Kazakhstani Tenge)

10. Taxation

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable.

The income tax expense comprise:

	2003	2002	2001
Current tax charge.....	709,206	302,245	32,989
Current tax of prior periods.....	(110,133)	–	–
Deferred tax charge.....	174,392	–	9,243
Income tax expense	773,465	302,245	42,232

Tax assets and liabilities consist of the following:

	2003	2002	2001
Current tax assets.....	199,373	–	–
Deferred tax assets.....	–	–	–
Tax assets	199,373	–	–
Current tax liabilities.....	8,294	–	–
Deferred tax liabilities.....	174,392	–	9,243
Tax liabilities	182,686	–	9,243

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

	2003	2002	2001
Income before tax.....	8,271,649	2,173,408	73,304
Statutory tax rate.....	30%	30%	30%
Theoretical income tax expense at the statutory rate.....	2,481,495	652,022	21,991
Non taxable income on long-term loans granted for modernization of property and equipment.....	(553,164)	(248,863)	(48,746)
State securities non-taxable income.....	(1,679,825)	(1,488,745)	(513,990)
Income of subsidiaries taxed at different rates.....	(71,044)	(78,547)	(32,989)
Tax exempt income.....	(33,326)	(2,342)	–
Non deductible expenditures:			
– interest on deposits.....	703,425	562,241	48,790
– charity.....	75,638	–	–
– non business expenses.....	89,952	522,331	396,588
– foreign exchange loss.....	–	11,580	–
– off balance sheet items.....	157,097	–	–
– other.....	77,611	8,307	170,588
Income tax of prior years.....	(110,133)	–	–
Change in unrecognised deferred tax assets.....	(364,261)	364,261	–
Income tax expense	773,465	302,245	42,232

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Deferred tax assets and liabilities as of December 31 comprise:

	2003	2002	2001
Tax effect of deductible temporary differences:			
Allowances for impairment and provisions for other losses	91,262	656,131	268,973
Other Accruals	–	–	57,763
Gross deferred tax assets	91,262	656,131	326,736
Unrecognized deferred tax assets	–	(364,261)	–
Deferred tax asset	91,262	291,870	326,736
Tax effect of taxable temporary differences:			
Property and equipment	(265,654)	(291,870)	(335,979)
Deferred tax liability	(265,654)	(291,870)	(335,979)
Net deferred tax liability	(174,392)	–	(9,243)

Deferred tax assets at December 31, 2002, have not been recognised to be prudent and due to the uncertainties surrounding changes in the tax legislation that were expected with regard to the deductibility of allowances for losses.

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

Management believes that the Bank is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues (Note 18).

11. Allowances for Losses and Provisions

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

	Due from credit institutions	Loans to customers	Other assets	Total
December 31, 2000	15,772	2,120,000	23,818	2,159,590
Impairment charge (reversal)	33,211	4,021,189	17,860	4,072,260
Write-offs	–	(2,900,549)	(26,209)	(2,926,758)
Recoveries	–	495,959	127,508	623,467
December 31, 2001	48,983	3,736,599	142,977	3,928,559
Impairment charge (reversal)	(48,983)	6,248,439	450,340	6,649,796
Write-offs	–	(2,448,218)	(22,644)	(2,470,862)
Recoveries	–	274,184	107	274,291
December 31, 2002	–	7,811,004	570,780	8,381,784
Impairment charge (reversal)	15,764	4,593,313	(472,539)	4,136,538
Write-offs	–	(2,123,080)	(42,907)	(2,165,987)
Recoveries	–	248,109	419	248,528
December 31, 2003	15,764	10,529,346	55,753	10,600,863

Allowances for impairment of assets are deducted from the related assets.

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The movements on the other provisions, were as follows:

	<u>Guarantees and commitments</u>
December 31, 2000	201,000
Recoveries	(102,934)
December 31, 2001	98,066
(Reversal)	(38,503)
December 31, 2002	59,563
Charge	1,384,671
Write-offs (Note 20)	(523,658)
December 31, 2003	<u>920,576</u>

Provisions for claims, guarantees and commitments are recorded in liabilities.

12. Property and Equipment

The movements of property and equipment, were as follows:

	<u>Buildings and constructions</u>	<u>Vehicles</u>	<u>Computers and banking equipment</u>	<u>Other</u>	<u>Total 2003</u>	<u>Total 2002</u>	<u>Total 2001</u>
Cost/Valuation							
Beginning of the year	3,451,971	434,256	4,085,610	2,309,664	10,281,501	9,303,491	8,718,479
Additions	279,195	89,292	339,026	664,611	1,372,124	1,466,688	885,355
Disposals	(74,878)	(9,606)	(61,884)	(193,130)	(339,498)	(488,678)	(300,343)
Transfers	-	-	9,997	(9,997)	-	-	-
December 31,	<u>3,656,288</u>	<u>513,942</u>	<u>4,372,749</u>	<u>2,771,148</u>	<u>11,314,127</u>	<u>10,281,501</u>	<u>9,303,491</u>
Accumulated depreciation							
Beginning of the year	285,034	218,065	1,894,404	838,154	3,235,657	2,486,263	1,879,583
Charge	128,997	62,264	384,778	366,855	942,894	1,049,432	829,404
Disposals	(80,080)	(19,959)	(34,988)	(51,887)	(186,914)	(300,038)	(222,724)
December 31,	<u>333,951</u>	<u>260,370</u>	<u>2,244,194</u>	<u>1,153,122</u>	<u>3,991,637</u>	<u>3,235,657</u>	<u>2,486,263</u>
Net book value:							
December 31, 2003	<u>3,322,337</u>	<u>253,572</u>	<u>2,128,555</u>	<u>1,618,026</u>	<u>7,322,490</u>		
December 31, 2002	<u>3,166,937</u>	<u>216,191</u>	<u>2,191,206</u>	<u>1,471,510</u>		<u>7,045,844</u>	
December 31, 2001	<u>3,125,007</u>	<u>147,034</u>	<u>2,015,626</u>	<u>1,529,561</u>			<u>6,817,228</u>

Depreciation and amortization in the consolidated statements of income accounts also include amortization of intangible assets of KZT 64,402, KZT 157,569 and KZT 143,833 for 2003, 2002 and 2001, respectively.

13. Amounts Due to the Government and the NBK

Amounts due to the Government represent funding for loans to agricultural companies under the World Bank post privatisation program. Under this program, the Government provided financing to agricultural projects in Kazakhstan. At December 31, 2003, these amounts bear interest at 1.27% per annum (2002: 2.8%; 2001: 4.06% – 7.16%) and mature in December 2007 (2002 and 2001: between 2003 and 2006). The Bank bears the credit risk on the loans it advances under this program.

In accordance with the contractual terms of the loans from foreign banks, the Bank is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending

(Thousands of Kazakhstani Tenge)

exposures. In addition, and in accordance with the terms of certain of those loans, the bank is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than share dividends.

14. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2003	2002	2001
Loans from OECD based banks	52,111,282	16,378,916	2,459,485
Overnight deposits	3,480,829	1,924,748	–
Loans from Small Business Development Fund	1,960,708	2,401,355	2,232,249
Loans from Kazakh banks	1,734,284	6,907,706	2,898,592
Loans from EBRD	1,379,120	4,205,214	2,587,916
Short-term deposits from Kazakh banks	706,883	60,000	3,300,719
Correspondent accounts	196,624	228,971	232,836
Short-term deposits from non-OECD based banks	144,369	–	–
Loans from Financial Institutions	81,231	–	–
Loans from non-OECD based banks	81,220	–	–
	<u>61,876,550</u>	<u>32,106,910</u>	<u>13,711,797</u>

At December 31, 2003, loans from OECD and non-OECD based banks are USD and EUR denominated, bear interest at rates between 1.78% and 8.53% per annum (2002: 2.3% – 7.2%; 2001: 2.9% – 6.9%) and mature between 2004 and 2012 (2002: 2003 – 2012; 2001: 2002 – 2006).

Included in loans from OECD based banks is a loan of KZT 14,422,000 that is secured by future cash receipts into certain of the Bank's correspondent bank accounts.

At December 31, 2003, loans from Kazakh banks are USD and KZT denominated, bear interest at rates between 0.9% and 6% per annum (2002: 3% – 6%; 2001: 5.3%), and mature between 2004 and 2005 (2002: 2003 – 2006; 2001: 2003).

At December 31, 2003, the Bank had several loans from the European Bank for Reconstruction and Development (“EBRD”) bearing annual interest at rates ranging from 3.92% to 6.4% per annum, (2002: 4% – 6%; 2001: 4.5% – 5.4%) and maturing between 2004 and 2006 (2002: 2003 – 2004; 2001: 2002).

At December 31, 2003, loans from the Small Business Development Fund represent a pass-through credit line provided to the Bank through the Government of the Republic of Kazakhstan from EBRD. Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. The facilities mature between 2004 and 2005 (2002: 2003 – 2004; 2001: 2002 – 2004) and bear contractual interest at rates between 5% and 10.19% per annum (2002 and 2001: 5% – 10.53%). The amounts received under this facility have been advanced to borrowers and included within commercial loans in the accompanying consolidated balance sheets.

At December 31, 2003, the Bank had short-term deposits from Kazakh banks bearing annual interest at rates ranging from 1% to 3.8% per annum (2002: 2.55% – 5%; 2001: 4.5% – 12.5%) and maturing in January and February 2004 (2002: January 2003, 2001: January, December 2002).

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

Furthermore, certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. In addition, the Bank's default under these covenants could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. At December 31, 2003, the Bank was in technical breach of these restrictions. The Bank has informed the relevant lenders and obtained waivers for such non-compliance and, as a result there was no impact on these consolidated financial statements.

(Thousands of Kazakhstani Tenge)

15. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current accounts:			
Individuals	23,674,644	19,251,434	20,693,820
Commercial entities	33,307,551	29,445,261	14,481,262
Governmental entities.....	1,505,820	5,395,910	3,831,583
Term deposits:			
Individuals	65,104,894	53,266,594	34,237,309
Commercial entities	29,815,332	28,185,486	23,127,671
Governmental entities.....	–	163,455	3,777,381
Held as security against letters of credit	1,437,457	1,209,862	232,277
	<u>154,845,698</u>	<u>136,918,002</u>	<u>100,381,303</u>

Term deposits at December 31, 2003 bear annual interest at rates ranging from 5% to 7% per annum (2002: 1% – 9%; 2001: 1% – 10%) for KZT-denominated balances and from 1.75% to 5.5% per annum (2002: 1% – 7%; 2001: 1% – 8%) for foreign currency-denominated balances.

An analysis of customer accounts by sector follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Individuals	88,635,977	66,234,876	54,931,129
Mining	15,526,766	20,397,747	20,531,749
Oil and gas.....	11,336,288	1,392,547	61,452
Metallurgy	4,597,748	13,699,629	78,550
Energy.....	4,308,097	4,628,793	963,574
Construction	3,965,924	3,717,617	1,384,209
Retail trade.....	2,646,702	3,068,396	574,539
Wholesale trading	2,556,135	2,601,773	1,777,089
Transportation.....	1,628,714	2,994,598	2,008,251
Financial	1,437,457	1,198,028	2,725,006
Agriculture (grain trading)	1,239,415	751,970	528,309
Entertainment	805,499	400,386	1,692,025
Chemical processing	407,909	36,203	112,264
Communication	436,160	3,035,491	373,726
Food industry	339,083	568,774	256,450
Hotel industry.....	297,776	175,448	68,982
Machinery and equipment production	231,751	492,989	118,441
Light industry	49,507	41,181	29,449
Other.....	14,398,790	11,481,556	12,166,109
	<u>154,845,698</u>	<u>136,918,002</u>	<u>100,381,303</u>

(Thousands of Kazakhstani Tenge)

16. Subordinated Debt Securities Issued

At December 31, subordinated debt securities issued comprised:

	Coupon rate	Maturity date	2003	2002	2001
KZT denominated bonds	9%	6/19/2009	4,414,634	–	–
USD denominated bonds	11.8%	6/20/2007	2,287,237	2,407,780	2,364,919
KZT denominated bonds indexed to USD	8%	5/21/2007	1,880,733	2,060,933	–
Subordinated debt securities issued....			8,582,604	4,468,713	2,364,919

The repayment of the securities of KZT 1,880,733 is indexed to the KZT/US Dollar exchange rate as at the date of repayment of principal and interest. These subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

17. Shareholders' Equity

Share capital at December 31, 2003 consisted of 74,226,000 common shares and 24,742,000 preferred shares (2002: 74,226,000 and 22,611,500; 2001: 54,226,000 and nil). Each common share is entitled to one vote and shares equally in dividends. All shares are KZT denominated and have a nominal value of KZT 0.1 each. Preferred shares are not redeemable, guarantee a cumulative dividend of a minimum of 15.75 KZT per share per annum, which is indexed to the KZT/US Dollar exchange rate as at the date of accrual and do not have any voting rights.

Movements of shares authorised, fully paid and outstanding follow:

	Number of shares		Nominal amount		Total
	Preferred	Common	Preferred	Common	
December 31, 2001	–	54,226,000	–	5,422,600	5,422,600
Capital contributions.....	22,611,500	20,000,000	2,261,150	2,000,000	4,261,150
December 31, 2002	22,611,500	74,226,000	2,261,150	7,422,600	9,683,750
Capital contributions.....	2,130,500	–	213,050	–	213,050
December 31, 2003	24,742,000	74,226,000	2,474,200	7,422,600	9,896,800

In September 2002, the Bank issued 20,000,000 common shares that were fully paid during 2002 and 2003.

During 2003, the Bank accrued for dividends on preferred shares of KZT 354,936 (2002: KZT 394,459).

18. Commitments and Contingencies**Operating Environment**

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

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

(Thousands of Kazakhstani Tenge)

Legal

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

In January 2004, the Bank became a party to a litigation proceeding with the Kazakhstan tax authorities in Almaty who imposed an additional tax of KZT 1,315,412 on the Bank relating to the income derived by the Bank from options entered into by the Bank in respect of certain state securities. The tax authorities claimed that the Bank wrongfully exempted such income from taxable income for 2002. In March 2004, the court of first resort issued a verdict in favour of the Bank rejecting the claims of the tax authorities. The verdict was subsequently appealed by the tax authorities in 2004. Based on the information available to it, and after consultation with the Bank's lawyers, management believes that it is unlikely for the tax authorities to overturn the verdict. Therefore, no additional provisions were made in the consolidated financial statements.

Financial commitments and contingencies

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

	2003	2002	2001
Commitments to extend credit	39,207,253	35,509,302	473,545
Guarantees	20,343,907	45,666,793	27,693,265
Commercial letters of credit	7,794,261	6,200,041	3,123,654
	67,345,421	87,376,136	31,290,464
Less cash collateral	(1,437,457)	(1,209,862)	(247,306)
Less provisions	(920,576)	(59,563)	(98,066)
Financial commitments and contingencies	64,987,388	86,106,711	30,945,092

At December 31, 2003, the top ten guarantees accounted for 47% of the Bank's total financial guarantees (2002: 8%; 2001: 21%) and represented 45% (2002: 26%; 2001: 51%) of the Bank's total shareholders' equity.

At December 31, 2003, the top ten letters of credit accounted for 49% of the Bank's total commercial letters of credit (2002: 75%; 2001: 21%) and represented 18% (2002: 33%; 2001: 51%) of the Bank's total shareholders' equity.

Deliverable Forward Contracts

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

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

	2003		2002		2001	
	Notional Amount	Unrealised Gains	Notional Amount	Unrealised Gains	Notional Amount	Unrealised Gains
Deliverable forward contracts:						
USD-EURO contracts with OECD counteragents	630,970	1	-	-	-	-
USD-EURO contracts with non- OECD counteragents	54,160	-	-	-	820,069	-

(Thousands of Kazakhstani Tenge)

19. Fees and Commissions

Fee and commission income was made from the following sources:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Transfer operations.....	1,530,106	986,358	465,680
Cash operations	1,200,172	844,608	960,390
Pension fund and asset management.....	972,192	–	–
Letters of credit and guarantees issued	740,997	254,923	173,490
Fees for banking services on pension payments.....	448,931	912,159	1,173,974
Servicing customer accounts.....	652,873	421,249	169,549
Purchase – sale of currencies	535,355	673,365	860,373
Servicing utility payments.....	575,736	440,040	355,291
Debit/credit cards	539,858	168,100	106,234
Factoring	66,180	114,742	–
Custodian.....	47,025	36,767	37,847
Other.....	249,455	464,496	204,594
	<u>7,558,880</u>	<u>5,316,807</u>	<u>4,507,422</u>

Fees and commission expense comprised the following:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Foreign currencies operations.....	268,229	508,846	731,752
Debit/credit cards	260,457	142,770	104,534
Transfer operations.....	59,627	63,883	125,331
Nostro and loro accounts.....	53,843	52,823	28,492
Cash operations	40,701	242,310	257,364
Custodian services	22,217	1,604	–
Letters of credit and guarantees	4,485	6,360	19,466
Other.....	285,540	114,160	133,833
	<u>995,099</u>	<u>1,132,756</u>	<u>1,400,772</u>

20. Write Back of Dormant Customer Accounts

During 2002 and as allowed by the banking regulations in Kazakhstan, the Bank has written back certain dormant customer accounts taken over from the State Savings Bank of Kazakh SSR (the “Predecessor Bank”) that have been dormant for more than nine years amounting to KZT 3,698,298. Under the arrangement with the regulators, the Bank is obliged to settle any claims from the customers with regards to those dormant accounts.

During 2003, and following an announcement by the Government related to these accounts, the Bank paid KZT 523,658 to customers’ claims in that connection. The Management believes that such payments in 2004 and in future years will be immaterial and are adequately reserved for.

(Thousands of Kazakhstani Tenge except for earnings per share)

21. Salaries and Administrative and Operating Expenses

Salaries and other employee benefits, administrative and operating expenses comprise:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Salaries and bonuses.....	3,771,837	2,650,987	2,056,117
Social security costs.....	778,135	568,627	467,069
Other payments	735,220	506,393	272,610
Salaries and other employees benefits.....	<u>5,285,192</u>	<u>3,726,007</u>	<u>2,795,796</u>
Repair and maintenance.....	445,676	403,642	318,104
Communication	374,697	347,067	358,043
Advertisement	441,074	322,703	152,021
Insurance of deposits.....	358,000	355,000	213,903
Stationary and office supplies.....	406,401	427,752	437,414
Professional services	280,076	53,935	11,200
Business trip expenses.....	278,677	213,948	138,811
Security	153,850	145,167	142,465
Transportation.....	122,250	105,934	103,553
Rent	108,243	111,831	227,356
Charity.....	126,763	16,794	79,254
Social events	125,364	27,301	29,026
Insurance expenses.....	74,033	207,431	9,596
(Gain) loss from disposal of premises and equipment	(70,806)	76,632	(148,203)
Information technologies services.....	55,136	35,106	41,646
Fines and penalties	3,382	5,733	119,472
Other.....	291,882	373,529	242,027
Administrative and operating expenses	<u>3,574,698</u>	<u>3,229,505</u>	<u>2,475,688</u>

22. Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year. The Bank does not have any options or convertible debt or equity instruments.

The following reflects the income and share data used in the basis earnings per share computations:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income	7,460,278	1,871,163	31,062
Less dividends on preferred shares.....	(354,936)	(394,459)	-
Net income attributable to common shareholders.....	7,105,342	1,476,704	31,062
Weighted average number of common shares.....	74,073,617	54,241,298	54,226,000
Basic earnings per share	<u>96.00</u>	<u>27.22</u>	<u>0.57</u>

23. Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower and product by industry

(Thousands of Kazakhstani Tenge)

sector and by region are approved quarterly by the Board of Directors. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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

Concentration

The geographical concentration of the Bank's banking assets and liabilities is set out below:

	2003				2002			
	Kazakhstan	OECD	CIS and other foreign countries	Total	Kazakhstan	OECD	CIS and other foreign countries	Total
Assets:								
Cash and cash equivalents	9,836,905	3,578,442	–	13,415,347	13,734,000	3,342,021	611,807	17,687,828
Obligatory reserves	5,212,050	–	–	5,212,050	4,525,381	–	–	4,525,381
Trading securities	39,914,328	–	–	39,914,328	23,506,982	–	–	23,506,982
Amounts due from credit institutions	239,913	7,066,780	–	7,306,693	–	–	–	–
Investment securities:								
– available-for-sale	3,231,735	–	–	3,231,735	5,783,439	–	–	5,783,439
– held-to-maturity	6,441,812	1,485	–	6,443,297	2,981,230	1,602	–	2,982,832
Loans to customers	174,417,843	–	–	174,417,843	133,627,043	–	–	133,627,043
Tax assets	199,373	–	–	199,373	–	–	–	–
Other assets	2,660,949	–	–	2,660,949	2,504,612	–	–	2,504,612
	<u>242,154,908</u>	<u>10,646,707</u>	<u>–</u>	<u>252,801,615</u>	<u>186,662,687</u>	<u>3,343,623</u>	<u>611,807</u>	<u>190,618,117</u>
Liabilities:								
Due to the Government and the NBK	528,514	–	–	528,514	449,025	–	–	449,025
Due to credit institutions	10,218,307	51,633,259	24,984	61,876,550	11,496,644	20,584,130	26,136	32,106,910
Due to customers	154,845,698	–	–	154,845,698	136,918,002	–	–	136,918,002
Subordinated debt securities issued	8,582,604	–	–	8,582,604	4,468,713	–	–	4,468,713
Dividends payable	366,253	–	–	366,253	394,459	–	–	394,459
Tax liabilities	182,686	–	–	182,686	–	–	–	–
Provisions	920,576	–	–	920,576	59,563	–	–	59,563
Other liabilities	778,847	–	–	778,847	698,386	–	–	698,386
	<u>176,423,485</u>	<u>51,633,259</u>	<u>24,984</u>	<u>228,081,728</u>	<u>154,484,792</u>	<u>20,584,130</u>	<u>26,136</u>	<u>175,095,058</u>
Net balance sheet position	<u>65,731,423</u>	<u>(40,986,552)</u>	<u>(24,984)</u>	<u>24,719,887</u>	<u>32,177,895</u>	<u>(17,240,507)</u>	<u>585,671</u>	<u>15,523,059</u>

(Thousands of Kazakhstani Tenge)

	2001			
	Kazakhstan	OECD	CIS and other foreign banks	Total
Assets:				
Cash and cash equivalents.....	7,127,503	3,970,539	1,309,411	12,407,453
Obligatory reserves	4,662,961	–	–	4,662,961
Amounts due from credit institutions	99,171	–	–	99,171
Investment securities:				
– available-for-sale.....	14,751,211	–	–	14,751,211
Loans to customers.....	87,400,996	–	–	87,400,995
Other assets.....	2,114,990	–	–	2,114,990
	<u>116,156,832</u>	<u>3,970,539</u>	<u>1,309,411</u>	<u>121,436,782</u>
Liabilities:				
Due to the Government and the NBK	102,223	–	–	102,223
Due to credit institutions.....	8,579,749	5,120,166	11,882	13,711,797
Due to customers.....	100,381,303	–	–	100,381,303
Subordinated debt securities issued	2,364,919	–	–	2,364,919
Dividends payable	2,731	–	–	2,731
Tax liabilities	9,243	–	–	9,243
Provisions	98,066	–	–	98,066
Other liabilities	751,929	–	–	751,929
	<u>112,290,163</u>	<u>5,120,166</u>	<u>11,882</u>	<u>117,422,211</u>
Net balance sheet position	<u>3,866,669</u>	<u>(1,149,627)</u>	<u>1,297,529</u>	<u>4,014,571</u>

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 10,600,863, KZT 8,381,784 and KZT 3,928,559 as of December 31, 2003, 2002 and 2001, respectively.

Market Risk

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

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

(Thousands of Kazakhstani Tenge)

Currency Risk

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

	2003			2002		
	KZT	Other foreign currencies	Total	KZT	Other foreign currencies	Total
Assets:						
Cash and cash equivalents	4,821,118	8,594,229	13,415,347	4,835,057	12,852,771	17,687,828
Obligatory reserves.....	5,212,050	–	5,212,050	4,525,381	–	4,525,381
Trading securities	33,165,870	6,748,458	39,914,328	16,357,771	7,149,211	23,506,982
Amounts due from credit institutions.....	237,412	7,069,281	7,306,693	–	–	–
Investment securities:						
– available-for-sale	442,922	2,788,813	3,231,735	2,978,771	2,804,668	5,783,439
– held-to-maturity	3,461,866	2,981,431	6,443,297	1,457,752	1,525,080	2,982,832
Loans to customers.....	72,795,161	101,622,682	174,417,843	42,884,022	90,743,021	133,627,043
Tax assets.....	199,373	–	199,373	–	–	–
Other assets.....	2,346,269	314,680	2,660,949	2,346,914	157,698	2,504,612
	<u>122,682,041</u>	<u>130,119,574</u>	<u>252,801,615</u>	<u>75,385,668</u>	<u>115,232,449</u>	<u>190,618,117</u>
Liabilities:						
Due to the Government and the NBK.....	433,028	95,486	528,514	449,025	–	449,025
Due to credit institutions.....	4,196,673	57,679,877	61,876,550	351,750	31,755,160	32,106,910
Due to customers	88,063,483	66,782,215	154,845,698	55,370,920	81,547,082	136,918,002
Subordinated debt securities issued.....	4,414,634	4,167,970	8,582,604	–	4,468,713	4,468,713
Dividends payable.....	366,253	–	366,253	394,459	–	394,459
Tax liabilities.....	182,686	–	182,686	–	–	–
Provisions.....	920,576	–	920,576	59,563	–	59,563
Other liabilities.....	33,082	745,765	778,847	698,386	–	698,386
	<u>98,610,415</u>	<u>129,471,313</u>	<u>228,081,728</u>	<u>57,324,103</u>	<u>117,770,955</u>	<u>175,095,058</u>
Net balance sheet position.....	<u>24,071,626</u>	<u>648,261</u>	<u>24,719,887</u>	<u>18,061,565</u>	<u>(2,538,506)</u>	<u>15,523,059</u>

(Thousands of Kazakhstani Tenge)

	2001		
	KZT	Other foreign currencies	Total
Assets:			
Cash and cash equivalents	4,653,475	7,753,978	12,407,453
Obligatory reserves.....	4,662,961	–	4,662,961
Amounts due from credit institutions.....	99,171	–	99,171
Investment securities:			
– available-for-sale	10,441,898	4,309,313	14,751,211
Loans to customers.....	33,740,790	53,660,206	87,400,996
Other assets.....	1,974,434	140,556	2,114,990
	<u>55,572,735</u>	<u>65,864,053</u>	<u>121,436,781</u>
Liabilities:			
Due to Government and the NBK.....	84,973	17,250	102,223
Due to credit institutions.....	3,412,716	10,299,081	13,711,797
Due to customers.....	45,988,122	54,393,181	100,381,303
Subordinated debt securities issued	–	2,364,919	2,364,919
Dividends payable.....	2,731	–	2,731
Tax liabilities.....	9,243	–	9,243
Provisions.....	98,066	–	98,066
Other liabilities.....	740,431	11,498	751,929
	<u>50,336,282</u>	<u>67,085,929</u>	<u>117,422,211</u>
Net balance sheet position	<u>5,236,453</u>	<u>(1,221,876)</u>	<u>4,014,570</u>

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 10,600,863, KZT 8,381,784 and KZT 3,928,559 as of December 31, 2003, 2002 and 2001, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. The Bank's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD or Euro will affect the carrying value of the Bank's USD denominated monetary assets and liabilities. Such changes may also affect the Bank's ability to realize investments in non-monetary assets as measured in USD in these financial statements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

(Thousands of Kazakhstani Tenge)

As of December 31, the effective average interest rates by currencies and comparative market rates for interest earning/bearing monetary financial instruments were as follows:

	2003		2002		2001	
	KZT	USD	KZT	KZT	USD	USD
Trading securities	5.94%	8.45%	8.00%	7.13%	–	–
Investment securities:						
– available-for-sale.....	7.40%	8.45%	8.00%	12.38%	10.13%	16.09%
– held-to-maturity.....	7.34%	9.53%	8.00%	8.75%	–	–
Loans to customers	16.26%	12.00%	17.05%	12.52%	17.69%	16.56%
Due to credit institutions	1.25%	4.08%	5.62%	5.01%	5.87%	4.09%
Customer deposits	4.00%	5.34%	4.08%	6.53%	7.70%	2.80%
Subordinated debt securities issued..	8.70%	11.80%	8.00%	11.80%	–	11.80%

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority of the Bank's assets and liabilities are relatively short-term. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the asset/liability management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Thousands of Kazakhstani Tenge)

The following tables provide an analysis of assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

		2003					
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents.....	12,357,156	–	1,058,191	–	–	–	13,415,347
Obligatory reserves	–	–	–	–	–	5,212,050	5,212,050
Trading securities.....	39,914,328	–	–	–	–	–	39,914,328
Amounts due from credit institutions	24,149	–	–	7,282,544	–	–	7,306,693
Investment securities:							
– available-for-sale.....	3,231,735	–	–	–	–	–	3,231,735
– held-to-maturity.....	–	–	450,000	3,105,731	1,767,917	1,119,649	6,443,297
Loans to customers.....	–	13,743,085	12,458,877	45,668,600	68,467,648	34,079,633	174,417,843
Tax assets.....	–	199,373	–	–	–	–	199,373
Other assets.....	2,660,949	–	–	–	–	–	2,660,949
	58,188,317	13,942,458	13,967,068	56,056,875	70,235,565	40,411,332	252,801,615
Liabilities:							
Due to Government and the NBK....	–	15,046	6,431	91,118	415,919	–	528,514
Due to credit institutions.....	196,604	13,338,187	2,210,940	28,915,768	16,196,436	1,018,615	61,876,550
Due to customers.....	51,981,955	25,990,978	16,679,052	30,335,698	16,985,976	12,872,039	154,845,698
Subordinated debt securities issued ...	–	–	–	36,525	4,129,686	4,416,393	8,582,604
Dividends payable.....	–	–	366,253	–	–	–	366,253
Tax liabilities.....	–	–	–	–	182,686	–	182,686
Provisions.....	920,576	–	–	–	–	–	920,576
Other liabilities.....	778,847	–	–	–	–	–	778,847
	53,877,982	39,344,211	19,262,676	59,379,109	37,910,703	18,307,047	228,081,728
Net position	4,310,335	(25,401,753)	(5,295,608)	(3,322,234)	32,324,862	22,104,285	24,719,887
Accumulated gap	4,310,335	(21,091,418)	(26,387,026)	(29,709,260)	2,615,602	24,719,887	
		2002					
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents.....	6,595,804	10,877,099	214,925	–	–	–	17,687,828
Obligatory reserves	–	–	–	–	–	4,525,381	4,525,381
Trading securities.....	23,506,982	–	–	–	–	–	23,506,982
Investment securities:							
– available-for-sale.....	5,783,439	–	–	–	–	–	5,783,439
– held-to-maturity.....	–	100,000	104,032	709,567	2,069,233	–	2,982,832
Loans to customers.....	–	10,808,832	12,794,461	10,697,265	30,249,229	69,077,256	133,627,043
Other assets.....	–	2,299,850	–	–	–	204,762	2,504,612
	35,886,225	24,085,781	13,113,418	11,406,832	32,318,462	73,807,399	190,618,117
Liabilities:							
Due to Government and the NBK....	–	10,640	–	3,501	57,789	377,095	449,025
Due to credit institutions.....	228,971	9,344,324	–	4,701,820	13,112,482	4,719,313	32,106,910
Due to customers.....	52,569,810	18,831,712	11,489,645	14,993,155	11,866,163	27,167,517	136,918,002
Subordinated debt securities issued ...	–	–	–	–	–	4,468,713	4,468,713
Dividends payable.....	–	–	394,459	–	–	–	394,459
Provisions.....	59,563	–	–	–	–	–	59,563
Other liabilities.....	–	698,386	–	–	–	–	698,386
	52,858,344	28,885,062	11,884,104	19,698,476	25,036,434	36,732,638	175,095,058
Net position	(16,972,119)	(4,799,281)	1,229,314	(8,291,644)	7,282,028	37,074,761	15,523,059
Accumulated gap	(16,972,119)	(21,771,400)	(20,542,086)	(28,833,730)	(21,551,702)	15,523,059	

(Thousands of Kazakhstani Tenge)

	2001						Total
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
Assets:							
Cash and cash equivalents.....	8,975,012	2,849,693	582,748	–	–	–	12,407,453
Obligatory reserves	–	–	–	–	–	4,662,961	4,662,961
Amounts due from credit institutions	–	–	–	99,171	–	–	99,171
Investment securities							
– available-for-sale.....	14,751,211	–	–	–	–	–	14,751,211
Loans to customers.....	–	5,694,155	5,264,918	31,520,539	43,119,496	1,801,887	87,400,995
Other assets.....	–	2,114,990	–	–	–	–	2,114,990
	<u>23,726,223</u>	<u>10,658,838</u>	<u>5,847,666</u>	<u>31,619,710</u>	<u>43,119,496</u>	<u>6,464,848</u>	<u>121,436,781</u>
Liabilities:							
Due to Government and the NBK....	–	27,542	–	–	74,681	–	102,223
Due to credit institutions.....	94,718	2,121,895	–	7,677,908	3,817,276	–	13,711,797
Due to customers.....	43,716,441	20,962,821	6,500,127	20,522,535	7,274,954	1,404,425	100,381,303
Subordinated debt securities issued ...	–	–	–	–	–	2,364,919	2,364,919
Dividends payable.....	–	–	2,731	–	–	–	2,731
Tax liabilities.....	–	–	–	–	9,243	–	9,243
Provisions.....	–	98,066	–	–	–	–	98,066
Other liabilities.....	–	751,929	–	–	–	–	751,929
	<u>43,811,159</u>	<u>23,962,253</u>	<u>6,502,858</u>	<u>28,200,443</u>	<u>11,176,154</u>	<u>3,769,344</u>	<u>117,422,211</u>
Net position	<u>(20,084,936)</u>	<u>(13,303,415)</u>	<u>(655,192)</u>	<u>3,419,267</u>	<u>31,943,342</u>	<u>2,695,504</u>	<u>4,014,570</u>
Accumulated gap	<u>(20,084,936)</u>	<u>(33,388,351)</u>	<u>(34,043,543)</u>	<u>(30,624,276)</u>	<u>1,319,066</u>	<u>4,014,570</u>	

The above tables do not include the effect of allowances for impairment of loans, due from institutions and other assets totalling KZT 10,600,863, KZT 8,381,784 and KZT 3,928,559 as of December 31, 2003, 2002 and 2001, respectively.

The Bank's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

24. Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Kazakhstani Tenge)

The following methods and assumptions are used by the Bank to estimate the fair value of these financial instruments:

Amounts Due to Credit Institutions, Loans to Customers, Amounts Due to Government and the NBK, Subordinated Debt Securities Issued

The estimate was made by discounting of scheduled future cash flows of the individual amounts through the estimated maturity using prevailing market rates as of the respective year-end.

Held to maturity investment securities

The estimate was based on the quoted market prices of the securities at the balance sheet date.

Amounts Due to Customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at fair value.

	2003		2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>Financial assets</i>						
Held to maturity investment securities	6,443,297	6,479,591	2,983,832	3,069,012	–	–
Loans to customers, net	163,888,497	165,852,558	125,816,039	111,624,636	83,664,396	85,856,053
<i>Financial liabilities</i>						
Amounts due to Government and the NBK	528,514	176,237	449,025	375,826	102,223	102,223
Amounts due to credit institutions	61,876,550	60,402,847	32,106,910	26,628,711	13,711,797	12,988,037
Amounts due to customers	154,845,698	154,312,893	136,918,002	127,578,400	100,381,303	96,962,139
Subordinated debt securities issued	8,582,604	8,695,597	4,468,713	4,671,157	2,364,919	2,185,355

25. Related Party Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

- enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
- key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

(Thousands of Kazakhstani Tenge)

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. As of December 31, the Bank had the following transactions with related parties:

	2003			2002		
	Related party transactions	Percent on normal conditions	Total category	Related party transactions	Percent on normal conditions	Total category
Loans to customers, gross.....	4,373,023	100%	174,417,843	15,174,706	100%	133,627,043
Amounts due to customers	29,880,949	100%	154,845,698	30,115,737	100%	136,918,002
Guarantees issued.....	58,789	100%	20,343,907	601	100%	45,666,793
Interest income.....	168,035	100%	21,593,736	801,973	100%	13,008,226
Interest expense.....	305,851	100%	6,629,319	443,161	100%	6,189,032

	2001		
	Related party transactions	Percent on normal conditions	Total category
Loans to customers, gross.....	5,192,111	100%	87,400,995
Amounts due to customers	1,648,404	100%	100,381,303
Interest income.....	83,949	100%	9,353,582
Interest expense.....	16,517	100%	4,170,781

26. Capital Adequacy

The NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2003, 2002 and 2001, the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

The Bank's international risk based capital adequacy ratios at December 31, 2003, 2002 and 2001, were 14.6%, 13.0% and 10.7%, respectively, which exceeded the minimum ratio of 8% recommended by the Basle Accord.

27. Subsequent Events

On April 15, 2004 the Bank acquired 76.88% of the issued and paid shares of Joint stock commercial bank "Khlebny", a bank incorporated in Russia for KZT 164,519.

On April 16, 2004, the Board has approved the issuance of Euronotes, to be listed on the Luxemburg Stock Exchange, of up to USD 200 million during 2004.

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INDEPENDENT AUDITORS' REPORT

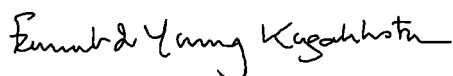
To the Shareholders of JSC Halyk Bank Kazakhstan –

We have audited the accompanying condensed consolidated balance sheets of Halyk Bank of Kazakhstan and Subsidiaries (the “Group”) as of June 30, 2004 and the related condensed interim consolidated statements of income, changes in shareholders’ equity and cash flows for the six-month periods ended June 30, 2004 and 2003. These financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. 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 referred to above present fairly, in all material respects, the consolidated financial position of the Group at June 30, 2004, and the consolidated results of its operations and its cash flows for the six-month periods ended June 30, 2004 and 2003, in conformity with International Financial Reporting Standards.

We have previously audited, in accordance with International Standards on Auditing, the consolidated balance sheet of the Group at December 31, 2003, and the related consolidated statements of income, changes in shareholders’ equity and cash flows for the year then ended (not presented herein), and in our report dated May 12, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet and related notes as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.



August 13, 2004

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of Kazakhstani Tenge)

	Notes	June 30, 2004	December 31, 2003
Assets			
Cash and cash equivalents.....		19,568,695	13,415,347
Obligatory reserves		5,470,635	5,212,050
Trading securities.....	3	33,829,091	39,914,328
Amounts due from credit institutions	4	1,822,120	7,290,929
Investment securities:			
– available-for-sale.....	5	3,105,224	3,231,735
– held-to-maturity.....	5	16,174,567	6,443,297
Loans to customers.....	6	197,749,564	163,888,497
Current tax assets		85,924	199,373
Property and equipment		7,176,874	7,322,490
Other assets.....		3,700,147	2,605,196
Total assets		288,682,841	249,523,242
Liabilities			
Amounts due to the Government.....		796,335	528,514
Amounts due to credit institutions.....	8	64,360,182	61,876,550
Amounts due to customers.....	9	186,737,744	154,845,698
Dividends payable		174,904	366,253
Tax liabilities		259,361	182,686
Provisions	7	1,160,214	920,576
Other liabilities		1,575,822	778,847
Subordinated debt securities issued	10	8,376,744	8,582,604
Total liabilities		263,441,306	228,081,728
Minority interest		178,192	203,256
Shareholders' equity	11		
Share capital			
– common shares.....		7,422,628	7,422,600
– preferred shares		2,474,200	2,474,200
Additional paid-in capital.....		2,191,180	2,191,872
Treasury stock		(16,521)	(15,739)
Reserves		336,062	367,951
Retained earnings		12,655,794	8,797,374
Total shareholders' equity		25,063,343	21,238,258
Total liabilities, shareholders' equity and minority interest		288,682,841	249,523,242
Commitments and contingencies	12		

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

Syrgabekova A. N.

Chairwoman of the Board

Fedchenko A.G.

Chief Accountant

August 13, 2004

The accompanying notes on pages 5 to 19 are an integral part of these interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Kazakhstani Tenge, except for earnings per share)

	Notes	Six months ended June 30,	
		2004	2003
Interest income			
Loans		12,168,628	10,274,282
Securities		1,438,569	1,361,845
Deposits with other banks		481,308	56,488
		<u>14,088,505</u>	<u>11,692,615</u>
Interest expense			
Deposits from customers		3,775,072	3,115,096
Deposits and loans from credit institutions		1,393,581	753,563
Debt securities		415,377	234,682
		<u>5,584,030</u>	<u>4,103,341</u>
Net interest income before impairment		8,504,475	7,589,274
Impairment charge	7	(2,948,982)	(2,953,629)
Net interest income		<u>5,555,493</u>	<u>4,635,645</u>
Fee and commission income	13	4,069,497	3,212,264
Fee and commission expense	13	361,663	361,327
Fees and commissions		<u>3,707,834</u>	<u>2,850,937</u>
Gains less losses from trading securities		16,930	301,114
Gains less losses from available-for-sale securities		45,127	41,674
Gains less losses from foreign currencies:			
– dealing		529,611	267,108
– translation differences		329,874	69,566
Dealing profits less losses		1,886	(3,081)
Other income		399,967	342,194
Non interest income		<u>1,323,395</u>	<u>1,018,575</u>
Salaries and benefits	14	3,116,238	2,339,050
Depreciation and amortisation		515,191	444,093
Taxes other than income tax		389,072	329,128
Administrative and operating expenses	14	1,730,186	1,529,673
Other provisions	7	217,911	887,014
Non interest expense		<u>5,968,598</u>	<u>5,528,958</u>
Income before income tax expense and minority interest		4,618,124	2,976,199
Income tax expense		627,283	554,752
Net income after income tax		<u>3,990,841</u>	<u>2,421,447</u>
Minority interest		41,275	(39,822)
Net income		<u><u>4,032,116</u></u>	<u><u>2,381,625</u></u>
Basic earnings per share (in Kazakhstani Tenge)		<u>52</u>	<u>30</u>

The accompanying notes on pages 5 to 19 are an integral part of these interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Kazakhstani Tenge)

	Share Capital- Common Shares	Share Capital- Preferred Shares	Additional paid-in capital	Treasury stock	Securities revaluation reserve	Property revaluation reserve	Retained earnings	Total shareholders' equity
December 31, 2002.....	7,422,600	2,261,150	2,085,600	(14,043)	431,100	332,724	1,667,988	14,187,119
Capital contributions	—	213,050	106,272	—	—	—	—	319,322
Treasury stock purchase	—	—	—	(1,691)	—	—	—	(1,691)
Dividends – preferred shares	—	—	—	—	—	—	(168,742)	(168,742)
Fair value change of available- for-sale securities.....	—	—	—	—	(17,972)	—	—	(17,972)
Transfers	—	—	—	—	—	(10,709)	10,709	—
Net income.....	—	—	—	—	—	—	2,381,625	2,381,625
June 30, 2003	7,422,600	2,474,200	2,191,872	(15,734)	413,128	322,015	3,891,580	16,699,661
Treasury stock purchase	—	—	—	(5)	—	—	—	(5)
Dividends – preferred shares	—	—	—	—	—	—	(186,194)	(186,194)
Fair value change of available- for-sale securities.....	—	—	—	—	(353,040)	—	—	(353,040)
Transfers	—	—	—	—	—	(14,152)	14,152	—
Translation difference	—	—	—	—	—	—	(817)	(817)
Net income	—	—	—	—	—	—	5,078,653	5,078,653
December 31, 2003.....	7,422,600	2,474,200	2,191,872	(15,739)	60,088	307,863	8,797,374	21,238,258
Capital contributions	28	—	—	—	—	—	—	28
Treasury stock purchase	—	—	(692)	(782)	—	—	—	(1,474)
Dividends – preferred shares	—	—	—	—	—	—	(174,814)	(174,814)
Fair value change of available- for-sale securities.....	—	—	—	—	(30,771)	—	—	(30,771)
Transfers	—	—	—	—	—	(1,118)	1,118	—
Net income	—	—	—	—	—	—	4,032,116	4,032,116
June 30, 2004	7,422,628	2,474,200	2,191,180	(16,521)	29,317	306,745	12,655,794	25,063,343

The accompanying notes on pages 5 to 19 are an integral part of these interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Kazakhstani Tenge)

	Six months ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net income before minority interest and income taxes.....	4,618,124	2,976,199
Adjustments for:		
Depreciation and amortization	515,191	444,093
Impairment charge and other provisions	3,166,893	3,678,611
Unrealised foreign exchange loss	145,521	446,277
Unrealised revaluation gain from trading securities	31,459	351,057
Gain on sale of property and equipment.....	35,960	4,574
Operating income before changes in net operating assets	8,513,148	7,900,811
(Increase) decrease in operating assets:		
Obligatory reserves	(258,585)	(338,719)
Trading securities	6,053,778	(8,767,207)
Amounts due from credit institutions	4,733,605	(899,953)
Loans to customers	(41,931,915)	(30,278,490)
Other assets	(903,139)	(1,116,683)
Increase (decrease) in operating liabilities:		
Amounts due to the Government	272,516	194,605
Amounts due to credit institutions	6,462,369	462,143
Amounts due to customers	35,215,329	30,996,646
Other liabilities	493,244	(1,525,215)
Net cash flows from operating activities before income taxes	18,650,350	(3,372,062)
Income tax paid.....	(426,326)	(142,601)
Net cash flows from operating activities	18,224,024	(3,514,663)
Cash flows from investing activities		
Net cash paid on acquisition of subsidiaries.....	(42,688)	(287,611)
Purchase of available-for-sale securities	(778,367)	(307,692)
Proceeds from sale of available-for-sale securities	432,878	25,875
Purchase of held-to-maturity securities	(20,274,781)	(1,560,044)
Proceeds from redemption of held-to-maturity securities	10,543,511	431,195
Purchase of property and equipment	(438,487)	(353,042)
Proceeds from sale of property and equipment	124,711	2,011
Net cash flows from investing activities	(10,433,223)	(2,049,308)
Cash flows from financing activities:		
Dividends paid	(351,123)	(383,141)
Proceeds from issue of share capital	28	319,322
Long term borrowings received from credit institutions.....	4,049,134	5,090,416
Long term borrowings repaid to credit institutions.....	(4,967,117)	(4,984,829)
Purchase of treasury shares.....	(1,474)	(1,691)
Subordinated debt securities issued.....	(205,860)	949,965
Net cash flows from financing activities.....	(1,476,412)	990,042
Effects of exchange rate changes on cash and cash equivalents	(161,041)	(484,225)
Net change in cash and cash equivalents	6,153,348	(5,058,154)
Cash and cash equivalents at the beginning of the period	13,415,347	17,687,828
Cash and cash equivalents at the end of the period	19,568,695	12,629,674
Supplementary information:		
Interest received	12,778,965	5,930,363
Interest paid.....	5,610,990	3,059,452

The accompanying notes on pages 5 to 19 are an integral part of these interim consolidated financial statements.

(Thousands of Kazakhstani Tenge)

1. Principal Activities

Halyk Bank of Kazakhstan and its subsidiaries (the “Bank”) provide retail and corporate banking, and pension and asset management services in Kazakhstan. The parent company of the Bank, Joint Stock Company Halyk Bank of Kazakhstan (formerly “OJSC Halyk Bank of Kazakhstan”), was registered in 1995, and is domiciled in the Republic of Kazakhstan.

The Bank’s primary business consists of originating loans and guarantees, attracting deposits from legal entities and individuals, trading securities, foreign currency and derivative instruments, execution and arrangement of precious metals transactions, conducting credit card operations and sale of state saving bonds. In addition, the Bank is authorized to accept pension fund deposits, acts as agent for the Government of the Republic of Kazakhstan and provide other banking services to its customers.

The address of the Bank’s registered office is: 97 Rozybakiyev Street, Almaty, 480046, Republic of Kazakhstan. The Bank has a primary listing in the Kazakhstani Stock Exchange (the “KASE”). The Bank’s head office is in Almaty. As of June 30, 2004, the Bank had 20 regional branches, 126 sub-regional offices and 380 cash settlement units (December 31, 2003: 20 regional branches, 129 sub-regional offices and 379 cash settlements units; June 30 2003: 20 regional branches, 135 sub-regional offices and 427 cash settlements units) located throughout Kazakhstan.

The Bank had 8,152, 8,424 and 8,326 employees as of June 30, 2004, December 31, 2003 and June 30, 2003, respectively.

As of June 30, 2004, the following shareholders owned more than 5% of the outstanding common shares.

Shareholder	%
ALMEX LLP	32.77
Asia Invest Corporation	7.29
Delta LLP	7.24
Other	52.70
Total	100.00

2. Basis of Preparation

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

The accompanying condensed interim financial statements have been prepared in accordance with IFRS for interim financial information. Accordingly, they do not include all of the information required by IFRS for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) considered necessary for a fair presentation have been included. Operating results for the six-month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

These financial statements are in compliance with IAS 34 “Interim Financial Reporting”. The accounting policies and methods of computations adopted in the preparation of these interim financial statements are principally the same as those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2003.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all the information and notes required by IFRS for complete financial statements. These interim financial statements should be read in conjunction with the consolidated financial statements as of December 31, 2003, along with the corresponding figures.

(Thousands of Kazakhstani Tenge)

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The primary estimates, which relate to the allowance for loan losses, deferred taxes and the carrying value of property and investments are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Subsidiaries

At June 30, 2004, the principal subsidiaries of the Bank were as follows:

Subsidiary	Ownership %	Domicile	Principal Business
ZAO "Khalyk Leasing"	100.000%	Almaty	Leasing
CJSC "Pension Fund of Halyk Bank".	85.012%	Almaty	Pension fund
ZAO "Kazteleport"	100.000%	Almaty	Telecommunication services
HSBK (Europe) BV	100.000%	Amsterdam	Issuance and placement of Euro bonds on international financial markets
LLP "AIRI"	100.000%	Almaty	Financial markets research
JSC "Bank Khlebny"	76.880%	Chelyabinsk	Bank

During 2004, the Bank acquired 76.9% of the share capital of JSC "Bank Khlebny" for KZT 161,091. The consideration was paid and control was obtained on April 15, 2004.

At the date of acquisition (April 15, 2004), the estimated fair value of the net assets of JSC "Bank Khlebny" comprised:

Cash and cash equivalents	71,690
Loans to customers	75,467
Property and equipment	47,305
Other assets	11,704
Other creditors	(136,049)
Net assets	70,117
Less minority interest	(16,211)
Net assets less minority interest	53,906
Purchase consideration paid in cash	161,091
Goodwill	(107,185)

During 2004, the Bank acquired 100% of the charter capital of LLP "AIRI" for KZT 87. The consideration was paid and control was obtained on June 30, 2004.

At the date of acquisition (June 30, 2004), the estimated fair value of the net liabilities of LLP "AIRI" comprised:

Property and equipment	44,456
Accounts receivable	19,686
Cash and cash equivalents	50,228
Other assets	17,058
Other creditors	(170,058)
Net liabilities	(38,630)
Purchase consideration paid in cash	87
Goodwill	(38,717)

(Thousands of Kazakhstani Tenge)

Recently issued International Financial Reporting Standards**Revised IAS 32 and 39**

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. Both standards are effective for financial years beginning on or after January 1, 2005, with earlier application of both standards together being permitted. Together the two standards provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Bank decided to adopt these revised standards as of January 1, 2005. Therefore, comparative prior years 2004, 2003 and 2002 presented in the 2005 financial statements will need to be restated as if the revised standards had always been in effect. The impact, if any, from the changed accounting guidance is currently not expected to be material to the Bank.

3. Trading Securities

Trading securities owned comprise:

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Notes of the NBK.....	17,908,803	23,958,264
Treasury bills of the Ministry of Finance.....	9,721,482	9,207,605
Sovereign bonds of the Republic of Kazakhstan	3,708,363	4,085,513
Eurobonds of Kazakh banks	2,329,861	2,493,542
Bonds of Development Bank of Kazakhstan	160,582	169,404
Trading securities	<u>33,829,091</u>	<u>39,914,328</u>

As of June 30, 2004, Notes of the NBK amounting to KZT 1,613,987 were restricted as collateral for certain of the Bank's borrowings (December 31, 2003: nil).

4. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Time deposits	1,038,732	7,306,271
Loans to local credit institutions	793,388	422
	1,832,120	7,306,693
Less – Allowance for impairment	10,000	15,764
Amounts due from credit institutions	<u>1,822,120</u>	<u>7,290,929</u>

(Thousands of Kazakhstani Tenge)

5. Investment Securities

Available-for-sale securities comprise:

	June 30, 2004	December 31, 2003
Sovereign bonds of Kazakhstan	1,276,842	1,827,400
Bonds of Kazakh banks.....	1,113,731	848,296
Treasury bills of the Ministry of Finance.....	300,088	301,224
Corporate bonds	202,648	148,152
Notes of the NBK.....	211,915	106,663
Available-for-sale securities.....	3,105,224	3,231,735

Held-to-maturity securities comprise:

	June 30, 2004		December 31, 2003	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance.....	6,973,361	6,689,668	4,705,629	4,460,487
Corporate bonds	2,412,315	2,356,119	1,333,508	1,307,036
US Treasury bills	4,611,424	6,124,892	-	-
Euronotes of Kazakh banks	1,354,823	1,364,500	-	-
Bonds of Kazakh banks.....	445,449	442,500	-	-
Local municipal bonds.....	377,195	360,296	402,675	380,813
World Bank bonds.....	-	-	1,485	1,441
Held-to-maturity securities.....	16,174,567	17,337,975	6,443,297	6,149,777

6. Loans to Customers

Loans to customers comprise:

	June 30 2004	December 31, 2003
Loans to customers	207,850,998	171,929,919
Promissory notes	1,087,817	1,067,525
Overdrafts.....	813,296	729,363
Advances	429,345	429,345
Factoring	100,939	261,691
	210,282,395	174,417,843
Less – Allowance for loan impairment	12,532,831	10,529,346
Loans to customers	197,749,564	163,888,497

(Thousands of Kazakhstani Tenge)

Loans are made to private companies within Kazakhstan to the following sectors:

	June 30, 2004	%	December 31, 2003	%
Individuals.....	41,219,427	20%	18,650,359	11%
Wholesale trading	35,059,347	17%	28,709,276	17%
Construction	22,364,005	11%	16,523,929	10%
Agriculture (grain trading).....	18,313,263	9%	27,434,880	16%
Oil and gas.....	11,888,512	5%	13,897,785	8%
Mining.....	11,833,087	5%	12,237,027	7%
Energy.....	10,181,037	5%	3,114,309	2%
Real estate.....	8,318,659	4%	4,020,749	2%
Food industry	7,827,373	4%	9,275,568	5%
Retail trade	6,050,307	3%	5,808,358	3%
Metallurgy.....	5,316,907	3%	7,032,601	4%
Communication.....	5,256,361	2%	464,380	0%
Chemical processing.....	3,913,486	2%	5,903,525	3%
Transportation	3,486,625	2%	4,388,802	3%
Research and development	3,065,467	1%	3,730,121	2%
Textile production.....	1,026,240	1%	923,809	1%
Machinery and equipment production	874,460	0%	614,854	0%
Hotel industry	513,106	0%	390,771	0%
Entertainment	506,179	0%	475,261	0%
Other	13,268,547	6%	10,821,479	6%
	<u>210,282,395</u>	<u>100%</u>	<u>174,417,843</u>	<u>100%</u>

7. Allowances for Losses and Provisions

The movements on the allowances for impairment of interest earning assets, were as follows:

	Due from credit institutions	Loans to customers	Other assets	Total
December 31, 2002	–	7,811,004	570,780	8,381,784
Impairment charge (reversal)	45,400	3,377,536	(469,307)	2,953,629
Write-offs	–	(1,885,020)	(7,595)	(1,892,615)
Recoveries.....	–	113,669	141	113,810
June 30, 2003	45,400	9,417,189	94,019	9,556,608
Impairment charge (reversal)	–	1,215,777	(3,232)	1,212,545
Write-offs	(29,636)	(238,060)	(35,312)	(303,008)
Recoveries.....	–	134,440	278	134,718
December 31, 2003	15,764	10,529,346	55,753	10,600,863
Impairment charge (reversal)	(5,764)	2,924,635	30,111	2,948,982
Write-offs	–	(1,053,907)	–	(1,053,907)
Recoveries	–	132,757	788	133,545
June 30, 2004	<u>10,000</u>	<u>12,532,831</u>	<u>86,652</u>	<u>12,629,483</u>

(Thousands of Kazakhstani Tenge)

The movements on the provisions for guarantees and commitments, were as follows:

December 31, 2002	59,563
Charge.....	887,014
Write-offs	(162,032)
June 30, 2003	784,545
Charge.....	659,689
Write-offs	(523,658)
December 31, 2003	920,576
Charge.....	217,911
Write-offs	(47,056)
Recoveries	68,783
June 30, 2004	1,160,214

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

8. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Loans from OECD based banks	59,133,452	52,111,282
Short-term deposits from Kazakh banks.....	1,466,786	706,883
Loans from Small Business Development Fund	1,259,079	1,960,708
Loans from EBRD	1,120,775	1,379,120
Loans from Kazakh banks	521,448	1,734,284
Loans from financial Institutions	492,067	81,231
Correspondent accounts	366,575	196,624
Short-term deposits and loans from non-OECD based banks.....	–	225,589
Overnight deposits	–	3,480,829
	<u>64,360,182</u>	<u>61,876,550</u>

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

Furthermore, certain of the Bank's outstanding financing agreements include covenants restricting the Bank's ability to create security interests over its assets. In addition, the Bank's default under these covenants could result in cross-accelerations and cross-defaults under the terms of the Bank's other financing arrangements. At June 30, 2004 and December 31, 2003, the Bank was in technical breach of these restrictions. The Bank has informed the relevant lenders and obtained waivers for these instances of non-compliance and, as a result there was no impact on these consolidated financial statements.

(Thousands of Kazakhstani Tenge)

9. Amounts Due to Customers

Amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Current accounts:		
Individuals	32,793,869	23,674,644
Commercial entities.....	45,654,966	33,307,551
Governmental entities.....	39,386	1,505,820
Term deposits:		
Individuals	74,633,666	65,104,894
Commercial entities.....	33,289,343	29,815,332
Held as security against letters of credit.....	326,514	1,437,457
Amounts due to customers	<u>186,737,744</u>	<u>154,845,698</u>

An analysis of customer accounts by sector follows:

	<u>June 30, 2004</u>	<u>December 31, 2003</u>
Individuals	107,427,535	88,635,977
Oil and gas.....	25,711,991	11,336,288
Mining.....	13,628,183	15,526,766
Energy	4,791,265	4,308,097
Construction	3,892,492	3,965,924
Wholesale trading	3,775,104	2,556,135
Transportation	3,074,695	1,628,714
Metallurgy.....	2,410,423	4,597,748
Agriculture (grain trading).....	1,675,286	1,239,415
Retail trade	1,411,565	2,646,702
Communication.....	1,210,035	436,160
Entertainment	1,134,385	805,499
Chemical processing.....	564,616	407,909
Machinery and equipment production	361,322	231,751
Hotel industry	331,860	297,776
Food industry	306,234	339,083
Light industry	69,928	49,507
Financial other than credit institutions	2,206,302	1,437,457
Other	12,754,523	14,398,790
Amounts due to customers	<u>186,737,744</u>	<u>154,845,698</u>

10. Subordinated Debt Securities Issued

At December 31, subordinated debt securities issued comprised:

	<u>Coupon rate</u>	<u>Maturity date</u>	<u>June 30, 2004</u>	<u>December 31, 2003</u>
KZT denominated bonds	9%	6/19/2009	4,427,828	4,414,634
USD denominated bonds	11.8%	6/20/2007	2,167,192	2,287,237
KZT denominated bonds indexed to USD.....	8%	5/21/2007	1,781,724	1,880,733
Subordinated debt securities issued.....			<u>8,376,744</u>	<u>8,582,604</u>

The above subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

(Thousands of Kazakhstani Tenge)

11. Shareholders' Equity

Share capital at June 30, 2004 consisted of 74,226,278 common shares and 24,742,000 preferred shares (December 31, 2003: 74,226,000 and 24,742,000). Each common share is entitled to one vote and shares equally in dividends. Preferred shares are not redeemable, guarantee a cumulative dividend of a minimum of KZT 0.01575 per share per annum, which is indexed to the KZT/US Dollar exchange rate as at the date of accrual and do not have any voting rights. All shares are KZT denominated and have a nominal value of KZT 0.1 each.

Movements on shares authorised, fully paid and outstanding follow:

	Number of shares		Nominal amount		Total
	Preferred	Common	Preferred	Common	
December 31, 2002.....	22,611,500	74,226,000	2,261,150	7,422,600	9,683,750
Capital contributions	2,130,500	—	213,050	—	213,050
June 30, 2003 and December 31, 2003 ..	24,742,000	74,226,000	2,474,200	7,422,600	9,896,800
Capital contributions	—	278	—	28	28
June 30, 2004	24,742,000	74,226,278	2,474,200	7,422,628	9,896,828

During the six month period ended June 30, 2004, the Bank accrued dividends of KZT 174,814 on preferred shares (six month period ended June 30, 2003: KZT 168,742).

12. Commitments and Contingencies**Legal**

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

As of December 31, 2003, the Bank was engaged in litigation proceedings with the local tax authorities who assessed additional taxes of KZT 1,315,412 on the Bank relating to 2002. In March 2004, the regional tax court issued a verdict in favour of the Bank rejecting the claims of the local tax authorities. The verdict was subsequently appealed by the tax authorities and, in April 2004, the court of second instance rejected the appeal, thus holding the initial verdict issued by the court of the first instance in March 2004. As of August 13, 2004 the tax authorities have not appealed the verdict of the court of second instance to the Supreme Court and, based on the information available to it, management believes that it is unlikely that the tax authorities would appeal the verdict and, should they decide to do so, that the verdict would be overturned by the Supreme Court. Therefore, no additional provisions were made in the interim consolidated financial statements of the Bank.

Financial commitments and contingencies

The Bank's financial commitments and contingencies comprised the following:

	June 30, 2004	December 31, 2003
Commitments to extend credit	59,620,063	39,207,253
Guarantees.....	30,346,656	20,343,907
Commercial letters of credit	10,771,051	7,794,261
	100,737,770	67,345,421
Less cash collateral.....	(326,514)	(1,437,457)
Less provisions	(1,160,214)	(920,576)
Financial commitments and contingencies	99,251,042	64,987,388

At June 30, 2004, the top ten guarantees accounted for 50% of the Bank's total financial guarantees (December 31, 2003: 47%) and represented 42% (December 31, 2003: 45%) of the Bank's total shareholders' equity.

(Thousands of Kazakhstani Tenge)

At June 30, 2004, the top ten letters of credit accounted for 80% of the Bank's total commercial letters of credit (December 31, 2003: 49%) and represented 29% (December 31, 2003: 18%) of the Bank's total shareholders' equity.

Other

In March 25, 2004 the Board has approved the issuance of Eurobonds of up to USD 300 million during 2004. The Eurobonds are expected to be issued in the last quarter of 2004.

The 2004 annual General Meeting of the Shareholders authorised the Bank to borrow a total of USD 650 million and KZT 85 billion during 2004 and 2005, which amount includes the offering of Eurobonds up to USD 300 million. Under this authorisation, on May 4, 2004 the Bank registered with the NBK its first bond programme under which the Bank may issue subordinated, KZT denominated bonds for the total principal amount of KZT 35 billion. In July 2004, the Bank issued KZT 5 billion floating rate subordinated bonds maturing in June 2010 under the programme. The Bank also extended its existing trade finance facility agreement arranged by Deutsche Bank London and Raiffeisen Zentralbank Osterreich Aktiengesellschaft on July 7, 2004 for one additional year, and in connection with the extension, increased the principal amount available under the facility from USD 150 million to USD 200 million. This facility was fully drawn down at the date of the trade finance facility agreement.

During June 2004, the Bank has entered into an agreement with the Kergyz Property Council, a Kyrgyz Government authority, whereby the Bank committed to purchase 100% of the outstanding and issued shares of Kairat Bank, a commercial bank in Kyrgyzstan, for a consideration of USD 1,250,000 (KZT 170,000). The transaction is expected to be completed in late 2004 after all the necessary agreements are signed and all the necessary approvals are obtained. The total assets of Kairat Bank at June 30, 2004 and its profit for the six months then ended amounted to approximately KZT 1 billion and KZT 2 million, respectively.

13. Fees and Commissions

Fee and commission income for the six-month periods ended June 30, was made from the following sources:

	<u>2004</u>	<u>2003</u>
Transfer operations.....	1,074,554	736,166
Cash operations	694,104	458,620
Letters of credit and guarantees issued	547,188	376,877
Debit/credit cards.....	501,013	352,927
Servicing utility payments.....	286,047	222,442
Purchase – sale of currencies	259,868	281,588
Fees for banking services on pension payments.....	236,230	234,184
Servicing customer accounts.....	68,915	45,862
Custodian.....	32,790	20,891
Trust operations.....	–	96,541
Factoring.....	–	66,067
Other	368,788	320,099
	<u>4,069,497</u>	<u>3,212,264</u>

(Thousands of Kazakhstani Tenge)

Fees and commission expense for the six-month periods ended June 30, comprised the following:

	2004	2003
Debit/credit cards.....	156,351	103,235
Foreign currencies operations.....	95,083	146,512
Transfer operations.....	38,193	33,025
Custodian services.....	26,875	5,436
Nostro and loro accounts.....	23,617	25,106
Cash operations.....	6,048	18,064
Letters of credit and guarantees.....	3,094	4,502
Other.....	12,402	25,447
	<u>361,663</u>	<u>361,327</u>

14. Salaries and Administrative and Operating Expenses

Salaries and other benefits, administrative and operating expenses for the six-month periods ended June 30, comprise:

	2004	2003
Salaries and bonuses.....	2,313,549	1,522,216
Social security costs.....	317,250	341,104
Other payments.....	485,439	475,730
Salaries and other benefits	<u>3,116,238</u>	<u>2,339,050</u>
Insurance of deposits.....	284,024	160,000
Repair and maintenance.....	223,099	144,934
Communication.....	251,033	237,589
Advertisement.....	126,411	178,285
Stationeries.....	126,335	187,515
Business trip expenses.....	112,185	114,660
Professional services.....	74,248	19,659
Security.....	72,443	79,546
Transportation.....	62,016	53,327
Rent.....	67,733	63,147
Charity.....	46,321	73,418
Loss on disposal of premises and equipment.....	38,570	4,574
Trainings.....	12,830	8,461
Fines and penalties.....	3,302	1,035
Social events.....	1,567	18,759
Insurance expense.....	1,571	94
Others.....	226,498	184,670
Administrative and operating expenses	<u>1,730,186</u>	<u>1,529,673</u>

(Thousands of Kazakhstani Tenge)

15. Currency Analysis

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's exposure to foreign currency exchange rate risk follows:

	June 30, 2004			December 31, 2003		
	KZT	Freely convertible	Total	KZT	Freely convertible	Total
Assets:						
Cash and cash equivalents	10,399,191	9,169,504	19,568,695	4,821,118	8,594,229	13,415,347
Obligatory reserves	5,470,635	–	5,470,635	5,212,050	–	5,212,050
Trading securities	27,630,284	6,198,807	33,829,091	33,165,870	6,748,458	39,914,328
Amounts due from credit institutions	40,475	1,791,645	1,832,120	237,412	7,069,281	7,306,693
Investment securities:						
– available-for-sale	1,828,381	1,276,843	3,105,224	442,922	2,788,813	3,231,735
– held-to-maturity	10,208,762	5,965,805	16,174,567	3,461,866	2,981,431	6,443,297
Loans to customers	91,468,566	118,813,829	210,282,395	72,795,161	101,622,682	174,417,843
Current tax assets	85,924	–	85,924	199,373	–	199,373
Other assets	2,809,249	977,550	3,786,799	2,346,269	314,680	2,660,949
	<u>149,941,467</u>	<u>144,193,983</u>	<u>294,135,450</u>	<u>122,682,041</u>	<u>130,119,574</u>	<u>252,801,615</u>
Liabilities:						
Amounts due to the Government	721,355	74,980	796,335	433,028	95,486	528,514
Amounts due to credit institutions	724,721	63,635,461	64,360,182	4,196,673	57,679,877	61,876,550
Amounts due to customers	114,971,742	71,766,002	186,737,744	88,063,483	66,782,215	154,845,698
Dividends payable	174,904	–	174,904	366,253	–	366,253
Tax liabilities	259,361	–	259,361	182,686	–	182,686
Provisions	1,160,214	–	1,160,214	920,576	–	920,576
Other liabilities	906,654	669,168	1,575,822	33,082	745,765	778,847
Subordinated debt securities issued	4,434,150	3,942,594	8,376,744	4,414,634	4,167,970	8,582,604
	<u>123,353,101</u>	<u>140,088,205</u>	<u>263,441,306</u>	<u>98,610,415</u>	<u>129,471,313</u>	<u>228,081,728</u>
Net balance sheet position	<u>26,588,366</u>	<u>4,105,778</u>	<u>30,694,144</u>	<u>24,071,626</u>	<u>648,261</u>	<u>24,719,887</u>

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 12,629,483 and KZT 10,600,863 as of June 30, 2004 and December 31, 2003 respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. The Bank's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD or Euro will affect the carrying value of the Bank's USD denominated monetary assets and liabilities. Such changes may also affect the Bank's ability to realize investments in non-monetary assets as measured in USD in these financial statements.

(Thousands of Kazakhstani Tenge)

16. Maturity Analysis

The following tables provide an analysis of assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	June 30, 2004						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents.....	17,290,170	–	2,278,525		–	–	19,568,695
Obligatory reserves	–	–	–	–	–	5,470,635	5,470,635
Trading securities.....	33,829,091	–	–	–	–	–	33,829,091
Amounts due from credit institutions ..	4,179	–	–	1,777,941	50,000	–	1,832,120
Investment securities:							
– available-for-sale ...	3,105,224	–	–	–	–	–	3,105,224
– held-to-maturity	–	945,138	–	4,993,837	1,581,104	8,654,488	16,174,567
Loans to customers....	–	16,581,637	7,495,264	56,356,713	66,457,913	63,390,868	210,282,395
Current tax assets	–	85,924	–	–	–	–	85,924
Other assets.....	3,786,799	–	–	–	–	–	3,786,799
	<u>58,015,463</u>	<u>17,612,699</u>	<u>9,773,789</u>	<u>63,128,491</u>	<u>68,089,017</u>	<u>77,515,991</u>	<u>294,135,450</u>
Liabilities:							
Amounts due to the Government	348,787	944	6,909	192,255	172,917	74,523	796,335
Amounts due to credit institutions.....	10,245,338	21,690,672	1,885,863	13,523,390	1,242,694	15,772,225	64,360,182
Amounts due to customers	71,468,097	16,648,062	15,321,612	45,960,381	24,753,109	12,586,483	186,737,744
Dividends payable.....	–	–	174,904	–	–	–	174,904
Tax liabilities.....	–	–	–	–	259,361	–	259,361
Provisions.....	1,160,214	–	–	–	–	–	1,160,214
Other liabilities.....	1,575,822	–	–	–	–	–	1,575,822
Subordinated debt securities issued	–	–	–	35,056	8,341,688	–	8,376,744
	<u>84,798,258</u>	<u>38,339,678</u>	<u>17,389,288</u>	<u>59,711,082</u>	<u>34,769,769</u>	<u>28,433,231</u>	<u>263,441,306</u>
Net position	<u>(26,782,795)</u>	<u>(20,726,979)</u>	<u>(7,615,499)</u>	<u>3,417,409</u>	<u>33,319,248</u>	<u>49,082,760</u>	<u>30,694,144</u>
Accumulated gap	<u>(26,782,795)</u>	<u>(47,509,774)</u>	<u>(55,125,273)</u>	<u>(51,707,864)</u>	<u>(18,388,616)</u>	<u>30,694,144</u>	

(Thousands of Kazakhstani Tenge)

	December 31, 2003						
	On demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Assets:							
Cash and cash equivalents	12,357,156	–	1,058,191	–	–	–	13,415,347
Obligatory reserves.....	–	–	–	–	–	5,212,050	5,212,050
Trading securities	39,914,328	–	–	–	–	–	39,914,328
Amounts due from credit institutions	24,149	–	–	7,282,544	–	–	7,306,693
Investment securities:							
– available-for-sale	3,231,735	–	–	–	–	–	3,231,735
– held-to-maturity	–	–	450,000	3,105,731	1,767,917	1,119,649	6,443,297
Loans to customers	–	13,743,085	12,458,877	45,668,600	68,467,648	34,079,633	174,417,843
Current tax assets.....	–	199,373	–	–	–	–	199,373
Other assets	2,660,949	–	–	–	–	–	2,660,949
	<u>58,188,317</u>	<u>13,942,458</u>	<u>13,967,068</u>	<u>56,056,875</u>	<u>70,235,565</u>	<u>40,411,332</u>	<u>252,801,615</u>
Liabilities:							
Amounts due to the Government	–	15,046	6,431	91,118	415,919	–	528,514
Amounts due to credit institutions	196,604	13,338,187	2,210,940	28,915,768	16,196,436	1,018,615	61,876,550
Amounts due to customers	51,981,955	25,990,978	16,679,052	30,335,698	16,985,976	12,872,039	154,845,698
Dividends payable.....	–	–	366,253	–	–	–	366,253
Tax liabilities.....	–	–	–	–	182,686	–	182,686
Provisions	920,576	–	–	–	–	–	920,576
Other liabilities	778,847	–	–	–	–	–	778,847
Subordinated debt securities issued.....	–	–	–	–	–	8,582,604	8,582,604
	<u>53,877,982</u>	<u>39,344,211</u>	<u>19,262,676</u>	<u>59,342,584</u>	<u>33,781,017</u>	<u>22,473,258</u>	<u>228,081,728</u>
Net position	<u>4,310,335</u>	<u>(25,401,753)</u>	<u>(5,295,608)</u>	<u>(3,285,709)</u>	<u>36,454,548</u>	<u>17,938,074</u>	<u>24,719,887</u>
<i>Accumulated gap</i>	<u>4,310,335</u>	<u>(21,091,418)</u>	<u>(26,387,026)</u>	<u>(29,672,735)</u>	<u>6,781,813</u>	<u>24,719,887</u>	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KZT 12,629,483 and KZT 10,600,863 as of June 30, 2004 and December 31, 2003 respectively.

Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

(Thousands of Kazakhstani Tenge)

17. Related Party Transactions

The Bank had the following balances with related parties, who have common directors with the Bank:

	June 30, 2004			December 31, 2003		
	Related party	Percent on normal conditions	Total category	Related party	Percent on normal conditions	Total category
Loans to customers, gross.....	133,333	100%	210,282,395	2,776,732	100%	174,417,843
Amounts due to customers	23,647,667	100%	186,737,744	29,103,326	100%	154,845,698
Guarantees issued.....	1,662,005	100%	30,466,656	57,331	100%	20,343,907

During the six month periods ended June 30, the Bank had the following transactions with related parties, who have common directors with the Bank:

	2004			2003		
	Related party transaction	Percent on normal conditions	Total category	Related party transaction	Percent on normal conditions	Total category
Interest income – loans	149,483	100%	12,168,628	115,666	100%	10,274,282
Interest expense – deposits	595,186	100%	3,775,072	305,565	100%	3,115,096

The Bank had the following balances with other related parties:

	June 30, 2004			December 31, 2003		
	Related party	Percent on normal conditions	Total category	Related party	Percent on normal conditions	Total category
Loans to customers, gross.....	1,921,392	100%	210,282,395	1,596,291	100%	174,417,843
Amounts due to customers	533,635	100%	186,737,744	777,623	100%	154,845,698
Guarantees issued.....	69,900	100%	30,466,656	1,458	100%	20,343,907

During the six month periods ended June 30, the Bank had the following transactions with other related parties:

	2004			2003		
	Related party transaction	Percent on normal conditions	Total category	Related party transaction	Percent on normal conditions	Total category
Interest income – loans	188,849	100%	12,168,628	52,369	100%	10,274,282
Interest expense – deposits	4,027	100%	3,775,072	286	100%	3,115,096

THE REPUBLIC OF KAZAKHSTAN

The information contained in this Annex A has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Bank only accepts responsibility for accurately reproducing such extracts as they appear in this Annex A. It accepts no further or other responsibility in respect of such information.

Introduction

Kazakhstan is a sovereign republic and is the second largest, after Russia, in terms of landmass of the nations formed upon the dissolution of the Soviet Union in 1991. The country's natural resources include oil, gas and minerals. Kazakhstan is a producer/supplier of chrome, alumina, iron-ore, copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country also exports oil, grain, wool and meat.

Following several years of falling GDP after the dissolution of the Soviet Union, Kazakhstan has reported GDP growth in the last five years. According to information published by NSA, real GDP in Kazakhstan grew by 9.1% during the one-year period ended on 30 June 2004, compared to 9.2% in 2003, 13.5% in 2001 and 9.5% in 2002. Furthermore, the period year-on-year consumer price inflation in Kazakhstan decreased from 1,258.3% at the end of 1994 to 6.4% at the end of 2001. By the end of December 2002, the year-on-year consumer price inflation rate had risen to 6.6% and by the end of December 2003 it had risen to 6.8%. During the one-year period ended on 30 June 2004, inflation rate was 6.6%.

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 around 2,725,000 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.

As of 30 June 2004, the population of Kazakhstan was approximately 15 million. The population of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for approximately 57.5% of the population, followed by Russians (27%), Ukrainians (3.1%), Tatars, Germans, Uzbeks, Poles and others.

Historically, Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50% 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.

Constitution, Government and Political Parties

Constitution

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.

The Government comprises the Prime Minister, as its executive head, 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 and carrying out social policy.

Mr Nazarbayev, then the First Secretary of the Communist Party of Kazakhstan, became President upon the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency has been confirmed in a referendum in 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.

In June 2003, the President appointed the current Prime Minister, Daniyal Akhmetov. He replaced Imangali Tasmagambetov, who had served as Prime Minister since 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 86 cities together make up the second tier of territorial administration. The maslikhats and akims are responsible for collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

Political Parties

Although the principle of political plurality is enshrined in the Constitution, political parties have not played a significant role to date. This is due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies, but also due to changing requirements in the laws relating to the registration of political parties. These factors have made it increasingly difficult to register a party for participation in the constitutional political process. Such changes have generally strengthened the President's position. Under current legislation only 12 parties meet the applicable requirements for registration compared with nineteen parties that existed prior to these changes.

International Organisations and International Relations

Kazakhstan's Position in the International Community

Kazakhstan has established diplomatic relations with over 120 countries. Kazakhstan is a full member of the United Nations, the International Monetary Fund (the "IMF"), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, the EBRD, the ADB, the International Development Association, the Multilateral Investment Guarantee Agency, the IFC, the International Organisation of Securities Commissions and the Islamic Development Bank, although its voting rights in some of these organisations or agencies thereof have been suspended pending payment of overdue contributions. Currently, Kazakhstan has observer status with the World Trade Organisation.

Kazakhstan agreed an economic stabilisation programme with the IMF and has in the past been granted both standby and extended fund facilities.

Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union ("EU"), which came into force in 1999 and co-operates 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 30 June 2004, Kazakhstan had signed double taxation treaties with 37 countries, of which 36 are currently in effect, including treaties with the United States, Russia, The Netherlands and the United Kingdom.

Kazakhstan and CIS Cooperation

Kazakhstan, Russia and Belarus, and more recently the Kyrgyz Republic and Tajikistan, have entered into a customs union which, among other things, provides for the removal of trade restrictions between the signatory countries and establishes a common external tariff. These five member states have also signed a treaty establishing a new Eurasian Economic Union. In September 2003, Kazakhstan, Ukraine, Russia and Belarus signed an agreement for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs.

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. Work on the pipeline began in January 1999. The first phase was completed in 2001. The second phase has not commenced yet, and is expected to take up to three years to complete.

The Kazakhstan Economy

Gross Domestic Product

The NSA makes adjustments to its GDP data in accordance with approved IMF practices in order to reflect the informal, or "black" sector, which is believed to constitute a significant portion of Kazakhstan's economy. The NSA estimates that the informal economy (including the household

sector) is around 23% of GDP in 2003. Others, however, estimate the contribution of the informal economy to total GDP to be even higher.

The following table sets out certain information on Kazakhstan's GDP for the periods indicated:

	Six months ended 30 June	Year ended 31 December				
	2004	2003	2002	2001	2000	1999
Nominal GDP (KZT millions).....	2,401,400	4,498,800	3,747,200	3,285,400	2,595,965	2,016,240
Real GDP (per cent. change from the previous year)	9.1	9.2	9.5	13.5	9.8	2.7
Nominal GDP per capital (KZT)	159,987	297,645	252,677	219,169	174,853	135,088
Population (millions average annual).....	15.01	14.95	14.83	14.82	14.84	14.9

Source: NSA

GDP by Source

The following table sets out the composition of nominal GDP by source for the periods indicated:

	Six months ended 30 June	Year ended 31 December				
	2004	2003 ⁽¹⁾	2002	2001	2000	1999
			(% share of GDP)			
Industry	32.5	29.5	29.3	30.7	31.9	28.2
Construction	4.6	6.2	6.1	5.5	5.3	4.8
Agriculture.....	3.9	7.3	7.9	8.7	8.7	9.9
Transport and Telecommunications.....	12.0	12.1	11.5	11.2	12.0	12.0
Trade	11.7	12.1	12.0	12.1	12.6	13.6
Other ⁽²⁾	35.3	32.8	33.2	31.8	29.5	31.5
Total ⁽³⁾	100.0	100	100.0	100.0	100.0	100.0

Source: NSA

(1) Estimate.

(2) Includes finance and service sectors such as medicine, education, culture, defence and state administration, as well as taxes.

(3) Components of GDP by source are measured on the basis of factor cost, whereas total GDP is calculated by reference to market prices (including net taxes).

Inflation

The year-on-year rate of consumer price inflation has fallen from 1,258.3% at the end of 1994 to 6.8% as at the end of December 2003, although there have been times in the period when inflationary pressures have resumed.

The following table sets out the year-on-year rates of consumer price inflation and producer price inflation as of the dates indicated:

	As of 30 June	As of 31 December				
	2004	2003	2002	2001	2000	1999
Consumer Prices.....	6.6	6.8	6.6	6.4	9.8	17.8
Producer Prices.....	9.4	5.9	11.9	(14.1)	19.4	57.2

Source: NSA

Employment and Wages

According to NSA, during the first half of 2004, on average 7.1 million people were employed in Kazakhstan representing approximately 91% of the eligible workforce (91% in 2003 and 2002). In 2001, of the eligible workforce, approximately 23% were employed in the public sector, and approximately 67% of the eligible workforce were employed in the private sector.

At the end of 2003, the unemployment figure was approximately 686,000 or 9.0% of the workforce. As of 30 June 2004, the unemployment figure was approximately 640,300, or 7.8%, of the workforce. Since 2002, the NSA began using International Labour Organisation methods of calculating unemployment figures.

In December 2003, the average monthly wage was KZT 28,192, an increase of 15.6% in nominal terms and 8.3% in real terms compared to December 2002. In December 2002, the average monthly wage was estimated to be KZT 20,305, an increase of 10.1% in real terms and 16.6% in nominal terms compared to December 2001. As of 30 June 2004, the average monthly wage was KZT 28,111, an increase of 20.2% in nominal terms and 12.4% in real terms compared to 30 June 2003.

Social Security System

Pension reforms in 1997 established a legal framework for the transformation of the pension system from a State “pay-as-you-go” system to a “fully-funded” accumulative pension system. The principle of the reforms was that private individual retirement accounts should be the main source of pension provision, although individuals can still contribute towards a State-run accumulative pension scheme. Individual retirement accounts are maintained with pension funds managed by pension asset management companies licenced and supervised by the FMSA. The pension reforms increased the pensionable age from 55 to 58 for women and from 60 to 63 for men. The changeover to a “fully funded” system is expected to take many years to complete and until then the legacy of the old system will remain a burden on the State’s resources.

In 2002, Parliament adopted amendments to the pension laws which, among other things, 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 July 2004, pension fund assets amounted to KZT 415.2 billion compared to KZT 368.3 million at 1 January 2004, KZT 269.8 billion at 1 January 2003 and KZT 182.4 billion at 1 January 2002. The assets of the State-run accumulative pension scheme amounted to 22.8% of total accumulated pension fund assets as of 1 July 2004 (compared to 25% at 1 January 2004, 28.1% at 1 January 2003 and 32.3% at 1 January 2002).

Pensions are funded through a social tax charged at regressive rates from 20% to 5% of total wages paid by employers and a compulsory contribution of 10% of each employee’s salary is paid into the employee’s individual pension fund. Starting in 2003, the pension funds deduction was capped at the level of 7.5 times the monthly minimum wage. Additional contributions may also be made into private pension funds.

Environment

Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produce heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north-east Kazakhstan, has a military facility which until 1990 was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in Kazakhstan were used by the Soviet Union for the testing of biological weapons and as a result are contaminated with various pathogens.

The former Soviet Union’s “Virgin Lands” policy of the 1950s and 1960s, whereby large areas of Kazakhstan’s steppe land were ploughed to increase Soviet grain production, has led to soil erosion on a wide scale and up to 66% 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. Furthermore, the Caspian Sea suffers from serious pollution due to industrial dumping.

Natural Resources

Introduction

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and the extraction and processing of minerals are significant industries in the Kazakhstan economy. Exports of hydrocarbons and minerals accounted for 65% of total exports in the first half of 2004 and in 2003, compared to 61% in 2002 and 58% in 2001.

Oil and Gas

The actual recoverable level of Kazakhstan's oil and gas reserves has not yet been established. The BP Statistical Review of World Energy of June 2003 estimated Kazakhstan's total oil reserves in 2002 at 1.2 billion tonnes or 0.9% of world reserves, with a reserves/production ratio of 26.1%.

The largest deposits of explored oil reserves are located in the Tengiz, Zhetybai, Kalamkas and Uzenfields in the Caspian region, the Karachaganak and Zhanazhol fields in north-western Kazakhstan and the Kumkol field in central Kazakhstan. In the first half of 2004, 7.8 million tonnes of oil were produced at the Tengiz field, compared to 12.8 million tonnes in 2003 and 13 million tonnes in 2002. In 2003, the Karachaganak field produced 5.73 million tonnes of gas condensate and 5.51 billion cubic metres of gas, as compared with 5.16 million tonnes of gas condensate and 4.8 billion cubic metres of gas in 2002.

Kazakhstan produced 28.2 million tonnes of oil and gas condensate in the first half of 2004 (of which 25.1 million tonnes were exported), compared to 51.4 million tonnes in 2003, and 8.9% 47.2 million tonnes in 2002 (of which 39.6 million tonnes were exported).

The BP Statistical Review of World Energy of June 2003 estimated Kazakhstan's total reserves of natural gas in 2002 at approximately 1.84 trillion cubic metres, or 1.2% of world reserves. In the first half of 2004, Kazakhstan produced 4.9 billion cubic metres of gas, compared to 14 billion cubic metres in 2003, 10.5 billion cubic metres in 2002 and 8.4 billion cubic metres in 2001.

In the first half of 2004, foreign investors invested approximately U.S.\$582.3 million Kazakhstan's oil and gas sector as compared to approximately U.S.\$2.1 billion in 2003, U.S.\$2.1 billion in 2002 and U.S.\$3.1 billion in 2001.

Exports of Oil and Gas

The production and export of hydrocarbons has been constrained by Kazakhstan's land-locked position and its significant dependence on Russia's transportation infrastructure for export routes. Until recently there was only one pipeline connected to the Russian export network. Russia retains the right to suspend and impose restrictions on the flow of Kazakhstani oil from this pipeline into Russia's transportation network and Russian enterprises have priority access to Russian export terminals. In the past, Russia has imposed an annual quota on Kazakhstan's exports through Russia. However, a recently signed agreement between Russia and Kazakhstan on oil transportation is expected to improve Kazakhstan's export position. Starting in 2003, the agreement provides for an automatically renewable quota for the following 14 years of not less than 15 million tonnes through the Atyrau-Samara pipeline and 2.5 million tonnes through the Makhachkala — Tikhoretsk — Novorossiisk pipeline.

Nevertheless, other export outlets will be needed in order for Kazakhstan to realise the full economic potential of its oil and gas reserves.

Projects to diversify export routes include 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 CPC started commercial operations in November 2001. The second stage comprising reconstruction of existing systems and construction of new facilities has not started. Upon completion of the second stage, the capacity of the pipeline is expected to be 67 million tonnes (490 million barrels) per year.

The Kenkiyak-Atyrau pipeline provides the Aktobe region oil producing companies with access to the existing export pipelines and will also be used as the first part of the pipeline from West Kazakhstan to China. The Kenkiyak-Atyrau pipeline was started in May 2002 and it became operational in March 2003.

Mineral Resources

According to NSA, Kazakhstan extracted 41.3 million tonnes of coal in the first half of 2004 and 80.5 million tonnes in 2003. According to the BP Statistical Review of World Energy of June 2003, Kazakhstan extracted 37.6 million tonnes of coal in 2002, approximately 1.6% of total coal extracted globally in 2002.

	Average	Period-end
1999.....	119.52	138.20
2000.....	142.13	145.40
2001.....	146.74	150.20
2002.....	153.28	155.60
2003.....	149.58	144.22
Six months ended 30 June 2004	138.42	136.45

Source: NBK

During 2003, the Tenge appreciated by 8.03% against the U.S. Dollar, but depreciated 6.9% against the Euro and 5.3% against the Russian rouble. On 30 June 2004, the official exchange rates for U.S. Dollars on the KASE as reported by NBK was KZT 136.45 per U.S.\$1.00 and the official average exchange rate for the six-month period ended 30 June 2004 as reported by NBK was KZT 138.42 per U.S.\$1.00.

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 certain outflowing capital account operations need to be licenced by or registered with the NBK. Capital inflows are registered and monitored for statistical purposes only, but are not restricted.

In May 2003, a new law was passed which provides for step-by-step liberalisation resulting, among other things, in full internal convertibility of the Tenge by 2007, permission for banks to invest abroad, and the removal of restrictions on investments in foreign investment-grade securities and openings of bank accounts in OECD banks.

Public Debt

According to the NBK, as a percentage of GDP, total public debt decreased from 17.5% of GDP at 31 December 2001 to 15.5% of GDP at 31 December 2002 and to 13.7% of GDP at the end of 2003. In nominal terms, Kazakhstan's total public debt has grown from KZT 139.6 billion at 31 December 1994 to KZT 609.6 billion at 31 December 2003. Until 2001, the growth in public debt had been funded primarily by increases in external borrowing and was used to finance budget deficits. However, since 2002, the Government has decreased external borrowing and increased internal borrowing.

The following table sets out data regarding Kazakhstan's nominal public debt (i.e., excluding private sector debt and State-guaranteed debt) as of the dates indicated:

	As of 30 June	As of 31 December			
	2004	2003	2002	2001	2000
Internal public debt (KZT millions).	202,627	166,369	121,802	83,976.8	87,418.0
As a percentage of GDP	8.4	3.7	3.3	2.6	3.4
External public debt ⁽¹⁾ (KZT millions)	412,824	443,223	458,094	489,982.4	472,799.0
As a percentage of GDP	17.2	10.0	12.2	14.9	18.2
Total public debt (KZT million)	615,451	609,592	579,896	573,959.2	560,217.0
As a percentage of GDP	25.6	13.7	15.5	17.5	21.6

Source: NBK

(1) External public debt comprises only debt of the Government and the NBK.

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