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JSC Bank CenterCredit

(A joint stock company incorporated in The Republic of Kazakhstan)

U.S.\$200,000,000

8.0 per cent. Notes due 2008

Issue price: 99.673 per cent.

The U.S.\$200,000,000 8.0 per cent. Notes due 2008 (the “Notes”) are issued by JSC Bank CenterCredit (the “Bank” or the “Issuer”). Interest on the Notes will accrue from 14 February 2005 and will be payable semi annually in arrear on 14 February and 14 August of each year, commencing on 14 August 2005. The Notes will be subject to, and have the benefit of, a trust deed dated 14 February 2005 between the Issuer and Citicorp Trustee Company Limited, as trustee for the holders of the Notes (the “Trustee”).

Application has been made to list the Notes on the Luxembourg Stock Exchange. After their issue, the Issuer will also apply for the Notes to be listed on the Kazakhstan Stock Exchange.

See “Investment Considerations” starting on page 15 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Manager (as defined in “Subscription and Sale”) in accordance with Regulation S under the Securities Act (“Regulation S”), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form and will initially be represented by beneficial interests in a global note (the “Global Note”), in fully registered form, without interest coupons, which will be deposited on or around 14 February 2005 (the “Closing Date”) with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (the “Euroclear Operator”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). The Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive, fully registered, form, without coupons, in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof without interest coupons attached. See “Form of Notes and Transfer Restrictions; Summary of Provisions Relating to the Notes in Global Form”.

Lead Manager and Sole Bookrunner

Citigroup

Co-Managers

Alpha Bank

Commerzbank Aktiengesellschaft

OJSC Bank Zenit

Moscow Narodny Bank Limited

The date of this Offering Circular is 11 February 2005

The Issuer, having made all reasonable inquiries, confirms that this Offering Circular contains all information with regard to the Issuer, the Issuer and its subsidiaries (taken as a whole (the “Group”)) and the Notes which is material in the context of the issue and offering of the Notes, that the information contained in this Offering Circular is true and correct in all material respects and is not misleading, that the opinions, expectations and intentions of the Issuer expressed herein are true and honestly held and that there is no other fact or matter omitted from this Offering Circular (i) which was or is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and 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. The Issuer accepts responsibility for the information contained in this Offering Circular.

The information contained herein under the heading “The Banking Sector in Kazakhstan” has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information. The Issuer accepts responsibility for accurately reproducing such extracts but accepts no further or other responsibility in respect of such information. None of the Manager, the Trustee or any of their respective directors, affiliates, advisers or agents, has made an independent verification of the information contained herein in connection with the issue or offering of the Notes or guarantees the accuracy or completeness of such information, and such information is not to be construed as a representation or warranty by the Manager, the Trustee or any of their respective directors, affiliates, advisers or agents. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and the risks involved. The contents of this Offering Circular are not to be construed as legal, business or tax advice. Each prospective investor should consult its own legal adviser, business adviser or tax adviser for legal, business or tax advice.

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

This Offering Circular does not constitute an offer to sell or a solicitation of an offer to purchase the 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 has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes and for the listing of the Notes on the Luxembourg Stock Exchange and may be used only for the purposes for which it is published. This Offering Circular may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Offering Circular may come are required by the Issuer, the Manager and the Trustee to inform themselves about and to observe such restrictions. In particular, the Issuer has not authorised any issue of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “Regulations”). Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all other applicable provisions of the Regulations. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Offering Circular is set out under “Subscription and Sale”.

In connection with the issue of the Notes, Citigroup Global Markets Limited (or any person acting on behalf of Citigroup Global Markets Limited) may over-allot or effect transactions with a view to supporting the

market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Closing Date. However, there may be no obligation on Citigroup Global Markets Limited (or any agent of Citigroup Global Markets 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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ENFORCEMENT OF FOREIGN JUDGMENTS

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

The Notes and the Trust Deed are governed by the laws of England and the Issuer 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 Condition 18 (*Governing Law; Jurisdiction and Arbitration*) under "Terms and Conditions of the Notes". 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 the Kazakhstani Constitution which stated that the conclusion by parties to a commercial contract in which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However, in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic. On 28 December 2004, a new law on international commercial arbitration was adopted by the Kazakhstan Parliament to resolve the uncertainty created by the decision of the Constitutional Council of Kazakhstan in February 2002, referred to above. As a result of the new law, an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

PRESENTATION OF FINANCIAL INFORMATION

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “U.S.\$”, “USD”, “U.S. Dollars” and “\$” are to the lawful currency of the United States of America, references to “Tenge” or “KZT” are to Kazakhstani Tenge, the lawful currency of the Republic of Kazakhstan and references to “Euro” and “€” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European community, as amended. References to “Kazakhstan” or the “Republic” are to the Republic of Kazakhstan, references to the “Government” are to the government of Kazakhstan and references to the “CIS” are to the Commonwealth of Independent States.

Solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Prior to 2002, the Bank translated its financial statements from Tenge into U.S. Dollars at the official published rates of the National Bank of Kazakhstan (the “NBK”). Since 2002, the Bank, in common with other Kazakhstan commercial banks, has selected the exchange rates to be used in the translation of its financial statements.

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

In this Offering Circular, any discrepancies in any table between totals and the sums of the amounts listed in such table are due to rounding.

THIRD PARTY INFORMATION

Macroeconomic data that appears in this Offering Circular has been derived from statistics published by Kazakhstan's National Statistics Agency ("NSA") and by the NBK. It is difficult to obtain precise industry and market information regarding Kazakhstan's banking industry. Generally, information as to the market and competitive position data included in this Offering Circular has been obtained from the NBK, the NSA, published financial information and from surveys or studies conducted by third-party sources that are believed to be reliable. However, no assurance can be given as to the accuracy and completeness of such information and such market and position data has not been independently verified but the Issuer accepts responsibility for the correct reproduction of this information.

SUMMARY

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

The Bank

The Bank is the fourth largest commercial bank in Kazakhstan in terms of both assets, which as at 30 September 2004 equalled KZT141,009.5 million, and customer accounts, which as at the same date equalled KZT85,062.3 million. The Bank's primary business consists of corporate and retail banking. Its corporate banking activities include providing a broad range of wholesale banking products to a diversified group of domestic customers, primarily small- and medium-sized companies. The Bank's retail banking activities and products include retail lending, deposit taking and credit and debit cards. The Bank is also an active participant in the fixed income securities market and foreign currency markets in Kazakhstan.

The Bank's strategy is to increase its market share and total assets by strengthening its position in all segments of the market, with a particular focus on small- and medium-sized enterprises and retail customers. In order to implement its strategy, the Bank intends to focus on the following: expand its banking and capital market activities, strengthen its funding base and capital base, enhance its risk management infrastructure and policies, enhance operating efficiency and establish strategic partnerships with Western banks.

Credit Ratings

The Bank is rated by Moody's Investors Services Inc. and Fitch Ratings Ltd.: Ba1 and B+.

The Notes have been assigned a rating of B+ by Fitch, and Ba1 by Moody's.

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

The Bank's address is 100, Shevchenko Street, Almaty, 480072, Kazakhstan.

SUMMARY FINANCIAL INFORMATION

The following table contains summary historical financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2003 and 2002, which were audited by TOO Deloitte & Touche, Kazakhstan, the Kazakhstan national practice of Deloitte Touche Tohmatsu, referred to herein as DTT. DTT is a Swiss Verein and each of its national practices is a separate and independent legal entity. The summary information for the nine months ended 30 September 2004 and 2003 and as at 30 September 2004 is extracted from the unaudited consolidated interim financial statements prepared by the Bank. Investors should not rely on interim results as being indicative of results the Bank may expect for the full year. The Bank's financial statements have been prepared in accordance with IFRS and are presented in Tenge.

Solely for the convenience of the reader, the Bank has translated the summary income statement information for the nine months ended 30 September 2004 and for the year ended 31 December 2003 into U.S. Dollars at the rates of U.S.\$1.00 = KZT134.56 and U.S.\$1.00 = KZT144.22, respectively, and the summary balance sheet information as at 30 September 2004 and 31 December 2003 into U.S. Dollars at the rates of U.S.\$1.00 = KZT134.56 and U.S.\$1.00 = KZT144.22, respectively.

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

Consolidated Income Statement Data

	For the nine month period ended 30 September			For the year ended 31 December		
	2004	2004	2003	2003	2003	2002
	(U.S.\$ thousands) (Unaudited)	(KZT thousands) (Unaudited)		(U.S.\$ thousands) (Unaudited)	(KZT thousands)	
Income Statement:						
Interest income	66,804	8,989,114	4,733,006	48,274	6,962,144	4,877,784
Interest expense	(32,282)	(4,343,847)	(2,390,244)	(23,114)	(3,333,540)	(2,298,014)
Net interest income before provision for loan losses	34,522	4,645,267	2,342,762	25,160	3,628,604	2,579,770
Provision for loan losses	(13,686)	(1,841,577)	(924,173)	(9,945)	(1,434,198)	(1,037,084)
Net interest income	20,836	2,803,690	1,418,589	15,215	2,194,406	1,542,686
Net gain/(loss) on trading securities Net gain on foreign exchange operations.....	5	639	(25,267)	776	111,886	-
Fees and commission income	3,889	523,296	337,476	3,138	452,529	250,630
Fees and commission expenses	17,399	2,341,188	1,500,706	15,321	2,209,659	1,450,431
Net gain/(loss) from investment securities	(1,638)	(220,379)	(124,109)	(1,438)	(207,398)	(166,240)
Other income (expenses)	(492)	(66,204)	4,206	(26)	(3,789)	87,037
Net non-interest income	(3,044)	(409,580)	(151,256)	146	21,044	(33,611)
Operating income	16,119	2,168,960	1,541,756	17,917	2,583,931	1,588,247
Operating expenses	36,955	4,972,650	2,960,345	33,132	4,778,337	3,130,933
Profit before other provisions, income/(loss) from associates, income tax and minority interest	(23,361)	(3,143,509)	(2,170,348)	(23,490)	(3,387,728)	(2,317,049)
Provision for losses on other transactions	13,594	1,829,141	789,997	9,642	1,390,609	813,884
Provision for losses on securities available-for-sale	(362)	(48,724)	(21,473)	(35)	(5,143)	(100,879)
Income/(loss) from associates	-	-	-	-	-	(44,000)
Profit before taxation and minority interest	30	4,100	-	6	871	(2,537)
Income tax expense	13,262	1,784,517	768,524	9,613	1,386,337	666,468
Net profit before minority interest	(860)	(115,732)	(22,590)	(840)	(121,076)	(20,735)
Minority interest	12,402	1,668,785	745,934	8,773	1,265,261	645,733
Net profit	(272)	(36,558)	14,773	199	28,640	98
	12,130	1,632,227	760,707	8,972	1,293,901	645,831

Consolidated Balance Sheet Data

	As at 30 September		As at 31 December		
	2004	2004	2003	2003	2002
	(U.S.\$ thousands) (Unaudited)	(KZT thousands) (Unaudited)	(U.S.\$ thousands) (Unaudited)	(KZT thousands)	
Balance Sheet					
<i>Assets:</i>					
Cash and balances with the National Bank of the Republic of Kazakhstan	65,148	8,766,331	39,167	5,648,630	3,174,061
Loans and advances to banks	36,200	4,871,066	65,830	9,494,053	4,270,913
Trading securities	20,530	2,762,508	9,797	1,412,897	–
Securities purchased under agreements to repurchase	40,888	5,501,922	473	68,182	100,001
Loans and advances to customers, less allowance for loan losses	659,289	88,713,925	361,037	52,068,761	35,107,163
Securities available for sale, less allowance for impairment losses	184,008	24,760,053	62,404	8,999,865	4,354,641
Securities held to maturity	401	53,994	–	–	908,809
Investments in associated companies	–	–	–	–	100,134
Fixed and intangible assets, less accumulated depreciation	22,723	3,057,638	18,642	2,688,497	1,984,594
Other assets, less allowance for losses	18,743	2,522,085	10,623	1,532,133	853,047
Total assets	1,047,930	141,009,522	567,973	81,913,018	50,853,363
<i>Liabilities and Shareholders' Equity:</i>					
<i>Liabilities:</i>					
Deposits from banks	235,106	31,635,934	143,727	20,728,383	8,910,300
Securities sold under agreements to repurchase	18,778	2,526,808	9,241	1,332,711	75,671
Customer accounts	632,151	85,062,294	330,352	47,643,364	35,141,226
Income tax liabilities	378	50,882	433	62,403	–
Other liabilities	35,054	4,716,812	3,862	556,994	402,581
Subordinated debt	43,008	5,787,104	28,443	4,102,079	2,174,811
Total liabilities	964,475	129,779,834	516,058	74,425,934	46,704,589
Minority interest	1,148	154,449	323	46,492	2,083
<i>Shareholders' Equity:</i>					
Share capital	53,262	7,166,988	35,827	5,166,988	3,166,988
Share premium	8	1,022	7	1,022	1,022
Revaluation reserve	2,061	277,328	1,932	278,622	284,219
Revenue reserve	26,976	3,629,901	13,826	1,993,960	694,462
Total shareholders' equity	82,307	11,075,239	51,592	7,440,592	4,146,691
Total liabilities and shareholders' equity	1,047,930	141,009,522	567,973	81,913,018	50,853,363

Selected Financial Ratios

	As at or for the nine month period ended 30 September		As at or for the year ended 31 December	
	2004	2003	2003	2002
	<i>(Annualised)</i> <i>(per cent., unless otherwise noted)</i>			
Key Ratios:				
Return on shareholders' equity ⁽¹⁾	23.5	N/A	22.3	18.3
Net earnings per share (in KZT)	57.9	39.9	63.6	47.0
Operating expenses/operating income before provisions for loan losses	46.1	55.9	54.5	55.6
Operating expenses/operating income after provisions for loan losses..	63.2	73.3	70.9	74.0
Effective provisioning rate on loans and advances to customers	4.2	N/A	4.2	4.2
Profitability Ratios:⁽²⁾				
Net interest margin ⁽³⁾	6.2	N/A	6.3	7.1
Operating expenses as a percentage of net interest income before provisions for loan losses	67.7	92.6	93.4	89.8
Operating expense as a percentage of average total assets	3.8	N/A	5.1	5.6
Net profit as a percentage of average total assets	2.0	N/A	1.9	1.6
Net profit as a percentage of average shareholders' equity	23.5	N/A	21.8	18.3
Balance Sheet Ratios:				
Customer accounts as a percentage of total assets	60.3	N/A	58.2	69.1
Total net loans and advances to customers as a percentage of total assets.....	62.9	N/A	63.6	69.0
Total shareholders' equity as a percentage of total assets	7.9	N/A	9.1	8.2
Liquid assets as a percentage of customer accounts ⁽⁴⁾	47.5	N/A	53.0	34.4
Liquid assets as a percentage of liabilities of up to one month.....	85.4	N/A	105.5	67.4
Capital Adequacy Ratios:⁽⁵⁾				
Total capital	15.01	N/A	17.24	13.69
Tier 1 capital.....	10.95	N/A	10.39	8.13
Credit Quality Ratios:⁽⁶⁾				
Non-performing loans as a percentage of total loans	0.4	N/A	0.9	1.0
Non-performing loans as a percentage of total loans and guarantees	0.4	N/A	0.8	0.9
Provisions for loan losses as a percentage of non-performing loans	942.4	N/A	466.9	412.1
Macroeconomic Data:				
Consumer Price Inflation (for the twelve months then ended)	7.7	5.9	6.8	6.6
Real GDP (change during the year)	N/A	N/A	9.2	9.5

(1) Based on the average of the opening and closing balances for the period.

(2) Averages are based upon average daily balances.

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

(4) Liquid assets include cash and balances with the NBK, loans and advances to banks (with maturity of less than one month), trading and investment securities.

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

(6) For the definition of non-performing loans used by the Bank, see "Description of the Issuer-Lending Policies and Procedures – Provisioning Policy".

SUMMARY OF THE OFFERING

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

Issuer:	JSC Bank CenterCredit
Issue:	U.S.\$200,000,000 principal amount of 8.0 per cent. Notes due 2008.
Issue Price:	99.673 per cent. of the principal amount of the Notes
Trustee:	Citicorp Trustee Company Limited
Principal Paying and Transfer Agent:	Citibank, N.A.
Luxembourg Transfer, Paying and Listing Agent:	Dexia Banque Internationale à Luxembourg
Registrar:	Citibank, N.A.
Interest and Interest Payment Dates:	The Notes will bear interest at a rate of 8.0 per cent. per annum. Interest on the Notes will accrue from 14 February 2005 and will be payable semi-annually in arrear on 14 February and 14 August of each year, commencing on 14 August 2005.
Status:	The Notes constitute direct, general, unconditional and (subject to Condition 5) unsecured obligations of the Issuer which rank and will rank <i>pari passu</i> among themselves and at least <i>pari passu</i> in right of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See “Terms and Conditions of the Notes—Status.”
Form:	The Notes will be issued in registered form. The Notes will initially be represented by beneficial interests in a Global Note, in fully registered form, without interest coupons. The Global Note will be exchangeable in certain limited circumstances for Notes in definitive, fully registered, form in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof, without interest coupons attached. See “Form of Notes and Transfer Restrictions”.
Tax Exemption:	The Notes may be redeemed at the option of the Issuer in whole, at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes in taxation in the Republic of Kazakhstan. See Condition 8.2 (<i>Redemption for tax reasons</i>).
Negative Pledge:	The Issuer agrees that, so long as any Note remains outstanding, it shall not and shall not permit any of its Subsidiaries (as defined in Condition 5) to create or permit to subsist any mortgage, charge, lien, pledge or other security interest upon the whole or any part of their respective undertakings, assets or revenues to secure any Indebtedness for Borrowed Money (as defined in Condition 5) unless the Notes are secured equally and rateably with such other

	Indebtedness for Borrowed Money or are otherwise given the benefit of such security interest. See “Terms and Conditions of the Notes-Negative Pledge.”
Certain Covenants:	The Notes and the Trust Deed will agree to certain covenants, including, without limitation, covenants with respect to limitation on certain transactions, limitation on payment of dividends and maintenance of capital adequacy.
Events of Default:	If an Event of Default occurs, the Trustee may, subject as provided in the Trust Deed, give notice to the Issuer that the Notes are and shall become immediately due and repayable at their principal amount together with accrued interest. See also Condition 11 (<i>Events of Default</i>).
Governing Law:	The Notes and the Trust Deed will be governed by, and construed in accordance with, the laws of England.
Use of Proceeds:	The Issuer will use the proceeds from the issuance of the Notes to fund loans and advances to its borrowers and for other general corporate purposes, including liquidity management.
Listing:	Application has been made to list on the Luxembourg Stock Exchange. After their issue, the Issuer will also apply for the Notes to be listed on the Kazakhstan Stock Exchange.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom and the Republic of Kazakhstan) only in compliance with applicable laws and regulations. See “Subscription and Sale”.
Governing Law:	The Notes and the Trust Deed will be governed by, and construed in accordance with, the laws of England.
Investment Considerations:	An investment in the Notes involves a high degree of risk. See “Investment Considerations”.
Security Codes:	The identification numbers for the Notes are as follows: ISIN Code XS0212560055 Common Code 021256005

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Offering Circular, the following investment considerations associated with investment in Kazakhstan entities generally and in the Notes specifically. The risks and uncertainties below are not the only ones the Bank faces. Additional risks and uncertainties not presently known to the Bank, or that it currently believes are immaterial, could also impair the Bank's business operations. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in Kazakhstan which in some respects may differ from that prevailing in other countries.

Considerations Relating To The Republic Of Kazakhstan

Investors in emerging markets such as Kazakhstan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as Kazakhstan's are subject to rapid change and that the information set out in this Offering 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 suitable only for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

Political and Regional Considerations

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

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

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

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

Macroeconomic Considerations and Exchange Rate Policies

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

The Government of Kazakhstan began implementing market-based economic reforms in 1992, including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment, particularly in the oil and gas sectors, and the introduction of an extensive legal framework. Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last ten years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. According to figures compiled by the NSA, while gross domestic product ("GDP") fell in 1998 by 1.9 per cent. in the aftermath of the Asian and Russian financial crises, it began to rebound in 1999 following the flotation of the Tenge in April of that year and increased by 2.7 per cent. in real terms over the course of the full year. According to the NSA, GDP continued to grow in real terms, increasing 13.5 per cent. in 2001, 9.5 per cent. in 2002, and 9.5 per cent. in 2003. There was a 9.1 per cent. increase in real GDP between the end of September 2003 and the end of September 2004.

The Tenge is convertible for current account transactions, although it is not a fully convertible currency outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations.

Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the authorities instituted a number of expenditure cuts and took revenue increasing measures and, in April 1999, the NBK floated the Tenge. The Tenge fell by 64.6 per cent. against the U.S. Dollar in the year ended 31 December 1999, compared to a decline of 10.7 per cent. in the year ended 31 December 1998. The Tenge has been generally stable against the U.S. Dollar during 2001 and 2002, with an annual depreciation of between 3.3 per cent. and 3.8 per cent. In 2003, the Tenge strengthened against the U.S. Dollar and appreciated by 7 per cent. According to the NBK, during the first nine months of 2004, the Tenge appreciated by 6.3 per cent. against the U.S. Dollar.

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

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including a revised tax code, laws relating to foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan is at an early stage of development compared to countries with established market economies. 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, judicial and Government officials may not be fully independent of outside social, economic and political forces and there have been instances of improper payments being made. Court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent.

As a result of these ambiguities, as well as a lack of an established system of precedent or consistency 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. Further, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, making it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest.

The Government of Kazakhstan has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, the Government of Kazakhstan may not continue such policy in the future or such policy, if continued, may not ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Bank's business and prospects.

Less Developed Securities Markets

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

Investment Considerations Relating To the Bank

Loan Portfolio Growth

The Bank's gross loan portfolio has increased rapidly in recent years, growing to KZT36,644 million as at 31 December 2002, KZT54,356 million as at 31 December 2003 and KZT92,603 million as at 30 September 2004. This significant increase in credit exposure will require continued emphasis by the Bank on credit quality and the adequacy of its provisioning levels and continued development of financial and management control. Growth such as this also requires the Bank to attract and retain qualified personnel and to train new personnel. Failure successfully to manage growth and development and to maintain the quality of its assets could have a material adverse effect on the Bank's results of operations and financial condition. Since the start of 2002, classified loans, that is loans classified by the Bank as unsatisfactory, doubtful or loss in accordance with International Financial Reporting Standards ("IFRS") (formerly referred to as the International Accounting Standards ("IAS")), as a percentage of gross loans, have risen from 5.2 per cent. as at 31 December 2001 to 12.0 per cent. at the end of 2002, 11.2 per cent. at 31 December 2003 and 8.9 per cent. at 30 September 2004. See "Description of the Issuer—Lending Policies and Procedures—Provisioning Policy".

Concentration of Lending

As at 30 September 2004, the Bank's top 20 borrowers comprised 33.1 per cent. of its gross loan portfolio, compared to 37.1 per cent. as at 31 December 2003 and 32.9 per cent. as at 31 December 2002. Whilst this, in part, reflects the limited number of better corporate credits in Kazakhstan, the Bank will require continued emphasis on credit quality and the development of financial and management control to monitor this credit exposure, the failure to achieve which could have a material adverse effect on the Bank's results of operations and financial condition.

Low Capitalisation

Since the start of 2002, the Bank has implemented a number of projects to increase its capital base and intends to improve its capital base over the course of the next several years by raising up to KZT9 billion through the issuance of common shares and subordinated debt. 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 NBK regulations. If such capital is available only at a price materially in excess of the cost of funds from other sources, this may negatively impact the Bank's profitability.

Asset and Liability Mismatch

As at 30 September 2004, 73.6 per cent. of the Bank's liabilities were due within 12 months. At the same time, 32.2 per cent. of the Bank's assets had maturities in excess of one year. Whilst the Bank has increased its liquid assets from KZT25,555 million as at 31 December 2003 to KZT41,214 million as at 30 September 2004 to address this mismatch, the Bank could face difficulties meeting its liabilities as they fall due if it fails to attract further medium- to long-term financing or if the Bank were to suffer a sudden increase in withdrawal of deposits, which currently form a significant portion of the Bank's funding. The issuance of the Notes will reduce this mismatch.

Competition

The Bank, in common with other Kazakhstan banks, is subject to competition from both domestic and foreign banks. As at 30 September 2004, there were a total of 35 banks, excluding the NBK and the Development Bank of Kazakhstan (the "DBK"), in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. Although the Bank believes that it is well positioned to compete in the retail and small- and medium-sized enterprise markets within the Kazakhstan banking sector due to its nationwide branch network, its significant share of the current retail deposit market and its diversified client base, it faces competition from a number of existing participants in the Kazakhstan banking sector. In particular, as the retail banking sector continues to expand in Kazakhstan, the Bank could face increased competition for retail customers from larger Kazakhstan banks. While the Bank has large corporate clients, the Bank does not focus on this market segment.

In addition, the Bank's ability to compete, particularly in retail banking, with other banks in Kazakhstan who have developed the necessary information technology to provide credit card and other services to their customers, may be weakened by the Bank's lack of its own central processing centre to offer such services to its customers.

Regulation of the Banking Industry

In September 1995, the NBK introduced strict norms and prudential requirements for the operations and the capital adequacy of banks. In addition, an institutional development plan was prepared for leading Kazakhstan banks. According to the plan, banks are required to prepare their accounts in accordance with IFRS and to apply the Basel Committee norms within a period determined by the NBK on a case-by-case basis. Banks are also required to participate in a bank-funded deposit insurance scheme and be audited annually by a public accountancy firm approved by the NBK. Following legislative changes in July 2003, the Agency on Regulation and Supervision of Financial Markets and Financial Organisations (the "FMSA"), was formed and as from 1 January 2004 assumed responsibility for most of the supervisory and regulatory

functions in the financial sector that 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".

In addition, the Government of Kazakhstan may implement additional regulations or policies, including with respect to limitations on borrowings by Kazakhstan banks from foreign institutions or on extensions of credit to Kazakhstan borrowers or may otherwise take action that could have a material adverse effect on the Bank's financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Notwithstanding the relatively strict regulatory standards in Kazakhstan, prospective investors should understand that regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in countries with more highly developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries. See "—Considerations relating to the Republic of Kazakhstan— Underdevelopment and Evolution of Legislative and Regulatory Framework".

Reform of the International Capital Adequacy Framework

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

Concentration on Small- and Medium-Sized Enterprise Business

Loans to small- and medium-sized enterprises (i.e., corporate entities with annual sales of KZT100 million to KZT1 billion) ("SMEs") comprised 46.7 per cent. of the Bank's gross loan portfolio as at 30 September 2004 and the Bank intends to increase this proportion in the future. Return on income on lending to SMEs is higher than lending to other sectors as a result of the interest rates that the Bank can charge on these loans. The Bank estimates that its share of the SME loan market was 3.8 per cent. in 2001, 5.8 per cent. in 2002, 4.9 per cent. in 2003 and 6.3 per cent. as at 30 September 2004. While the Bank believes that it is currently the preferred bank for SMEs in Kazakhstan, the Bank is increasingly facing competition in the SME market from a number of existing and prospective participants in the Kazakhstan banking sector. There is no assurance that the Bank will continue to be able to attract the business of SMEs.

Lack of Statistical, Corporate and Financial Information

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

enterprises, a focus of the Bank's strategy, have, in many cases, not prepared audited financial statements, which may lessen the Bank's ability to perform a reliable credit assessment of them.

A credit reference bureau is in the process of being established in Kazakhstan. The Bank expects that before the end of 2005, the credit reference bureau will be operational and will begin to supply more accurate information than is currently available.

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 certain key personnel for the implementation of its strategy and operation of its day-to-day activities. As competition for skilled personnel is intense, the Bank seeks to further develop its compensation programmes and to take other measures to attract and motivate skilled personnel. If the Bank is unable to retain key personnel and cannot hire new qualified personnel in a timely manner, its business and results of operations could be adversely affected.

Dependence on Information Technology

A substantial aspect of the Bank's strategy is to expand its customer base by providing additional products and services such as credit cards and Internet banking, both of which will require a substantial capital investment by the Bank in its information technology. While the Bank is currently in the process of developing its information technology to enable it to provide these services to its customers and believes that it will be successful in such implementation, there is no certainty that the Bank will be in a position in the near future to offer such products and systems. In addition, the Bank may be susceptible to failures in its information technology if it becomes dependent on such products and systems for its success.

Volatile Earnings

A portion of the Bank's earnings is generated from its trading activities and the Bank's portfolio of investment securities increased almost 175.7 per cent., from KZT8,999.9 million to KZT24,814 million, during the first nine months of 2004. As at 30 September 2004, 75.8 per cent. of the Bank's securities portfolio, by value, was comprised of government securities while 24.2 per cent. was comprised of corporate securities. Due to the fact that the Bank, through its Treasury Department, primarily trades Kazakhstan securities which are emerging market securities for its own account (See "—Investment Considerations Relating to the Notes—Emerging Market Risks"), it is possible that the earnings of the Bank will be volatile.

Investment Considerations Relating To The Notes

Emerging Market Risks

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

In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile markets for such securities and are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. In the last quarter of 1997, certain markets in South East Asia experienced significant financial turmoil that had a ripple effect on other emerging markets. In August 1998, the government of the Russian Federation declared a moratorium on the payment of certain debt obligations of Russian entities and forced a restructuring of certain short-term domestic sovereign instruments. Although this moratorium expired in November 1998, the economic and financial situation in Russia remains uncertain and there can be no assurance that events will not occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998 or that any such volatility will not adversely affect the liquidity of the market for, or price of, the Notes.

Absence of Trading Market for the Notes

Prior to the offering of the Notes, there has been no existing market for the Notes. Accordingly, there can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of holders of the Notes to sell their Notes or the price at which such holders would be able to sell Notes. Application has been made for the listing of the Notes on the Luxembourg Stock Exchange. Application will also be made to list the Notes on the Kazakhstan Stock Exchange. There can be no assurance that either such listing will be obtained or, if such listings are 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.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Note in definitive form (if issued):

The U.S.\$ 200,000,000 8.0 per cent. Notes due 2008 (the “Notes”, which expression includes any further notes issued pursuant to Condition 16 (*Further issues*) and forming a single series therewith) of JSC Bank CenterCredit (the “Issuer”) are (a) subject to, and have the benefit of, a trust deed dated 14 February 2005 (as amended or supplemented from time to time, the “Trust Deed”) between the Issuer and Citicorp Trustee Company Limited (the “Trustee”, which expression includes all persons for the time being appointed as trustee under the Trust Deed) as trustee for the holders of the Notes (the “Noteholders”) and (b) are the subject of a paying agency agreement dated 14 February 2005 (as amended or supplemented from time to time, the “Paying Agency Agreement”) between the Issuer, Citibank, N.A. as registrar (the “Registrar”, which expression includes any successor registrar appointed from time to time in connection with the Notes), Citibank, N.A., as principal paying and transfer agent (the “Principal Paying and Transfer Agent”, which expression includes any successor principal paying and transfer agent appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Principal Paying and Transfer Agent, the “Transfer Agents”, which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying and Transfer Agent, the “Paying Agents”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the “Agents” are to the Registrar, the Principal Paying and Transfer Agent, the Transfer Agents and the Paying Agents and any reference to an “Agent” is to any one of them.

Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Paying Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below. Copies are also available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB.

1. Form, Denomination And Title

1.1 *Form and denomination*

The Notes are in registered form, without interest coupons attached, in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each denomination an “authorised denomination”). The Global Note will be exchangeable for notes in definitive, fully registered, form (“Definitive Notes”), without coupons, in the circumstances specified in the Global Note.

1.2 *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 shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

In these Conditions, “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” and “Noteholders” shall be construed accordingly.

1.3 *Third party rights*

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

2. **Registration**

The Registrar will maintain a register (the “Register”) at the specified office of the Registrar in respect of the Notes in accordance with the provisions of the Paying Agency Agreement. A certificate (each, a “Note Certificate”) will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

3. **Transfers**

- 3.1** Subject to Conditions 3.4 and 3.5, a Note may be transferred in whole or in part upon surrender of the relevant Note Certificate, with the endorsed form of transfer (the “Transfer Form”) duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred are authorised denominations. Transfer Forms are available from any Transfer Agent, the Registrar and the Issuer upon the request of any holder. In the case of a transfer of only a portion of the Notes represented by a Note Certificate, neither the portion transferred nor the balance thereof not transferred may be less than the applicable authorised denomination, and a new Note Certificate in respect of such balance not so transferred will be issued to the transferor. Transfers will be done through the office of any Transfer Agent upon presentation and surrender of the Note.
- 3.2** Within five business days of the surrender of a Note Certificate in accordance with Condition 3.1, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this Condition 3.2, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- 3.3** The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
- 3.4** Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.
- 3.5** All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of the Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Status**

The Notes are direct, general, unconditional and (subject to Condition 5 (*Negative Pledge and Certain Covenants*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer,

save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. Negative Pledge And Certain Covenants

5.1 *Negative pledge*

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and shall not permit any of its Subsidiaries to create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Indebtedness for Borrowed Money of the Issuer, any such Subsidiary or any other Person or any Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money unless, at the same time or prior thereto, the Issuer's obligations under the Notes and 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 absolute discretion shall deem to be not materially less beneficial to the Noteholders.

5.2 *Limitations on certain transactions*

For so long as any Note is and remains outstanding, the Issuer will not, after the Issue Date, 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.\$7,000,000 unless such transaction or series of transactions is or are at a Fair Market Value.

5.3 *Limitation on payment of dividends*

For so long as any Note remains outstanding, the Issuer will not pay any dividends, in cash or otherwise, or make any other distributions (whether by way of redemption, acquisition or otherwise) in respect of its share capital (i) at any time when there exists an Event of Default (as defined in Condition 11 (*Events of Default*)) 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, (1) more frequently than once during any calendar year or (2) 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 International Financial Reporting Standards ("IFRS") (formerly referred to as the International Accounting Standards), 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 which may be issued by the Issuer from time to time.

5.4 *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 Regulations and Supervisory Practices (the "Committee") to fall below 10 per cent., 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.

5.5 *Definitions*

For the purposes of these Conditions:

“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.

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

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

“Indebtedness for Borrowed Money” means any Indebtedness of any Person for or in respect of (a) moneys borrowed, (b) amounts raised by acceptance under any acceptance credit facility, (c) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (d) 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, (e) 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 (f) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a “with recourse” basis) having the commercial effect of a borrowing.

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

“Permitted Security Interest” means any Security Interest (a) granted in favour of the Issuer by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entity to the Issuer, (b) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, (c) 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, (d) arising in the ordinary course of the Issuer’s or a Subsidiary’s business and (i) 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 (ii) 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, (e) 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, (f) 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), in connection with (i) contracts entered into substantially simultaneously for sales and purchases at market prices of precious metals or securities, (ii) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or (iii) the Issuer’s foreign exchange dealings or other proprietary

trading activities including, without limitation, Repos, (f) arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest either existing on or before the issue date of the Notes or permitted by any of the above exceptions, provided that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest, (g) 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 Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition of such property, (h) granted by the Issuer in favour of an International Organisation to secure Indebtedness for Borrowed Money owed by the Issuer to such International Organisation pursuant to any loan agreement or other credit facility entered into between the Issuer and such International Organisation, provided, however, that (i) the amount of Indebtedness for Borrowed Money so secured pursuant to this clause (h) shall not exceed in the aggregate an amount in any currency or currencies equivalent to 20 per cent. of the Issuer's gross loans and advances to customers (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS) and (ii) the relevant Security Interest only extends to the asset financed by the relevant Indebtedness for Borrowed Money and/or any Security Interest or other claim held by the Issuer in relation thereto, (i) created or outstanding upon any property or assets (including current and/or future revenues, accounts receivables and other payments) 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 primary source of payment of any obligations secured by such property or assets is the proceeds of such property or assets (or where the payment of such obligations is otherwise supported by such property or assets) and where recourse to the Issuer or the relevant Subsidiary in respect of such obligations does not extend to defaults by the obligors in relation to such property or assets, provided that the aggregate amount of such obligations so secured pursuant to this clause (i) at any one time (measured at the time of initial incurrence) shall not exceed an amount in any currency or currencies equivalent to 15 per cent. of the Issuer's gross loans and advances to customers (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS) and (j) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.\$10,000,000 (or its equivalent in other currencies) at that time.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality.

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

Person to direct the management and the policies of the second Person, whether through the ownership of share capital, by contract or otherwise.

The Trust Deed does not oblige the Trustee to monitor compliance by the Issuer with the Conditions (including Conditions 5.2, 5.3 and 5.4) but it does oblige the Issuer to furnish the Trustee, annually, with a certificate, on which the Trustee may rely, as to such compliance.

6. Interest

6.1 *Interest Accrual*

Each Note bears interest from 14 February 2005 (the “**Issue Date**”) at the rate of 8.0 per cent. per annum (the “**Rate of Interest**”), payable on 14 February and 14 August in each year (each, an “**Interest Payment Date**”), subject as provided in Condition 7 (Payments). 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”.

6.2 *Cessation of Interest*

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

6.3 *Calculation of Interest for an Interest Period*

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

6.4 *Calculation of Interest for any other period*

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

7. Payments

7.1 *Principal*

Payments of principal shall be made by U.S. Dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

7.2 *Interest*

Payments of interest shall be made by U.S. Dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. Dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

7.3 *Payments subject to fiscal laws*

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

7.4 *Payment on a business day*

Where payment is to be made by transfer to a U.S. Dollar account, payment instructions (for value on the due date, or, if the due date is not a business day, for value on the next succeeding business day) will be initiated and, where payment is to be made by U.S. Dollar cheque, the cheque will be mailed (a) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for a payment not being a business day or (ii) a cheque mailed in accordance with this Condition 7 (Payments) arriving after the due date for payment or being lost in the mail. In this Condition 7.4, “business day” means any day on which banks are open for business (including dealings in foreign currencies in London and New York City and, in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

7.5 *Paying Agents*

In acting under the Paying Agency Agreement and in connection with the Notes, the Paying 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. The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with prior approval of the Trustee) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain a paying agent in Luxembourg, a registrar and a principal paying agent. In addition, the Issuer undertakes that it will ensure that it maintains a paying agent with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such directive. Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 14 (Notices).

8. Redemption And Purchase

8.1 *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 14 February 2008, subject as provided in Condition 7 (Payments).

8.2 *Redemption for tax reasons*

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (a) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) to any greater extent than would have been required had such a payment been required to be made on 11

February 2005 as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 11 February 2005 and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (a) and (b) above, in which event they shall be conclusive and binding on the Noteholders. Upon the expiry of any such notice as is referred to in this Condition 8.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 8.2.

8.3 *Redemption at the option of the Noteholders*

Following the occurrence of a Relevant Event, the Issuer shall, at the option of the holder of any Note, redeem such Note on the sixtieth day after notice thereof has been given by the Issuer to Noteholders in accordance with Condition 14 (*Notices*) (the “Put Settlement Date”) (with a copy to the Trustee) at their principal amount together with interest accrued to the Put Settlement Date. In order to exercise the option contained in this Condition 8.3, the holder of a Note must, not less than 15 days before the Put Settlement Date, deposit with any Paying Agent the relevant Note Certificate and a duly completed put option notice (a “Put Option Notice”) in the form obtainable from any Paying Agent. No Note Certificate, once deposited with a duly completed Put Option Notice in accordance with this Condition 8.3, may be withdrawn; provided, however, that if, prior to the Put Settlement Date, any such Note becomes immediately due and payable or, upon due presentation of any such Note Certificate on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note Certificate shall, without prejudice to the exercise of the Put Option, be returned to the holder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice.

8.4 *Redemption at the option of the Issuer following a partial redemption of the Notes at the option of Noteholders*

If 75 per cent. or more of the aggregate principal amount of the Notes originally issued shall have been redeemed on the Put Settlement Date in accordance with the provisions of Condition 8.3, the Issuer may, having given not less than 30 or more than 60 days’ notice to the Noteholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable) (with a copy to the Trustee), redeem on the expiry date of such notice all (but not some only) of the Notes at their principal amount together with interest accrued to but excluding the date of such redemption.

8.5 *No other redemption*

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 8.1 to 8.4 above.

8.6 *Purchase*

The Issuer or any of its Subsidiaries may at any time purchase or procure others to purchase for its account the Notes in the open market or otherwise and at any price. Notes so purchased may be held or resold (provided that such resale is outside of 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. Any Notes so purchased, while held by the Issuer, shall not entitle the Issuer to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorum at such meetings.

8.7 *Cancellation of Notes*

All Notes which are redeemed pursuant to Conditions 8.1 to 8.4 or submitted for cancellation pursuant to Condition 8.6 shall be cancelled and may not be reissued or resold. So long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer shall notify the Luxembourg Stock Exchange of any such cancellation.

8.8 *Definitions*

As used in this Condition 8 (*Redemption and Purchase*):

“**Asset Sale**” means the conveyance, transfer or lease (whether in a single transaction or in a series of related transactions) of all or substantially all of the assets of (i) the Issuer or any of its Subsidiaries to any Person or (ii) any Person to the Issuer or any of its Subsidiaries.

“**Merger Event**” means the consolidation of the Issuer or any of its Subsidiaries with another Person, the merger of the Issuer or any of its Subsidiaries with, or into or the amalgamation of the Issuer or any of its Subsidiaries with another Person or the reorganisation or restructuring of the Issuer or any of its Subsidiaries.

“**Rating Agency**” means Moody’s Investors Services Inc. and its successors or Fitch Ratings Ltd. and its successors.

“**Rating Downgrade**” means the withdrawal or reduction by more than one full rating category from Ba1/B+ to Ba2/B (or their respective equivalents for the time being) of the long term foreign currency debt or deposit rating of the Issuer provided by a Rating Agency at the invitation of the Issuer or with the consent, agreement or approval of the Issuer.

“**Relevant Event**” means (i) a Merger Event resulting in a Rating Downgrade or (ii) an Asset Sale resulting in a Rating Downgrade.

9. Taxation

9.1 *Taxation*

All payments of principal and interest 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 whatsoever nature imposed, levied, collected, withheld or assessed by the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

- (a) presented for payment by a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of such holder having some connection with the Republic of Kazakhstan other than the mere holding of such Note; or
- (b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days; or

- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC) or any law implementing or complying with, or introduced in order to conform to, such directive; or
- (d) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by surrendering the relevant Note Certificate to another Paying Agent in a member state of the European Union.

9.2 *Relevant Date*

In these Conditions, “Relevant Date” means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in New York by the Principal Paying and Transfer Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

9.3 *Additional amounts*

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 9 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 9 (*Taxation*) pursuant to the Trust Deed.

9.4 *Taxing jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Kazakhstan, references in these Conditions to the Republic of Kazakhstan shall be construed as references to the Republic of Kazakhstan and/or such other jurisdiction.

10. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years, and claims for interest due other than on redemption shall become void unless made within five years, of the appropriate Relevant Date.

11. 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:

11.1 *Non-payment*

The Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or any additional amount payable in respect of any of the Notes and such default in respect of interest or additional amounts continues for a period of five business days; or

11.2 *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 (other than a default or breach elsewhere specifically dealt with in this Condition 11 (*Events of Default*)) and such default or breach

is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee; or

11.3 *Cross-default*

(a) any Indebtedness for Borrowed Money of the Issuer or any of its Material Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period; or (b) any Indebtedness for Borrowed Money becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness for Borrowed Money; or (c) the Issuer or any of its Material Subsidiaries fails to pay when due any amount payable by it under any Indebtedness Guarantee, provided that the amount of Indebtedness for Borrowed Money referred to in (a) and/or (b) above and/or the amount payable under any Indebtedness Guarantee referred to in (c) above individually or in the aggregate exceeds U.S.\$7,000,000 (or its equivalent in any other currency or currencies (as determined by the Trustee)); or

11.4 *Bankruptcy*

(a) 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 of its Material Subsidiaries 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 (b) the Issuer or any of its Material Subsidiaries 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 of its Material Subsidiaries, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any of its Material Subsidiaries commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, materially prejudicial to the interests of the Noteholders (in the opinion of the Trustee); or

11.5 *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 sole opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or

11.6 *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 is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer; or

11.7 *Material compliance with applicable laws*

The Issuer fails to comply in any (in the sole opinion of the Trustee) material respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any

governmental or other regulatory authority for any purpose to enable it lawfully to exercise its rights or perform or comply with its obligations under the Notes, the Trust Deed or the Paying Agency Agreement or to ensure that those obligations are legally binding and enforceable or that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect; or

11.8 *Invalidity or unenforceability*

(a) the validity of the Notes, the Trust Deed or the Paying Agency Agreement is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes, the Trust Deed or the Paying Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (b) 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 Paying Agency Agreement or (c) all or any of its obligations set out in the Notes, the Trust Deed or the Paying Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 11.8, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

11.9 *Government intervention*

(a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary is condemned, seized, nationalised or otherwise appropriated by any person acting under the authority of any national, regional or local government or (b) 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 11.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders.

As used in this Condition 11 (*Events of Default*) “Material Subsidiary” means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5 per cent. of the consolidated gross assets, or, as the case may be, consolidated gross revenues of the Issuer and its consolidated Subsidiaries and, for these purposes (i) the gross assets and gross revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the consolidated gross assets and consolidated gross revenues of the Issuer and its consolidated Subsidiaries shall be determined by reference to its then most recent audited consolidated financial statements, in each case prepared in accordance with IFRS.

The Trust Deed provides that the Trustee may, at any time, or, in making any determination under these Conditions or the Trust Deed, act on the opinion or advice of, or information obtained from, any expert, auditor, lawyer or professional entity, without further enquiry or evidence. If such evidence is relied upon, the Trustee’s determination shall be conclusive and binding on all parties, and the Trustee will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

12. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent having its Specified Office in Luxembourg, subject to all applicable laws and stock exchange 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 reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

13. Meetings Of Noteholders; Modification And Waiver

13.1 *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a “Reserved Matter”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

13.2 *Written resolution*

A resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

13.3 *Modification without Noteholders' consent*

The Trustee may, without the consent of the Noteholders agree (a) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (b) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

14. Notices

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. In addition, so long as Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

15. Trustee

15.1 *Indemnification*

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

15.2 *Exercise of power and discretion*

In the exercise of its powers and discretions 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.

15.3 *Enforcement*

The Trustee may at any time, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

- (a) it has been so requested in writing by the holders of a least one quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified or provided with security to its satisfaction.

15.4 *Failure to act*

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

15.5 *Retirement and Removal*

Any Trustee may retire at any time on giving at least three months' written notice to the Issuer without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders may by Extraordinary Resolution remove any Trustee provided that the retirement or removal of a sole trust corporation will not be effective until a trust corporation is appointed as successor Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, it will use all reasonable endeavours to procure that another trust corporation be appointed as Trustee.

16. Further Issues

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

17. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable under these Conditions or such order or judgment into another currency (the "second currency") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such

Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying and Transfer Agent or the Paying Agent having its Specified Office in Luxembourg, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. Governing Law; Jurisdiction And Arbitration

18.1 *Governing law*

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

18.2 *Submission to Jurisdiction; Arbitration*

The Issuer has in the Trust Deed (a) submitted irrevocably to the jurisdiction of the courts of England for the purposes of hearing and determining any suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed or the Notes; (b) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (c) designated a person in England to accept service of any process on its behalf; (d) consented to the enforcement of any judgment; (e) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction; and (f) agreed that the Trustee may elect by written notice to the Issuer that any dispute (including a claim, dispute or difference regarding the existence, termination or validity of the Notes), shall be finally settled by arbitration in accordance with the Rules of the London Court of International Arbitration as at present in force and as modified by the Trust Deed.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Offering Circular.

FORM OF NOTES AND TRANSFER RESTRICTIONS; SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following information relates to the form, transfer and delivery of the Notes and is a summary of certain provisions to be contained in the Global Note which apply to the Notes.

1. Form of Notes

All Notes will be in fully registered form, without interest coupons attached. The Notes will be represented by interests in the Global Note, in fully registered form, without interest coupons attached, which will be deposited on or about the Closing Date with Citibank, N.A., as common depository for the Euroclear Operator and Clearstream, Luxembourg, and registered in the name Citivic Nominees Limited, as nominee for such common depository.

For the purposes of the 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 Global Note and interests therein.

2. Transfer Restrictions

Each purchaser of Notes and each subsequent purchaser of 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 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 acknowledgements, representations and agreements.

3. Notices

Notwithstanding Condition 14 (*Notices*) (and without prejudice to the requirements in such Condition to publish notices in accordance with the rules and regulations of such stock exchange(s) on which the Notes are listed), while all the Notes are represented by the Global Note and the Global Note is deposited with a common depository for the Euroclear Operator and Clearstream, Luxembourg or any other clearing system, notices to Noteholders may be given by delivery of the relevant notice to the Euroclear Operator, Clearstream, Luxembourg or, as the case may be, such other clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to the Euroclear Operator, Clearstream, Luxembourg or, as the case may be, such other clearing system.

4. Exercise of Put Option

While the Notes are represented by the Global Note and the Global Note is deposited with a common depository for the Euroclear Operator and Clearstream, Luxembourg, the exercise of the put option referred to in Condition 8.3 will be subject to the normal rules and operating procedures of the Euroclear Operator and Clearstream, Luxembourg.

5. Meetings

The holder of the Global Note (unless the Global Note represents only one Note) will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.\$1,000 principal amount of Notes for which the Global Note so held may be exchanged.

6. Exchange of Interests in Global Note for Note Certificates

The Global Note will become exchangeable for Note certificates in definitive form (“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 in Condition 11) occurs. In such circumstances, such Note Certificates will be registered in such names as the Euroclear Operator 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 Global Note is to be exchanged for Note Certificates, the Global Note shall be exchanged in full for 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 certificate substantially in the form contained in the Paying 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 Regulation S, a certification that the transfer is being made in compliance with the provisions of Regulation S.

In addition to the requirements described under “Form of Notes and Transfer Restrictions; Summary of Provisions Relating to the Notes in Global Form – Transfer Restrictions”, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3.

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 the Notes.

7. Euroclear Operator and Clearstream, Luxembourg Arrangements

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”).

The holdings of book-entry interests in the Notes in the Euroclear Operator and Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in the Euroclear Operator and Clearstream, Luxembourg.

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

So long as the Euroclear Operator, Clearstream, Luxembourg or the nominee of their common depository is the registered holder of the Global Note, the Euroclear Operator, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by the Global Note for all purposes under the Paying Agency Agreement, the Trust Deed and the Notes. Payments of principal, interest and Additional Amounts, if any, in respect of the Global Note will be made to the Euroclear Operator, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of

the Notes, against presentation and surrender of the Global Note to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar and on behalf of the Issuer on the schedule to the Global Note. 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 Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

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

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

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to U.S.\$197,546,000 after deduction of the combined management and underwriting commission and the selling commission but prior to deduction of expenses incurred in connection with the issue of the Notes, will be used by the Issuer to fund loans and advances to its borrowers and for other general corporate purposes, including liquidity management.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange Rates

The currency of Kazakhstan is the Tenge, which was introduced in November 1993. Prior to 5 April 1999, the NBK maintained a managed floating exchange rate system with the rate being determined on the basis of market developments and the NBK's role in setting the exchange rate being limited to interventions in the internal currency market in order to prevent volatile exchange rate fluctuations caused by short-term changes in supply and demand.

As a result of the economic crises in Asia and Russia in 1997 and 1998 and the resulting currency depreciations, primarily in Russia and other former Soviet Republics, Kazakhstan's exports became less competitive on international markets while imports from such countries increased. In addition, the decline in world commodity prices, particularly of oil, base and precious metals and grain, reduced Kazakhstan's foreign currency revenues. The resulting trade imbalance, as well as lower than expected privatisation revenues, weakened the Tenge. The NBK supported the Tenge by intervening in the foreign exchange markets. Such intervention, together with the servicing of Kazakhstan's external debt, resulted in a decline of foreign exchange reserves.

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. This decision was supported by international financial organisations such as the International Monetary Fund (the "IMF"). As a result, the Tenge depreciated from a pre-announcement rate of KZT88 per U.S. Dollar to a rate of about KZT130 per U.S. Dollar by May 1999. Since then, the Tenge has generally continued to depreciate in nominal terms against the U.S. Dollar, although it strengthened against the U.S. Dollar in 2003 and the first half of 2004.

The following table sets out certain period-end, high, average and low Tenge/U.S. Dollar official exchange rates as reported by the NBK:

Year ended 31 December

	<u>Period-end</u>	<u>High</u>	<u>Average⁽¹⁾</u>	<u>Low</u>
1999	138.25	142.21	120.09	84.20
2000	145.40	145.40	142.26	138.59
2001	150.94	150.94	146.92	145.05
2002	155.85	156.29	153.49	151.31
2003	143.33	155.89	149.45	143.33

Quarter ended

	<u>Period-end</u>	<u>High</u>	<u>Average⁽¹⁾</u>	<u>Low</u>
31 March 2004	138.93	142.91	139.65	138.41
30 June 2004	136.06	138.92	137.19	136.00
30 September 2004	134.29	134.36	134.30	134.28
31 December 2004	130.00	134.41	131.35	130.00

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

The middle KZT/U.S. Dollar exchange rate on the Kazakhstan Stock Exchange, as reported by the NBK on 14 January 2005, was KZT130.00 per U.S.\$1.00.

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

Exchange Controls

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

New licensing rules adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules in the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of Dollars into Kazakhstan due to high market prices for Kazakhstan export goods by directing export revenues abroad. 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, permission for banks to invest abroad, and the removal of restrictions on investments in foreign investment-grade securities and opening of bank accounts in OECD banks by 2007.

Kazakhstan recently significantly liberalised its foreign exchange regulations. Since May 2003, a licence has not been needed for a resident of Kazakhstan to invest in foreign investment-grade securities or to acquire more than 50 per cent. of the voting interests in a company incorporated in any OECD country or for an individual to open an account with a bank not rated below A by Standard & Poor's and incorporated in an OECD country or for banks based in Kazakhstan to make loans to non-residents. The NBK intends further to liberalise licensing rules in the next few years.

CAPITALISATION

The following table sets out the consolidated capitalisation of the Bank as at 30 September 2004 and as adjusted to reflect the issuance of the Notes:

	30 September 2004			
	Actual		As Adjusted	
	<i>(U.S.\$ thousands)⁽¹⁾</i>	<i>(KZT thousands)</i>	<i>(U.S.\$ thousands)⁽¹⁾</i>	<i>(KZT thousands)</i>
Liabilities				
Short-term liabilities	708,996	95,402,453	708,996	95,402,453
Senior long-term liabilities ^{(2), (3)}	212,472	28,590,277	412,472	55,502,232
Subordinated long-term liabilities	43,008	5,787,104	43,008	5,787,104
Total liabilities	964,476	129,779,834	1,164,476	156,691,789
Shareholders' equity				
Share capital ⁽⁴⁾	53,262	7,166,988	53,262	7,166,988
Share premium	8	1,022	8	1,022
Revaluation reserve	2,061	277,328	2,061	277,328
Revenue reserves	26,976	3,629,901	26,976	3,629,901
Total shareholders' equity	82,307	11,075,239	82,307	11,075,239
Total capitalisation	1,046,783	140,855,073	1,246,783	167,767,028

(1) U.S.\$1.00 = KZT134.56.

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

(3) Since 30 September 2004, the Bank has entered into a number of financings. See "Description of the Issuer—Funding and Liquidity".

(4) Comprises 35,316,695 authorised, issued and fully paid ordinary shares with a par value of KZT200 each. As at 30 September 2004, the Issuer's share capital had increased to KZT7,166,988 thousand. The Issuer has not issued any debt securities convertible into, or exchangeable for, its ordinary shares.

Other than as set forth in the notes to the capitalisation table, there has been no material change in the Bank's capitalisation since 30 September 2004.

SELECTED FINANCIAL AND OTHER INFORMATION

The following table contains summary historical financial information derived from the Bank's audited consolidated IFRS financial statements as at and for the years ended 31 December 2003 and 2002, which were audited by DTT. The summary information for the nine months ended 30 September 2004 and 2003 and as at 30 September 2004 is extracted from the unaudited consolidated interim IFRS financial statements prepared by the Bank. Investors should not rely on interim results as being indicative of results the Bank may expect for the full year. The Bank's financial statements have been prepared in accordance with IFRS and are presented in Tenge.

Solely for the convenience of the reader, the Bank has translated the summary income statement information for the nine months ended 30 September 2004 and for the year ended 31 December 2003 into U.S. Dollars at the rates of U.S.\$1.00 = KZT134.56 and U.S.\$1.00 = KZT144.22, respectively, and the summary balance sheet information as at 30 September 2004 and 31 December 2003 into U.S. Dollars at the rates of U.S.\$1.00 = KZT134.56 and U.S.\$1.00 = KZT144.22, respectively.

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

Consolidated Income Statement Data

	For the nine month period ended 30 September			For the year ended 31 December		
	2004	2004	2003	2003	2003	2002
	<i>(U.S.\$ thousands) (Unaudited)</i>	<i>(KZT thousands) (Unaudited)</i>		<i>(U.S.\$ thousands) (Unaudited)</i>	<i>(KZT thousands)</i>	
Income Statement:						
Interest income	66,804	8,989,114	4,733,006	48,274	6,962,144	4,877,784
Interest expense	(32,282)	(4,343,847)	(2,390,244)	(23,114)	(3,333,540)	(2,298,014)
Net interest income before provision for loan losses	34,522	4,645,267	2,342,762	25,160	3,628,604	2,579,770
Provision for loan losses	(13,686)	(1,841,577)	(924,173)	(9,945)	(1,434,198)	(1,037,084)
Net interest income	20,836	2,803,690	1,418,589	15,215	2,194,406	1,542,686
Net gain/(loss) on trading securities	5	639	(25,267)	776	111,886	-
Net gain on foreign exchange operations.....	3,889	523,296	337,476	3,138	452,529	250,630
Fees and commission income	17,399	2,341,188	1,500,706	15,321	2,209,659	1,450,431
Fees and commission expenses	(1,638)	(220,379)	(124,109)	(1,438)	(207,398)	(166,240)
Net gain/(loss) from investment securities	(492)	(66,204)	4,206	(26)	(3,789)	87,037
Other income (expenses)	(3,044)	(409,580)	(151,256)	146	21,044	(33,611)
Net non-interest income	16,119	2,168,960	1,541,756	17,917	2,583,931	1,588,247
Operating income	36,955	4,972,650	2,960,345	33,132	4,778,337	3,130,933
Operating expenses	(23,361)	(3,143,509)	(2,170,348)	(23,490)	(3,387,728)	(2,317,049)
Profit before other provisions, income/(loss) from associates, income tax and minority interest	13,594	1,829,141	789,997	9,642	1,390,609	813,884
Provision for losses on other transactions	(362)	(48,724)	(21,473)	(35)	(5,143)	(100,879)
Provision for losses on securities available-for-sale	-	-	-	-	-	(44,000)
Income/(loss) from associates	30	4,100	-	6	871	(2,537)
Profit before taxation and minority interest	13,262	1,784,517	768,524	9,613	1,386,337	666,468
Income tax expense	(860)	(115,732)	(22,590)	(840)	(121,076)	(20,735)
Net profit before minority interest	12,402	1,668,785	745,934	8,773	1,265,261	645,733
Minority interest	(272)	(36,558)	14,773	199	28,640	98
Net profit	12,130	1,632,227	760,707	8,972	1,293,901	645,831

Consolidated Balance Sheet Data

	As at 30 September		As at 31 December		
	2004	2004	2003	2003	2002
	(U.S.\$ thousands) (Unaudited)	(KZT thousands) (Unaudited)	(U.S.\$ thousands) (Unaudited)	(KZT thousands) (Unaudited)	(KZT thousands) (Unaudited)
Balance Sheet					
<i>Assets:</i>					
Cash and balances with the National					
Bank of the Republic of Kazakhstan	65,148	8,766,331	39,167	5,648,630	3,174,061
Loans and advances to banks	36,200	4,871,066	65,830	9,494,053	4,270,913
Trading securities	20,530	2,762,508	9,797	1,412,897	–
Securities purchased under agreements to repurchase	40,888	5,501,922	473	68,182	100,001
Loans and advances to customers, less allowance for loan losses	659,289	88,713,925	361,037	52,068,761	35,107,163
Securities available for sale, less allowance for impairment losses	184,008	24,760,053	62,404	8,999,865	4,354,641
Securities held to maturity	401	53,994	–	–	908,809
Investments in associated companies	–	–	–	–	100,134
Fixed and intangible assets, less accumulated depreciation	22,723	3,057,638	18,642	2,688,497	1,984,594
Other assets, less allowance for losses	18,743	2,522,085	10,623	1,532,133	853,047
Total assets	1,047,930	141,009,522	567,973	81,913,018	50,853,363
<i>Liabilities and Shareholders' Equity:</i>					
<i>Liabilities:</i>					
Deposits from banks	235,106	31,635,934	143,727	20,728,383	8,910,300
Securities sold under agreements to repurchase	18,778	2,526,808	9,241	1,332,711	75,671
Customer accounts	632,151	85,062,294	330,352	47,643,364	35,141,226
Income tax liabilities.....	378	50,882	433	62,403	–
Other liabilities	35,054	4,716,812	3,862	556,994	402,581
Subordinated debt	43,008	5,787,104	28,443	4,102,079	2,174,811
Total liabilities	964,475	129,779,834	516,058	74,425,934	46,704,589
Minority interest	1,148	154,449	323	46,492	2,083
<i>Shareholders' Equity:</i>					
Share capital	53,262	7,166,988	35,827	5,166,988	3,166,988
Share premium	8	1,022	7	1,022	1,022
Revaluation reserve.....	2,061	277,328	1,932	278,622	284,219
Revenue reserve	26,976	3,629,901	13,826	1,993,960	694,462
Total shareholders' equity	82,307	11,075,239	51,592	7,440,592	4,146,691
Total liabilities and shareholders' equity	1,047,930	141,009,522	567,973	81,913,018	50,853,363

Selected Financial Ratios

	As at or for the nine month period ended 30 September		As at or for the year ended 31 December	
	2004	2003	2003	2002
	<i>(Annualised)</i> <i>(per cent., unless otherwise noted)</i>			
Key Ratios:				
Return on shareholders' equity ⁽¹⁾	23.5	N/A	22.3	18.3
Net earnings per share (in KZT)	57.9	39.9	63.6	47.0
Operating expenses/operating income before provisions for loan losses	46.1	55.9	54.5	55.6
Operating expenses/operating income after provisions for loan losses	63.2	73.3	70.9	74.0
Effective provisioning rate on loans and advances to customers	4.2	N/A	4.2	4.2
Profitability Ratios:⁽²⁾				
Net interest margin ⁽³⁾	6.2	N/A	6.3	7.1
Operating expenses as a percentage of net interest income before provisions for loan losses	67.7	92.6	93.4	89.8
Operating expense as a percentage of average total assets	3.8	N/A	5.1	5.6
Net profit as a percentage of average total assets	2.0	N/A	1.9	1.6
Net profit as a percentage of average shareholders' capital	23.5	N/A	21.8	18.3
Balance Sheet Ratios:				
Customer accounts as a percentage of total assets	60.3	N/A	58.2	69.1
Total net loans and advances to customers as a percentage of total assets	62.9	N/A	63.6	69.0
Total equity as a percentage of total assets	7.9	N/A	9.1	8.2
Liquid assets as a percentage of customer accounts ⁽⁴⁾	47.5	N/A	53.0	34.4
Liquid assets as a percentage of liabilities of up to one month	85.4	N/A	105.5	67.4
Capital Adequacy Ratios:⁽⁵⁾				
Total capital	15.01	N/A	17.24	13.69
Tier 1 capital	10.95	N/A	10.39	8.13
Credit Quality Ratios:⁽⁶⁾				
Non-performing loans as a percentage of total loans	0.4	N/A	0.9	1.0
Non-performing loans as a percentage of total loans and guarantees	0.4	N/A	0.8	0.9
Provisions for loan losses as a percentage of non-performing loans	942.4	N/A	466.9	412.1
Exchange Rates used in financial statements of the Bank: (KZT/U.S.\$1.00)				
Period end	134.56	148.93	144.22	155.85
Average for the period ⁽⁷⁾	137.61	150.48	149.54	153.41
Macroeconomic Data:				
Consumer Price Inflation (for the twelve months then ended)	7.7	5.9	6.8	6.6
Real GDP (change during the year)	N/A	N/A	9.2	9.5

(1) Based on the average of the opening and closing balances for the period.

(2) Averages are based upon average daily balances.

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

(4) Liquid assets include cash and balances with the NBK, loans and advances to banks (with maturity of less than one month), trading and investment securities.

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

(6) For the definition of non-performing loans used by the Bank, see "Description of the Issuer – Lending Policies and Procedures – Provisioning Policy."

(7) The average monthly rate is the average of the Bank's daily rates for the month. The average annual rate is the average of the 12 monthly average rates.

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

The following discussion should be read in conjunction with the Bank's audited annual IFRS financial statements and its interim unaudited IFRS financial statements as at and for the nine months ended 30 September 2004 appearing elsewhere in this Offering Circular. This discussion includes forward-looking statements based on assumptions about the Bank's future business. The Bank's actual results could differ materially from those contained in such forward-looking statements.

Introduction

Established in 1988, the Bank is the fourth largest commercial bank in Kazakhstan, measured by total assets and deposits as at 30 September 2004, providing retail and corporate banking products and services. As at and for the nine months ended 30 September 2004, the Bank had net income of KZT1,632.2 million, total assets of KZT141,009.5 million and shareholders' equity of KZT11,075.2 million.

The Bank's financial statements as at and for the years ended 31 December 2003, 2002 and 2001 were prepared in accordance with IFRS and audited by DTT. These financial statements are consolidated and reflect the results of operations of the Bank and its subsidiaries, LLP Center Leasing, JSC KIB Asset Management and JSC Capital Pension Fund, as well as LLP BCC and LLP Aktas Zhol, which are not subsidiaries of, but are controlled by, the Bank.

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

The discussion in relation to the Bank's results of operations and financial condition for the nine months ended and as at 30 September 2004 is based on the Bank's unaudited consolidated interim financial statements for the nine months ended 30 September 2004 and 2003 and as at 30 September 2004 which have been prepared in accordance with IFRS and are stated on a basis substantially consistent with the audited annual financial statements included elsewhere in this Offering Circular.

Kazakhstan's Economy

Overview

Kazakhstan has been recognised by both the European Union and the United States as having a market economy. It has experienced extensive economic transformation since independence in 1992; for example, real GDP, which fell by 38.6 per cent. between 1990 and 1995, is estimated to have grown by roughly the same amount since then, assisted substantially by the flotation of the Tenge in April 1999 and its subsequent devaluation, improvement in the global economic environment and rising commodity prices over the period.

Raw minerals extraction is the biggest sector of Kazakhstan's economy, which makes it overly dependent on the world market prices for mineral resources. Therefore, the main tasks facing Kazakhstan in the long-term are diversifying its economy and shifting its production toward value-added products.

Gross domestic product

The black market sector constitutes a significant portion of Kazakhstan's economy and the NSA makes adjustments to its GDP data in accordance with approved IMF practices in order to reflect this. The NSA's estimate of the size of the black market (including the household sector) has been that, at times, it has exceeded 35 per cent. of GDP. Others have, however, given even higher estimates of the contribution of the black market economy.

The following table sets forth certain information on Kazakhstan's GDP for the periods indicated:

	Year ended 31 December						
	2003	2002	2001	2000	1999	1998	1997
Nominal GDP (KZT millions)	4,449,800	3,747,200	3,250,593	2,599,902	2,016,456	1,733,264	1,672,143
Real GDP (percentage change during the twelve months then ended)	9.2	9.5	13.5	9.8	2.7	(1.9)	1.7
Nominal GDP per capita (KZT)	297,844	252,263	219,170	174,854	135,088	114,991	109,045
Population (millions average annual)	14.94	14.86	14.85	14.86	14.9	15.0	15.2

Source: NSA, NBK

Real GDP increases over the period are principally the result of systemic reforms (including price and trade liberalisation as well as privatisation), foreign investment (particularly in the oil and gas and non-ferrous metallurgy sectors), increases in agricultural production, strong commodity prices in recent years and the flotation of the Tenge in April 1999.

GDP by source

The following table sets forth the composition of nominal GDP by source for the periods indicated:

	Year ended 31 December						
	2003	2002	2001	2000	1999	1998	1997
	<i>(per cent. share of GDP)</i>						
Industry	29.5	29.3	30.7	31.9	28.2	24.4	21.4
Construction	6.2	6.1	5.5	5.3	4.8	4.9	4.2
Agriculture.....	7.3	7.9	8.7	8.7	9.9	8.6	11.4
Transportation and Telecommunications	12.1	11.5	11.2	12.0	12.0	13.9	11.7
Trade	12.1	12.0	12.1	12.6	3.6	15.2	15.6
Other ⁽¹⁾	32.8	33.2	31.8	29.5	31.5	33.0	35.7
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

(1) Includes finance and non-production sectors such as medicine, education, culture, defence and state administration, as well as taxes.

The composition of Kazakhstan's GDP has changed over recent years, with the share of agriculture decreasing and that of industry increasing by more than fifty per cent. since 1997.

The extraction and production of hydrocarbons (i.e., oil, gas and gas condensates) and minerals are the most significant industries in the Kazakhstan economy. Exports of hydrocarbons and minerals accounted for 68 per cent. and 65 per cent. of total exports in the first nine months of 2004 and in the whole of 2003, respectively.

Inflation

The year-on-year rate of consumer price inflation has fallen from 1,258.3 per cent. at the end of 1994 to 6.8 per cent. as at the end of November 2004, although there have been times in the period when inflationary pressures have resumed, principally as a result of the flotation of the Tenge and rising commodity prices.

The following table sets forth the year-on-year rates of consumer price inflation and producer price inflation as at the dates indicated:

	Nine months ended 30 September	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998	1997
Consumer Prices	7.7	6.8	6.6	6.4	9.8	17.8	1.9	11.2
Producer Prices	23.7	5.9	11.9	(14.1)	19.4	57.2	(5.5)	11.7

Source: NSA, NBK

Current account

Based on NBK data, Kazakhstan's current account deficit in 2002 was U.S.\$843.4 million and U.S.\$1,209.3 million in 2001 compared with a surplus of U.S.\$563.1 million in 2000. The current account deficit in 2003 was U.S.\$39.0 million. The current account surplus in the first three quarters of 2004 was U.S.\$232.6 million.

Capital and financial account

The current account deficit has been offset by inflows of foreign direct investment. The capital and financial account surplus in 2000 was U.S.\$1,016.5 million, resulting in a balance of payment surplus of U.S.\$585.1 million. In 2001, foreign direct investment in the amount of U.S.\$4,556.6 million resulted in a capital and financial account surplus of U.S.\$2,428.7 million. In 2002, foreign direct investment for the year amounted to U.S.\$4,106.5 million, which resulted in a capital and financial account surplus of U.S.\$1,239.2 million. In 2003, foreign direct investment was U.S.\$4,607 million and the capital and financial account surplus was U.S.\$2,755.2 million. In the first three quarters of 2004, foreign direct investment was U.S.\$3,917.3 million and the capital and financial account surplus was U.S.\$2,248.1 million.

Critical Accounting Policies

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

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

Principles of consolidation

The consolidated financial statements include the accounts of majority-owned subsidiaries, and the accounts of the subsidiaries, of which the Bank has no ownership interest in the share capital but has the ability to control and effectively controls their operations. All significant intercompany transactions and balances have been eliminated.

The share of the Bank in net assets and net income of entities, where the Bank holds 20 to 50 per cent. of share capital and has the ability to exercise significant influence over their operating and financial policies ("associates"), is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Group.

Investments in non-consolidated associates

Investments in corporate shares where the Group owns more than 20 per cent. of share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the consolidated financial statements taken as a whole, or the Group intends to resell such investments in the near future, as well as investments in corporate shares where the Group owns less than 20 per cent. of share capital, are accounted for at fair cost or approximated cost, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary.

Recognition and measurement of financial instruments

The Group recognises financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of financial assets and liabilities are recognised using settlement date accounting. Financial assets and liabilities are initially recognised at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – includes cash, unrestricted balances on correspondent and deposit accounts with the National Bank of the Republic of Kazakhstan, advances to banks in countries in the OECD, except for margin deposits for operations with plastic cards and precious metals in vault, which may be converted to cash within a short period of time.

Loans and advances to banks – in the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortised cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Trading securities – these represent debt securities held for trading that are acquired principally for the purposes of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which corresponds approximately to the fair value of the consideration given and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group's trading securities. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realised from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognised in the profit and loss account for the period.

Securities held-to-maturity – such securities are carried at amortised cost, less any allowance for impairment plus accrued coupon income. Amortised discounts are recognised in interest income using the effective interest method over the period to maturity.

Securities available-for-sale – such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently, the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Group uses quotes market prices to determine fair value for the Group's securities available-for-sale. If such quotes do not exist, management estimation is used.

Allowance for loan losses

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

The change in the allowance for loan losses is charged to the profit and loss account and the total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks.

Results of Operations for the nine months ended 30 September 2004 compared to the nine months ended 30 September 2003

Net Interest Income

The following table sets out the principal components of the Bank's consolidated net interest income for the nine months ended 30 September 2004 and 2003:

	For the nine months ended 30 September		Variation
	2004	2003	2004/2003
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Interest income	8,989,114	4,733,006	89.9
Interest expense.....	(4,343,847)	(2,390,244)	81.7
Net interest income	4,645,267	2,342,762	98.3
Provision for loan impairment	(1,841,577)	(924,173)	99.3
Net interest income after provision for loan impairment	2,803,690	1,418,589	97.6

Interest Income

The following table sets out the principal components of the Bank's consolidated interest income for the nine months ended 30 September 2004 and 2003:

	For the nine months ended 30 September		Variation
	2004	2003	2004/2003
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Interest on loans and advances to customers	7,981,239	4,229,114	88.7
Interest on debt securities	826,399	410,260	101.4
Interest on loans and advances to banks.....	113,106	68,156	66.0
Interest on reverse repurchase transactions	68,370	25,476	168.4
Total interest income	8,989,114	4,733,006	89.9

Interest income increased by 89.9 per cent. or by KZT4,256.1 million, from KZT4,733.0 million for the nine months ended 30 September 2003, to KZT8,989.1 million for the nine months ended 30 September 2004. This increase was primarily due to increases in volume of loans and advances extended to customers from KZT4,229.1 million for the nine months ended 30 September 2003 to KZT7,981.2 million for the nine months ended 30 September 2004. The average interest rate as of 31 December 2003 was 14.8 per cent., and for the nine months ended 30 September 2004 was 12.9 per cent.

Interest Expense

The following table sets out the principal components of the Bank's consolidated interest expense for each of the nine month periods ended 30 September 2004 and 2003:

	For the nine months ended 30 September		Variation
	2004	2003	2004/2003
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Interest on customer accounts.....	2,946,375	1,753,705	68.0
Interest on deposits from banks	970,264	408,246	137.7
Interest on subordinated debt	414,452	220,027	88.4
Interest on repurchase transactions.....	12,756	8,266	54.3
Total interest expense	4,343,847	2,390,244	81.7

For the nine months ended 30 September 2004, interest expense increased by 81.7 per cent. or by KZT 1,953.6 million, from KZT2,390.2 million for the nine months ended 30 September 2003 to KZT4,343.8 million for the nine months ended 30 September 2004. This increase resulted from an increase in the volume of deposits by customers and banks from KZT408.2 million for the nine months ended 30 September 2003 to KZT970.3 million for the nine months ended 30 September 2004. Interest rates on deposits reduced slightly during this period as the Deposit Insurance Fund, of which the Bank is a member, reduced the permissible interest rates. Interest on subordinated debt increased 88.4 per cent. as a result of the numerous issuances of subordinated debt, in the principal amount of KZT1,685 million, in the first nine months of 2004.

Interest Margin

The Bank's overall net interest margin (net interest income before provision for loan losses as a percentage of average interest-earning assets) grew from 5.7 per cent. for the nine months ended 30 September 2003 to 6.2 per cent. for the nine months ended 30 September 2004.

The overall net interest margin increased as a result of the Deposit Insurance Fund reducing the amounts that Kazakhstan banks were required to deposit with the Fund and the increased volume of loans granted by the Bank relative to deposits.

The following table sets out the effective average interest rates by major currencies for the principal interest-bearing assets and liabilities of the Bank as at 30 September 2004 and as at 31 December 2003. The analysis has been prepared using period-end effective contractual rates.

	30 September 2004			31 December 2003		
	KZT	USD	Euro	KZT	USD	Euro
	(per cent.)	(per cent.)	(per cent.)	(per cent.)	(per cent.)	(per cent.)
Assets						
Loans and advances to banks.....	5.0	1.8	2.0	5.5	2.5	3.0
Trading securities	7.8	–	–	5.5	4.5	–
Securities purchased under agreements to repurchase	2.96	–	–	2.5	1.5	–
Loans and advances to customers	15.0	14.2	9.4	16.0	15.2	13.2
Investment securities:.....						
– available-for-sale.....	3.2	4.5	–	5.5	4.5	–
– held-to-maturity	–	–	–	–	–	–
Liabilities						
Deposits from banks	6.0	5.5	2.0	7.0	6.5	3.0
Securities sold under agreements to repurchase	2.22	–	–	2.5	–	–
Customer accounts	10.0	6.9	7.0	10.0	6.2	6.0
Subordinated debt	11.9	9.9	–	12.0	10.0	–

Allowance for Losses and Impairment and Provisions

The allowance for losses and impairment and provisions was KZT1,841.6 million for the nine months ended 30 September 2004 and KZT924.2 million for the nine months ended 30 September 2003. The higher charge for 2004 as compared to 2003 was a result of changes in the composition of the loan portfolio; during the nine months ended 30 September 2004, as compared to 2003, loans and advances to banks decreased as a proportion of the Bank's loan portfolio while loans and advances to customers increased, thus resulting in a higher allowance for losses.

As a percentage of total loans and advances to customers, the allowance for losses and impairment and provisions increased from 1.3 per cent. for the nine months ended 30 September 2003 to 4.2 per cent. for the nine months ended 30 September 2004. The Bank intends to increase this percentage in 2005 to 4.5 per cent. in view of an expected increase in the Bank's activities and to reflect the formation of a new division within the Credit Risk Department which will focus on project finance and anticrisis management for the Bank's clients.

Non-Interest Income

The following table sets out the principal components of the Bank's consolidated non-interest income for the nine months ended 30 September 2004 and 2003:

	For the nine months ended 30 September		Variation
	2004	2003	2004/2003
	(KZT thousands)		(per cent.)
Net gain on trading securities	639	(25,267)	102.5
Net gain on foreign exchange operations	523,296	337,476	55.1
Fees and commission income	2,341,188	1,500,706	56.0
Fees and commission expense	(220,379)	(124,109)	77.6
Net (loss)/gain on investment securities	(66,204)	(4,206)	1,474.0
Other income/(expenses)	(409,580)	(151,256)	170.8
Total non-interest income	2,168,960	1,541,756	40.7

Total non-interest income increased by 40.7 per cent., or by KZT627.2 million, up to KZT2,168.9 million for the nine months ended 30 September 2004 from KZT1,541.8 million for the nine months ended 30 September 2003. This increase primarily reflects the growth in fee and commission income which increased as a result of growth in volume of operations, such as transfer operations and cash withdrawals, performed by the Bank's customers. The increase in other expenses was principally a result of increases in the cost of issuing cards and payments to the Deposit Insurance Fund.

Operating Expenses

Operating expenses increased by 44.8 per cent. (KZT973.2 million) for the nine months ended 30 September 2004 as compared to the same period in 2003 from KZT2,170.3 million to KZT3,143.5 million. This increase was primarily a result of increases in salary expenses, depreciation of fixed and intangible assets and advertising costs. As at 30 September 2004, the Bank employed 2,003 people, which represented 14 per cent. more than the number of employees as at 1 January 2004. In addition, the salaries of the employees increased as competition for skilled banking employees in Kazakhstan increased, thereby causing upward pressure on salaries throughout the sector. Salary expenses increased 61.1 per cent. for the nine months ended 30 September 2004 from the same period in 2003, from KZT769 million to KZT1,239 million.

In addition, advertising expenses increased 32.3 per cent. in the nine months ended 30 September 2004 from the same period in 2003, increasing from KZT175 million to KZT232 million, as the Bank commenced an aggressive marketing campaign to, in particular, attract term deposits from its customers. Depreciation and amortisation increased by 41.3 per cent. from KZT209.1 million for the nine months ended 30 September 2003 to KZT295.5 million for the nine months ended 30 September 2004, as a result of the purchase by the Bank of new automated teller machines ("ATMs"), properties for ATMs and computers.

The Bank's ratio of operating expenses to operating income before provisions for loan losses decreased by 9.8 per cent. from 55.9 per cent. for the nine months ended 30 September 2003 to 46.1 per cent. for the same period ended 30 September 2004. Its ratio of operating expenses to operating income after provisions for loan losses also decreased by 10.1 per cent., from 73.3 per cent. for the nine months ended 30 September 2003 to 63.2 per cent. for the nine months ended 30 September 2004.

Operating expenses as a percentage of net interest income before provisions for loan losses decreased by 24.9 per cent. from the nine months ended 30 September 2003 (92.6 per cent.) to the nine months ended 30 September 2004 (67.7 per cent.).

Taxation

The statutory corporate tax in Kazakhstan is 30 per cent. For the nine month period ended 30 September 2004, the effective tax expense incurred by the Bank was 6.5 per cent. of the relevant IFRS audited pre-tax income figure compared to the effective tax expense of 2.8 per cent. incurred by the Bank for the nine month period ended 30 September 2003. The effective tax rate in the first nine months of 2004 was substantially lower than the statutory tax rate mainly due to the effect of the changes in the local tax regulations. Examples of such changes include the tax treatment of certain types of loans, including financial leases and long-term loans to legal entities to finance the modernisation of fixed assets, as well as residential mortgages to individuals. During the first nine months of 2003, the statutory tax rate was substantially lower as a result of a change in valuation allowance.

Similar to other Kazakhstan banks, the Bank has recently been subject to a tax inspection by the Kazakhstan Tax Committee. The result of the inspection was a preliminary assessment for additional tax of KZT337 million which is disclosed as a contingent liability in the unaudited interim condensed consolidated financial statements for the nine month period ended 30 September 2004. The Bank has received a final assessment of KZT82 million.

Results of Operations for the Years Ended 31 December 2003 and 2002

Net Interest Income

The following table sets out the principal components of the Bank's consolidated net interest income for each of the years ended 31 December 2003 and 2002:

	For the year ended 31 December		Variation
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Interest income	6,962,144	4,877,784	42.7
Interest expense.....	(3,333,540)	(2,298,014)	45.1
Net interest income	3,628,604	2,579,770	40.7
Provision for loan losses.....	(1,434,198)	(1,037,084)	38.3
Net interest income after provision for loan losses	2,194,406	1,542,686	42.2

Interest Income

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

	For the year ended 31 December		Variation
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Interest on loans and advances to customers	6,229,448	4,428,926	40.7
Interest on debt securities	617,996	367,187	68.3
Interest on loans and advances to banks.....	82,054	81,671	0.5
Interest on reverse repurchase transactions	32,646	-	100.0
Total interest income	6,962,144	4,877,784	42.7

Interest income increased by 42.7 per cent., or by KZT2,084.4 million, from KZT4,877.8 million for the year ended 31 December 2002, to KZT6,962.1 million for the year ended 31 December 2003. This increase was primarily due to increased volume of loans and advances extended to customers.

Interest Expense

The following table sets out the principal components of the Bank's consolidated interest expense for the years ended 31 December 2003 and 2002.

	For the year ended 31 December		Variation
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Interest on customer accounts.....	2,371,351	1,621,310	46.3
Interest on deposit from banks	604,602	495,052	22.1
Interest on subordinated debt	342,047	181,652	88.3
Interest on repurchase transactions.....	15,540	-	100.0
Total interest expense	3,333,540	2,298,014	45.1

For the year ended 31 December 2003, interest expense increased by 45.1 per cent. or by KZT1,035.5 million, from KZT2,298.0 million for the year ended 31 December 2002, up to KZT3,333.5 million for the year ended 31 December 2003.

The increase in interest expense on customer accounts is a reflection of the growth in volumes of customer deposits with the Bank.

Interest Margin

The Bank's overall net interest margin decreased from 7.1 per cent. for the year ended 31 December 2002 to 6.3 per cent. for the year ended 31 December 2003. This decline was consistent with the decline in net interest margins at other Kazakhstan banks as competition increased and the banking system further matured.

The following table sets out the effective average interest rates by major currencies for the principal interest-bearing assets and liabilities of the Bank as at 31 December 2003 and 2002. The analysis has been prepared using period-end effective contractual rates.

	31 December 2003			31 December 2002		
	KZT	USD	Other Currencies	KZT	USD	Other Currencies
	(per cent.)	(per cent.)	(per cent.)	(per cent.)	(per cent.)	(per cent.)
Assets						
Loans and advances to banks.....	5.5	2.5	–	5.2	3.8	–
Trading securities	5.5	4.5	–	–	–	–
Securities purchased under agreements to repurchase	2.5	1.5	–	3.5	–	–
Loans and advances to customers	16.0	15.2	13.2	17.0	15.9	8.9
Investment securities:.....						
– available-for-sale.....	5.5	4.5	–	10.0	8.5	–
– held to maturity	–	–	–	11.5	–	–
Liabilities						
Deposits from banks	–	–	–	11.5	8.8	–
Securities sold under agreements to repurchase	2.5	–	–	3.4	–	–
Customer accounts	10.0	6.2	6.0	12.37	6.8	5.8
Subordinated debt	12.0	10.0	–	10.77	11.64	–

Allowance for Losses and Impairment and Provisions

The allowance for losses and impairment and provisions was KZT1,434.2 million for the year ended 31 December 2003 and KZT1,037.1 million for the year ended 31 December 2002. The higher charge for 2003 as compared to 2002 was the result of the increase in the size of the Bank's consumer and SME loan portfolios during 2003.

As a percentage of total loans and advances to customers, the loan impairment allowance remained stable at 4.2 per cent. from 31 December 2002 to 31 December 2003.

Non-Interest Income

The following table sets out the principal components of the Bank's consolidated non-interest income for the years ended December 2003 and 2002:

	For the year ended		Variation
	31 December		
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Net gain on trading securities	111,886	–	100
Net gain on foreign exchange operations	452,529	250,630	80.6
Fees and commission income	2,209,659	1,450,431	52.3
Fees and commission expense	(207,398)	(166,240)	24.8
Net (loss)/gain on investment securities	(3,789)	87,037	(104.4)
Other income/(expenses)	21,044	(33,611)	162.6
Total non-interest income	2,583,931	1,588,247	62.7

Total non-interest income increased by 62.7 per cent. or by KZT995.7 million, up to KZT2,583.9 million for the year ended 31 December 2003 from KZT1,588.2 million for the year ended 31 December 2002. This increase primarily reflects significant growth in fee and commission income as a result of an increase of 37.9 per cent. in the volume of cash withdrawals and settlement transactions by the Bank's clients. In addition, foreign exchange operations experienced an increase in gain as the Bank purchased U.S. Dollars for its own account and sold them on domestic markets at a profit.

Fees and Commission Income

The following table sets out the principal components of the Bank's consolidated fees and commission income for the years ended 31 December 2003 and 2002:

	For the year ended		Variation
	31 December		
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Cash operations	831,513	608,633	36.6
Settlements	681,450	488,064	39.6
Documentary operations	336,897	117,917	185.7
Foreign exchange operations	171,309	122,972	39.3
Loans operations	40,892	25,653	59.4
Safe operations	38,601	14,671	163.1
Other operations	108,997	72,521	50.3
Total fees and commission income	2,209,659	1,450,431	52.3

For the year ended 31 December 2003, total fees and commission income increased by 52.3 per cent. or by KZT759.2 million, as compared to the year ended 31 December 2002. This increase was primarily due to increased levels of operations.

Fees and Commission Expense

The following table sets out the principal components of the Bank's consolidated fees and commission expense for the years ended December 2003 and 2002:

	For the year ended		Variation
	31 December		
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Settlements	100,492	84,688	18.7
Cash operations	30,061	13,475	123.1
Brokerage services	20,233	6,952	191.0
Foreign exchange operations	11,576	18,154	(36.0)
Documentary operations	7,821	249	3,040.9
Other operations	37,215	42,722	(12.9)
Total fees and commission expense	207,398	166,240	24.8

For the year ended 31 December 2003, total fees and commission expense increased by 24.8 per cent. or by KZT41.2 million to KZT207.4 million, as compared to KZT166.2 million for the year ended 31 December 2002. This increase was largely due to expenses related in increased levels of operations.

Operating Expenses

The following table sets out the principal components of the Bank's consolidated operating expenses for the years ended 31 December 2003 and 2002.

	For the year ended		Variation
	31 December		
	2003	2002	2003/2002
	<i>(KZT thousands)</i>		<i>(per cent.)</i>
Salary and bonuses	1,160,840	738,576	57.2
Depreciation of fixed and intangible assets	345,342	170,901	102.1
Advertising expenses	290,480	194,358	49.5
Social security costs	251,215	168,086	49.5
Administrative services.....	245,013	369,955	(33.8)
Taxes, other than income tax	202,306	173,741	16.4
Other employees' benefits	176,488	166,228	6.2
Communication expenses	155,699	–	100.0
Repairs and maintenance expense	126,598	64,688	95.7
Lease expenses	108,569	71,249	52.4
Professional services fees	96,473	16,174	496.5
Business trip expenses	75,515	61,643	22.5
Presentation expense.....	33,788	8,254	309.4
Other	119,402	113,196	5.5
Total operating expenses	3,387,728	2,317,049	46.2

Operating expenses increased by 46.2 per cent. in 2003 as compared to 2002 and represented 70.9 per cent. of operating income after provisions for loan losses as at 31 December 2003 compared to 74.0 per cent. as at 31 December 2002. This was due primarily to increases in salary and bonus expenses, depreciation of fixed and intangible assets and communication costs.

The major component of the Bank's operating expenses was salaries and bonuses, which accounted for 34.3 per cent. of total operating expenses in the year ended 2003, compared to 31.9 per cent. for the same period in 2002. The rise in salaries resulted from an 18.3 per cent. increase in the number of staff employed by the Bank (1,476 employees as at 31 December 2002 and 1,746 employees as at 31 December 2003) as well as general upward pressure on the salaries of all banking employees in Kazakhstan due to stiff competition for skilled labour.

Depreciation of fixed and intangible assets increased by 102.1 per cent. to KZT345.3 million in the year ended 31 December 2003 as compared to KZT170.9 million in the year ended 31 December 2002 as a result of the Bank's upgrade of its computers and servers as well as its purchase of ATMs and other bank equipment.

Communication expenses increased by KZT155.7 million (100 per cent.) in 2003 as compared to 2002 due to changes in accounting policies since, prior to 2003, communication expenses were included as part of administration expenses. The actual increase was only 10 per cent., which reflected an increase in the Bank's volume of operations.

Operating expenses as a percentage of average assets also improved in the year ended 31 December 2003 as compared to the year ended 31 December 2002, from 5.6 per cent. in 2002 to 5.1 per cent. in 2003 as a result of a 61.1 per cent. increase in assets.

Advertising expenses increased by KZT96.1 million (49.5 per cent.) in 2003 as compared to 2002 due to the Bank's aggressive advertising campaign to promote its banking products. Social security costs also increased in the year ended 31 December 2003 compared to the year ended 31 December 2002 (49.5 per cent.) as a result of an increased wage fund.

The Bank's ratio of operating expenses to operating income before provisions for loan losses decreased by 1.1 per cent. from 55.6 per cent. for the year ended 31 December 2002 to 54.5 per cent. for the same period ended 31 December 2003. Its ratio of operating expenses to operating income after provisions for loan losses also decreased by 3.1 per cent., from 74.0 per cent. for the year ended 31 December 2002 to 70.9 per cent. for the year ended 31 December 2003.

Operating expenses as a percentage of net interest income before provisions for loan losses increased by 3.6 per cent. from the year ended 31 December 2002 (89.8 per cent.) to the year ended 31 December 2003 (93.4 per cent.) as a result of substantial increases in salaries and bonuses, depreciation of fixed and intangible assets and communication costs.

Taxation

The Bank's income tax expense was KZT121.1 million for the year ended 31 December 2003, as compared to KZT20.7 million for the year ended 31 December 2002. The Bank's effective rates were 8.7 and 3.1 per cent. for the years ended 31 December 2003 and 2002, respectively, as a result of the changes to applicable tax laws relating to the tax treatment of certain types of loans.

Financial Condition as at 30 September 2004 and as at 31 December 2003 and 2002

Total assets

As at 30 September 2004, the Bank's total assets amounted to KZT141,009.5 million, an increase of 72.1 per cent., on the total assets figure at 31 December 2003. During 2003, the Bank's total assets increased by KZT31,059.6 million, or 61.1 per cent., from KZT50,853.4 million at the end of 2002 to KZT81,913.0 million at the end of 2003. The growth for the first nine months in 2004 was primarily attributable to the 70.4 per cent. increase in the Bank's loan portfolio. The growth in 2003 was primarily attributable to a 48.3 per cent. increase in the Bank's loan portfolio.

As at 30 September 2004, the Bank's cash and balances with the NBK had increased to KZT8,776.3 million, from KZT5,648.6 million as at 31 December 2003, an increase of 55.2 per cent. This increase was primarily

due to the increase in the Bank's loans and advances to customers. Cash and balances with the NBK increased by KZT 2,474.6 million, or 77.9 per cent., from the end of 2002 to the end of 2003.

As at 30 September 2004, loans and advances to banks totalled KZT4,871.1 million, a decrease of 48.7 per cent. as compared to 31 December 2003 primarily as a result of the Bank's increased emphasis on loans and advances to customers (versus banks) due to the higher margins on these loans. From 2002 to 2003, loans and advances to banks increased by KZT5,223.1 million, or by 122.3 per cent.

As at 30 September 2004, the Bank held KZT2,762.5 million of trading securities, compared to KZT1,412.9 million of securities held at 31 December 2003, an increase of 95.5 per cent. which reflects an increase in the volume of the Bank's trading operations and the relatively high yield on trading securities.

As at 30 September 2004, the Bank held KZT5,501.9 million of securities as part of reverse repurchase transactions, compared to KZT68.2 million of securities held at 31 December 2003, an increase of 7,969.5 per cent.

As at 30 September 2004, the total amount of outstanding loans and advances to customers, net was KZT88,713.9 million, an increase of 70.4 per cent., as compared to 31 December 2003. The total amount of outstanding loans, net of loan loss provisions was KZT52,068.8 million at the end of 2003, as compared to KZT35,107.2 million at the end of 2002. These increases in 2003 were higher than the increases in loans and advances to banks.

As at 30 September 2004, securities available-for-sale less allowance for impairment totalled KZT24,760.1 million, an increase of 175.1 per cent. over the figure at 31 December 2003. This increase was a result of the Bank's investment of its deposits into highly liquid securities. From 31 December 2002 to 31 December 2003, securities available for sale increased from KZT4,354.6 million to KZT8,999.9 million.

As at 30 September 2004, securities held-to-maturity totalled KZT53,994, an increase of 100 per cent. from 31 December 2003. This increase reflects the Bank's decision to broaden its securities portfolio and diversify its risk profile.

There was no investment in associated companies in 2003 or during the first nine months of 2004. From 31 December 2002 to 31 December 2003, investments in associated companies decreased from KZT100.1 million to nil. This reflects a reduction in the Bank's ownership interest in the share capital of JSC Oil Insurance Company from 25 per cent. as at 31 December 2002 to 5.45 per cent. as at 31 December 2003 and also an increase in the Bank's ownership interest in the share capital of JSC APF Capital from 25 per cent. to 50 per cent. during the same period. Due to the fact that both companies became non-associates, investments in their shares are classified as investments in securities and investments in subsidiaries, respectively.

As at 30 September 2004, fixed and intangible assets, less accumulated depreciation of the Bank, had increased from KZT2,688.5 million as at 31 December 2003 to KZT3,057.6 million. In 2003, purchases by the Bank of 30 additional new ATMs, and other telecommunications, network and computer equipment resulted in an increase in the Bank's fixed assets of KZT703.9 million, or 35.5 per cent., over the prior year end.

As at 30 September 2004, the Bank's average assets totalled KZT111.5 billion, an increase of 67.9 per cent., as compared to 31 December 2003. From 2002 to 2003, the Bank's average assets increased by KZT24.7 billion, or 59.4 per cent., from KZT41.6 billion to KZT66.4 billion. The increase in the first nine months of 2004 was due to the 61.5 per cent. growth in the average loan portfolio, net of loan loss provisions, or by KZT28 billion.

Total liabilities

As at 30 September 2004, the Bank's total liabilities were KZT129,779.8 million, an increase of 74.4 per cent. as compared to 31 December 2003. During 2003, the Bank's liabilities increased by 59.4 per cent., to KZT74,425.9 million from KZT46,704.6 million at the end of 2002. The increases in 2004 and 2003 primarily resulted from an increase in customer accounts and deposits from banks.

As at 30 September 2004, customer accounts totalled KZT85,062.3 million, an increase of 78.5 per cent., as compared to 31 December 2003 in this sector. In 2003, customer accounts increased by KZT12.5 million as at 31 December 2003, or by 35.6 per cent., compared to 31 December 2002. As at the end of 2003, customer accounts aggregated KZT47,643.4 million, as compared to KZT35,141.2 million to the end of 2002.

As at 30 September 2004, deposits received from banks (including syndicated loans) amounted to KZT31,635.9 million, an increase of 52.6 per cent., as compared to 31 December 2003. Deposits received from banks increased by 132.6 per cent., from KZT8,910.3 million at the end of 2002 to KZT20,728.4 million at the end of 2003. The significant growth in 2003 and the first nine months of 2004 were a result of the increase in credit lines available to, and utilised by, the Bank during these periods and the issuances by the Bank of subordinated debt.

As at 30 September 2004, the volume of securities sold under repurchase agreements totalled KZT2,526.8 million, an increase of 89.6 per cent. as compared to 31 December 2003, which was KZT1,332.7 million, an increase of KZT1,257.0 million, or 1,661.2 per cent. over this figure at 31 December 2002.

Income tax liabilities decreased from KZT62.4 million as at 31 December 2003 to KZT50.9 million as at 30 September 2004, a decrease of 18.4 per cent. (KZT11.5 million). As at 31 December 2003, income tax liabilities were KZT62.4 million, an increase of KZT62.4 million over the nil figure as at 31 December 2002. These differences are primarily due to the net tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and different methods of interest and expense recognition for tax purposes as well as to the recorded values of certain assets.

The average liabilities of the Bank during the first nine months of 2004 amounted to KZT102.1 billion, an increase of 63.7 per cent. on the average for 2003. This was primarily due to increases in deposits from customers and banks. In 2003, the Bank's average liabilities increased to KZT60.6 billion (representing growth in comparison with 2002 of KZT22.5 billion, or 58.9 per cent.). As at 30 September 2004, the Bank's average interest-bearing liabilities were KZT94.5 billion, a 66.0 per cent. increase as compared to 31 December 2003. In 2003, the Bank's average interest-bearing liabilities increased by 57.7 per cent. compared to 2002, primarily as a result of an increase in average time and demand deposits. As at 30 September 2004, average time deposits and demand deposits were KZT45.1 billion and KZT20.7 billion respectively, an increase of 70.2 per cent., and 42.8 per cent., respectively, as compared to 31 December 2003. During 2003, average time deposits and demand deposits increased by 53.2 per cent., and 34.3 per cent., respectively.

Equity and Capital Adequacy Ratios

As at 30 September 2004, the Bank's shareholders' equity had increased by 48.8 per cent., to KZT11,075.2 million, as compared to the 31 December 2003 figures. As at 31 December 2003, the Bank's shareholders' equity had increased 79.4 per cent., to KZT7,440.6 million, as compared to KZT4,146.7 million as at 31 December 2002. The increases in share capital in 2003 and the 2004 were a result of additional issuances by the Bank of ordinary shares.

As at 30 September 2004, the Bank's total capital, calculated in accordance with the Basel Accord, was KZT17,257 million, including Tier I capital of KZT10,952 million, an increase of 45.2 per cent., on the 31 December 2003 figure. As at 31 December 2003, the Bank's total capital, calculated in accordance with the Basel Accord, was KZT11,882.9 million including Tier I capital of KZT7,161.9 million. As at 30 September 2004, the Bank's Tier I capital adequacy ratio and total capital adequacy ratio, each calculated in accordance with the Basel Accord as currently in effect and on the basis of IFRS financials, were 10.95 per cent., and 15.01 per cent., respectively. As at 31 December 2003, the Bank's Tier I capital adequacy ratio and total capital adequacy ratio, were 10.39 per cent., and 17.24 per cent., respectively.

The following table gives certain information regarding the Bank's Tier I and Tier II capital and its risk weighted capital adequacy ratio, based on IFRS as at 30 September 2004 and 31 December 2003 and 2002, and calculated in accordance with the Basel Accord:

	30 September	31 December	
	2004	2003	2002
	<i>(KZT millions, except for percentages)</i>		
Tier I capital	10,952	7,162	3,862
Tier II capital	6,305	4,721	2,489
Tier I and Tier II capital (total capital)	17,257	11,883	6,351
Total risk weighted assets	114,747	68,927	46,392
Risk weighted capital adequacy ratio (per cent.)	15.01	17.24	13.69

Using ratios calculated in accordance with the Basel Accord, the Bank had a Tier I capital ratio of 10.39 per cent. at 31 December 2003, compared to a ratio of 8.13 per cent. at 31 December 2002 and risk weighted capital adequacy ratio (comprising total capital divided by total risk weighted assets) of 17.24 per cent. at 31 December 2003, compared to 13.69 per cent. at 31 December 2002.

Capital

The following table sets out certain ratios calculated in accordance with the requirements of the NBK, based on financial statements prepared according to Kazakhstan Accounting Standards, at 30 September 2004 and 31 December 2003 and 2002 regarding capital adequacy, foreign exchange positions, maximum exposures and certain other matters:

	NBK's minimum requirements	As at 30	As at 31 December	
		September	2003	2002
<i>(per cent., unless otherwise noted)</i>				
Minimum Share Capital (KZT)⁽¹⁾	Not less than KZT2,000 million ⁽²⁾	KZT 7,063 million	KZT5,167 million	KZT3,167 million
Capital Adequacy Ratios				
K1 – tier I capital to total assets ⁽²⁾	Not less than 6 per cent.	6.3	7.2	6.6
K2 – own capital to total assets weighted for risk ⁽²⁾	Not less than 12 per cent.	13.0	14.9	13.1
K4 – Current Liquidity ratio.....	Greater than 30 per cent.	101.0	80.0	51.0
K5 – Short-term Liquidity Ratio	Greater than 40 per cent.	99.0	83.0	59.0
Reserves with the NBK and cash	A monthly average of 8 per cent. of deposits with a maturity of less than three months	14.8	12.9	12.6
K6 – investments in fixed assets and non-financial assets to own capital.....	Not greater than 50 per cent. of bank's own capital	21.0	20.0	23.0
Maximum aggregate net open foreign currency position ⁽³⁾	50 per cent. of bank's own capital	1.2	2.2	7.2
Maximum net open (short or long) position in currencies of countries rated "A" or higher and the Euro.....	30 per cent. of bank's own capital	0.4	1.6	11.1
Maximum net open position in currencies of countries rated from "B" to "A".....	short position – 15 per cent. of bank's own capital	0.7	-	(0.3)
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	100 per cent. of bank's own capital	11.9	4.9	7.6
Maximum exposure to any single borrower	Percentage of bank's own capital			
- related parties	10	5.9	2.0	1.9
- other borrowers	25	18.9	21.2	24.3
- on unsecured loans	10	0.3	1.0	1.8

- (1) Under Kazakhstan law, "share capital" means capital which must be provided in order to establish a company or a bank. A bank's share capital may be formed only with cash contributions. No borrowed funds are permitted as a contribution to share capital.
- (2) The NBK's definition of "own capital" is the sum of Tier I capital plus Tier II capital (to the extent it does not exceed Tier I capital) less equity investments. Tier I capital is the sum of share capital plus share premium plus retained earnings less intangible assets and Tier II capital is the sum of current profit for the period plus revaluation reserves plus general provisions (to the extent that they do not exceed 1.25 per cent. of risk-weighted assets) plus subordinated debt (but not more than 50 per cent. of Tier I capital).
- (3) Net currency position.

DESCRIPTION OF THE ISSUER

Overview

The Bank is the fourth largest commercial bank in Kazakhstan in terms of assets and customer accounts, which as at 30 September 2004 equalled KZT141,009.5 million and KZT85,062.3 million, respectively. The Bank's primary business consists of corporate and retail banking. Its corporate banking activities include a broad range of wholesale banking products to a diversified group of domestic customers, primarily small- and medium-sized companies. The Bank's retail banking activities and products include retail lending and deposit taking and credit and debit cards. The Bank is also an active participant in the fixed income securities market and foreign currency markets in Kazakhstan.

The Bank's objects, as set out in Clause 1.5 of the Bank's Articles of Association, are to promote the development of the state economy and to ensure the receipt of dividends by the Bank's shareholders, through a variety of banking operations in compliance with the laws of Kazakhstan.

As at 30 September 2004, the Bank, in addition to its head office in Almaty, had 19 full service branches and 97 limited service branches, or retail settlement units, throughout Kazakhstan and a network of 62 ATMs in principal cities in Kazakhstan.

On 25 May 2004, the Bank re-registered as Joint Stock Company CenterCredit, under the new Joint Stock Company Law. The Bank's current banking licence was re-issued by the NBK on 9 June 2004 and its registration certificate, issued by the Ministry of Justice, is numbered 3890-1900-AO. The registered office and the head office of the Bank are at 100 Shevchenko Street, Almaty, 480072, Kazakhstan.

History

The Bank was originally registered with the state bank of the former USSR on 19 September 1988 as Almaty Oblast Central Cooperative Bank CenterBank, a credit institution for cooperative societies and small- and medium- sized companies. In August 1991, the Bank was re-registered as Kazakhstan Central Joint Stock Bank CenterBank, the first private commercial bank in Kazakhstan, and in November 1996, it was re-registered as OJSC Bank CenterCredit. The Bank is incorporated for an unlimited duration.

In 1998, the Bank merged with the then state-owned bank CJSC Zhilstroibank. CJSC Zhilstroibank was initially established in November 1996 as State Owned Housing Bank for the purpose of providing individuals with affordable long-term mortgage loans. In 1997, CJSC Zhilstroibank merged with another state-owned bank, OJSC Kazakhstan Joint Stock Commercial Bank On Crediting Social Development ("KredSotsBank") established in 1990 for the purpose of financing the development and stabilisation of the economy of the former Kazakhstan Soviet Social Republic. Following the merger with KredSotsBank, the Government initiated a financial restructuring which included the transfer of approximately KZT1,298 million of non-performing loans to the Rehabilitation Bank. The transfer did not include certain Dollar-linked mortgages which, at the time of transfer, were not in default. See "—Loan Portfolio". Following this restructuring, CJSC Zhilstroibank was privatised in December 1997. Pursuant to the terms of the privatisation, the shareholders of OJSC Bank CenterCredit (the successful bidder) and the Government received shares in the newly merged entity, the Bank, in proportion to their respective holdings based upon the value of the shares in each bank as at 31 December 1997. As a result, the Government became a major shareholder in the Bank holding approximately 21 per cent. of its issued common shares. In 2001, the Bank repurchased the Government's shareholding and such shares were reissued to other investors.

The common shares of the Bank are currently listed on the "A" list of the Kazakhstan Stock Exchange and, as at 30 September 2004, the Bank had over 800 shareholders with the largest single shareholder beneficially holding 8.50 per cent. of the Bank's issued share capital. See "Management and Share Ownership—Principal Shareholders".

Competition

As at 30 September 2004, there were 35 banks, excluding the NBK and the DBK, operating in Kazakhstan, of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. As at 31 December 2002, there were 38 banks operating in Kazakhstan, excluding the NBK and the DBK. The Bank believes that the decline in the number of banks in Kazakhstan from 31 December 2002 to 30 September 2004 is primarily attributable to stricter requirements set by the NBK as to capital adequacy, provisioning, maximum exposures, accounting and information disclosure. See “The Banking Sector in Kazakhstan”.

The commercial banks in Kazakhstan can be divided into four groups: large domestic banks, including such banks as Kazkommertsbank, Halyk Savings Bank and Bank TuranAlem; medium-sized domestic banks, such as the Bank, ATF Bank and Temirbank; subsidiaries of foreign banks, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC; and other smaller banks.

The Bank currently does not compete with the leading Kazakhstan banks for large corporate clients. However, as the fourth largest bank in Kazakhstan in terms of retail deposits (KZT34,354.8 million as at 30 September 2004), the Bank does compete with the leading banks for retail customers. In addition, the Bank competes with other market participants (including the leading Kazakhstan banks) for small- and medium-sized corporate clients.

The Bank believes that its professional management, transparent and consistent business practices and strong nationwide branch network position it favourably in the Kazakhstan market to compete for small- and medium-sized corporate clients and retail customers.

The following table compares certain financial information (prepared in accordance with Kazakhstan accounting practices and the regulations of the NBK) relating to the Bank, certain other domestic banks and banks with foreign participation:

	As at 30 September 2004	
	Assets	Shareholders' Equity
	<i>(KZT millions)</i>	
Large Local Banks		
Kazkommertsbank	540,348	53,415
Bank TuranAlem	506,186	41,501
Halyk Savings Bank	336,979	33,850
Medium-Sized Domestic Banks		
Bank CenterCredit	141,544	11,169
ATF Bank	131,432	14,865
Temirbank	35,117	4,867
Banks under Foreign Ownership		
ABN AMRO Bank Kazakhstan	45,336	5,094
Citibank Kazakhstan	31,717	5,065

Source: Published financial statements.

In 2001, the Government, a number of local oblasts and the executive bodies of major cities founded DBK. The purpose of DBK is to provide medium- and long-term financing (in amounts of at least U.S.\$5 million) for large industrial projects, export financing and guarantees for such investment projects and to act as principal paying and collection agent for the Government. DBK is not permitted to lend to financial institutions or take deposits and, as such, is not considered a competitor of the commercial banks in Kazakhstan, including the Bank. DBK has a special status and is regulated by the FMSA only in relation to accounting matters and money transfers. DBK is not treated as a commercial bank for purposes of market share date and ranking in this Offering Circular.

For further information, see “The Banking Sector in Kazakhstan”.

Strategy

The Bank’s strategy is to increase its market share and total assets by strengthening its position in all segments of the market, with a particular focus on small- and medium-sized enterprises and retail customers, where it currently has a strong clientele base. In order to implement its strategy, the Bank intends to focus on the following:

- Expand its banking and capital market activities;
- Strengthen its funding base and capital base;
- Enhance its risk management infrastructure and policies;
- Enhance operating efficiency; and
- Establish strategic partnerships with Western banks.

Expansion of banking and capital market activities

Although the retail banking market has expanded rapidly in recent years in Kazakhstan, it still represents only a small percentage of the Kazakhstan economy. In order to attract retail customers, the Bank plans to use its branch network to cross-sell to its target retail customers (i.e., those with annual incomes of U.S.\$6,000 to U.S.\$20,000) a traditional range of retail products, such as term deposits and consumer loans, with other more sophisticated financial products and services, such as insurance, money transfer, Internet banking, mortgage lending, asset management and credit and debit cards, some of which are provided by the Bank’s subsidiaries.

The Bank intends to build 45 additional ATMs in 2005 in order to enable its customers to have easier access to their accounts and is in the process of developing an internal processing centre in order to provide Internet banking and improved range of services to its retail customers. The Bank also intends to open 30 to 50 retail settlement units over the next two years to better service its customers. The Bank intends to increase its market share in the credit/debit card segment of the retail banking sector, which is currently 3.4 per cent. (having issued approximately 94,100 cards as at 31 December 2004), to 9 per cent. in 2006 (with an estimated 350,000 cards).

The Bank is also committed to developing its corporate banking services. The Bank plans to focus on diversifying its loan portfolio, while maintaining its quality, by attracting new small- and medium-sized corporate clients, extending trade financing to major customers for their import and export activities, increasing medium term project financing volumes and introducing and expanding new services to existing and new customers, such as access to private pension programmes, leasing, money transfer and asset management.

Kazakhstan’s capital markets are gradually developing as the economy grows. The Bank’s wholly-owned broker-dealer subsidiary, JSC KIB Asset Management, had a market share as of 30 September 2004 of 6.6 per cent. of the aggregate volume of corporate securities traded on the Kazakhstan Stock Exchange. The Bank intends to further develop JSC KIB Asset Management’s security trading activities and financial advisory capabilities.

Improving funding base; strengthening capital base

The Bank intends to improve its funding base by increasing its market share of domestic retail deposits through its extensive branch network, medium-term borrowing in the domestic and international markets and lower-cost borrowing from international development organisations and other international financial institutions.

Domestic deposits are an important and attractive source of funding for the Bank. The Bank believes that as the banking sector in Kazakhstan strengthens, retail deposits, which to date have remained limited, will

gradually increase. The Bank's marketing strategy is to ensure that it effectively utilises its branch network and experience in the retail banking market to capture such anticipated capital flows. As at 30 September 2004, the Bank was the fourth largest bank in Kazakhstan in terms of deposits and, as a result, the Bank believes that it is well placed to obtain a significant share of any increase in domestic deposits.

Between September 2002 and September 2004, the Bank entered into numerous loan facilities and financings with several international financial institutions and the European Bank for Reconstruction and Development (the "EBRD") extended several credit lines to the Bank during this time. The Bank is currently in discussions with the EBRD, DEG and the International Finance Corporation, a division of the World Bank, regarding possible capital injections. See "*—Funding and Liquidity—Foreign Currency Borrowings*".

As at 30 September 2004, the Bank's authorised share capital equalled KZT7,167 million, all which is issued and fully paid. Since 2000, the Bank has implemented a number of projects to increase its funding base, such as the issuance of U.S.\$4.5 million in subordinated debt due in December 2005. Between 2002 and 2004, the Bank issued an additional KZT5.5 billion in three separate subordinated debt issuances with terms ranging from seven to nine years. The Bank's risk weighted capital adequacy ratio equalled 15.01 per cent. as at 30 September 2004. The Bank intends to improve its capital base in 2005 by increasing its authorised and issued share capital to KZT13 billion and by issuing subordinated debt of up to KZT2 billion. The Bank may also list its shares on an international stock exchange within the next few years by way of a primary equity offering. No assurance can be given that such plans will succeed.

Enhancing risk management infrastructure and policies

The Bank has established internal rules, policies and guidelines for risk management in line with the requirements of the NBK and FMSA. The Bank's primary committees responsible for risk management are the Credit Committee of the Head Office, responsible for credit risks related to retail and corporate clients, and the Asset and Liability Committee (the "ALCO"), responsible for market risk and credit risk of financial institutions. The Treasury Department, which reports monthly to the ALCO, is involved in management of liquidity, interest rates and foreign exchange risks. The Bank's risk management function has improved in recent years following the introduction of a number of operational changes implemented with the assistance of Raiffeisen Zentralbank Österreich ("RZB") and Bank of Ireland. The Bank is committed to continuing the development of its risk management capability, including the introduction of more sophisticated analyses, such as value-at-risk analysis, in addition to gap analysis currently used by the Bank. See "*—Asset and Liability Management*".

Enhancing operating efficiency

The Bank believes that it can improve its operational efficiencies through the rationalisation of its organisational structure, investment in human resources and by increasing its use of, and upgrading of its, technology. Following the merger with CJSC Zhilstroibank in 1998, the Bank implemented a "one branch per city" strategy and reduced the number of regional branches in areas of low business concentration. As at 30 September 2004, the Bank had 19 full service branches throughout Kazakhstan, a reduction from 46 in 1998. All of the Bank's full service branches are integrated into a real-time, wide area network allowing for on-line communication with the Bank's head office. Management believes that the Bank's full service branch network covers all the principal cities and regions in Kazakhstan and does not intend to reduce its branch network further. The Bank may open additional full service branches in the future in cities or regions which the Bank determines are likely to yield larger sources of deposits and fee income derived from the sale of retail and corporate-based products.

The Bank has designed internal and external training programmes to improve the skill base and cross-selling ability of its employees. The Bank believes that such programmes, together with efficient staffing guidelines and human resources policies, will help to improve quality of the Bank's personnel.

Strategic partnership with western banks

The Bank is currently contemplating establishing a strategic alliance with one of the international institutions with whom it is currently engaged in ongoing discussions. The Bank believes that such a strategic

partnership will enhance operational efficiencies and strengthen management skills. The Bank's management is negotiating with various consultancy firms for possible structures to establish such a strategic partnership.

Business

The Bank's branch network as at 30 September 2004 comprised, in addition to the head office in Almaty, 19 full service branches and 97 limited service branches, or retail settlement units, throughout Kazakhstan, supported by 62 ATMs. In addition, in common with other retail banks in Kazakhstan, customers of the Bank can use the ATM networks of other Kazakhstan banks for a small fee per withdrawal. As a result, customers of the Bank have access to a large network of ATMs throughout Kazakhstan. The Bank is currently authorised to offer products and services such as retail and corporate deposit taking, discount operations, settlements, issuance of payment cards, foreign currency exchange, issuance of bank guarantees, correspondent banking, cash and transfer operations, lending, trust operations, settlement operations, transactions with precious metals, leasing, factoring, forfeiting, broking-dealing, clearing operations and custody.

In May 2001, the Bank became a participating member of the VISA system and in 2002 was made an associate member of Visa International. As at 30 September 2004, more than 76,700 payment cards had been issued and this amount reached 94,100 by the end of 2004. Payment cards are issued predominantly to individuals whose employers have instituted payroll programmes whereby salaries are paid electronically by the employer to its employees' bank accounts at a specific, agreed-upon bank. Such agreements are negotiated between the Bank and the employer.

The Bank is the primary agent in Kazakhstan for Western Union. This service is utilised mainly by retail customers. For the nine months ended 30 September 2004, transfers from Western Union amounted to U.S.\$23.9 million, and the Bank estimates that, for this period, it had a 63.0 per cent. market share of the total number of money transfers in using the Western Union transfer network in Kazakhstan. During the first nine months of 2004, the average single transfer was U.S.\$447, while the maximum single transfer did not exceed U.S.\$7,000. Monthly volumes from individual customers have not exceeded U.S.\$3.5 million.

In addition, the Bank has begun to offer limited tele-banking and Internet banking to its corporate customers. At present, current Internet banking services include access to account information, payment transfers and currency exchange operations. Tele-banking services are limited to obtaining account balance information. In the medium term, the Bank anticipates that it will significantly expand its Internet and tele-banking services to its retail customers. However, the Bank does not anticipate that initially there will be significant demand for these services, in particular for Internet banking services, as personal computers are expensive in Kazakhstan and are not widely available.

As at 30 September 2004, total deposits of the Bank had reached approximately KZT85 billion, deposited in more than 215,000 accounts. The Bank estimates that its share of the retail and corporate deposit market in Kazakhstan was approximately 9.3 per cent. as at 30 September 2004.

The Bank has the following four principal front-office business departments that provide the following services:

- *Corporate and International Business*, providing corporate and international banking services;
- *Treasury*, providing capital markets services, pension funds and asset management;
- *Business Development*, providing mortgage lending and retail banking services; and
- *SME Lending*, focusing on lending to small- and medium-sized enterprises.

The Bank also has four back-office departments that provide support services to its front-office business departments. These are as follows:

- *Credit risk*, which assists the branches by analysing the credit risks of potential borrowers and monitoring the loan portfolio of the Bank;

- *Administrative*, which is responsible for human resource management and information protection;
- *Financial*, which monitors the finances of the Bank; and
- *Analysis and Risk Management*, which is responsible for analysis and management of the Bank's market and operational risks.

Corporate Banking and Focus on SMEs

The Bank provides commercial banking products and services, focusing primarily on small, medium and, to a limited extent, large businesses in Kazakhstan. The Bank currently segments its corporate clients based on the annual revenues of such clients. Corporate clients with annual sales of U.S.\$700,000 or less are classified as "small-sized", corporate clients with annual sales of between U.S.\$700,000 and U.S.\$7 million as "medium-sized", corporate clients with annual sales of between U.S.\$7 million and U.S.\$70 million as "large-sized" and corporate clients with annual sales in excess of U.S.\$70 million as "largest-companies". The Bank's number of corporate accounts is growing. As at 30 September 2004, the Bank had approximately 27,300 corporate accounts, of which 230 were categorised "large" and "largest" and the remaining were small- and medium-sized (i.e., SMEs). As at 30 September 2004, lending to "large" and "largest" corporate clients represented approximately 24.4 per cent. of the Bank's total assets (37.2 per cent. of the Bank's total gross loan portfolio) and lending to small- and medium-sized corporate clients accounted for 30.7 per cent. of the Bank's total assets (46.7 per cent. of the Bank's gross loan portfolio).

The Bank has traditionally been known for the high quality of services that it provides to SMEs and the Bank intends to continue to provide such services and increase its share of the SME banking market, which is currently 6.3 per cent., to 9 per cent. The Bank believes that growth in the SME market will be achieved both by attracting the business of SMEs who currently do not use a bank and by convincing SMEs who are currently customers of the Bank's competitors to switch their business to the Bank. The Bank is aggressively pursuing these customers and believes it can differentiate itself on quality of service.

The Bank participates in a number of special programmes for the financing of small- and medium-sized enterprises and enterprises in targeted industries, arranged and sponsored by the NBK, the Ministry of Finance and several local (regional) executive bodies as well as international financial institutions such as Asian Development Bank ("ADB"), EBRD, Deutsche Investitions – und Entwicklungsgesellschaft mbH ("DEG") and Nederlandse Financierings – Maatschappij voor Ontwikkelingslanden N.V. ("FMO"). The amounts of loans provided by such institutions to the Bank as at 30 September 2004 were as follows: ADB: U.S.\$99,000; EBRD: U.S.\$27.4 million; DEG: U.S.\$4 million; and FMO: KZT565.9 million. See "—Funding and Liquidity".

As part of its short- to medium-term strategy, the Bank plans to expand its corporate client base and increase the quality of its loan portfolio. In order to achieve this, the Bank established its Corporate and International Business Department in October 2002 to better service its corporate clients.

A major part of the Bank's corporate banking activities is the provision of trade finance and short-term credit facilities, mostly in Tenge and in U.S. Dollars, including letters of credit, guarantees and working capital facilities. The majority of the Bank's corporate loans have maturities of less than 12 months. As demand for longer-term facilities grows, the Bank tries to link underlying funding sources to longer-term financing when available.

As at 30 September 2004, the Bank's share of the corporate lending market in Kazakhstan was approximately 7.8 per cent.

The Bank is also expanding into additional corporate services such as payroll management, payroll services supported by debit cards and foreign exchange.

Retail banking

In 2001, the retail banking market in Kazakhstan experienced considerable expansion following the introduction of the Deposit Insurance Fund. In addition, between June and July of 2001, to repatriate funds

back to Kazakhstan, the Government announced a tax amnesty in relation to any deposits placed with banks during that period. The programme brought approximately U.S.\$480 million into the banking system.

The retail banking market is an increasingly important source of funding and business for the Bank. The Bank believes that its branch network will allow it to take advantage of its retail customer and depositor base. As at 30 September 2004, the Bank held approximately 8.9 per cent. of retail term deposits in Kazakhstan through approximately 170,400 individual accounts.

The Bank offers a wide range of retail banking products and services, including term deposits, current accounts, debit and credit cards, currency exchange and ATM services. During 2002, 2003 and 2004, the Bank increased its share of the retail banking market by increasing the number of its ATMS in areas where it believed the potential for retail banking business growth was high, particularly in eastern Kazakhstan and in the Caspian Sea regions in the western part of Kazakhstan.

The Bank believes that the debit and credit card business will be one of the most significant growth areas in the retail banking market in the next few years. The Bank currently uses the card processing centre of a third party to process its debit and credit card transactions.

As at 30 September 2004, the Bank had issued approximately 76,700 payment cards (representing a market share in Kazakhstan of approximately 3.4 per cent.), of which approximately 650 are credit cards, representing an increase of 89.9 per cent. in the total number of cards issued by the Bank since 31 December 2003. While the majority of these cards relate to payroll services provided to the employees of the Bank's corporate customers, the Bank believes that the payment card market in Kazakhstan will continue to grow.

The Bank is also active in the retail lending market. The Bank had a market share of 4.3 per cent., as at 30 September 2004, of the Kazakhstan retail lending market (including mortgages). Loans aggregating KZT14,921.9 million were provided to 24,401 individuals as at 30 September 2004. The Bank participates in a programme established by the NBK in 2000 for long-term financing of house construction and development of a mortgage finance system in Kazakhstan. Under this programme, participating banks extend mortgage loans to retail customers and then transfer such loans to the Kazakhstan Mortgage Company, a wholly-owned subsidiary of the NBK, which finances the purchase through the issuance of domestic bonds. The Bank, however, maintains an ongoing economic interest in these loans throughout their duration and, although these loans are not reflected on the Bank's balance sheet once they have been transferred to the Kazakhstan Mortgage Company (approximately one month after the loan is granted), the Bank bears the credit risk. The Bank estimates that, by the end of 2004, it lent approximately KZT1.9 billion under this programme, and, as at 30 September 2004, had an ongoing economic interest in loans with an aggregate value of KZT9.3 billion. The Bank also inherited a number of mortgage loans from CJSC Zhilstroibank following its merger, for which the borrowers receive payment subsidies from the Government. See "Loan Portfolio—Loan portfolio structure by sector".

Capital Markets

Kazakhstan's capital markets are gradually developing as the economy grows. An important factor in this development was the establishment in 1998 of domestic private pension funds and asset management companies. As at 30 September 2004, JSC KIB Asset Management, a wholly-owned subsidiary of the Bank, had an approximate 6.6 per cent. market share of the corporate securities trading value on the Kazakhstan Stock Exchange.

JSC KIB Asset Management's primary activities include: purchase and sale of Government and corporate securities on the Kazakhstan Stock Exchange and over-the-counter markets in Kazakhstan; nominal holding; underwriting; management of clients' investment portfolios; and corporate finance. In 2003, JSC KIB Asset Management acted as the financial advisor and sole underwriter of second and third issues (KZT3 billion and KZT5 billion, respectively,) of local mortgage bonds issued by the Kazakhstan Mortgage Company. In addition, JSC KIB Asset Management acted as the financial advisor and market maker in the stock issuance of Charaltyn gold mining company and lead-zinc company Kazzinc. In addition, in 2003, JSC KIB Asset Management won a tender to become the exclusive adviser of the Committee on State Property and Privatisation under the Ministry of Finance of the Republic of Kazakhstan with respect to the sale of the

government's minority shareholding in JSC CNPC Aktobemunaigas, a joint venture between a Chinese organisation and a Kazakhstan oil and gas production company.

Trading partners of JSC KIB Asset Management include such major domestic financial institutions as Bank TuranAlem, Halyk Savings Bank, Kazkommertsbank, ATF Bank and ABN AMRO Bank Kazakhstan as well as major international banks including ING Bank, Deutsche Bank and Standard Bank London.

Pension Fund Services

The provision of pension fund services is a growing business in Kazakhstan. There are currently nine asset management companies and 16 pension funds, including two pension funds licensed for independent management of pension funds in Kazakhstan. The Bank is committed to becoming a leading provider of pension fund services. As at 30 September 2004, the Bank held an equity interest in three pension funds: JSC Narodny Pension Fund, JSC Korgau Pension Fund and JSC Capital Pension Fund. See “—Subsidiaries and Affiliates”.

Treasury Services

Through its Treasury Department, the Bank trades government and corporate securities and foreign currencies for its own account. The Treasury Department operates within a set of parameters and standards determined by the ALCO and Analysis and Risk Management Department. In addition, the Treasury Department offers custodial management services to two pension funds, JSC Otan Pension Fund and JSC Korgau Pension Fund, and provides safe-keeping services for pensioners of those funds. It invests the pension funds based on instructions received from the managing companies of the pensions.

International Banking

Although the Bank does not have any operating subsidiaries or affiliates outside of Kazakhstan, the Bank provides services for customers engaged in international trading. The Bank maintains correspondent banking relationships with many international leading banks, including ING Bank, Deutsche Bank, Dresdner Bank, Commerzbank, ABN AMRO Bank, Credit Suisse, The Bank of New York, RZB, HypoVereinsbank, Citigroup, Bank of Tokyo-Mitsubishi, RaboBank, Bank Austria Creditanstalt, Bankgesellschaft Berlin, Swedbank, American Express and others, as well as being Western Union's primary agent in Kazakhstan.

Branch Operations

The Bank has 19 full service branches and 97 limited service branches, or retail settlement units, throughout Kazakhstan. The operations of each branch are subject to internal regulations and to oversight by the head office. Each full service branch provides a broad range of banking services, although discount operations, trust operations, clearing operations, mortgage operations, issuance of payment cards, guarantee operations, issuance of securities, factoring and forfeiting operations and transactions with precious metals are conducted out of only the head office. In comparison with branches, settlement units perform a limited number of banking operations such as utility payments, cash withdrawals and money transfers and, as such, are primarily for individual customers.

The Bank's Credit Committee of the Head Office is responsible for developing branch policies and expansion strategies. Based on the financial results and operations of each branch, the Credit Committee also determines the aggregate amount that each branch is entitled to lend to its customers. These limits range from U.S.\$10,000 to U.S.\$150,000. Retail settlement units do not extend loans. See “Lending Policies and Procedures—General”.

Technology

The Bank operates an integrated banking system which allows on-line interactive communication between the Bank's head office and its branches through a real-time wide area network. The Bank considers the upgrading of its information technology systems an important aspect of the Bank's further development and

plans to make additional investments during 2005 in its computer and communication technology of approximately U.S.\$6.7 million.

Subsidiaries And Affiliates

As at 30 September 2004, the Bank had three subsidiaries: LLP CenterLeasing, JSC KIB Asset Management and JSC Capital Pension Fund and three affiliates: JSC Narodny Pension Fund, JSC Korgau Pension Fund and JSC Oil Insurance Company. These subsidiaries and affiliates are strategically important to the Bank, given the Bank's intention to cross-sell its financial products. The Bank also controls the operation of LLP BCC and LLP Aktas Zhol, although it is not a participant in such companies. The following table sets out details of the Bank's shareholding in its subsidiaries and affiliates as at 30 September 2004:

	<u>Shareholding</u>
	(per cent.)
JSC KIB Asset Management	100.0
LLP CenterLeasing	100.0
JSC Capital Pension Fund	62.50
JSC Oil Insurance Company	5.70
JSC Narodny Pension Fund	12.47
JSC Korgau Pension Fund	9.44
LLP BCC ⁽¹⁾	—
LLP Aktas Zhol ⁽¹⁾	—

(1) Although the Bank is not a partner in LLP BCC and LLP Aktas Zhol, they are consolidated in the Bank's audited IFRS financial statements as subsidiaries due to the fact that the Bank controls their operations.

JSC KIB Asset Management

JSC KIB Asset Management was established in 1998 and is based in Almaty. JSC KIB Asset Management is engaged in investment banking operations. For the nine months ended 30 September 2004, profits of JSC KIB Asset Management totalled KZT7.6 million and for the year ended 31 December 2003, it had a loss of KZT42.9 million. See "—Business—Capital Markets". JSC KIB Asset Management has been consolidated with the Bank since its incorporation and as at 30 September 2004, had an authorised and issued share capital of KZT275 million. As at 30 September 2004, it had reserves (representing the sum of capital reserves, fixed assets revaluation fund and retained income) of KZT60.7 million. The registered office of JSC KIB Asset Management is located at 597 Seifullina Street, Almaty, 480072, Kazakhstan. It has never paid any dividends and its shares are fully paid.

LLP CenterLeasing

LLP CenterLeasing was established in 2002 as a limited liability partnership and is based in Almaty. LLP CenterLeasing provides leasing services to its clients. LLP CenterLeasing has been consolidated with the Bank since its incorporation and as at 30 September 2004, had an authorised and issued share capital of KZT25.5 million. For the nine months ended 30 September 2004, its profits totalled KZT7.8 million and for the year ended 31 December 2003, it had net income of KZT3.7 million. Its reserves as at 30 September 2004 were KZT0.1 million. The registered office of LLP CenterLeasing is located at 98 Panphilov Street, Almaty, 480072, Kazakhstan. It has never paid any dividends and its shares are fully paid.

JSC Narodny Pension Fund

JSC Narodny Pension Fund was established in 1998 as a joint stock company and is based in Almaty. JSC Narodny Pension Fund was established to attract pension contributions and effect pension payments as a private pension fund. As at 30 September 2004, it had a 2.28 per cent. share of the pensions market in Kazakhstan, with total pension assets of KZT10,175 million and had an authorised and issued share capital of KZT380 million.

JSC Korgau Pension Fund

JSC Korgau Pension Fund was established in 1999 as a joint stock company and is based in Almaty. JSC Korgau Pension Fund was established to attract pension contributions and effect pension payments as a private pension fund. For the nine months ended 30 September 2004, it had a 1.48 per cent. share of the pensions market in Kazakhstan with total pension assets of KZT6,599 million and had an authorised share capital of KZT300 million.

JSC Capital Pension Fund

JSC Capital Pension Fund was established in 2002 as a closed joint stock company and is based in Almaty and has an authorised and issued share capital of KZT400 million. JSC Capital Pension Fund was established to attract pension contributions and effect pension payments as a private pension fund. For the nine months ended 30 September 2004, it had a 1.01 per cent. share of the pensions market in Kazakhstan with total pension assets of KZT4,482 million. Its net income for the year ended 31 December 2003 was KZT57.3 million and for the nine months ended 31 September 2004 was KZT97.3 million. Its reserves as of 30 September 2004 were KZT6.1 million. Its registered office is located at 143a Tole Bi Street, Almaty, 480096, Kazakhstan. It has never paid dividends and its shares are fully paid.

JSC Oil Insurance Company

JSC Oil Insurance Company was established in 1999 as an open joint stock company, is based in Almaty and has an authorised and issued share capital of KZT750 million. JSC Oil Insurance Company provides a range of property and casualty insurance products. It is the third largest insurance company in the country and, for the nine months ended 30 September 2004, had an 11.3 per cent. share of the insurance market in Kazakhstan (in terms of premium).

LLP BCC and LLP Aktas Zhol

Although the Bank is not an equity participant in either LLP BCC and LLP Aktas Zhol, these entities are consolidated with the Bank's audited financial statements, because the Bank controls their operations. Both partnerships were established in 1998 for the purpose of providing property appraisal and leasing operations for the Bank and the bulk of fixed assets of CJSC Zhilstroibank (mainly real estate) were transferred to them in order to comply with the NBK's requirements as to the ratio of fixed assets to the Bank's equity (stated according to statutory reporting standards and prepared on an unconsolidated basis). LLP Aktas Zhol is also involved, to a minor extent, in the municipal road construction business. Under Kazakhstan law, the Bank is required to obtain a valuation of collateral it takes to secure loans from an independent appraiser. Because the Bank does not hold an equity position in LLP BCC, LLP BCC is treated as an independent appraiser under Kazakhstan law and the Bank uses it for its collateral valuations. See "Lending Policies and Procedures—General". LLP BCC and LLP Aktas Zhol have been consolidated with the Bank since 2001 and hold the relevant fixed assets under a lease from the Bank. Pursuant to a 50-year lease negotiated on an arm's length basis, they have leased back to the Bank certain buildings used by the Bank. They also lease properties to third parties. Although LLP BCC and LLP Aktas Zhol are not prohibited from selling any of their properties, the fact that they are controlled by the Bank means that any sale of the CJSC Zhilstroibank properties transferred to them would take place in a manner by which the Bank may benefit.

Employees

As at 30 September 2004, the Bank had 2,003 full-time employees, of which 1,643 were employed at the Bank's branches. The Bank has one labour union which entered into a collective agreement with the Bank in 2002. The Bank has never experienced industrial action or other work stoppages resulting from labour disputes. 88.3 per cent. of employees in professional positions hold university degrees. A number of key staff have been trained at the Bank's primary correspondent banks including ING Bank, HypoVereinsbank, Citibank, HSBC, Société Générale, Deutsche Bank and Dresdner Bank.

Property

The Bank owns its head office on Shevchenko Street, Almaty, although it leased the building to BCC LLP in 1998 for 50 years following the need to reduce its fixed assets so as to comply with the NBK's requirements on the ratio of fixed assets to equity. See “—Subsidiaries and Affiliates—LLP BCC and LLP Aktas Zhol”. The Bank rents the building from LLP BCC. The Bank is currently building a new head office in Almaty at an anticipated cost of KZT3,080 million and expects to take occupation in 2006.

The Bank leases the buildings used by its branches.

Legal Proceedings

Neither the Bank nor any of its subsidiaries is party to any material legal proceedings and there are no material legal proceedings pending or, to the knowledge of the Bank, threatened, with respect to the properties, assets or operations of the Bank or any of its subsidiaries.

Asset And Liability Management

Introduction

The Bank's operations are subject to various risks, including risks relating to changes in interest rates and foreign exchange rates, declines in liquidity and deterioration in credit quality of its loan and securities portfolios. The Bank monitors and manages the maturities of its loans, its interest rate and exchange rate exposure and credit quality in order to minimise the effect of changes in them relative to the Bank's profitability and liquidity position.

To manage its risks, the Bank has established the ALCO, the Credit Committee and the Small Credit Committee which are responsible for devising, implementing and monitoring the Bank's risk policies. The Bank's risk management infrastructure has been developed with the assistance of RZB and the Bank of Ireland.

The Bank monitors and manages its asset and liability position through the ALCO, which is a permanent committee reporting to the Management Board. The ALCO is headed by the Chairman of the Management Board. The committee also includes three Deputy Chairmen, the Managing Director of the Analysis and Global Risk Department and the Managing Director of the Treasury Department, the Managing Director of Corporate and International Business and the Head of the Dealing Division. The ALCO meets on a monthly basis to review the Bank's asset and liability position based on information provided by the Treasury Department on various matters, including maturities, interest rates and yields; the size and maturity of the Bank's loan portfolio, demand and term deposits and investments; the Bank's net foreign currency position; the Bank's operational ratios conforming to the regulations established by the FMSA; exchange rates, inflation rates and other economic data; and general national and international political and economic trends.

Based on its review of this information, the ALCO evaluates the Bank's risk profile and determines strategies and policies for transactions relating to assets and liabilities for the coming month with an aim to increasing revenues of the Bank while maintaining adequate liquidity, compliance with industry norms and regulations and minimising the impact of financial market risks. These decisions are reviewed and approved by the Bank's Management Board which has overall responsibility for ensuring that the asset and liability maturity profiles are appropriate considering prevailing market conditions and consistent with the Bank's strategy, while meeting all the requirements and limits established by the FMSA.

The Bank conducts its credit risk management at several levels, depending upon the amount of risk involved. Credit committees currently operate in 18 of the Bank's 19 branches. The Bank has three main credit committees located within its head office which are responsible for approving credit decisions within the Bank; the Credit Committee, the Credit Committee of the Head Office and the Small Credit Committee. See “Lending Policies and Procedures”.

The Bank has developed an automated centralised programme, called the “Credit Module”, to monitor its credit risk. The objectives of the Credit Module are to:

- create a centralised database of credit transactions;
- effectively manage and control the credit activity of the Bank;
- increase the productivity of the Bank’s credit officers by making them more efficient; and
- control the execution of credit transactions.

The Bank believes that centralising its loan transactions through a database will enhance the credit information available to its employees throughout its branches and Head Office. In addition, the Bank believes that the Credit Module will enable it to analyse the Bank’s loan portfolio and amend lending procedures to improve risk management.

Maturities

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 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. The Bank believes that its sensitivity to interest rates is largely reduced by its ability to adjust the interest rate under the substantial majority of its loan agreements. See “Loan Portfolio—Loan portfolio structure by currencies”.

The following table summarises the Bank’s banking assets and liabilities by maturity as at 30 September 2004 and contains certain information regarding interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the periodic re-pricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income while an increase in interest rates would have a negative effect on interest income.

	30 September 2004						
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	Total
	<i>(KZT thousands)</i>						
ASSETS							
<i>Interest earning assets</i>							
Loans and advances to banks	4,037,411	141,235	692,420	–	–	–	4,871,066
Trading securities	232,780	–	–	2,529,728	–	–	2,762,508
Securities purchased under agreement to resell	5,311,908	29,000	161,014	–	–	–	5,501,922
Loans and advances to customers, less allowance for loan losses	9,148,781	10,632,734	35,287,625	37,533,760	–	(3,888,975)	88,713,925
Investment securities less allowance for impairment ..	23,472,251	–	10,210	1,331,586	–	–	24,814,047
Total interest earning assets	<u>42,203,131</u>	<u>10,802,969</u>	<u>36,151,269</u>	<u>41,395,074</u>	<u>–</u>	<u>(3,888,975)</u>	<u>126,663,468</u>
Cash and balances with the NBK	8,766,331	–	–	–	–	–	8,766,331
Investment securities less allowance for impairment ..	–	–	–	–	–	–	–
Fixed and intangible assets, less accumulated depreciation	–	14	1,699	835,741	2,220,184	–	3,057,638
Other assets, less allowance for losses	1,577,807	–	–	944,630	–	(352)	2,522,085
TOTAL ASSETS	<u>52,547,269</u>	<u>10,802,983</u>	<u>36,152,968</u>	<u>43,175,445</u>	<u>2,220,184</u>	<u>(3,889,327)</u>	<u>141,009,522</u>

30 September 2004

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	Total
	(KZT thousands)						
LIABILITIES							
<i>Interest bearing liabilities</i>							
Deposits from banks	6,136,468	7,818,488	12,066,317	5,614,661	–	–	31,635,934
Securities sold under repo agreements	2,526,808	–	–	–	–	–	2,526,808
Customer accounts	33,891,761	9,160,481	19,034,436	22,975,616	–	–	85,062,294
Subordinated loan	75,000	100,952	2,394	5,608,758	–	–	5,787,104
Total interest bearing liabilities	<u>42,630,037</u>	<u>17,079,921</u>	<u>31,103,147</u>	<u>34,199,035</u>	<u>–</u>	<u>–</u>	<u>125,012,140</u>
Income tax liabilities	50,882	–	–	–	–	–	50,882
Other liabilities	4,628,600	–	–	–	–	88,212	4,716,812
TOTAL LIABILITIES	<u>47,309,519</u>	<u>17,079,921</u>	<u>31,103,147</u>	<u>34,199,035</u>	<u>–</u>	<u>88,212</u>	<u>129,779,834</u>
Liquidity gap	5,237,750	(6,276,938)	5,049,821	8,976,410	2,220,184		
Interest sensitivity gap	(426,906)	(6,276,952)	5,048,122	7,196,039	–		
Cumulative interest sensitivity gap	(426,906)	(6,703,858)	(1,655,736)	5,540,303	5,540,303		
Cumulative interest sensitivity gap as a percentage of total assets	<u>(0.3)</u>	<u>(4.5)</u>	<u>(1.1)</u>	<u>3.9</u>	<u>3.9</u>		

As at 30 September 2004, the Bank's overall cumulative maturity gap was positive at KZT5,540 million.

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

Funding And Liquidity

Introduction

The Bank's funding and liquidity management policy seeks to ensure that, even under adverse conditions, the Bank maintains sufficient funds available to meet its operational needs and to ensure compliance with FMSA regulations. Liquidity risk arises in the general funding of the Bank's lending and investment activities. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

Liquidity is centrally managed on a real-time basis by the Treasury Department according to the requirements and forecasts for all the Bank's divisions and branches. The Director of the Treasury Department is consulted on each major credit decision in respect of its impact on the Bank's overall liquidity position. In addition, the ALCO reviews the Bank's liquidity guidelines and strategy on a monthly basis, making any necessary adjustments.

The following table sets out the Bank's sources of funds as at 30 September 2004 and 31 December 2003:

	30 September 2004		31 December 2003	
	<i>(KZT millions)</i>	<i>(per cent.)</i>	<i>(KZT millions)</i>	<i>(per cent.)</i>
Customer accounts	85,062	65.5	47,643	64.0
Deposits from banks	31,636	24.4	20,728	27.9
Securities sold under agreements to repurchase	2,527	1.9	1,333	1.8
Subordinated debt	5,787	4.5	4,102	5.5
Income tax liabilities	51	0.04	63	0.1
Other liabilities	4,717	3.6	557	0.7
Total liabilities.....	129,780	100.0	74,426	100.0

The following table gives certain information as to the Bank's liquidity as at 30 September 2004 and 31 December 2003:

	30 September 2004	31 December 2003
	<i>(per cent.)</i>	
Net Loans ⁽¹⁾ /total assets	62.9	63.6
Net Loans ⁽¹⁾ /customer accounts	104.3	109.3
Net Loans ⁽¹⁾ /shareholders' equity	801.0	699.8
Liquid assets ⁽²⁾ /total assets	28.6	30.8
Liquid assets ⁽²⁾ /customer accounts	47.5	53.0

(1) Net loans means loans and advances to customers, net of allowances for losses.

(2) Liquid assets comprise held-to-maturity securities, trading securities, available-for-sale securities, cash, cash and balances with NBK, equivalents and loans and advances to banks (with maturity of less than 1 month).

Customer accounts

A significant portion of the Bank's funding base is represented by corporate customer accounts, which the Bank's management believes to be relatively insensitive to short term fluctuations in market interest rates. The Bank increased its retail funding base in 2004. Retail funding is less volatile than corporate funding, although it is more costly for the Bank. The Bank concentrates its efforts on servicing the retail market, especially those customers with annual incomes of U.S.\$6,000 to U.S.\$20,000. Other important sources of funding are bilateral and special purpose facilities from banks and financial institutions and the issue of debt securities.

As at 30 September 2004, the ten largest depositors accounted for 18.1 per cent. of total deposits, compared to 15.3 per cent. as at 31 December 2003. As at 30 September 2004, the Bank's two largest depositors, CJSC KATEP and Representative of JSC Mangystaumunaigas, accounted for 6.5 per cent. compared to the 8.3 per cent. as at 31 December 2003 (CJSC KATEP and BTA Asset Management Pension Assets Management Company). All top ten depositors have placed their deposits with the Bank as time deposits.

The amnesty implemented by the Government in 2001 to encourage the use of the banking system was one of the factors in increasing the Bank's funding from retail deposits in that year. Between June and July 2001, individuals and companies who deposited funds with banks did not need to justify the source of such funds to the tax authorities or otherwise. The 30 day amnesty resulted in U.S.\$480 million being placed with commercial banks.

As at 30 September 2004, time deposits were KZT58,718 million or 69.0 per cent. of total customer accounts, compared to KZT31,506 million or 66.1 per cent. of total customer accounts at the end of 2003.

The following table sets forth details of customer accounts broken down into time and demand deposits and accrued interest on customer accounts as at 30 September 2003 and 31 December 2003:

	30 September 2004		31 December 2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Time deposits	58,718	69.0	31,506	66.1
Demand deposits	25,655	30.2	15,772	33.1
Accrued interest expense on customer accounts.....	689	0.8	365	0.8
	<u>85,062</u>	<u>100.0</u>	<u>47,643</u>	<u>100.0</u>

The interest rates on the Bank's deposits are close to average rates on the market, and the Bank offers rates which are competitive with those of other institutions in Kazakhstan.

The following table sets out the average interest rates on the Bank's deposits for the nine months ended 30 September 2004 and for the year ended 31 December 2003:

	30 September	31 December
	2004	2003
	(per cent.)	
KZT deposits		
Time deposits	10.0	10.2
Demand deposits	1.8	1.9
Foreign currency deposits		
Time deposits	7.0	6.4
Demand deposits	1.0	1.0

As at 30 September 2004, approximately 70.9 per cent. of the Bank's accounts were covered by the Deposit Insurance Fund. In accordance with its rules, the Deposit Insurance Fund will not guarantee a deposit exceeding KZT7 million. See "The Banking Sector in Kazakhstan".

Foreign Currency Borrowings

Over the past several years, the Bank has entered into financings with foreign banks and other financial institutions. Some of the more important of these are set out below.

Since 1997, the Bank has participated in a number of special programmes for the financing of small- and medium-sized enterprises and enterprises in specific industries, arranged and sponsored by the NBK, the Ministry of Finance, several local (regional) executive bodies as well as international financial institutions such as the International Bank of Research and Development (the "IBRD"), ADB, EBRD, DEG and FMO.

Syndicated Loans. The Bank has successfully attracted four syndicated loans on international markets, of which two remain outstanding. Two first syndicated loans were co-arranged by RZB and Citibank. The first loan of U.S.\$11 million was issued in September 2001 and repaid in September 2002. The second loan of U.S.\$15 million was issued in September 2002 for a one-year term. In November 2003, the Bank raised a third syndicated loan in the amount of U.S.\$36 million, which was arranged by HBV Group, Sanpaolo IMI S.p.A. and Standard Bank London. The facility was extended in November 2004, and the amount increased to U.S.\$70 million with 28 participants. In the first half of 2004, the Bank attracted a U.S.\$45 million syndicated trade-related loan arranged by Deutsche Bank London and ING Bank. The facility, which was initially launched at U.S.\$30 million, was increased to U.S.\$45 million and has 21 participants.

Trade Finance. Beginning in 2002, the Bank entered into numerous short-term trade finance related facilities with various financial institutions, including American Express Bank, Citibank, HSBC Bank Kazakhstan, HypoVereinsbank, Natexis Banques Populaires, Bank of Montreal, Standard Bank London, Bankgesellschaft Berlin, Finansbank (Holland) and others.

In 2004, several club deals and short-term trade finance related facilities were arranged for clients of the Bank for an aggregate amount exceeding U.S.\$90 million. All transactions were intended to finance specific projects of corporate customers. Among the banks that participated in these transactions were American Express Bank, HypoVereinsbank, Natexis Banques Populaires, Bank of Montreal, Citibank, Finansbank (Holland), DZ Bank, HSH Nordbank, Bankgesellschaft Berlin, Bank Austria Creditanstalt, Erste Bank, RZB, Adria Bank and Caixa Geral de Depositos and others. A portion of the funds was guaranteed by the EBRD.

In July 2003, the Bank entered into a U.S.\$5 million five-year credit line with South Korean Eximbank in order to finance exports to and imports from South Korea under which U.S.\$2.2 million has been drawn. In addition, the Bank, in 2004, entered into several loan agreements intended to provide long-term funding to purchase equipment and technology from European countries, with guarantee insurance coverage provided by export credit agencies of the relevant countries. Loan agreements, each in the amount of Euro10 million, were entered into with Commerzbank and HypoVereinsbank; to date, the Bank has utilised Euro430,000 and Euro1.17 million under them, respectively. The Bank also entered into a loan agreement with Bankgesellschaft Berlin for Euro2.91 million and with Dresdner Bank for Euro1.1 million.

SME Programmes. The Bank participates in the Programme for State Support of Small Business funded by EBRD. Under this Programme, EBRD provides funds to the Small Scale Business Development Fund, a quasi-governmental financial institution, which in turn distributes the funds to a number of designated Kazakhstan banks, including the Bank, for further on-lending to small-scale enterprises. As at 30 September 2004, the Bank had received and on-lent U.S.\$12.6 million to its small-scale customers under this Programme.

In 2003, EBRD also extended three credit lines to the Bank for an aggregate amount of U.S.\$18 million under its Grain Receipts, Trade Finance and Kazakhstan Small Business Programmes. EBRD will make medium-term loans to the Bank to finance its customers' trade finance projects under the Trade Finance Programme and, under the Grain Receipts Programme, to extend loans to certain grain producers/dealers secured by grain receipts. During November and December 2004, the EBRD provided a U.S.\$6 million credit line to the Bank, which the Bank plans to use to finance the agricultural sector, in particular, for purchasing and leasing agricultural equipment, and a credit line in the additional amount of U.S.\$10 million under the Kazakhstan Small Business Programme.

Subordinated Loans and Notes. In December 2003, the Bank entered into a loan agreement with DEG and FMO in the amount of U.S.\$8 million. In December 2004, the Bank received a subordinated loan from DEG in the amount of U.S.\$10 million.

In 2000, the Bank issued U.S.\$4.5 million in five-year subordinated debt due 2005 and between 2002 and 2004, the Bank issued an additional KZT5.5 billion in three separate subordinated debt issuances with terms ranging from seven to nine years. In September 2004, the Bank issued its debut mortgage bonds in the amount of KZT500 million due 2007 and in December 2004, the Bank issued an additional KZT1.3 billion in mortgage bonds due 2014.

The Bank believes that it will be able to meet its funding obligations under these facilities through an increase in borrowings, including the issue of the Notes and through increases in time deposits.

Foreign Currency Management

The Tenge was generally stable against the Dollar in 2001 and 2002, depreciating by 3.8 per cent. in 2001 and 3.3 per cent. in 2002. In 2003, the Tenge appreciated 12.6 per cent. against the U.S. Dollar and by 6.3 per cent. in the first nine months of 2004. The Bank's long position is less than the limit set by the NBK. The details of the Bank's net foreign currency position are set out in a table below.

The ALCO monitors the net open foreign currency position in relation to prevailing market conditions and outlook and advises on the Bank's position and implements the Bank's strategy accordingly.

Regulation and monitoring of the net foreign currency positions of banks is carried out by the NBK. According to current NBK regulations, the ratio of a bank's net open foreign currency position relative to its own capital must not exceed 50 per cent. and the net open foreign currency position for any currency of a

country rated “A” or higher or the Euro must not exceed 30 per cent. of its own capital. The open long and short positions for any currency of a country rated from “B” to “A” are limited to 5 per cent. and 15 per cent. of own capital, respectively. See “Management’s Discussion and Analysis of Results of Operations and Financial Condition – Financial Condition as at 30 September 2004 and as at 31 December 2003 and 2002 – Capital”. In addition, the Bank has its own internal policy to limit any long aggregate foreign exchange position to no more than 100 per cent. of the Bank’s equity.

The following table shows the net foreign currency position of the Bank (calculated in accordance with IFRS) as at 30 September 2004 and 31 December 2003:

	30 September 2004	31 December 2003
Net short position (in KZT millions).....	456	57
Net position as a percentage of own capital	4.1	0.8
Net position as a percentage of foreign currency liabilities	0.7	0.1

Treasury Operations

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

The Treasury Department calculates the Bank’s cash position on a daily basis and provides the Bank’s management with weekly and monthly reports on the Bank’s liquidity and cash flow.

Trading And Investment Portfolio

The Bank structures its securities portfolio based on a number of factors, including the liquidity, diversification and yield-to-maturity of the securities held. The Bank has a general policy that its holding of government and municipal securities shall not exceed 70 per cent. of its total securities portfolio, with the remaining 30 per cent. held in non-government securities (mainly Kazakhstan corporates). As at 30 September 2004, government securities accounted for 75.8 per cent. of the Bank’s securities portfolio, compared to 57.9 per cent., as at 31 December 2003.

The following table shows the composition of securities held by the Bank and its investments in associated companies as at 30 September 2004 and 31 December 2003:

	30 September 2004	31 December 2003
	<i>(KZT millions)</i>	
Trading Securities	2,763	1,413
Securities available-for-sale.....	24,760	9,044
Securities held-to-maturity	54	–
Less allowance for possible losses	–	(44)
Total	<u>27,577</u>	<u>10,413</u>

The Bank’s total securities portfolio increased by 97.8 per cent. in 2003 from KZT5,263 million as at 31 December 2002 to KZT10,413 million as at 31 December 2003 and by 164.8 per cent. to KZT27,577 million as at 30 September 2004.

The Bank's securities available-for-sale comprise mostly eurobonds issued by the Republic, NBK, and other Kazakhstan entities. Whilst its holding of the Government of Kazakhstan's eurobonds remained relatively unchanged in the first nine months of 2004 compared to 2003, securities issued by legal entities increased to KZT3,486 million as at 30 September 2004 compared to KZT2,519 million as at 31 December 2003. This increase reflects the Bank's decision to broaden its securities portfolio and diversify its risk profile. The Bank has written off its holding in CJSC Astana Hotel as a result of the Kazakhstan Stock Exchange suspending trading of those shares. As at 30 September 2004, the securities held-to-maturity amounted to KZT54 million.

Loan Portfolio

Introduction

The Bank offers a variety of banking products including loans, trade financing, letters of credit and letters of guarantee. Financing is provided for various purposes, although the majority of corporate loans are for working capital and trade finance purposes with a maturity of 12 months or less. Consumer lending relates primarily to mortgages, car loans and other loans to finance purchases of consumer products.

The Bank's loan portfolio is monitored by the Credit Committee of the Head Office, which determines the amount that the Bank is prepared to lend, together with the type of collateral required to secure such loans. If there are any problems or potential problems either with the borrower or the credit, the borrower's case is forwarded to the Problem Loan Division, a sub-division of the Credit Department. See "—Lending Policies and Procedures".

Loans and advances to banks

As at 30 September 2004, loans and advances to banks had reached KZT4,871 million compared to KZT9,494 million as at 31 December 2003. In general, loans and advances to banks were represented by short-term U.S. Dollar deposits placed for liquidity management. The Bank undertakes a conservative approach in its deposit funding activities. Funds are usually placed for a short-term period with a maximum limit on the amount deposited, unless such loans are backed by state securities or cash deposits. As such, as at 30 September 2004, nearly all loans and advances to banks had maturities of less than one month.

Loans, guarantees and letters of credit

The Bank offers a variety of corporate banking products including loans, trade financing, letters of credit and letters of guarantee. The following table sets out the composition of the Bank's loans and contingent liability exposure as at 30 September 2004 and 31 December 2003:

	30 September 2004	31 December 2003
	<i>(KZT millions)</i>	
Loans		
Loans and advances to customers	92,603	54,356
Provision for loan losses	(3,889)	(2,287)
Loans and advances to customers, net	88,714	52,069
Contingent Liabilities		
Guarantees	8,624	3,908
Letters of credit	1,141	831
Total contingent liabilities	9,765	4,739
Total loans and contingent liabilities	<u>98,479</u>	<u>56,808</u>

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations. See "—Lending Policies and Procedures".

The Bank's loan portfolio, net of provisions, grew by 70.4 per cent. in 2003 from KZT52,069 million as at 31 December 2003 to KZT88,714 million as at 30 September 2004.

As at 30 September 2004, the top 20 largest borrowers comprised 33.1 per cent. of the Bank's gross loan portfolio, compared to 37.1 per cent. as at 31 December 2003 and 32.9 per cent. as at 31 December 2002.

The following table sets out the breakdown of the Bank's gross commercial loans and advances (before allowances) by loan amount as at the dates indicated:

	30 September 2004		31 December 2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Up to \$50,000	13,748	14.8	10,468	19.3
\$50,001-\$200,000	7,234	7.8	4,581	8.4
\$200,001-\$1,000,000.....	15,042	16.2	11,177	20.6
\$1,000,001-\$3,000,000	15,802	17.1	11,200	20.6
\$3,000,001-\$5,000,000	13,761	14.9	5,055	9.3
Over \$5,000,000	27,016	29.2	11,875	21.8
Total.....	92,603	100.0	54,356	100.0

Loan Portfolio Structure by Maturity

The following table sets out the breakdown of the Bank's gross commercial loans and advances (before allowances) by maturity:

	30 September 2004		31 December 2003	
	(KZT millions)	(per cent.)	(KZT millions)	(per cent.)
Up to 1 month	1,047	1.13	1,189	2.19
1-3 months.....	4,827	5.21	2,287	4.21
3-6 months.....	5,660	6.11	6,998	12.87
6-12 months.....	16,429	17.74	13,161	24.21
1-2 years	21,091	22.78	11,904	21.90
2-3 years	11,745	12.68	5,914	10.88
3-5 years	21,990	23.75	7,651	14.08
Over 5 years	9,401	10.15	4,762	8.76
Overdue	413	0.45	490	0.90
Total.....	92,603	100.0	54,356	100.0

Loan portfolio Structure by Sector

The Bank's Credit Committee of the Head Office sets limits on the Bank's total exposure to economic sectors as a percentage of the Bank's total loan portfolio, based on its review of macro-economic data prepared by the Analysis, Monitoring and Methodology Division of the Credit Department. Current limits include a maximum exposure to trade companies of 30 per cent., retail and housing of 20 per cent. and manufacturing of 20 per cent., in each case of the Bank's total loan portfolio. The Bank limits its exposure to high risk sectors of the economy.

As at 30 September 2004, loans to the retail and housing sector include approximately KZT1,009 million of mortgage loans extended by CJSC Zhilstroibank prior to its merger with the Bank in 1998 as part of a Government-led initiative to provide low-cost loans to fund house purchases by individuals. At the time of the merger, such loans represented approximately 12 per cent. of the Bank's total loan portfolio. The Bank's loan portfolio has grown since the merger, however, and as at 30 September 2004, the percentage had fallen

to approximately one per cent. The loans were initially extended by CJSC Zhilstroibank for 25 years at a low rate of interest (usually five per cent.), fixed until maturity. All loans were linked to the U.S. Dollar. Following the flotation and subsequent devaluation of the Tenge in April 1999, the borrowers became unable to meet the repayment obligations which increased rapidly as the Tenge continued to devalue. Following a petition by the Bank, the Government agreed in February 2001 to meet the increased costs of such loans caused by the devaluation of the Tenge and to pay the Bank the difference between the Tenge amount paid by the borrowers (fixed at an exchange rate of KZT88.3 : U.S.\$1.00) and the exchange rate applicable as at the end of the relevant year.

The following table sets forth certain information as to the structure of the Bank's loan portfolio by economic sector, as at 30 September 2004 and 31 December 2003:

	30 September 2004		31 December 2003	
	(KZT millions)	(share, per cent.)	(KZT millions)	(share, per cent.)
Trade	23,271	25.1	14,366	26.4
Retail loans and mortgage.....	15,380	16.6	8,386	15.4
Food Industry	11,322	12.2	7,446	13.7
Manufacturing	8,428	9.1	6,161	11.3
Agriculture	7,002	7.6	2,619	4.8
Construction	6,375	6.9	2,361	4.3
Oil and gas industry	4,639	5.0	1,487	2.7
Mining of precious metals	3,299	3.6	3,726	6.9
Real Estate.....	2,726	2.9	1,523	2.8
Telecommunications and transport	1,090	1.2	1,554	2.9
Mass media	915	1.0	466	0.9
Financial sector	371	0.4	70	0.1
Metallurgy	369	0.4	324	0.6
Machinery	321	0.3	74	0.1
Energy	193	0.2	365	0.7
Other	6,902	7.5	3,428	6.3
Total.....	<u>92,603</u>	<u>100.0</u>	<u>54,356</u>	<u>100.0</u>

Lending in the trading sector increased due to an increase in the number of borrowers among trading companies. According to the Bank's internal classification, if the main profile of a company is trading, such borrower is related to the "trade" economic sector in the Bank's loan portfolio, regardless of its activity type. This sector includes trading companies in such industries as agriculture, manufacturing and food. Loans to trading companies increased by 62.0 per cent. in the first nine months of 2004, from KZT14,366 million as at 31 December 2003 to KZT23,271 million as at 30 September 2004. Loans to the retail and housing sector also increased from KZT8,386 million as at 31 December 2003 to KZT15,380 million as at 30 September 2004, representing an increase of 83.4 per cent., and, as a percentage of the loan portfolio, an increase of 15.4 per cent. to 16.6 per cent. Loans to the food industry increased marginally and, as a percentage of the total loan portfolio, decreased by 10.9 per cent. Loans to companies in the agriculture sector increased by 33.6 per cent. in 2003 and by 167.3 per cent. in the first nine months of 2004. Such loans include the EBRD funded grain receipts programme. See "—Funding and Liquidity".

Following a substantial increase in loans to manufacturing companies, the Bank's total loan portfolio decreased as at 30 September 2004 by 9.1 per cent. as compared to 11.3 per cent. of the Bank's total loan portfolio as at 31 December 2003. Loans to the construction sector increased substantially, reflecting an improvement in the economic situation in Kazakhstan and a booming construction sector.

In 2004, the oil and gas and energy industries also increased their borrowing, although overall, both still represent only 5.2 per cent. of the Bank's total loan portfolio.

Loan portfolio structure by currencies

Historically, non-Tenge loans comprised the major part of the Bank's loan portfolio, accounting for 76 per cent. of total loans as at 31 December 1999 then decreasing thereafter. After the flotation of the Tenge in 1999 and following the subsequent stabilisation of the Tenge against the U.S. Dollar, the structure of the Bank's loan portfolio by currency has changed. Following domestic demand and as a result of a significant portion of the Bank's deposits (time and demand) being in Tenge, the level of Tenge loans has increased, representing 40.6 per cent. of the Bank's total loan portfolio as at 30 September 2004 and 54.0 per cent. as at 31 December 2003. Such loans generally have a shorter-term maturity profile and usually contain provisions that allow the Bank to increase interest rates or demand early repayment in the event of a devaluation of the Tenge.

The following table sets forth certain information as to the currency profile of the Bank's gross loan portfolio as at 30 September 2004:

	30 September 2004		31 December 2003	
	<i>(KZT millions)</i>	<i>(share, per cent.)</i>	<i>(KZT millions)</i>	<i>(share, per cent.)</i>
Tenge	37,562	40.6	29,325	54.0
U.S. Dollars	54,389	58.7	24,581	45.2
EURO	652	0.7	450	0.8
Total loan portfolio (gross)	92,603	100.0	54,356	100.0

Lending Policies And Procedures

General

The FMSA sets strict guidelines in relation to the credit approval process of banks and the terms, credit levels and interest rates of the loans given. NBK regulations limit the exposure to any single borrower or group of borrowers to 10 per cent. of a bank's equity for parties related to the bank and to 25 per cent. of a bank's equity for parties not related to the bank. See "Management's Discussion and Analysis of Results of Operations and Financial Condition – Financial Condition as at 30 September 2004 and as at 31 December 2003 and 2002 – Capital". The Bank's own credit approval process is based on FMSA regulations and its own internal procedures are established by the Management Board and the Board of Directors.

The Bank has three main credit committees located within its head office which are responsible for approving credit decisions within the Bank; the Credit Committee of the Credit Risk Division and the Small Credit Committee of the Head Office. The Credit Committee of the Credit Risk Division is responsible for the implementation of the Bank's credit policy in respect of small- and medium-sized enterprises and for approving the terms of credit facilities and/or guarantees extended by the Bank for amounts of up to U.S.\$50,000. The Small Credit Committee of the Head Office is responsible for the implementation of the Bank's credit policy in respect of medium to large corporate customers and for approving the terms of credit facilities and/or guarantees extended by the Bank for amounts of between U.S.\$50,000 and U.S.\$400,000. The Credit Committee of the Head Office is responsible for the implementation of the Bank's credit policy in respect of large corporate customers and for approving the terms of credit facilities and/or guarantees extended by the Bank for amounts of between U.S.\$400,000 and U.S.\$1,000,000. Any loan of between U.S.\$1,000,000 and U.S.\$3,000,000 must be approved by the Management Board and, loans in excess of U.S.\$3,000,000, by the Board of Directors.

Within each full service branch, credit decisions for loans below the credit level set for that branch are approved by the credit committee within the branch. The levels for each branch are set by the Credit Committee of the Credit Risk Department and range from U.S.\$10,000 to U.S.\$150,000 per loan. The Credit Committee of the Credit Risk Department monitors loans approved by individual branches and individual branch lending limits can be increased up to the maximum limit approved for branches, or revoked,

depending on the individual branch’s compliance with the Bank’s credit policies. One branch had its lending limit revoked in 2004. Lending limits are reviewed on a quarterly basis.

All applications for credit by corporate and retail customers must be submitted to the Bank on its standard forms. The Bank’s branches conduct an initial compliance review of each application. After such review, depending on the type of the borrower and the credit, the application is sent for review and analysis by the Credit Department for loans of up to U.S.\$500,000 or by the Corporate Finance Department for loans exceeding U.S.\$500,000. The relevant department undertakes a thorough review and analysis of the application, including carrying out feasibility studies and analysis of the financial standing, reputation and experience of the potential borrower and then prepares a credit dossier based upon the results of such analysis. If applicable, the Problem Loan Division of the Credit Department obtains references on the potential borrower from third parties including other banks and various governmental authorities, such as taxation bodies, the NBK and the Interior Ministry. If the loan is collateralised, the Bank’s associate LLP BCC makes an appraisal of the collateral being offered, including as to valuation, title and prior encumbrances. The Bank also employs independent legal advisers to review the loan agreements and other legal documentation involved in the lending process. A central credit bureau is in the process of being established by the NBK and is expected to be functional in 2005.

Depending on the amount of the credit, the credit dossier is examined by the appropriate credit decision making body of the Bank for a final decision on the extension of the credit.

Maturity Limit

The maximum maturity of a loan depends on the type of loan as follows:

<u>Nature of the Loan</u>	<u>Maximum Maturity</u>
Financing of working capital	Up to 12 months
Consumer credit to individuals	Up to 24 months
Loans to employees	Up to 37 months
Payroll	Up to 1 month
Investments	Up to 5 years
Inter-bank credit:	
Short term	Up to 1 year
Medium term	1 to 3 years
Long term.....	3 years and above
Mortgage loans	Up to 15 years
Leasing.....	Up to 5 years

Collateralisation

To reduce its credit risks, the Bank requires collateral from borrowers. Collateral includes but is not limited to real estate, machinery and motor vehicles, industrial equipment, industrial goods and food stocks and medicine and other commercial goods, as well as cash deposits, domestic securities and personal or financial institution guarantees. The Bank regularly monitors the quality of the collateral taken as security. In certain cases when existing collateral declines in value, additional collateral might be requested. In addition, the terms of the Bank’s loan agreements usually provide the Bank with the flexibility to adjust interest rates or request a prepayment of the loan or a portion thereof upon changes in circumstances, including a decline in the value of collateral.

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
	<i>(per cent.)</i>
Cash	100
Guarantees from financial institutions	100
Government debt securities	100
Real estate	30-70
Goods in turnover	50
Equipment	40-60
Precious metals	70
Corporate guarantees	40-60
Corporate securities	10-50

The following table sets forth the nominal amount of the Bank's collateralised and non-collateralised loans and such amount as a percentage of total gross loans as at 30 September 2004 and 31 December 2003:

	30 September 2004		31 December 2003	
	<i>(KZT millions)</i>	<i>(share, per cent.)</i>	<i>(KZT millions)</i>	<i>(share, per cent.)</i>
Collateralised.....	91,191	98.5	53,551	98.5
Uncollateralised.....	1,412	1.5	805	1.5
Total.....	<u>92,603</u>	<u>100.0</u>	<u>54,356</u>	<u>100.0</u>

The following table sets forth a breakdown of total gross collateralised loans by type of collateral and as a percentage of the total gross loan portfolio as at 30 September 2004 and 31 December 2003:

	30 September 2004		31 December 2003	
	<i>(KZT millions)</i>	<i>(share, per cent.)</i>	<i>(KZT millions)</i>	<i>(share, per cent.)</i>
Collateral				
Real estate	53,400	57.7	34,064	62.7
Goods in turnover	12,263	13.2	7,294	13.4
Equipment	8,402	9.1	5,291	9.7
Other assets	7,390	8.0	3,248	6.0
Corporate guarantees.....	3,475	3.8	1,088	2.0
Cash.....	6,035	6.5	1,785	3.3
Precious metals	226	0.2	795	1.5
Unsecured	1,412	1.5	791	1.5
Total.....	<u>92,603</u>	<u>100.00</u>	<u>54,356</u>	<u>100.0</u>

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

The laws of Kazakhstan allow a secured creditor to foreclose on collateral upon the occurrence of an event of default through both judicial and non-judicial procedures. Non-judicial foreclosure allows the secured creditor to seize collateral in the event of a default and to hold an auction, if necessary, to dispose of such collateral after 60 days' notice. The Bank's security documents provide for both non-judicial and judicial

foreclosure. To be enforceable, a pledge over immovable property is required to be registered with local departments of the Ministry of Justice. No such registration is required for the pledges over certain types of movable property. However, registration of a pledge over either immovable or movable property establishes priority of that pledge over an unregistered pledge. The Bank requires all of its pledges to be registered.

Portfolio Supervision

The Bank classifies its loans in accordance with requirements established by the NBK. The Credit Committee of the Credit Risk Division is responsible for monitoring the total loan portfolio of the Bank and reviewing the loan portfolios of each branch. The Credit Risk Division monitors the Bank's loan portfolio using the Credit Module (See "Asset and Liability Management – Introduction"). Using this system, the Credit Risk Division is able to evaluate the quality of the loan portfolio and the requirements for loan loss provisions in relation to it. Loans are monitored on a daily basis, which allows the Credit Risk Division to identify problem credits or loans at an early stage. In addition, an in-depth review of each borrower is carried out on site on a quarterly basis where the financial state of the borrower and the status of any pledged collateral is assessed.

Loans and off-balance sheet exposure are classified by reference to: (i) customer's financial performance; (ii) timelines of repayment of principal and/or interest; (iii) quality of collateral; (iv) whether there has been any extension of the loan; (v) timeliness of repayments on other loans; (vi) whether there has been any unauthorised use of the loan; (vii) whether other credits to that Customer have been written off; and (viii) any rating assigned to the Customer. Each of the criteria is assessed and then assigned a risk weight grade according to the following matrix:

<i>Criteria</i>	<i>Grade</i>	<i>Criteria</i>	<i>Grade</i>
Financial Performance		Timeliness of Repayment on Other Loans	
Stable	0	On time payments	0
Satisfactory	+1	Payments overdue	+1
Unstable	+2	Unauthorised Use of the Loan	
Critical	+4	Up to 25 per cent.	0
Timeliness of Repayment of the Loan		25 to 50 per cent. (non-inclusive)	1
On time payments	0	50 to 75 per cent. (non-inclusive)	2
Overdue by 1-30 days	+1.5	75 to 100 per cent. (non-inclusive)	3
Overdue by 31-60 days	+2.5	100 per cent. and more	4
Overdue by 61-90 days	+3.5	Write-offs	
Overdue by more than 90 days	+4.5	None	0
Quality of Collateral		Some	+2
Reliable	-3	International Rating	
Good	-2	"A" and above	-3
Satisfactory	0	Above Kazakhstan sovereign to "A"	-2
Unsatisfactory	+1	Kazakhstan sovereign	-1
No collateral	+2	Below Kazakhstan sovereign/No rating	0
Extensions			
None	0		
Some	+ (no. of extensions)		

In relation to the Financial Performance criteria:

"Stable" means that the customer is solvent; has no losses; has a strong market presence; and there are no external or internal factors evidencing deterioration in the financial performance until maturity of the loan or doubts as to repayment of the loan.

"Satisfactory" means that there are some indications of temporary deterioration in the financial performance of the customer such as a decrease in revenues, deterioration in cash position or market share or there are some external and internal factors that might affect the financial performance of the customer; although there

is some probability of default, there is also an expectation that customer can overcome such temporary problems.

“Unstable” means that there are serious indications of constant and significant deterioration in the financial performance of the customer such as losses, diminished liquidity, continuous deterioration of the market share; no assurance can be made that the customer’s financial performance will improve; the information is not sufficient to assess the customer’s financial position.

“Critical” means that the continuous deterioration of the financial performance of the customer has reached a critical stage and is characterised by significant financial losses, insolvency, significant deterioration of market share, negative equity capital; declared bankruptcy and/or bankruptcy treatment was applied for a period of one year, force majeure events which materially affected the customer or its activities; absence of financial information about the customer is absent.

In relation to the Quality of Collateral criteria:

“Reliable” means highly liquid collateral, in the form of Kazakhstan governmental guarantees, guarantees from banks having an international rating not less than “AA”, cash collateral and pledges over Kazakhstan sovereign securities, securities issued by foreign governments having an international rating of not less than “A” or monetary precious metals securing all of the credit.

“Good” means highly liquid collateral as in Reliable Collateral securing not less than 90 per cent. of the credit.

“Satisfactory” means non-highly liquid collateral securing all of the credit or highly liquid collateral as in Reliable Collateral securing not less than 70 per cent. of the credit.

“Unsatisfactory” means any collateral securing not less than 50 per cent. of the credit.

“No Collateral” means that the loan is not secured or the collateral secures less than 50 per cent. of the credit.

The risk weight grades for all criteria are then combined, resulting in clarification of the Bank’s portfolio as follows, both under NBK requirements and under IFRS:

Total Grades	NBK Classification	Timeliness of Repayment	IFRS Classification
Less than 1	Standard		Standard
1-2	Doubtful 1st category	Current	Sub-standard
	Doubtful 2nd category	Overdue	Sub-standard
2-3	Doubtful 3rd category	Current	Unsatisfactory
	Doubtful 4th category	Overdue	Unsatisfactory
3-4	Doubtful 5th category	Both current and overdue	Doubtful
4 and more	Loss	Both current and overdue	Loss

Total classified loans under the NBK’s classification comprise doubtful loans and bad debt. Total classified loans under IFRS comprise unsatisfactory loans, doubtful loans and bad debt.

The Credit Committee of the Head Office produces a monthly report which covers all aspects of the Bank’s credit activity. The Bank’s Management Board pays strict attention to the timeliness of debt repayments and the classified loans and contingent liabilities are included in such monthly reports. Immediate action is taken by the appropriate departments, which have responsibility for supervising and monitoring loan repayment if any principal or accrued interest repayment problems arise. Any deterioration in the quality of the assets and contingent liabilities of the entire loan portfolio is brought to the attention of the Bank’s Management Board. The Bank’s determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria including the credit’s classification as described above; sudden changes in volumes in the customer’s accounts with the Bank; as to retail customers, sudden changes in the standard of living of the customer which imply improper use of credit facilities; applications to change credit terms; failure of the customer or a counterparty to fulfil terms under a contract relating to the credit; refusal of a customer to co-operate in supplying documentation and evasion of the Bank’s officers by the customer. Once any repayment

problem arises, the Bank's Problem Loans Division is immediately notified. The Bank believes that it has a good record in enforcing its security and attempts to resolve security enforcement without resort to court action or arbitration. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any pledged collateral either in reliance on non-judicial foreclosure or with the cooperation of the customer.

In addition, the Bank established its own internal customer rating system in 2002 pursuant to which each of the Bank's large corporate customers are assigned an internal credit rating. The Bank currently classifies its corporate clients based on the amounts of such clients' annual sales. Corporate clients with annual sales of U.S.\$700,000 or less are classified as "small-sized", corporate clients with annual sales of between U.S.\$700,000 and U.S.\$7 million as "medium-sized", corporate clients with annual sales of between U.S.\$7 million and U.S.\$70 million as "large-sized" and in excess of U.S.\$70 million as "largest companies". The ratings assigned are based on criteria such as the customer's management, operational potential, credit history, quality of collateral and financial performance. The assigned ratings determine, to a large extent, the applicable interest rate, other terms and conditions of the credit extended to the customer and the frequency and level of monitoring.

Provisioning Policy

The classification matrix described above is used to determine the provisioning rate required by the NBK. Calculation of provisions is carried out on a monthly basis.

The Bank may make specific provisions for possible loan losses on a case-by-case basis and actual provisions established take into account the value of any collateral or third party guarantees. For this reason, the actual provision levels may differ from the normal provisioning rate. The Bank considers a loan to be non-performing when either interest or principal payments are past their due date by 30 days. At such time, the accrual of interest is suspended. The Bank fully provisions a loan if interest and principal have not been paid for more than 90 days or if management is of the opinion that the loan is uncollectable because the Bank has been unable to collect the loan or to enforce its security. The Bank writes off loans that are past their due date by 180 days or more although under IFRS such loans do not have to be written off but are treated as non performed loans. Once a loan has been fully provisioned by the Bank, the Problem Loan Division continues to monitor the loan and related collateral for a five-year period in order to assess the possibility of making a subsequent recovery.

The Bank's provisioning policy under IFRS differs from its provisioning policy under relevant laws in Kazakhstan and regulations of the NBK (collectively, "Kazakhstan Practices"). No general provision is created for unclassified loans under Kazakhstan Practices whereas under IFRS, there is a general provision of 2 per cent. of each credit exposure.

Until 2002, under Kazakhstan Practices, banks were required to create provisions for potential loans and advances to customers based primarily on the borrower's debt service performance. In 2002, the NBK introduced its current requirements as to classification of and provisions in relation to loans and advances to customers not only on the basis of borrower's debt service performance but also on the basis of such criteria as the borrower's financial performance, quality of collateral and credit history. See "Portfolio Supervision".

The table below sets forth certain information relating to the Bank's gross loans and the credit classifications and provisions in relation to them in accordance with IFRS as at 30 September 2004 and 31 December 2003:

	30 September 2004		31 December 2003	
	(KZT millions)	(share, per cent.)	(KZT millions)	(share, per cent.)
IFRS Risk Category				
Standard	61,539	66.5	36,940	68.0
Substandard	22,784	24.6	11,284	20.8
Unsatisfactory	6,862	7.4	5,399	9.9
Doubtful	273	0.3	159	0.3
Loss	1,145	1.2	574	1.0
TOTAL	92,603	100.0	54,356	100.0

The effective level of provisions remained constant in the first nine months of 2004 and 2003 at 4.2 per cent. Total classified loans increased by approximately 35.0 per cent. in the first nine months of 2004 compared to the year ended 31 December 2003 as a result of more conservative classification of some "investment type" loans for accounting purposes and certain tax considerations. In 2003, the amount of total classified loans decreased compared to 2002 and comprised only 11.2 per cent. of the total loan portfolio in 2003, compared to 12 per cent. of the Bank's total loan portfolio in 2002.

Non-performing loans, determined in accordance with IFRS, which include loans on which interest has ceased to accrue, amounted to KZT412,679 or 0.4 per cent. of the Bank's gross loan portfolio as at 30 September 2004 as compared with KZT489,888 or 0.1 per cent. as at 31 December 2003.

MANAGEMENT AND SHARE OWNERSHIP

Management

In May 2004, the Bank was re-registered as a Joint Stock Company to comply with the requirements of the 13 May 2003 Law on Joint Stock Companies. The revised Charter was approved by the FMSA on 13 May 2004.

The Bank's charter provides that the Bank shall have a Board of Directors, a supervisory management body, a Management Board, an executive body, and an internal audit division responsible for overseeing the financial control of the Bank's activities. The General Shareholders' Meeting represents the highest corporate governing authority of the Bank. The Law of Kazakhstan on Joint Stock Companies vests in the General Shareholders' Meeting the final approval of certain major corporate decisions, including the authorisation to issue the Notes.

The shareholders elect the members of the Board of Directors. The Board of Directors in turn elects the members of the Management Board. The Board of Directors represents the interests of shareholders and is responsible for the general management of the Bank and approves its strategic and operational plans. The Board of Directors does not perform executive functions. Overall responsibility for the administration of the Bank's activities is vested in the Management Board. In accordance with Kazakhstan legislation, the members of the Board of Directors and the Chairman and Deputy Chairmen of the Management Board are appointed only with the consent of the FMSA. The FMSA does not have a representative on the Board of Directors or the Management Board.

Board of Directors

The Board of Directors is not directly involved in management and has no authority to act on its own behalf or to perform any executive functions. The Board of Directors supervises the Management Board's activities to protect shareholders' interests. The authorities of the Board of Directors include defining the investment, credit and other policies of the Bank; nominating the Chairman and members of the Management Board; approving material contracts (major transactions); approving all loans to customers in excess of U.S.\$3,000,000; calling General Shareholders' Meetings and approving the Bank's budget.

The Board of Directors consists of eight members elected by the General Shareholders' Meeting. The current members of the Board of Directors are:

Name	Position
Bakhytbek R. Bayseitov Jumageldi R. Amankulov	Chairman of the Board of Directors, President of LLP Financial Industrial Group Atameken
Jumageldi R. Amankulov	Advisor to the Chairman of the Board of Directors of the Bank
Kuanish D. Muldagaliyev	President of LLP ILM
Mirgali S. Kunayev	Vice-President of Caspian Services Group
Sergei A. Tereshenko	President of JSC International Fund Integration
Yerlik S. Sharipov	President of LLP Bel
Samat S. Chukubayev	Executive Director of Association Kazakhstan Australia, General Director of LLP Syrymbet
Vladislav S. Li	Chairman of the Management Board of the Bank

All members of the Board of Directors were elected in April 2003 for a period of five years. The business address of the Board of Directors is the Bank's registered office.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank activities. The Bank's Management Board has all executive powers, while the Board of Directors plays a supervisory role. The Bank's Management Board's responsibilities include making executive business decisions; implementing the Bank's business strategy; appointing senior management and branch representatives of the Bank; approving all loans and advances to customers between U.S.\$1,000,000 and U.S.\$3,000,000; and dealing with all other matters not reserved to the Board of Directors or the General Meeting of Shareholders.

The name, age and certain other information about each of the current members of the Management Board are set out below:

Vladislav S. Li (47), Chairman, graduated from the Almaty Institute of the National Economy in 1982 with a degree in Finance and Credit. He commenced his career in 1982 as Chief Economist of Economic Planning Division of the Kazakhstan State Bank of the former USSR. In 1988, Mr. Li joined KazZhilSotsBank as Head of the Credit and Finance Division. In 1997 he moved to CJSC Zhilstroibank and took a position as First Deputy Chairman of the Board. He has been in his current position since June 1998.

Magaz N. Yerdessov (46), Deputy Chairman, graduated from Leningrad Institute of Finance and Economics in 1979 and worked as a Senior Economist in the Ministry of Finance of the former Kazakhstan Soviet Socialist Republic until 1991. From 1991 to 1993, he was Head of the Financial and International Division Department of Taim Bank. He also worked at Ilan Bank from 1993 to 1997, before joining Kazakhstan International Bank as Vice-President, a position he held until 2000. In March 2000, he became Deputy Chairman of the Bank.

Bulan A. Adilkhanov (45), Deputy Chairman, graduated from Kazakhstan Teachers' Training College in 1980. In 1996, he graduated from Kazakhstan State University of Management with a degree in Economics. He began working in 1983 as Chief Co-ordinator of the construction company AlmaAtaOblKolkhozStroy. In 1986, he joined the Ministry of Education as an adviser to the Minister. He joined the Bank in 1993 and has been in his current position since June 1997.

Medet I. Rakhimbayev (41), Deputy Chairman, graduated from Kazakhstan Polytechnics Institute in 1985. He also has an economics degree from Eurasian Institute of Market. He started to work as an Engineer of Technical Production at Corporation Granit; from 1991 to 1994, he worked as Head of IT at CenterBank. In 1995, Mr. Rakhimbayev became Head of the Payment Systems Division of the Bank and in January 1998, was appointed Deputy Chairman of the Bank.

Maksat K. Alzhanov (42), Deputy Chairman, graduated from Ust-Kamenogorsk Road Construction Institute in 1985. In 1996, he graduated from Kazakhstan State University of Management with a degree in Finance and Credit. From 1988 to 1994, he worked at the National Security Committee. He joined the Bank in 1994, and has been in his current position since December 1996.

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

Internal Audit Division

The internal audit division oversees the financial control of the Bank's activities. Members of the internal audit division have the right to attend meetings of the Management Board and to participate in discussions. However, they do not have the right to vote at such meetings. The current Head of the internal audit division is Gulsara K. Besbayeva.

Management Remuneration

In accordance with the Bank's charter, the remuneration and compensation of the members of the Board of Directors and Management Board is determined by the shareholders of the Bank.

The following table sets out the principal amount of loans outstanding to members of the Board of Directors and the Management Board as at 30 September 2004:

Name	Principal amount outstanding
	<i>(KZT thousands)</i>
Bulan A. Adilkhanov	40,565
Maksat K. Alzhanov	40,576
Medet I. Rakhimbayev	56,663
Jumageldi R. Amankulov	40,577
Samat S. Chukubayev	8,266
Magaz N. Yerdessov	56,172
Vladislav S. Li	16,346
Total	<u>259,165</u>

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

The aggregate direct shareholdings of the Bank's senior and middle management is less than 3 per cent. The following table sets out information on the direct ownership by the directors and senior and middle management of the Bank as at 31 December 2004:

Name	Per cent.
Bakhytbek R. Bayseitov	0.03
Sergei A. Tereshenko	0.66
Jumageldi R. Amankulov	0.22
Samat S. Chukubayev	0.19
Yerlik S. Sharipov	0.27
Vladislav S. Li	0.23
Bulan A. Adilkhanov	0.22
Maksat K. Alzhanov	0.23
Medet I. Rakhimbayev	0.22
Magaz N. Yerdessov	0.21
Total	<u>2.48</u>

Principal Shareholders

The Bank's common shares are listed on the "A" List of the Kazakhstan Stock Exchange. The Bank has more than 800 shareholders. The following table sets out information as to all registered holders of more than 3 per cent. of the Bank's common shares as at 31 December 2004:

Name	Shareholding per cent.
JSC KIB Asset Management*	6.58
OJSC Interexport	6.30
JSC Non State Pension Fund Kazakhmys	6.11
JSC Non State Pension Fund Valut-Transit Fund	5.91
JSC Open Non State Pension Fund Senim	5.81
DORRA LLC	5.55
Canterbury Valley Ltd	5.51
JSC AIM**	4.50
Jenwood Ventures Limited	4.41
Almaty CenterStroy Corporation, Ltd	3.48
LLP FPG Atameken***	3.40
JSC Kazommerts Invest	3.26
Others****	39.18
Total	100.0

* Portfolio manager.

** Nominee holders.

*** Entity affiliated with Bakhytbek Bayseitov, who controls, in aggregate, 4.06 per cent. of the Bank's shares, via the entity listed above and the direct personal shareholding referred to in the previous table.

**** Management's consolidated direct shareholding of 2.48 per cent. is included in the Others category.

TRANSACTIONS WITH RELATED PARTIES

Related parties, defined in accordance with IAS 24, include entities and natural persons that are shareholders, affiliates or entities under common management or control of the Bank.

The following table sets forth the total outstanding related party transactions of the Bank as at 30 September 2004 and as at 31 December 2003:

	<u>As at 30 September 2004</u> (Unaudited)		<u>As at 31 December 2003</u>	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	<i>(KZT thousands)</i>			
Loans to customers, gross	1,483,692	92,602,900	450,958	54,356,251
Allowance for losses on loans to customers	27,394	3,888,975	68,872	2,287,490
Investment securities:				
– available-for-sale	–	24,760,053	71,800	8,999,865
Subordinated debt.....	–	5,787,104	9,054	4,102,079
Customer accounts	335,526	85,062,294	–	47,643,364
Guarantees given	28,051	8,624,109	5,913	3,907,898

Included in interest income and expense for the nine months ended 30 September 2004 and 2003 are the following amounts arising from transactions with related parties:

	<u>As at 30 September 2004</u> (Unaudited)		<u>As at 30 September 2003</u> (Unaudited)	
	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>	<u>Related party transactions</u>	<u>Total category as per financial statements caption</u>
	<i>(KZT thousands)</i>			
Interest income		8,989,114		4,733,006
– related companies	38,047		25,764	
– directors	7,570		3,683	
Interest expense		(4,343,847)		(2,390,224)
– related companies	(21,192)		(19,074)	

Compensation to the Bank's management and Board of Directors for the nine month periods ended 30 September 2004 and 2003, amounted to KZT14,742 thousand and KZT11,340 thousand, respectively.

Transactions with related parties entered by the Group during the nine months ended 30 September 2004 and 2003 and outstanding as at 30 September 2004 and 2003 were made in the normal course of business and mostly under arms-length conditions.

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 significant structural reforms in the banking sector, aimed at promoting consolidation and improving the overall viability of the system.

The National Bank of Kazakhstan

The NBK is the central bank of Kazakhstan 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 Board of 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.

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, organise banking settlement systems, conduct currency regulation and control, assist in ensuring stability of the financial system and 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, which were 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 license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions, and to monitor the activities of, to apply sanctions where necessary to, and to participate in the liquidation of, financial institutions.

Banking

Structure of the Banking System of Kazakhstan

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

Banking Reform and Supervision

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

In addition, to strengthen the banking industry, promote stability and move towards internationally accepted practices, the NBK required commercial banks to adopt recapitalisation and corporate enhancement plans

with the aim of enhancing their ability to attract long-term, private investors. In 2000, guidelines were established for bank inspections and for periodic reporting by commercial banks to the NBK, now the FMSA. In 2003, all banks were requested to develop and install internal risk management systems.

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

The objective of these reforms was to bring supervisory practices closer to international standards to allow for a more transparent view of banks' levels of capitalisation and exposure to financial risks.

The FMSA, which currently includes what was the NBK's Banking Supervision Department, will continue to focus on ensuring financial solvency and protection of depositors while encouraging banks to diversify their activities in the financial services sector (for example, by managing pension and investment funds and establishing leasing and insurance companies).

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

In December 1999, a self-funded domestic deposit insurance scheme was established and as at January 2004, 31 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 and operates on a sliding scale of coverage up to a maximum amount per customer at any given bank. As of 2004, only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

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

Commercial Banks

According to the NBK, as at 30 September 2004, there were 35 banks in Kazakhstan, 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 per cent. stake in Halyk Savings Bank, by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2.1 billion.

As of 31 December 2003, two commercial banks failed to comply with prudential regulatory requirements, compared to one as at 31 December 2002 and six as at 31 December 2001. These banks did not meet the single borrower exposure, the open currency position and the maximum asset investment ratios. Provisions for bad debts as at 31 December 2003 amounted to KZT 45 billion. Another bank was put under the guardianship of the FMSA.

The financial standing of Kazakhstan's banks varies. As at 30 September 2004, 15 of the 4 commercial banks had registered capital of over KZT2 billion, 15 banks had registered capital of KZT1 billion to KZT2 billion and four banks had registered capital of KZT500 million to KZT1 billion. There are no banks with registered capital of less than KZT500 million; any bank whose capital falls below that level is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

Kazkommertsbank was established in July 1990 and is the largest bank in Kazakhstan in terms of assets and shareholders' equity, with a focus on the corporate and retail banking sectors. As at 30 September 2004, Kazkommertsbank had 96 branches and retail outlets, a subsidiary in Kyrgyzstan, a representative office in London and exercised control over a Moscow bank. Kazkommertsbank is part of a group which includes a number of banks, joint ventures and investment companies and has a number of substantial investments in industrial companies.

Bank TuranAlem resulted from a merger initiated by the Government of Kazakhstan between two state-owned banks, Turan Bank and Alem Bank, in April 1997. The Government's interest in TuranAlem was sold by auction in March 1998 for U.S.\$72 million to a group of investors from Kazakhstan. As at 30 September 2004, TuranAlem was the second largest private bank by assets and in terms of equity in Kazakhstan after Kazkommertsbank.

The extensive branch network of Halyk Savings Bank (526 retail outlets as at 30 September 2004) makes it one of the Bank's major competitors in the retail banking market. As at 30 September 2003, Halyk Savings Bank was the third largest bank in Kazakhstan in terms of total assets and is also a leading participant in the primary domestic securities market.

In 2001, the Government established the DBK to provide medium- and long-term financing and otherwise facilitate industrial projects in Kazakhstan. DBK was established with a charter fund of KZT30 billion. Within the commercial banking sector, DBK is not considered a competitor of the Bank as it is not licensed to accept commercial or retail deposits or to provide corporate settlement services. The Bank expects that DBK may become an important competitor in the corporate lending sector. 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, together with the larger local banks, become the Bank's primary long-term competitors in the corporate banking sector. Foreign banks also bring international experience in servicing customers and target the best corporate customers of the Kazakhstan banks as well as foreign companies operating in Kazakhstan.

Citibank Kazakhstan was established in 1998 and has been aggressively increasing its market share in corporate banking. Citibank Kazakhstan is expected to be a major long-term competitor of the Bank, particularly with respect to lending.

ABN Amro Bank Kazakhstan is the second largest bank under foreign ownership in terms of equity. The Bank believes that ABN Amro Kazakhstan will be a major competitor of the Bank's in the future, particularly with respect to corporate banking and capital markets activities.

Foreign Capital in the Banking Sector

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

As at 30 June 2004, there were 16 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 per cent. of the aggregate registered capital of all Kazakhstan banks, unless authorised by the FMSA. As at 31 December 2003, the aggregate registered capital of all banks with foreign participation represented approximately 47.4 per cent. 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.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Kazakhstan Taxation

Under Kazakhstan's laws as presently in effect, payments of interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will be subject to Kazakhstan withholding tax at a rate of 15 per cent., unless reduced or exempt by an applicable double taxation treaty. Noteholders entitled to the benefits of the double taxation treaties with certain countries, including, without limitation, Germany, Italy, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax on interest of 10 per cent. 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 (*Taxation*)". 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.

Payments of interest on the Notes to residents of Kazakhstan, or to non-residents who maintain a permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), except for banks resident in Kazakhstan, Kazakhstani and Kazakhstan share investment funds accumulative pension funds, will be subject to a withholding tax at a rate of 15 per cent.

Gains realised by Non-Kazakhstan Holders or Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes in Kazakhstan will not be subject to Kazakhstan withholding tax. Gains realised by Kazakhstan Holders will be subject to Kazakhstan income tax at a rate of 30 per cent., unless the Notes are included in the A or B lists of the Kazakhstan Stock Exchange.

EU Directive on the Taxation of Savings Income

The European Union has adopted a new Directive regarding the taxation of savings income (European Union Directive). Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 July 2005 to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, Alpha Bank A.E., OJSC Bank Zenit, Commerzbank Aktiengesellschaft and Moscow Narodny Bank Limited, (the “Managers”) have, in a subscription agreement dated 11 February 2005 (the “Subscription Agreement”) and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, agreed to subscribe and pay for the Notes at their issue price of 99.673 per cent. of their principal amount less a combined management, underwriting and selling commission of 0.9 per cent. of their principal amount. The Issuer has also agreed to reimburse the Managers for certain of their expenses incurred in connection with the management of the issue of the Notes. The Managers are entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue 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 the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

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

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each of the Managers has represented and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; 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.

Republic of Kazakhstan

Each of the Managers 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.

Hong Kong

This Offering Circular has not been approved by the Securities and Futures Commission of Hong Kong nor has a copy of it been registered by the Registrar of Companies in Hong Kong.

Accordingly, each of the Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), by means of this Offering Circular or any other document, any Notes other than (a) to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or (b) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong); and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, any advertisement, invitation or document relating to the Notes in Hong Kong (except to the extent if permitted under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" (as defined in the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong).

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Notes may not be offered or sold or be subject to an invitation for subscription or purchase, nor may this Offering Circular or any other offering document or material relating to the Notes be circulated or distributed, directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act (Chapter 289), (ii) to a sophisticated investor as defined in Section 275 of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Securities and Futures Act.

Russian Federation

Each of the Managers has represented and agreed that it has not offered and sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation, unless to the extent otherwise permitted by Russian law.

General

No action has been or will be taken in any jurisdiction by the Issuer or by any of the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The creation and issue of the Notes was authorised by General Shareholders' Meetings of the Issuer held on 6 January 2005.
2. Application has been made to list the Notes on the Luxembourg Stock Exchange. In connection with the listing of the Notes, the constitutional documents of the Issuer and the legal notice relating to the issue will be registered with the Régistre de Commerce et des Sociétés à Luxembourg (the Luxembourg Trade and Companies' Register), where copies of these documents may be obtained upon request.
3. The Notes have been accepted for clearance through the Euroclear Operator and Clearstream, Luxembourg. The common code is 021256005 and the International Securities Identification Number is XS0212560055.
4. Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer or the Group or any of their respective assets or revenues, nor is the Issuer aware of any pending or threatened proceedings of such kind, which are or might be material in the context of the issue of the Notes.
5. Save as disclosed in this Offering Circular and since 31 December 2003, there has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Issuer or the Group that is material in the context of the issue of the Notes.
6. For so long as any of the Notes is outstanding, copies of the following documents may be inspected during normal business hours at the Specified Office of the Principal Paying and Transfer Agent, namely:
 - (a) the Trust Deed (which contains the forms of the Notes in global and definitive form); and
 - (b) the Paying Agency Agreement.
7. For so long as any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the Specified Office of each Paying Agent, namely:
 - (a) the audited consolidated financial statements of the Issuer for the years ended 31 December 2003 and 2002, prepared in accordance with IFRS;
 - (b) the unaudited interim consolidated financial statements of the Issuer for the nine months ended 30 September 2004 and 2003, prepared in accordance with IFRS;
 - (c) the latest publicly available audited consolidated annual and unaudited interim financial statements (if any) of the Issuer, prepared in accordance with IFRS.

The Issuer does not publish unconsolidated financial statements prepared in accordance with IFRS. The Issuer is not required to publish interim financial statements in accordance with IFRS, although solely for the purpose of the issue of the Notes, the Issuer published the financial statements referred to in paragraph (b) above. The Issuer does not intend to publish interim financial statements in the future, although to the extent that it does, such interim financial statements will be made available in Luxembourg. The non-consolidated annual and interim financial statements prepared by the Issuer in accordance with local generally accepted accounting principles will also be made available in Luxembourg.

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OJSC BANK CENTERCREDIT

Independent Auditors' Report

Consolidated Financial Statements
Year Ended 31 December 2003

OJSC BANK CENTERCREDIT

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& Touche**

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OJSC Bank CenterCredit:

We have audited the accompanying consolidated balance sheet of OJSC Bank CenterCredit and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated profit and loss account and statement of cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Deloitte & Touche

16 February 2004

**Deloitte
Touche
Tohmatsu**

OJSC BANK CENTERCREDIT

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003

(in Kazakhstani Tenge and in thousands except for earnings per share)

	Notes	2003	2002
Interest income	4,30	6,962,144	4,877,784
Interest expenses	4,30	<u>(3,333,540)</u>	<u>(2,298,014)</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		<u>3,628,604</u>	<u>2,579,770</u>
Provision for loan losses	5	<u>(1,434,198)</u>	<u>(1,037,084)</u>
NET INTEREST INCOME		<u>2,194,406</u>	<u>1,542,686</u>
Net gain on trading securities	6	111,886	-
Net gain on foreign exchange operations	8	452,529	250,630
Fees and commissions income	9	2,209,659	1,450,431
Fees and commissions expense	9	(207,398)	(166,240)
Net (loss)/gain on investment securities	7	(3,789)	87,037
Other income/(expenses)	10	<u>21,044</u>	<u>(33,611)</u>
NET NON-INTEREST INCOME		<u>2,583,931</u>	<u>1,588,247</u>
OPERATING INCOME		4,778,337	3,130,933
OPERATING EXPENSES	11	<u>(3,387,728)</u>	<u>(2,317,049)</u>
PROFIT BEFORE OTHER PROVISIONS, INCOME/(LOSS) FROM ASSOCIATES, INCOME TAX AND MINORITY INTEREST		1,390,609	813,884
Provision for losses on other transactions	5	(5,143)	(100,879)
Provision for losses on securities available-for-sale	5	<u>-</u>	<u>(44,000)</u>
Income/(loss) from associates		<u>871</u>	<u>(2,537)</u>
PROFIT BEFORE INCOME TAX AND MINORITY INTEREST		<u>1,386,337</u>	<u>666,468</u>
Income tax expense	12	<u>(121,076)</u>	<u>(20,735)</u>
NET PROFIT BEFORE MINORITY INTEREST		<u>1,265,261</u>	<u>645,733</u>
Minority interest	13	<u>28,640</u>	<u>98</u>
NET PROFIT		<u>1,293,901</u>	<u>645,831</u>
Earnings per share	14	63.61	47.02

On behalf of the Board of Directors:

Chairman

16 February 2004
Almaty

Chief Accountant

16 February 2004
Almaty

The notes on pages 7 to 38 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 1.

OJSC BANK CENTERCREDIT

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2003

(in Kazakhstani Tenge and in thousands)

	Notes	2003	2002
ASSETS:			
Cash and balances with the National Bank of the Republic of Kazakhstan	15	5,648,630	3,174,061
Loans and advances to banks	16	9,494,053	4,270,913
Trading securities	17	1,412,897	-
Securities purchased under repos agreements	18	68,182	100,001
Loans and advances to customers, less allowance for loan losses	19	52,068,761	35,107,163
Investment securities:			
- securities available-for-sale, less allowance for impairment	20,31	8,999,865	4,354,641
- securities held-to-maturity	20,31	-	908,809
Investment in associated companies	21	-	100,134
Fixed and intangible assets, less accumulated depreciation	22	2,688,497	1,984,594
Other assets, less allowance for losses	23	1,532,133	853,047
TOTAL ASSETS		81,913,018	50,853,363
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits from banks	24	20,728,383	8,910,300
Securities sold under repos agreements	25	1,332,711	75,671
Customer accounts	26	47,643,364	35,141,226
Income tax liabilities	12	62,403	-
Other liabilities	27	556,994	402,581
		70,323,855	44,529,778
Subordinated debt	28,31	4,102,079	2,174,811
Total liabilities		74,425,934	46,704,589
Minority interest	13	46,492	2,083
SHAREHOLDERS' EQUITY:			
Share capital	29	5,166,988	3,166,988
Share premium		1,022	1,022
Revaluation reserve		278,622	284,219
Revenue reserve		1,993,960	694,462
Total shareholders' equity		7,440,592	4,146,691
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		81,913,018	50,853,363
FINANCIAL COMMITMENTS AND CONTINGENCIES	30	4,739,047	4,550,597

On behalf of the Board of Directors:

Chairman

16 February 2004
Almaty

Chief Accountant

16 February 2004
Almaty

The notes on pages 7 to 38 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 1.

OJSC BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003 (in Kazakhstani Tenge and in thousands)

	Share capital	Share premium	Revaluation reserve	Revenue reserve	Total shareholders' equity
31 December 2001	2,586,725	1,022	284,219	48,631	2,920,597
Share capital increase	580,263	-	-	-	580,263
Net profit	-	-	-	645,831	645,831
31 December 2002	3,166,988	1,022	284,219	694,462	4,146,691
Share capital increase	2,000,000	-	-	-	2,000,000
Net profit	-	-	-	1,293,901	1,293,901
Depreciation of fixed assets	-	-	(5,597)	5,597	-
31 December 2003	5,166,988	1,022	278,622	1,993,960	7,440,592

On behalf of the Board of Directors:

Chairman

16 February 2004
Almaty

Chief Accountant

16 February 2004
Almaty

The notes on pages 7 to 38 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 1.

OJSC BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2003 (in Kazakhstani Tenge and in thousands)

	Notes	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		1,386,337	666,468
Adjustments for:			
Provision for loan losses		1,434,198	1,037,084
Provision for impairment of securities		-	44,000
Provision for losses on other transactions		5,143	100,879
Depreciation charge and impairment of fixed and intangible assets		345,342	170,901
Profit on sale of fixed and intangible assets		40,234	46,354
Minority interest		28,640	98
(Loss)/profit on equity investments		(871)	2,537
Net change in accruals		(26,171)	-
Cash flow from operating activities before changes in operating assets and liabilities		3,212,852	2,068,321
Changes in operating assets and liabilities			-
(Increase)/decrease in operating assets:			-
Loans and advances to banks		(2,879,780)	(378,243)
Trading securities		(1,412,897)	-
Loans and advances to customers		(18,432,782)	(14,502,593)
Securities purchased under repos agreements		32,241	(86,920)
Other assets		(710,230)	(155,320)
Increase/(decrease) in operating liabilities:			
Deposits from banks		11,759,480	3,337,884
Customer accounts		12,529,665	13,375,517
Securities sold under repos agreements		1,257,040	(1,149,561)
Other liabilities		193,648	98,548
Cash inflow from operating activities before income taxes		5,549,237	2,607,633
Income tax paid		(71,907)	(20,735)
Net cash inflows from operating activities		5,477,330	2,586,898
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(1,294,207)	(613,301)
Proceeds on sale of fixed and intangible assets		204,728	-
Acquisition of subsidiaries, net of cash acquired		145,414	(86,864)
Purchase of available-for-sale securities, net		(3,634,440)	-
Investment securities		-	(1,590,006)
Net cash outflows from investing activities		(4,578,505)	(2,290,171)

OJSC BANK CENTERCREDIT

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUE) FOR THE YEAR ENDED 31 DECEMBER 2003 (in Kazakhstani Tenge and in thousands)

	Notes	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase		2,000,000	580,263
Proceeds from subordinated debt		<u>1,927,268</u>	<u>1,496,031</u>
Net cash inflows from financing activities		<u>3,927,268</u>	<u>2,076,294</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,826,093	2,373,021
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	15	<u>6,418,283</u>	<u>4,045,262</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	15	<u><u>11,244,376</u></u>	<u><u>6,418,283</u></u>

Interest paid and received by the Group in cash during the year ended 31 December 2003 amounted to KZT 3,286,232 thousand and KZT 6,900,724 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2002 amounted to KZT 2,096,374 thousand and KZT 4,277,848 thousand, respectively.

On behalf of the Board of Directors:

Chairman

16 February 2004
Almaty

Chief Accountant

16 February 2004
Almaty

The notes on pages 7 to 38 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 1.

OJSC BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003 (in Kazakhstani Tenge and in thousands)

1. ORGANISATION

OJSC Bank Centercredit (the “Bank”) is a joint-stock bank, which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The address of its registered office is as follows: 100, Shevchenko Street, Almaty, Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan (the “NBRK”) and conducts its business under license number 248 dated 25 November 2003. The Bank's primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank has 19 branches in the Republic of Kazakhstan.

The Bank is a parent company of the Banking Group (the “Group”), consisting of the following subsidiaries, which are consolidated in the financial statements as of 31 December 2003:

Name	Type of business	2003 ownership interest	2002 ownership interest
Aktas Zhol	Property appraisal and lease	-	-
Capital BCC	Pension Fund	50%	25%
	Property appraisal and lease	-	-
Centre Leasing	Finance lease of property	100%	100%
KIBAM	Securities trading	100%	100%

The Bank does not own any shares in “BCC” LLP and “Aktas-Zhol” LLP, but they are consolidated in the Group's financial statement because the Bank has an ability to control and effectively controls their operations.

The number of employees of the Group at 31 December 2003 and 2002 was 1,746 and 1,476, respectively.

As of 31 December 2003, the following shareholders owned more than 5% of the outstanding shares. (Five shareholders owned 58.79% of the outstanding shares.).

Shareholder	%
JSC KIB Asset Management Ltd, nominal shareholder	30.69
CJSC NPF of Halyk Bank of Kazakhstan	8.03
CJSC NPF Ular Umit	7.90
CJSC Valut-Transit Fund	7.06
JSC TuranAlem Securities Ltd, nominal shareholder	5.11
Other	41.21
Total	100.00

These financial statements were authorized for issue by the Board of Directors on 16 February 2004.

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements are presented in thousands of Kazakhstani Tenge (“KZT”), except for earning per share amounts and unless otherwise indicated. These consolidated financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities and financial assets and financial liabilities held for trading.

The Group maintains its accounting records in accordance with the Accounting policy authorized by the Resolution of the Board of Directors of the Group #32 on 9 April 2003. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses on loans and impairment and the fair value of financial instruments.

Measurement currency – The measurement currency of these consolidated financial statements is the Kazakhstani Tenge (“KZT”).

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the accounts of majority-owned subsidiaries, and the accounts of the subsidiaries, of which the Bank has no ownership interest in the share capital but has an ability to control and effectively controls their operations.

All significant intercompany transactions and balances have been eliminated. The ownership interest of OJSC Bank CenterCredit and proportion of voting power of the Group in the significant subsidiaries as of 31 December 2003 and 2002 is presented in Note 1.

The share of the Bank in net assets and net income of entities, where the Bank holds 20 to 50% of share capital and has the ability to exercise significant influence over their operating and financial policies (“associates”) is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition (Note 20). Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Group.

Investments in non-consolidated associates – Investments in corporate shares where the Group owns more than 20% of share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the consolidated financial statements taken as a whole, or the Group intends to resell such investments in the near future, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair cost or approximated cost, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary.

Recognition and measurement of financial instruments – The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

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

Cash and cash equivalents – Cash and cash equivalents include cash, unrestricted balances on correspondent and deposit accounts with the National Bank of the Republic of Kazakhstan, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards and precious metals in vault, which may be converted to cash within a short period of time.

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

Trading securities – Trading securities represent debt securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group’s trading securities. When market prices are not available or if liquidating the Group’s position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management’s estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

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

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Group uses quoted market prices to determine fair value for the Group’s securities available-for-sale. If such quotes do not exist, management estimation is used.

Repurchase and reverse repurchase agreements – The Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos agreements are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the purchase and sale are recorded with the gain or loss included in net (losses)/gains on investment securities. The obligation to return them is recorded at fair value as a trading liability. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense, accrued using effective interest method, during the period that the related transactions are open.

Originated loans – Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans granted by the Group are initially recognized in accordance with the policy stated above. The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in profit and loss account. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans – Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Credit Committee. Loans are written off on 181st day of delay.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Purchased loans and receivables – Loans and receivables acquired from another lender subsequent to the original date are either classified as trading, held-to-maturity or as available-for-sale investments. For purchased loans classified as available-for-sale investments, fair value is based on an active market or using an interest rates model. If market price is not available and the interest model is not practicable, the price for similar assets is used.

Allowance for losses – The Group establishes an allowance for losses of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the loan.

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

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

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

Fixed and intangible assets – Fixed and intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed and intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2-4%
Furniture and equipment	20-50%
Intangible assets	10-30%

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in other administrative and operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in other administrative and operating expenses unless they qualify for capitalization.

Impairment loss – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit and loss account for the year in which it arises.

Taxation – Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Kazakhstan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Customers and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Subordinated debt – Subordinated debt issued represent interest bearing notes issued by the Group. They are accounted for according to the same principles used for customer and bank deposits. In event of bankruptcy or liquidation of the Group repayment of this debt is subordinated to the repayments of the Group's liabilities to all other creditors.

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

Share capital and share premium – Share capital is recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at cost. Gains and losses on sales of treasury stock are charged or credited to share premium.

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.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. 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.

Retirement and other benefit obligations – The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

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.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis calculated using the effective yield method. The recognition of interest income is suspended when loans become overdue by more than 30 days. Interest income also includes interest income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange – The exchange rates at year-end used by the Group in the preparation of the financial statements are as follows:

	31 December 2003	31 December 2002
KZT/USD	144.22	155.85
KZT/EUR	180.23	162.46

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

Fiduciary activities – The Group provides trustee services to its customers. Also the Group provides depository services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Group's financial statements. The Group accepts the operational risk on these activities, but the Group's customers bear the credit and market risks associated with such operations.

Reclassifications – Certain reclassifications have been made to the consolidated financial statements as of 31 December 2002 to conform to the presentation as of 31 December 2003.

4. NET INTEREST INCOME

Net interest income comprises:

	2003	2002
Interest income		
Interest on loans and advances to customers	6,229,448	4,428,926
Interest on debt securities	617,996	367,187
Interest on loans and advances to banks	82,054	81,671
Interest on reverse repos transactions	32,646	-
Total interest income	<u>6,962,144</u>	<u>4,877,784</u>

Interest expense

Interest on customer accounts	2,371,351	1,621,310
Interest on deposits from banks	604,602	495,052
Interest on subordinated debt	342,047	181,652
Interest on repos transactions	15,540	-
Total interest expense	<u>3,333,540</u>	<u>2,298,014</u>
Net interest income before provision for loan losses	<u>3,628,604</u>	<u>2,579,770</u>

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT AND PROVISIONS

The movements in allowance for losses on interest earning assets were as follows:

	Loans and advances to customers
31 December 2001	(914,459)
Provision	(1,037,084)
Assets write-offs	414,911
31 December 2002	<u>(1,536,632)</u>
Provision	(1,434,198)
Assets write-offs	631,903
Transfer to other assets	51,437
31 December 2003	<u>(2,287,490)</u>

The movements in allowances for losses on other transactions were as follows:

	Securities available-for-sale	Other assets	Guarantees and other commitments	Total
31 December 2001	-	(4,043)	(26,281)	(30,324)
Recovery/(provision)	(44,000)	(59,538)	(41,341)	(144,879)
Write-offs	-	-	-	-
Recovery	-	-	-	-
31 December 2002	<u>(44,000)</u>	<u>(63,581)</u>	<u>(67,622)</u>	<u>(175,203)</u>
Recovery/(provision)	-	(31,144)	26,001	(5,143)
Write-offs	-	145,639	2,998	148,637
Transfer from loans to customers	-	(51,437)	-	(51,437)
31 December 2003	<u>(44,000)</u>	<u>(523)</u>	<u>(38,623)</u>	<u>(83,146)</u>

Allowances for losses on other assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

6. NET GAIN ON TRADING SECURITIES

Net gain on trading securities comprise KZT 111,886 thousand from the dealing transactions with debt securities for the year ended 31 December 2003.

7. NET (LOSS)/GAIN ON INVESTMENT SECURITIES

Net (loss)/gain on investments securities include results from operations with available-for-sale securities and comprise:

	2003	2002
Net (loss)/gain on derecognition of securities available-for-sale	(16,034)	30,933
Fair value adjustment on securities available-for-sale	12,245	56,104
Total net (loss)/gain on investment securities	<u>(3,789)</u>	<u>87,037</u>

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	2003	2002
Trading, net	485,201	297,032
Translation differences, net	(32,672)	(46,402)
Total net gain on foreign exchange operations	<u>452,529</u>	<u>250,630</u>

9. FEES AND COMMISSIONS INCOME AND EXPENSE

Fees and commissions income and expense comprise:

	2003	2002
Fees and commissions income:		
Cash operations	831,513	608,633
Settlements	681,450	488,064
Documentary operations	336,897	117,917
Foreign exchange operations	171,309	122,972
Loans operations	40,892	25,653
Safe operations	38,601	14,671
Other operations	108,997	72,521
Total fees and commissions income	<u>2,209,659</u>	<u>1,450,431</u>
Fees and commissions expense:		
Settlements	100,492	84,688
Cash operations	30,061	13,475
Brokerage services	20,233	6,952
Foreign exchange operations	11,576	18,154
Documentary operations	7,821	249
Other operations	37,215	42,722
Total fees and commissions expense	<u>207,398</u>	<u>166,240</u>

10. OTHER INCOME/(EXPENSES)

Other income/(expenses) for the year ended 31 December 2003 includes net gain from penalties received amounting to KZT 132,940 thousand, income from sales of fixed assets amounting to KZT 40,234 thousand, membership fees amounting to KZT 63,705 thousand, charity contributions amounting to KZT 6,800 thousand and net loss on precious metals operations amounting to KZT 15,025 thousand. Other income/(expenses) for the year ended 31 December 2002 includes net gain from sales of precious metals amounting to KZT 43,376 thousand, penalties amounting to KZT 40,938 thousand and membership fees amounting to KZT 45,775 thousand. Other amounts related to the results of operations of consolidated entities.

11. OPERATING EXPENSES

	2003	2002
Salary and bonuses	1,160,840	738,576
Depreciation of fixed and intangible assets	345,342	170,901
Advertising expenses	290,480	194,358
Social security costs	251,215	168,086
Administrative services	245,013	369,955
Taxes, other than income tax	202,306	173,741
Other employees' benefits	176,488	166,228
Communication expenses	155,699	-
Repairs and maintenance expense	126,598	64,688
Lease expenses	108,569	71,249
Professional services fees	96,473	16,174
Business trip expenses	75,515	61,643
Presentation expense	33,788	8,254
Other	119,402	113,196
Total operating expenses	<u>3,387,728</u>	<u>2,317,049</u>

12. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstani statutory tax regulations which may differ from IFRS.

Tax liabilities consist of the following:

	2003	2002
Current tax liabilities	-	-
Deferred tax liabilities	62,403	-
Tax liabilities	<u>62,403</u>	<u>-</u>

The Group is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations.

Deferred tax reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003 and 2002 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003 and 2002 comprise:

	2003	2002
Deferred assets:		
Loans to banks and customers	155,761	1,482,841
Total deferred assets	<u>155,761</u>	<u>1,482,841</u>
	2003	2002
Deferred liabilities:		
Fixed assets	(513,517)	(244,651)
Total deferred liabilities	<u>(513,517)</u>	<u>(244,651)</u>
Net deferred (liabilities)/assets	(357,756)	1,238,190
Deferred tax (liabilities)/assets at the statutory rate (30%)	(107,327)	371,457
Less: valuation allowance	-	(371,457)
Net deferred tax (liabilities)/assets	(107,327)	-
Loss carry forward at the statutory tax rate (30%)	44,924	-
Net deferred tax (liabilities)/assets	<u>(62,403)</u>	<u>-</u>

Relationships between tax expenses and accounting profit for the year ended 31 December 2003 and 2002 are explained as follows:

	2003	2002
Profit before income tax	<u>1,386,337</u>	<u>666,468</u>
Statutory tax rate	30%	30%
Tax at the statutory tax rate	415,901	199,940
Tax effect of permanent differences	106,605	(401,144)
Loss carry forward	(29,973)	-
Change in valuation allowance	(371,457)	221,939
Income tax (credit)/expense	<u>121,076</u>	<u>20,735</u>
Current income tax expense	58,673	20,735
Deferred tax expenses	62,403	-
Income tax (credit)/expense	<u>121,076</u>	<u>20,735</u>
	2003	2002
Deferred income tax liabilities		
At beginning of the period	-	-
Increase in the deferred income tax for the period	(62,403)	-
At end of the period	<u>(62,403)</u>	<u>-</u>

13. MINORITY INTEREST

The table below represents the movements in minority interests of the Group:

	2003	2002
Minority interest at 1 January	2,083	18,550
Share of net loss	(28,640)	(98)
Acquisition of subsidiaries	73,049	-
Disposal of subsidiaries	-	(16,369)
Minority interest at 31 December	46,492	2,083

14. EARNINGS PER SHARE

	2003	2002
Net income	1,293,901	645,831
Weighted average number of shares	20,340,124	13,735,650
Earnings per share in KZT	63.61	47.02

15. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

	2003	2002
Cash on hand	2,953,350	1,711,368
Balance with the National Bank of the Republic of Kazakhstan	2,394,391	1,461,755
Precious metals	889	938
Time deposit with the National Bank of the Republic of Kazakhstan	300,000	-
Total cash and balances with the National Bank of the Republic of Kazakhstan	5,648,630	3,174,061

The balances with the National Bank of the Republic of Kazakhstan as of 31 December 2003 and 2002 include KZT 1,384,309 thousand and KZT 984,647 thousand, respectively, which represents the minimum reserve deposits. The Group is required to maintain the reserve balance so the average value of reserve balance is no less than average value of minimum reserve balance requirements for the appropriate period of reserve assets and reserve liabilities. The Group may use such funds if compliance with certain criterions.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	2003	2002
Cash and balance with the National Bank of the Republic of Kazakhstan	5,647,741	3,173,123
Loans and advances to banks of OECD countries	5,595,746	3,244,222
Precious metals in vault	889	938
Total cash and cash equivalents	11,244,376	6,418,283

16. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

	2003	2002
Correspondent accounts of other banks	6,513,721	2,344,222
Short-term deposits	2,922,039	1,918,344
Long-term deposits	57,688	-
Accrued interest income on loans and advances to banks	605	8,347
Total loans and advances to banks	<u>9,494,053</u>	<u>4,270,913</u>

As of 31 December 2003 and 2002 the Group had 3 and 2 loans and advances totaling KZT 3,341,112 thousand and KZT 1,788,042 thousand, respectively, which individually exceeded 10% of the Group's equity.

17. TRADING SECURITIES

	Interest to nominal	2003	Interest to nominal	2002
Bank of Development of the Republic of Kazakhstan bonds	7.13-7.38%	878,903	-	-
US treasury bonds	3.38-4.25%	288,974	-	-
OJSC KazTransOil bonds	8.50%	123,366	-	-
OJSC Bank TuranAlem bonds	10-11.5%	121,654	-	-
Total trading securities		<u>1,412,897</u>		<u>-</u>

As of 31 December 2003 included in trading securities is accrued interest income on debt securities amounting to KZT 15,352 thousand.

Corporate bonds represent bonds of prime Kazakh corporations with maturities between 3 and 10 years.

US State Treasury Bonds are USD denominated government securities with maturities between 5 and 10 years.

As of 31 December 2003 included in trading securities were corporate bonds sold under repos agreements with other banks and legal entities amounting to KZT 922,067 thousand. All the agreements have maturity within one month.

18. SECURITIES PURCHASED UNDER REPOS AGREEMENTS

As of 31 December 2003 the Group purchased fixed income debt securities amounting to KZT 68,182 thousand and KZT 100,001 thousand, respectively, under repos agreements with maturity within 14 months. An effective interest rate of 2.5% (2002: 3.5%) was accrued as income on the above securities.

19. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	2003	2002
Originated loans	52,648,291	34,898,849
Accrued interest income on loans and advances to customers	1,707,960	1,744,946
	<u>54,356,251</u>	<u>36,643,795</u>
Less allowance for loan losses	(2,287,490)	(1,536,632)
Total loans and advances to customers, net	<u>52,068,761</u>	<u>35,107,163</u>

	2003	2002
Loans collateralized by real estate	32,865,191	21,271,637
Loans collateralized by goods in turnover	7,096,658	3,628,747
Loans collateralized by equipment	5,119,777	3,304,269
Loans collateralized by other assets	3,212,810	3,263,932
Loans collateralized by corporate guarantees	1,702,898	914,745
Loans collateralized by cash	1,080,316	1,294,952
Loans collateralized by precious metals	791,351	478,931
Unsecured loans	779,290	741,636
Accrued interest income on loans and advances to customers	1,707,960	1,744,946
	<u>54,356,251</u>	<u>36,643,795</u>
Less allowance for loan losses	(2,287,490)	(1,536,632)
Total loans and advances to customers, net	<u>52,068,761</u>	<u>35,107,163</u>

Movements in allowances for loan losses for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

As of 31 December 2003 and 2002 the Group had 13 and 4 loans totaling KZT 14,760,011 thousand and KZT 3,754,000 thousand, respectively, which individually exceeded 10% of the Group's equity.

As of 31 December 2003 and 2002 included in loans and advance to customers are non-accrual loans amounting to KZT 489,888 thousand and KZT 372,891 thousand, respectively, on which interest was not accrued.

Analysis by sector	2003	2002
Trading	14,366,127	9,252,184
Retail loans and mortgage	8,386,031	6,111,571
Food industry	7,445,442	3,324,375
Manufacturing	6,160,992	3,858,537
Mining of precious metals	3,725,974	2,188,779
Construction	2,360,533	1,636,614
Agriculture	2,619,504	1,960,830
Oil and gas	1,486,922	1,081,089
Telecommunications and transport	1,554,075	768,611
Real estate	1,523,321	537,501
Mass media	466,034	469,352
Energy	364,592	1,137,777
Metallurgy	323,877	18,049
Machinery	74,377	50,764
Financial sector	70,537	26,073
Other mining	-	903,316
Other	3,427,913	3,318,373
	<u>(2,287,490)</u>	<u>(1,536,632)</u>
Total loans and advances to customers, net	<u>52,068,761</u>	<u>35,107,163</u>

20. INVESTMENT SECURITIES

	2003	2002
Securities available-for-sale	9,043,865	4,207,609
Securities held-to-maturity	-	908,809
	<u>9,043,865</u>	<u>5,116,418</u>
Less allowance for impairment	(44,000)	(44,000)
Total investment securities, net	<u>8,999,865</u>	<u>5,263,450</u>

Movements in allowances for impairment for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

Available-for-sale securities comprise:

	% in equity	2003	2002
Shares			
OJSC Aliance Bank	6.9	250,000	-
OJSC ValutTransitBank	2.9	91,429	-
CJSC Astana Hotel (100 % impairment)	-	44,000	44,000
JSC Oil Insurance Company	5.45	37,606	-
CJSC Halyk Pension Fund	6.57	17,400	35,400
CJSC Pension Fund Korgau	5.58	17,000	17,000
CJSC Processing center	1.37	10,000	10,000
OJSC HSBK	-	6,378	4,196
OJSC Kazakhtelecom	-	1,792	-
OJSC Almaty Kus	-	-	150,000
OJSC Temirbank	-	-	16,915
CJSC Kazinterbank	-	-	12,481
OJSC KIB	-	-	125,557
Other	-	14,240	3,946
		<u>489,845</u>	<u>419,495</u>

	Interest to nominal		Interest to nominal
Debt securities			
NBRK notes	-	2,348,494	348,088
Eurobonds issued by the Republic of Kazakhstan	11.13%-13.63%	1,769,905	1,632,634
Eurobonds issued by legal entities	7.38%-12%	2,455,466	1,888,008
Treasury bills of the Ministry of Finance	4%-16.3%	1,911,943	-
OJSC Astana Finance	9%	15,489	-
OJSC Valut Transit Bank	10%	48,564	-
Other securities		4,159	110,416
		<u>8,554,020</u>	<u>3,979,146</u>
Total securities available-for-sale		<u>9,043,865</u>	<u>4,398,641</u>
Less allowance for impairment		(44,000)	(44,000)
Total securities available for sale, net		<u>8,999,865</u>	<u>4,354,641</u>

As of 31 December 2003 and 2002 included in securities available-for-sale was accrued interest income amounting to KZT 107,261 thousand and KZT 78,131 thousand, respectively.

As of 31 December 2003 included in available-for-sale securities were corporate bonds pledged under repos agreements with other banks amounting to KZT 696,899 thousand. All the agreements have maturity within one month.

NBRK notes are KZT denominated government securities issued at discount to face value and guaranteed by the National Bank of the Republic of Kazakhstan with maturities from 6 months to 12 months.

Treasury bills of the Ministry of Finance are KZT denominated short-term and mid-term government securities issued at premium to face value and guaranteed by the Ministry of Finance of the Republic of Kazakhstan with maturities from 2 years to 10 years.

The Republic of Kazakhstan Government Eurobonds are securities issued by the Ministry of Finance of the Republic of Kazakhstan, and freely tradeable internationally. The Group's portfolio of Kazakhstani Eurobonds consists of 2 tranches with maturity dates of 18 October 2004 and 11 May 2007. The interest on these bonds is payable semi-annually.

Corporate bonds represent bonds of prime Kazakh corporations with maturities between 3 and 10 years.

There are no appropriate or workable methods of reasonably estimating fair value of these investments, therefore these investments are stated at cost.

Held-to-maturity securities comprise of treasury bills of the Ministry of Finance of KZT 908,809 thousand as of 31 December 2002.

As of 31 December 2002 included in securities held-to-maturity was accrued interest income on debt securities amounting to KZT 20,638 thousand.

Treasury bills of the Ministry of Finance are KZT denominated government securities issued at premium to face value and guaranteed by the Ministry of Finance of the Republic of Kazakhstan with maturities from 2 years to 10 years.

21. INVESTMENTS INTO ASSOCIATES

The following enterprises are accounted for in the financial statements using the equity method:

Name	Country of incorporation	Ownership interest		2003	2002
		2003	2002		
CJSC Oil Insurance Company	Kazakhstan	5.45%	25%	-	63,927
JSC APF Capital	Kazakhstan	50%	25%	-	36,207
Total investments into associates				-	100,134

As of 31 December 2003 the Bank has acquired control over JSC APF Capital (the "Fund"). The principal activities of the Fund are pension fund operations. As of 31 December 2003 the ownership interest of the Group in the share capital of the Company is 50%. It is accounted for in 2003 under the consolidation method (see Note 1).

As of 31 December 2003 the ownership interest of the Group in the share capital of the Oil Insurance Company is 5.45%.

22. FIXED AND INTANGIBLE ASSETS

	Building	Furniture and equipment	Construction in progress	Intangible assets	Total
At cost					
31 December 2002	810,266	1,259,584	216,300	155,235	2,441,385
Additions	453,867	739,939	20,217	80,184	1,294,207
Disposals	(38,587)	(33,462)	(173,225)	(58)	(245,332)
31 December 2003	<u>1,225,546</u>	<u>1,966,061</u>	<u>63,292</u>	<u>235,361</u>	<u>3,490,260</u>
Accumulated depreciation					
31 December 2002	(95,118)	(317,722)	-	(43,951)	(456,791)
Charge for the period	(31,458)	(272,399)	-	(41,485)	(345,342)
Disposals	292	20	-	58	370
31 December 2003	<u>(126,284)</u>	<u>(590,101)</u>	<u>-</u>	<u>(85,378)</u>	<u>(801,763)</u>
Net book value					
31 December 2003	<u><u>1,099,262</u></u>	<u><u>1,375,960</u></u>	<u><u>63,292</u></u>	<u><u>149,983</u></u>	<u><u>2,688,497</u></u>
Net book value					
31 December 2002	<u><u>715,148</u></u>	<u><u>941,862</u></u>	<u><u>216,300</u></u>	<u><u>111,284</u></u>	<u><u>1,984,594</u></u>

23. OTHER ASSETS

Other assets comprise:

	2003	2002
Receivable from sale of collateral repossessed	472,322	88,838
Prepayments and receivables on other transactions	452,135	358,450
Western Union and other wireless transfers	122,055	58,872
Inventory	118,432	33,973
Debtors on capital investments	82,691	89,891
Taxes receivable (other than income tax)	79,008	83,545
Due from the Government on foreign exchange losses for long term loans	49,782	44,313
Accrued commission	41,603	10,626
Travelers cheques	17,351	27,705
Advances to employees	3,334	36,151
Other assets	93,943	84,264
	<u>1,532,656</u>	<u>916,628</u>
Allowance for losses on other assets	(523)	(63,581)
Total other assets	<u><u>1,532,133</u></u>	<u><u>853,047</u></u>

As of 31 December 2003 and 2002, prepayments and other receivables comprise mainly prepayments for rent KZT 79,106 thousand and KZT nil, respectively.

Movements in allowances for losses for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

24. DEPOSITS FROM BANKS

Deposits from banks comprise:

	2003	2002
Short-term loans from other banks	6,685,869	3,214,929
Syndicated loan	5,191,920	2,337,750
Other time deposits from banks	4,802,129	1,500,921
Loans from international lending agencies	2,670,569	1,005,632
Demand deposits and vostro accounts	605,231	27,534
Borrowings from the Government of Kazakhstan and NBRK	585,609	695,081
Accrued interest expense on deposits from banks	187,056	128,453
Total deposits from banks	<u>20,728,383</u>	<u>8,910,300</u>

25. SECURITIES SOLD UNDER REPOS AGREEMENTS

As of 31 December 2003 and 2002 securities sold under repos agreements are commitments of the Group to repurchase fixed income securities for the amount of KZT 1,332,711 thousand and KZT 75,671 thousand, respectively. The securities sold under the said agreements are included in available-for-sale portfolio of the Group at fair value of KZT 569,809 thousand as of 31 December 2003. The maturity of the agreements is within one month. A coupon of 6.25% of the nominal value was paid under the agreement.

26. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2003	2002
Time deposits	31,505,738	21,522,508
Repayable on demand	15,772,630	13,226,195
Accrued interest expense on customer accounts	364,996	392,523
Total customer accounts	<u>47,643,364</u>	<u>35,141,226</u>

As of 31 December 2003 and 2002 customer accounts amounting to KZT 6,018,197 thousand and KZT 4,067,780 thousand were due to 4 and 5 customers, respectively, which represents significant concentration.

Analysis of customer accounts by industry:

	2003	2002
Individuals	20,962,386	14,978,382
Insurance	4,906,777	3,517,946
Fuel	4,120,043	2,903,965
Trade	3,194,544	2,196,248
Transportation and communication	1,668,926	1,627,085
Agriculture	1,597,560	770,429
Manufacturing	695,846	609,545
Machinery	169,808	449,909
Real estate constructions	162,358	64,056
Energy	142,656	115,360
Chemical	40,950	126,661
Metallurgy	325	364,550
Other	9,616,189	7,024,567
Accrued interest expense on customer accounts	364,996	392,523
Total customer deposits	<u>47,643,364</u>	<u>35,141,226</u>

27. OTHER LIABILITIES

	2003	2002
Settlement on other transactions	376,433	235,617
Allowance for losses on guarantees and credit related commitments	38,623	67,622
Taxes payable, other than income tax	35,064	39,064
Advances received	9,075	7,397
Other	39,341	11,199
Accrued interest expense	58,458	41,682
Total other liabilities	<u>556,994</u>	<u>402,581</u>

28. SUBORDINATED DEBT

Subordinated debt comprise:

	2003	2002
Interest bearing notes (Indexed in KZT)	3,453,549	1,478,224
Interest bearing notes (USD)	648,530	696,587
	<u>4,102,079</u>	<u>2,174,811</u>

Discount on the interest bearing notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

As of 31 December 2003 and 2002 interests rates on interest bearing notes denominated in foreign currency were 12% per annum, interest rates on the interest bearing notes denominated in Tenge range from 10% to 13.3% per annum and equal to 10% per annum, respectively.

29. SHAREHOLDERS' EQUITY

As of 31 December 2003 and 2002 share capital authorized, issued and fully paid comprised of 25,316,695 and 15,316,695 ordinary shares, respectively with par value of KZT 200 each. All ordinary shares are ranked equally and carry one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

For the years ended 31 December 2003 and 2002 the Group issued 10,000,000 and 2,901,315 ordinary shares, respectively.

30. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2003 and 2002, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	2003		2002	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments				
Guarantees issued and other similar commitments	3,907,898	3,907,898	4,139,491	4,139,491
Letters of credit and other transaction related contingent liabilities	831,149	339,239	411,106	300,865
Total contingent liabilities and credit commitments	4,739,047	4,247,137	4,550,597	4,440,356

Capital commitments – The Group had no material commitments for capital expenditures outstanding as of 31 December 2003.

Rental commitments – No material rental commitment was outstanding as of 31 December 2003.

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

Fiduciary activities – In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client. These amounts are the average balance of the clients' funds under the management of the Group during 2003 and 2002, including assets under trusteeship as of 31 December 2003 and 2002 in the amount of KZT 5,572,000 thousand and KZT 3,904,161 thousand, respectively.

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

Taxes – Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for five years.

31. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group .

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	2003		2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers, gross	450,958	54,356,251	372,077	36,643,795
Allowance for losses on loans to customers	68,872	2,287,490	25,923	1,536,632
Investment securities:				
- held-to-maturity;	-	-	93,839	908,809
- available-for-sale;	71,800	8,999,865	-	-
Subordinated debt	9,054	4,102,079	-	-
Customers accounts	-	-	99,864	35,141,226
Guarantees given	5,913	3,907,898	2,338	4,139,491
Allowance for guarantees	-	-	117	67,622

During the years ended 31 December 2003 and 2002 the Group originated loans and advances to customers – related parties amounting to KZT 335,580 thousand and KZT 419,927 thousand, respectively, and received loans and advances repaid of KZT 256,699 thousand and KZT 40,278 thousand, respectively. The Group has interest income accrued in respect of loans and advances granted to related parties totaling KZT 67,845 thousand and KZT 63,567 thousand, respectively, as of 31 December 2003 and 2002.

During the year ended 31 December 2002 the Group received deposits and advances from banks and customers – related parties of KZT 99,864 thousand and deposits and advances repaid totaling KZT 8,708 thousand.

As of 31 December 2003 and 2002 the Group purchased/sold securities under repos agreements from/to related parties for the total of KZT 71,800 thousand and KZT 93,839 thousand, respectively.

During the years ended 31 December 2003 and 2002 the Group issued guarantees and standby letters of credit on behalf of related parties of KZT 123,511 thousand and KZT 14,329 thousand, respectively.

Included in the profit and loss account for the years ended 31 December 2003 and 2002 are the following amounts which arose due to transactions with related parties:

	2003		2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income				
- related companies	40,768	6,962,144	26,946	4,877,784
- directors	5,006	6,962,144	3,812	4,877,784
Interest expense				
- related companies	226	3,333,540	170	2,298,014

Transactions with related parties entered by the Group during the years ended 31 December 2003 and 2002 and outstanding as of 31 December 2003 and 2002 were made in the normal course of business and mostly under arm-length conditions.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2003 and 2002 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with the National Bank of the Republic of Kazakhstan – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – As of 31 December 2003 and 2002, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

Trading securities – As of 31 December 2003 trading securities are stated at fair value amounting to KZT 1,397,545 thousand plus accrued interest income totaling KZT 15,352 thousand. Fair value of trading securities was determined with reference to an active market.

Securities purchased under repos agreements – As of 31 December 2003 and 2002, the carrying value of securities purchased under repos agreements is determined based on market value of backed securities and other assets with reference to an active market.

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

Securities available-for-sale – As of 31 December 2003 and 2002 securities available-for-sale are stated at fair value amounting to KZT 8,892,604 thousand and KZT 4,276,510 thousand, respectively, plus accrued coupon income totaling KZT 107,261 thousand and KZT 78,131, respectively. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and/or maturity, in other cases – by reference to the share in estimated equity capital of investee. If such quotes do not exist, management estimation is used. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value.

Securities held-to-maturity – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums or discounts, respectively. The fair value of securities held-to-maturity as of 31 December 2002 was KZT 895,205 thousand plus accrued interest income totaling KZT 20,638 thousand, respectively. Fair value of securities held-to-maturity was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and/or maturity.

Deposits from banks – As of 31 December 2003 and 2002 the carrying amount of term deposits and deposits repayable on demand of KZT 20,728,383 thousand and KZT 8,910,300 thousand, respectively, is a reasonable estimate of their fair value. It was determined based on a interest rates model using interest rates on deposits with similar credit risk level and maturity period current at the reporting date.

Customer accounts – As of 31 December 2003 and 2002, the carrying amount of customer deposits and current customer accounts is a reasonable estimate of their fair value.

Securities sold under repos agreements – As of 31 December 2003 and 2002 the carrying value of securities sold under repos agreement amounting to KZT 1,332,711 thousand and KZT 75,671 thousand, respectively, is a reasonable estimate of their fair value.

Subordinated debt – As of 31 December 2003 and 2002 the carrying amount of short-term subordinated debt is a reasonable estimate of its fair value. As of 31 December 2003 and 2002 the fair value of long-term subordinated debt with carrying value of KZT 4,102,079 thousand and KZT 2,174,811 thousand, respectively, was determined based on a interest rates model using interest rates on debt with similar credit risk level and maturity period current at the reporting dates.

33. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus minority interest and the Group's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimate	Description of position
0%	Cash and balances with the NBRK
0%	State debt securities in KZT
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Guarantees
100%	Other assets

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

Capital amounts and ratios	Actual Amount in KZT thousand	For Capital Adequacy purposes Amount in KZT thousand	Ratio For Capital Adequacy purposes	Minimum Required Ratio
At 31 December 2003				
Total capital	7,440,592	11,882,954	17.24%	8%
Tier 1 capital	5,168,010	7,161,970	10.39%	4%
At 31 December 2002				
Total capital	4,146,691	6,351,015	13.69%	8%
Tier 1 capital	3,168,010	3,862,472	8.13%	4%

During computation of total capital for capital adequacy purposes as of 31 December 2003 the Group included the subordinated loan received, limited to 50% of Tier 1 capital. The loan matures in the period from 17 December 2005 to 7 July 2010 and bears interest rates varying from 10% to 13.3% per annum. In the event of bankruptcy or liquidation of the Group repayment of this debt is subordinated to the repayments of the Group's liabilities to all other creditors.

34. RISK MANAGEMENT POLICIES

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

The Group manages the following risks:

Credit risk – Assets and Liabilities Management Committee sets limits on size and structure of risk assets. The Credit Committee approves each new loan and lease, and any changes and amendments to such agreements. The Credit Department performs current monitoring.

Liquidity risk – The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimisation. Risk Analysis and Management Department performs determination of the optimum structure of balance, limits on liquidity ratios and gap-positions approved by the Assets and Liabilities Management Committee. Risk Analysis and Management Department performs monitoring of liquidity ratios.

Currency risk – The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. Risk Analysis and Management Department determines limits on open currency positions, arbitrary positions and stop-loss. All limits and restrictions are approved by the Assets and Liabilities Management Committee. Risk Analysis and Management Department performs monitoring.

Interest rate and market risks – The Treasury Department performs management of interest rate and market risks through determination of the transferring rates and general rates of borrowed and allocated resources, which enables the Group to avoid negative interest margin. Risk Analysis and Management Department develops limits for interest gaps and performs monitoring of spread level and net interest margin. Assets and Liabilities Management Committee approves limits on interest gaps, transferring rates and general interest rates for borrowed and allocated resources.

Country risk – The Management of the Group performs risk optimisation related to changes in legislation and regulative documents, and its impact on the Group.

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The following table presents an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2003 KZT thousand Total
ASSETS							
Fixed interest rate bearing assets:							
Loans and advances to banks	9,189,186	-	247,179	57,688	-	-	9,494,053
Trading securities	1,412,897	-	-	-	-	-	1,412,897
Securities purchased under repos agreement	33,173	-	35,009	-	-	-	68,182
Loans and advances to customers, less allowance for loan losses	5,800,931	7,186,415	23,947,456	16,477,950	943,499	(2,287,490)	52,068,761
Investment securities, less allowance for impairment	6,970,474	117,539	-	1,466,007	-	-	8,554,020
Total fixed interest rate bearing	<u>23,406,661</u>	<u>7,303,954</u>	<u>24,229,644</u>	<u>18,001,645</u>	<u>943,499</u>	<u>(2,287,490)</u>	<u>71,597,913</u>
Cash and balances with the NBRK	5,648,630	-	-	-	-	-	5,648,630
Investment securities, less allowance for impairment	489,845	-	-	-	-	(44,000)	449,845
Fixed and intangible assets, less accumulated depreciation	-	-	-	-	2,688,497	-	2,688,497
Other assets, less allowance for losses	1,454,010	-	-	78,646	-	(523)	1,532,133
TOTAL ASSETS	<u>30,999,146</u>	<u>7,303,954</u>	<u>24,229,644</u>	<u>18,080,291</u>	<u>3,631,996</u>	<u>(2,332,013)</u>	<u>81,913,018</u>
LIABILITIES							
Fixed interest rate bearing liabilities:							
Deposits from banks	2,264,992	2,007,308	11,850,328	4,605,755	-	-	20,728,383
Securities sold under repos agreements	1,332,711	-	-	-	-	-	1,332,711
Customer accounts	19,932,952	8,037,910	11,777,648	7,894,854	-	-	47,643,364
Subordinated loan	-	-	-	-	4,102,079	-	4,102,079
Total fixed interest bearing liabilities	<u>23,530,655</u>	<u>10,045,218</u>	<u>23,627,976</u>	<u>12,500,609</u>	<u>4,102,079</u>	<u>-</u>	<u>73,806,537</u>
Income tax liabilities	-	-	62,403	-	-	-	62,403
Other liabilities	404,955	65,153	12,303	35,960	-	38,623	556,994
TOTAL LIABILITIES	<u>23,935,610</u>	<u>10,110,371</u>	<u>23,702,682</u>	<u>12,536,569</u>	<u>4,102,079</u>	<u>38,623</u>	<u>74,425,934</u>
Liquidity gap	<u>7,063,536</u>	<u>(2,806,417)</u>	<u>526,962</u>	<u>5,543,722</u>	<u>(470,083)</u>		
Interest sensitivity gap	<u>(123,994)</u>	<u>(2,741,264)</u>	<u>601,668</u>	<u>5,501,036</u>	<u>(3,158,580)</u>		
Cumulative interest sensitivity gap	<u>(123,994)</u>	<u>(2,865,258)</u>	<u>(2,263,590)</u>	<u>3,237,446</u>	<u>78,866</u>		
Cumulative interest sensitivity gap as a percentage of total assets	<u>(0.2%)</u>	<u>(3%)</u>	<u>(3%)</u>	<u>4%</u>	<u>0.01%</u>		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2002 KZT thousand Total
ASSETS							
Loans and advances to banks	3,651,946	516,419	102,548	-	-	-	4,270,913
Investment securities, less allowance for impairment losses	2,887,507	-	242,649	1,566,767	191,032	-	4,887,955
Loans and advances to customers, less allowance for possible loan losses	5,013,797	4,185,143	15,085,002	11,530,270	829,583	(1,536,632)	35,107,163
Securities purchased under repos agreement	100,001	-	-	-	-	-	100,001
Total interest earning assets	11,653,251	4,701,562	15,430,199	13,097,037	1,020,615	(1,536,632)	44,366,032
Cash and balances with the NBRK	3,174,061	-	-	-	-	-	3,174,061
Investments into associates	-	-	-	100,134	-	-	100,134
Investment securities, less allowance for impairment losses	419,495	-	-	-	-	(44,000)	375,495
Fixed and intangible assets, less accumulated depreciation	-	-	-	1,375,806	608,788	-	1,984,594
Other assets, less allowance for possible losses	589,069	2,487	28,069	297,003	-	(63,581)	853,047
TOTAL ASSETS	15,835,876	4,704,049	15,458,268	14,869,980	1,629,403	(1,644,213)	50,853,363
LIABILITIES							
Deposits from banks	1,314,191	1,315,128	5,648,587	632,394	-	-	8,910,300
Customer time deposits	3,144,907	6,192,854	11,462,663	1,114,607	-	-	21,915,031
Securities sold under repos agreements	75,671	-	-	-	-	-	75,671
Subordinated loan	-	-	-	701,235	1,473,576	-	2,174,811
Total interest bearing liabilities	4,534,769	7,507,982	17,111,250	2,448,236	1,473,576	-	33,075,813
Customer demand deposits	13,226,195	-	-	-	-	-	13,226,195
Other liabilities	168,473	45,277	114,060	7,149	-	67,622	402,581
TOTAL LIABILITIES	17,929,437	7,553,259	17,225,310	2,455,385	1,473,576	67,622	46,704,589
Liquidity gap	(2,093,561)	(2,849,210)	(1,767,042)	12,414,595	155,827		
Interest sensitivity gap	7,118,482	(2,806,420)	(1,681,051)	10,648,801	(452,961)		
Cumulative interest sensitivity gap	7,118,482	4,312,062	2,631,011	13,279,812	12,826,851		
Cumulative interest sensitivity gap as a percentage of total assets	14%	8%	5%	26%	25%		

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	KZT	USD	2003 Other currencies	KZT	USD	2002 Other currencies
ASSETS						
Loans and advances to banks	5.5%	2.5%	-	5.2%	3.8%	-
Trading securities	5.5%	4.5%	-	-	-	-
Securities purchased under repos agreement	2.5%	1.5%	-	3.5%	-	-
Loans and advances to customers	16%	15.2%	13.2%	17%	15.9%	8.9%
Investment securities:						
- available-for-sale	5.5%	4.5%	-	10%	8.5%	-
- held-to-maturity	-	-	-	11.5%	-	-
LIABILITIES						
Deposits from banks	-	-	-	11.5%	8.8%	-
Securities sold under repos agreements	2.5%	-	-	3.4%	-	-
Customer accounts	10%	6.2%	6%	12.37%	6.8%	5.8%
Subordinated debt	12%	10%	-	10.77%	11.64%	-

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	USD 1USD= KZT 144.22	EUR 1USD= KZT 180.23	Other currency	Allowance for losses	2003 KZT thousand Total
ASSETS						
Cash and balances with the NBRK	3,700,222	1,685,532	247,474	15,402	-	5,648,630
Loans and advances to banks	1,006,301	7,657,314	623,724	206,714	-	9,494,053
Trading securities	-	1,412,897	-	-	-	1,412,897
Securities purchased under repos agreement	68,182	-	-	-	-	68,182
Loans and advances to customers, less allowance for loan losses	29,324,757	24,581,177	450,317	-	(2,287,490)	52,068,761
Investment securities, less allowance for impairment	7,074,237	1,969,628	-	-	(44,000)	8,999,865
Fixed and other intangible assets, less accumulated depreciation	2,688,497	-	-	-	-	2,688,497
Other assets, less allowance for losses	1,302,480	225,757	4,391	28	(523)	1,532,133
TOTAL ASSETS	45,164,676	37,532,305	1,325,906	222,144	(2,332,013)	81,913,018
LIABILITIES						
Deposits from banks	1,494,441	18,653,546	580,396	-	-	20,728,383
Securities sold under repos agreements	321,010	1,011,701	-	-	-	1,332,711
Customer accounts	28,935,561	17,727,326	851,840	128,637	-	47,643,364
Subordinated debt	4,102,079	-	-	-	-	4,102,079
Income tax liabilities	62,403	-	-	-	-	62,403
Other liabilities	376,313	118,495	21,178	2,385	38,623	556,994
TOTAL LIABILITIES	35,291,807	37,511,068	1,453,414	131,022	38,623	74,425,934
OPEN BALANCE SHEET POSITION	9,872,869	21,237	(127,508)	91,122		

	KZT	USD 1USD= KZT 155.85	EUR 1USD= KZT 162.46	Gold bullion 1ounce= 54.111 KZT	Other currency	Allowance for losses	2002 KZT thousand
	Total						
ASSETS							
Cash and balances with the NBRK	670,146	2,305,005	72,039	227	126,644	-	3,174,061
Loans and advances to banks	1,026,691	3,229,524	14,698	-	-	-	4,270,913
Loans and advances to customers, less allowance for loan losses	20,032,058	16,526,217	85,520	-	-	(1,536,632)	35,107,163
Securities purchased under repos agreement	100,001	-	-	-	-	-	100,001
Investment securities, less allowance for impairment losses	2,792,989	2,514,461	-	-	-	(44,000)	5,263,450
Investments into associates	100,134	-	-	-	-	-	100,134
Fixed and other intangible assets, less accumulated depreciation	1,984,594	-	-	-	-	-	1,984,594
Other assets, less allowance for losses	163,992	700,419	6,623	-	45,594	(63,581)	853,047
TOTAL ASSETS	26,870,605	25,275,626	178,880	227	172,238	(1,644,213)	50,853,363
LIABILITIES							
Deposits from banks	1,100,949	7,623,306	186,045	-	-	-	8,910,300
Customer accounts	20,414,057	14,338,871	251,712	-	136,586	-	35,141,226
Securities sold under repos agreements	75,671	-	-	-	-	-	75,671
Subordinated debt	1,478,224	696,587	-	-	-	-	2,174,811
Other liabilities	76,300	248,989	6,358	-	3,312	67,622	402,581
TOTAL LIABILITIES	23,145,201	22,907,753	444,115	-	139,898	67,622	46,704,589
OPEN BALANCE SHEET POSITION	3,725,404	2,367,873	(265,235)	227	32,340		

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrower and product (by industry sector, by region) are approved by the Credit Committee. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guaranties. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

Geographical concentration

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

	Kazakhstan	Other CIS countries	OECD countries	Allowance for losses	2003 Total Thousand KZT
Cash and balances with the NBRK	5,648,630	-	-	-	5,648,630
Loans and advances to banks	2,176,328	1,721,979	5,595,746	-	9,494,053
Trading securities	1,412,897	-	-	-	1,412,897
Securities purchased under repos agreement	68,182	-	-	-	68,182
Loans and advances to customers, less allowance for loan losses	54,356,251	-	-	(2,287,490)	52,068,761
Investment securities, less allowance for impairment	9,043,865	-	-	(44,000)	8,999,865
Fixed and other intangible assets, less accumulated depreciation	2,688,497	-	-	-	2,688,497
Other assets, less allowance for losses	1,532,656	-	-	(523)	1,532,133
TOTAL ASSETS	76,927,306	1,721,979	5,595,746	(2,332,013)	81,913,018
LIABILITIES					
Deposits from banks	4,188,187	721,617	15,818,579	-	20,728,383
Securities sold under repos agreements	1,332,711	-	-	-	1,332,711
Customer accounts	47,643,364	-	-	-	47,643,364
Subordinated debt	4,102,079	-	-	-	4,102,079
Income tax liabilities	62,403	-	-	-	62,403
Other liabilities	518,371	-	-	38,623	556,994
TOTAL LIABILITIES	58,877,115	721,617	15,818,579	38,623	74,425,934
NET BALANCE SHEET POSITION	19,080,191	1,000,362	(10,222,833)		

	Kazakhstan	Other CIS countries	OECD countries	Allowance for losses	2002 Total Thousand KZT
Cash and balances with the NBRK	3,174,061	-	-	-	3,174,061
Loans and advances to banks	1,026,691	-	3,244,222	-	4,270,913
Securities purchased under repos agreement	100,001	-	-	-	100,001
Loans and advances to customers, less allowance for loan losses	36,643,795	-	-	(1,536,632)	35,107,163
Investment securities, less allowance for impairment losses	5,307,450	-	-	(44,000)	5,263,450
Investments into associates	100,134	-	-	-	100,134
Fixed and other intangible assets, less accumulated depreciation	1,984,594	-	-	-	1,984,594
Other assets, less allowance for losses	916,628	-	-	(63,581)	853,047
TOTAL ASSETS	49,253,354	-	3,244,222	(1,644,213)	50,853,363
LIABILITIES					
Deposits from banks	8,910,300	-	-	-	8,910,300
Securities sold under repos agreements	75,671	-	-	-	75,671
Customer accounts	35,141,226	-	-	-	35,141,226
Subordinated debt	2,174,811	-	-	-	2,174,811
Other liabilities	334,959	-	-	67,622	402,581
TOTAL LIABILITIES	46,636,967	-	-	67,622	46,704,589
NET BALANCE SHEET POSITION	2,616,387	-	3,244,222		

OJSC “BANK CENTERCREDIT”

Independent auditors’ report

Consolidated Financial Statements
Years Ended 31 December 2002 and 2001

OJSC BANK CENTERCREDIT

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of OJSC Bank Centercredit:

We have audited the accompanying consolidated balance sheets of OJSC Bank Centercredit and its subsidiaries (collectively referred to as the "Group") as at 31 December 2002 and 2001 and the related consolidated profit and loss accounts, consolidated statements of cash flows and consolidated statements of shareholders' equity for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated 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. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 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.

Without qualifying our opinion we draw your attention to Notes 2 and 10 to the consolidated financial statements. The consolidated financial statements of the Group as at 31 December 2001 and for the year then ended were restated due to change of the classification of trading securities to securities available-for-sales for more appropriate presentation as further discussed in Notes 2 and 10 to the accompanying financial statements.

Deloitte & Touche

20 June 2003

OJSC BANK CENTERCREDIT

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001 (in thousands of Kazakhstan Tenge)

	Notes	2002	2001 (Restated)
Interest income	3,20	4,877,784	2,840,646
Interest expenses	3,20	<u>(2,298,014)</u>	<u>(1,608,259)</u>
NET INTEREST INCOME BEFORE PROVISION FOR POSSIBLE LOAN LOSSES		2,579,770	1,232,387
Provision for possible loan losses	9,20	<u>(1,037,084)</u>	<u>(351,670)</u>
NET INTEREST INCOME		<u>1,542,686</u>	<u>880,717</u>
Net gain on investment securities	4A	87,037	183,387
Net gain on foreign exchange operations		250,630	240,193
Fee and commission income		1,450,431	1,048,508
Fee and commission expense		(166,240)	(165,571)
Other (expenses)/income	4B	<u>(33,611)</u>	<u>30,518</u>
NET NON-INTEREST INCOME		<u>1,588,247</u>	<u>1,337,035</u>
OPERATING INCOME		3,130,933	2,217,752
OPERATING EXPENSES	5	<u>(2,317,049)</u>	<u>(2,004,105)</u>
PROFIT BEFORE OTHER PROVISIONS, (LOSS)/INCOME FROM ASSOCIATES, INCOME TAX AND MINORITY INTEREST		813,884	213,647
Provision for possible losses on other transactions	4	<u>(144,879)</u>	<u>(32,348)</u>
(Loss)/income from associates		<u>(2,537)</u>	<u>9,139</u>
PROFIT BEFORE INCOME TAX		666,468	190,438
Income tax expense	6	<u>(20,735)</u>	<u>-</u>
NET PROFIT BEFORE MINORITY INTEREST		<u>645,733</u>	<u>190,438</u>
Minority interest		98	(54)
NET PROFIT		<u>645,831</u>	<u>190,384</u>
Earnings per share in KZT	6 A	47.02	20.10

On behalf of the Board

Chairman

20 June 2003

Almaty

Chief Accountant

The notes on pages 7 to 35 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OJSC BANK CENTERCREDIT**CONSOLIDATED BALANCE SHEETS
AT 31 DECEMBER 2002 AND 2001
(in thousands of Kazakhstan Tenge)**

	Notes	2002	2001 (Restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Kazakhstan	7	3,174,061	2,539,147
Loans and advances to banks	8,20	4,262,566	2,146,216
Loans and advances to customers, less allowance for possible loan losses	9	35,107,163	21,641,654
Securities purchased under agreement to resell	9A	100,001	13,081
Investment securities, less allowance for impairment losses	10	5,263,450	3,717,444
Investment in associated companies	10A	100,134	32,274
Fixed and other intangible assets, less accumulated depreciation	11	1,984,594	1,588,548
Other assets, less allowance for possible losses	12,20	861,394	765,612
TOTAL ASSETS		50,853,363	32,443,976
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Deposits from banks	13,20	8,781,847	5,443,963
Customer accounts	14,20	34,748,703	21,373,186
Securities sold under agreements to repurchase	14A	74,760	1,224,321
Other liabilities	16,20	924,468	784,579
		44,529,778	28,826,049
Subordinated debt	15,20	2,174,811	678,780
Total liabilities		46,704,589	29,504,829
Minority interest		2,083	18,550
SHAREHOLDERS' EQUITY:			
Share capital	17	3,166,988	2,586,725
Share premium	17	1,022	1,022
Fixed assets revaluation reserve		284,219	284,219
Revenue reserve		694,462	48,631
Total shareholders' equity		4,146,691	2,920,597
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		50,853,363	32,443,976
CONTINGENCIES	19	4,550,597	1,339,519

On behalf of the Board

Chairman

20 June 2003

Almaty

Chief Accountant

The notes on pages 7 to 35 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OJSC BANK CENTERCREDIT

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001 (in thousands of Kazakhstan Tenge)

	Notes	2002	2001 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		666,468	190,438
Adjustments for:			
Provision for possible loan losses		1,037,084	351,670
Provision for other losses		100,879	32,348
Impairment loss on securities available-for-sale		44,000	-
Loss on disposal of fixed assets		46,354	30,000
Depreciation charge of fixed and other intangible assets		170,901	79,103
Minority interest		98	(54)
Loss/(gain) on equity investments		2,537	(7,274)
Operating profit before changes in operating assets and liabilities		<u>2,068,321</u>	<u>676,231</u>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans and advances to banks		(378,243)	(630,601)
Loans and advances to customers		(14,502,593)	(9,388,041)
Securities purchased under agreement to resell		(86,920)	(13,081)
Other assets		(155,320)	(270,151)
Increase/(decrease) in operating liabilities:			
Deposits from banks		3,337,884	3,741,216
Customer accounts		13,375,517	7,888,223
Securities sold under agreements to repurchase		(1,149,561)	1,224,321
Other liabilities		98,548	(344,974)
Cash inflow from operating activities before income taxes		<u>2,607,633</u>	<u>2,883,143</u>
Income tax paid		<u>(20,735)</u>	<u>-</u>
Net cash inflow from operating activities		<u>2,586,898</u>	<u>2,883,143</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(613,301)	(1,133,048)
Proceeds on sale of fixed and intangible assets		-	58,000
Acquisition of subsidiaries, net of cash acquired		(86,864)	(25,000)
Purchase of investment securities		<u>(1,590,006)</u>	<u>(1,469,015)</u>
Net cash outflows used in investing activities		<u>(2,290,171)</u>	<u>(2,569,063)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Share capital increase		580,263	706,412
Share premium received on share capital increase		-	1,000
Proceeds from subordinated debt received		<u>1,496,031</u>	<u>79,805</u>
Net cash inflows from financing activities		<u>2,076,294</u>	<u>787,217</u>

OJSC BANK CENTERCREDIT

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (in thousands of Kazakhstan Tenge)

	Notes	2002	2001 (Restated)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,373,021	1,101,297
CASH AND CASH EQUIVALENTS, AT BEGINNING OF THE PERIOD	7	<u>4,045,262</u>	<u>2,943,965</u>
CASH AND CASH EQUIVALENTS, AT END OF THE PERIOD	7	<u><u>6,418,283</u></u>	<u><u>4,045,262</u></u>

On behalf of the Board

Chairman

20 June 2003

Almaty

Chief Accountant

The notes on pages 7 to 35 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OJSC BANK CENTERCREDIT

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001 (in thousands of Kazakhstan Tenge)

	Share capital	Share premium	Fixed assets revaluation reserve	Revenue reserve	Total shareholders' equity
Balance 31 December 2000	1,714,508	22	17,098	256,256	1,987,884
Share capital increase	706,412	1,000	-	-	707,412
Reserves from special purpose entities	-	-	267,121	(232,204)	34,917
Dividends capitalized	165,805	-	-	(165,805)	-
Net profit	-	-	-	190,384	190,384
Balance 31 December 2001	2,586,725	1,022	284,219	48,631	2,920,597
Share capital increase	580,263	-	-	-	580,263
Net profit	-	-	-	645,831	645,831
Balance 31 December 2002	<u>3,166,988</u>	<u>1,022</u>	<u>284,219</u>	<u>694,462</u>	<u>4,146,691</u>

On behalf of the Board

Chairman

Chief Accountant

20 June 2003

Almaty

The notes on pages 7 to 35 form an integral part of these financial statements. The Independent Auditors' Report is on page 1.

OJSC BANK CENTERCREDIT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001 (in thousands of Kazakhstan Tenge)

1. ORGANISATION

OJSC Bank Centercredit (the "Bank") is a joint-stock bank, which was incorporated in the Republic of Kazakhstan in 1988. The address of its registered office is as follows: 100, Schevchenko street, Almaty, Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan ("NBRK") and conducts its business under license number 248 dated 4 June 2001. The Bank's primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank has 19 branches in the Republic of Kazakhstan. The Bank is a parent company of the Banking Group ("Group"), consisting of the following subsidiaries, which are consolidated in the financial statements as of 31 December 2002:

Name	Type of business	Country of operation	Effective control
Aktas Zhol	Property appraisal and lease	Kazakhstan	99%
BCC	Property appraisal and lease	Kazakhstan	100%
Centre Leasing	Finance lease of property	Kazakhstan	100%
KIBAM	Securities trading	Kazakhstan	100%

The number of employees of the Group at 31 December 2002 and 2001 was 1,476 and 1,286, respectively.

These financial statements were authorized for issue by the Board of Directors on 20 June 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting basis – These consolidated financial statements of the Group have been prepared on the accrual basis of accounting, under the historical cost convention.

The Group maintains its accounting records in accordance with Kazakhstan law. These consolidated financial statements have been prepared from the Kazakhstan statutory accounting records and have been adjusted to conform with International Financial Reporting Standards ("IFRS").

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting currency – The currency used in these consolidated financial statements is the Kazakh Tenge (KZT).

Principles of consolidation – The consolidated financial statements include the accounts of majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. The ownership interest of the Bank and proportion of voting power of the Group in the significant subsidiaries as at 31 December 2002 and 2001 is presented in Note 1.

The share of the Bank in net assets and net income of entities, where the Bank holds 20 to 50% of share capital and has the ability to exercise significant influence over their operating and financial policies (“affiliates”) is included in the consolidated net assets and operating results using the equity method of accounting (Note 10A).

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

Cash and cash equivalents – Cash and cash equivalents include cash, unrestricted balances with the NBRK, loans and advances to banks in OECD countries and precious metals.

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

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such remeasurement included in the profit and loss account, plus accrued coupon income. The Group uses quoted market prices to determine fair value for the securities available-for-sale. If such quotes do not exist, management estimation is used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Originated loans – Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. Originated loans are carried at amortized cost, less any provision for possible loan losses.

Loans granted by the Group below the market are discounted to fair value using the effective interest method.

Purchased loans and receivables – Loans and receivables acquired from another lender subsequently to the original date are either classified as loans and advances or as available-for-sale investments.

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

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

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

Write off of loans – Loans are written off against allowance for possible loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. The loans are written off on 181st day from the date the loan is overdue.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 60 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized where recovery is doubtful.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Impairment loss – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit and loss account for the year in which it arises.

Depreciation – Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2.5 - 4%
Furniture & equipment	12.5 - 30%
Intangible assets	20%

After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets’ revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions – Assets and liabilities denominated in foreign currencies are translated at the appropriate spot rates of exchange ruling at the balance sheet date. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

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

Rates of exchange – The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2002	31 December 2001
KZT/USD	155.85	150.2
KZT/EUR	162.46	134.77

Income tax - Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the liability method at the statutory tax rate. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized. Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Fiduciary activities – The Group provides trustee services to its customers. Assets accepted and liabilities incurred under the trustee activities are not included in the Group's consolidated financial statements.

Restatement of the financial statements – The consolidated financial statements of the Group as at 31 December 2001 and for the year then ended were restated due to change of the classification of trading securities to securities available for sales for more appropriate presentation of securities portfolio (see Note 10). This change of classification has no effect on the consolidated profit and loss accounts.

3. NET INTEREST INCOME

	2002	2001
Interest income		
Interest on loans and advances to customers	4,428,926	2,495,864
Interest on loans and advances to banks	81,671	100,488
Interest on debt securities	367,187	244,294
Total interest income	<u>4,877,784</u>	<u>2,840,646</u>
Interest expenses		
Interest on customer accounts	1,621,310	1,287,393
Interest on deposits from banks	495,052	240,256
Interest on subordinated debt	181,652	80,610
Total interest expense	<u>2,298,014</u>	<u>1,608,259</u>
Net interest income before provision for possible loan losses	<u>2,579,770</u>	<u>1,232,387</u>

4. PROVISIONS

Provisions for possible loan losses is represented by provision for loans and advances to customers.

	2002	2001
Provisions for possible losses on other transactions		
Provisions for other assets	59,538	6,067
Impairment of securities available-for-sale	44,000	-
Provisions for guarantees and other off balance sheet commitments	41,341	26,281
	<u>144,879</u>	<u>32,348</u>

4A. NET GAIN ON INVESTMENT SECURITIES

	2002	2001 (Restated)
Net gain on derecognition of securities available-for-sale	30,933	100,307
Fair value adjustment on securities available-for-sale	56,104	83,080
	<u>87,037</u>	<u>183,387</u>

4B. OTHER (EXPENSES)/INCOME

Other (expenses)/income include net loss on precious metals operations amounting to KZT 15,025 thousand and net gain of KZT 29,020 thousand for the year ended 31 December 2002 and 2001, respectively.

5. OPERATING EXPENSES

	2002	2001
Staff costs	904,804	702,507
Administrative services	369,955	363,341
Taxes, other than income tax	348,516	459,860
Advertising and marketing expenses	194,358	164,330
Depreciation and amortisation	170,901	79,103
Operating lease expense	71,249	56,359
Repairs and maintenance expense	64,688	29,698
Representative expense	8,254	34,172
Other	184,324	114,735
	<u>2,317,049</u>	<u>2,004,105</u>

6. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in Tenge and in accordance with the Kazakhstan statutory tax regulations, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2002 and 2001 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences at 31 December 2002 and 2001 were as follows:

	2002	2001
Deferred assets:		
Loans to banks and customers	1,482,841	-
Tax loss carried forward	-	668,392
Total deferred assets	<u>1,482,841</u>	<u>668,392</u>
Deferred liabilities:		
Fixed assets	<u>(244,651)</u>	<u>(170,000)</u>
Total deferred liabilities	<u>(244,651)</u>	<u>(170,000)</u>
Net deferred assets	1,238,190	498,392
Deferred tax assets at the statutory rate (30%)	371,457	149,518
Less: valuation allowance	<u>(371,457)</u>	<u>(149,518)</u>
Net deferred tax asset	<u>-</u>	<u>-</u>

6. INCOME TAXES (Continued)

Relationships between tax expenses and accounting profit for the year ended 31 December 2002 and 2001 are explained as follows:

	2002	2001
Profit before income taxes and minority interest	<u>666,468</u>	<u>190,438</u>
Tax at the statutory tax rate (30%)	199,940	57,115
Tax effect of permanent differences	(401,144)	(182,000)
Change in valuation allowance	<u>221,939</u>	<u>124,885</u>
Income tax expense	<u>20,735</u>	<u>-</u>

6A. EARNING PER SHARE

	2002	2001
Net income	645,831	190,384
Weighted average number of shares	<u>13,735,650</u>	<u>9,473,143</u>
Earnings per share in KZT	<u>47.02</u>	<u>20.10</u>

7. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN

The balances as at 31 December 2002 and 2001 include KZT 984,647 thousand and KZT 1,057,675 thousand, respectively, which represents the minimum reserve deposits required by NBRK. The Group is required to maintain the reserve balance at the NBRK, although the Group may use it if it complies with the requirements.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	2002	2001
Cash and balances with the NBRK	3,173,123	2,470,309
Loans and advances to banks in OECD countries	3,244,222	1,506,115
Precious metals in vault	938	68,838
Cash and cash equivalents	<u>6,418,283</u>	<u>4,045,262</u>

8. LOANS AND ADVANCES TO BANKS

	2002	2001
Loans and advances to banks in OECD countries	3,244,222	1,506,115
Short - term deposits	<u>1,018,344</u>	<u>640,101</u>
	<u>4,262,566</u>	<u>2,146,216</u>

9. LOANS AND ADVANCES TO CUSTOMERS

	2002	2001
Originated loans	36,643,795	22,556,113
Less allowance for possible loan losses	<u>(1,536,632)</u>	<u>(914,459)</u>
	<u>35,107,163</u>	<u>21,641,654</u>
	2002	2001
Loans collateralized by real estate	22,396,037	13,694,850
Loans collateralized by goods in turnover	3,771,665	3,452,293
Loans collateralized by equipment	3,521,033	1,484,295
Loans collateralized by others	3,344,585	1,966,663
Loans collateralized by cash	1,337,910	502,230
Loans collateralized by corporate guarantees	1,004,956	468,616
Loans collateralized by precious metals	479,036	248,433
Unsecured loans	<u>788,573</u>	<u>738,733</u>
	36,643,795	22,556,113
Less allowance for possible loan losses	<u>(1,536,632)</u>	<u>(914,459)</u>
	<u>35,107,163</u>	<u>21,641,654</u>
Allowance for possible loan losses	2002	2001
At beginning of the period	914,459	414,000
Charge for the period	1,037,084	351,670
(Write offs)/recovery of loans written-off	<u>(414,911)</u>	<u>148,789</u>
At end of the year	<u>1,536,632</u>	<u>914,459</u>

As of 31 December 2002 and 2001 the Group had 4 and 8 loans totaling KZT 3,754,000 thousand and KZT 4,539,000 thousand, respectively, which individually exceeded 10% of the Group's equity.

9. LOANS AND ADVANCES TO CUSTOMERS (Continued)

As of 31 December 2002 and 2001 included in loans and advance to customers are non-performing loans amounted to KZT 373,000 thousand and KZT 3,000 thousand, respectively, on which interest was not accrued.

Analysis by sector	2002	2001
Trading	9,252,184	6,071,928
Retail and housing	6,111,571	3,534,086
Manufacturing	3,858,537	834,410
Food industry	3,324,375	2,991,973
Mining of precious metals	2,188,779	1,816,434
Agriculture	1,960,830	1,339,836
Construction	1,636,614	563,648
Energy	1,137,777	624,067
Oil and gas	1,081,089	526,481
Other mining	903,316	415,719
Telecommunications and transport	768,611	303,252
Real estate	537,501	54,518
Mass media	469,352	434,576
Machinery	50,764	30,000
Financial institutions	26,073	-
Metallurgy	18,049	469,440
Other	3,318,373	2,545,745
	<u>36,643,795</u>	<u>22,556,113</u>
Less allowance for possible loan losses	<u>(1,536,632)</u>	<u>(914,459)</u>
	<u>35,107,163</u>	<u>21,641,654</u>

9A. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As at 31 December 2002 and 2001 the Group purchased fixed income securities amounting to KZT 100,001 thousand and KZT 13,081 thousands, respectively, under agreements to resell them within 2 months. An effective interest rate of 3.5% and 5% was accrued as income on the above securities as at 31 December 2002 and 2001, respectively.

10. INVESTMENT SECURITIES

	2002	2001 (Restated)
Securities available-for-sale	4,207,609	3,489,644
Securities held-to-maturity	908,809	-
Other investments	191,032	227,800
	<u>5,263,450</u>	<u>3,717,444</u>
Less allowance for possible impairment	(44,000)	-
	<u>5,263,450</u>	<u>3,717,444</u>
Securities available-for-sale	2002	2001
Shares		
OJSC Almaty Kus	150,000	-
CJSC Astana Hotel (100 % impairment)	44,000	-
OJSC Temirbank	16,915	-
CJSC Kazinterbank	12,481	-
OJSC HSBK	4,196	-
Other	871	-
	<u>228,463</u>	<u>-</u>
Debt securities		
NBRK notes	348,088	6,046
Eurobonds issued by the Republic of Kazakhstan	1,632,634	1,725,987
Eurobonds issued by legal entities	1,888,008	-
Treasury bills of the Ministry of Finance	-	1,130,714
Other securities	110,416	626,897
	<u>3,979,146</u>	<u>3,489,644</u>
Total securities available-for-sale	<u>4,207,609</u>	<u>3,489,644</u>
Less allowance for possible impairment	(44,000)	-
	<u>4,163,609</u>	<u>3,489,644</u>
Securities held-to-maturity		
Treasury bills of Ministry of Finance	908,809	-
	<u>908,809</u>	<u>-</u>
Other investments	% in equity	
OJSC KIB	12.56	125,557
CJSC Narodny Pension Fund	19.66	35,400
CJSC Pension Fund Korgau	9.44	17,000
CJSC Processing center	1.37	10,000
CJSC Astana Hotel	-	44,000
Other	-	3,075
		<u>227,800</u>
	<u>191,032</u>	<u>227,800</u>
Allowance for impairment		
At beginning of the period	-	-
Provision for the period	44,000	-
At end of the period	<u>44,000</u>	<u>-</u>

The consolidated financial statements of the Group as at and for the year ended 31 December 2001 were restated due to change of the classification of trading securities to securities available-for-sales

for more appropriate presentation of the Group's intention with regard to such investments. This change of classification has no effect on the consolidated profit and loss accounts.

10A. INVESTMENTS IN ASSOCIATES

The following enterprises are accounted for in the financial statements using the equity method:

Name	Type of Business	Country of incorporation	Group's ownership interest	2002	2001
CJSC NSK	Insurance	Kazakhstan	25%	63,927	32,274
CJSC Pension Fund Capital	Pension Fund	Kazakhstan	25%	36,207	-
				100,134	32,274

11. FIXED AND INTANGIBLE ASSETS

	Building	Furniture and equipment	CIP	Intangible assets	Total
At cost					
At 31 December 2001	803,834	862,553	131,479	104,507	1,902,373
Additions	10,054	434,848	114,252	54,147	613,301
Disposals	(3,622)	(37,817)	(29,431)	(3,419)	(74,289)
At 31 December 2002	810,266	1,259,584	216,300	155,235	2,441,385
Accumulated depreciation					
At 31 December 2001	(75,469)	(219,345)	-	(19,011)	(313,825)
Charge for the period	(19,689)	(123,133)	-	(28,079)	(170,901)
Disposals	40	24,756		3,139	27,935
At 31 December 2002	(95,118)	(317,722)	-	(43,951)	(456,791)
Net book value					
At 31 December 2002	715,148	941,862	216,300	111,284	1,984,594
At 31 December 2001	728,365	643,208	131,479	85,496	1,588,548

12. OTHER ASSETS

	2002	2001
Advances to suppliers of goods and services	358,450	209,743
Debtors on capital investments	89,891	12,868
Receivable from sale of collateral repossessed	88,838	804
Taxes receivable (other than income tax)	83,545	15,195
Western Union and other wireless transfers	58,872	31,586
Reimbursement due from Government for foreign exchange losses for long term loans	44,313	230,077
Advances to employees	36,151	16,448
Inventory	33,973	33,716
Travelers cheques	27,705	83,902
Accrued commission	10,626	-
Other assets	92,611	135,316
	<u>924,975</u>	<u>769,655</u>
Less allowance for possible losses on other assets	<u>(63,581)</u>	<u>(4,043)</u>
	<u>861,394</u>	<u>765,612</u>
Allowance for possible losses on other assets	2002	2001
At beginning of the period	(4,043)	(349)
Provision for the period	<u>(59,538)</u>	<u>(3,694)</u>
At end of the period	<u>(63,581)</u>	<u>(4,043)</u>

13. DEPOSITS FROM BANKS

	2002	2001
Short – term loans from other banks	3,214,929	1,271,857
Syndicated loan	2,337,750	1,652,200
Deposits from banks	1,500,921	944,955
Loans from international lending agencies	1,005,632	810,852
Borrowings from the Government of Kazakhstan and NBRK	695,081	629,178
Demand deposits and vostro accounts	27,534	134,921
	<u>8,781,847</u>	<u>5,443,963</u>

14. CUSTOMER ACCOUNTS

	2002	2001
Repayable on demand	13,226,195	8,388,514
Time deposits	<u>21,522,508</u>	<u>12,984,672</u>
	<u>34,748,703</u>	<u>21,373,186</u>

14A. SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

As at 31 December 2002 securities sold under repurchase agreements are commitments of the Group to repurchase fixed income securities for the amount of KZT 74,760 thousand. The securities sold under the said agreements are included in available-for-sale portfolio of the Group at fair value of KZT 74,760 thousand. The maturity of the agreements is within 1 month. A coupon of 3.4% of the nominal value was paid under the agreement.

15. SUBORDINATED DEBT

	2002	2001
Interest bearing notes (USD)	696,587	678,780
Interest bearing notes (Indexed in Tenge)	<u>1,478,224</u>	<u>-</u>
	<u>2,174,811</u>	<u>678,780</u>

Discount on the interest bearing notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

As at 31 December 2002 and 2001 interests rates on interest bearing notes denominated in foreign currency were 12% per annum, interest rates on the promissory notes denominated in Tenge as at 31 December 2002 were 10% per annum.

16. OTHER LIABILITIES

	2002	2001
Settlement on other transactions	410,417	265,535
Accrued interest expense	388,769	361,562
Allowance for possible losses on guarantees	67,622	26,281
Taxes payable (other than income tax)	39,064	-
Advances received	7,397	35,449
Dividends payable	-	1,579
Other	<u>11,199</u>	<u>94,173</u>
	<u>924,468</u>	<u>784,579</u>

Allowance for possible losses on guarantees:

	2002	2001
At beginning of the period	(26,281)	-
Provision for the period	<u>(41,341)</u>	<u>(26,281)</u>
At end of the year	<u>(67,622)</u>	<u>(26,281)</u>

17. SHARE CAPITAL AND SHARE PREMIUM

At 31 December 2002 and 2001 share capital authorized, issued and fully paid comprised of 15,316,695 and 12,412,420 ordinary shares, respectively with par value of KZT 200 each. All ordinary shares are ranked equally and carry one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

18. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2002 and 2001, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	31 December 2002		31 December 2001	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees and similar commitments	4,139,491	4,139,491	1,044,463	1,044,463
Letters of credit and other transactions related to contingent obligations	411,106	300,865	295,056	138,916

19. CONTINGENCIES

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

Rental commitments – No material rental commitment were outstanding as at 31 December 2002.

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

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

Taxes - Due to the presence in Kazakhstan commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. The Group believes that it has already made all tax payments, and therefore it no allowance were made in the financial statements. Tax years remain open to review by the tax authorities for three years.

20. TRANSACTIONS WITH RELATED PARTIES

Related parties are considered to include shareholders, affiliates and entities under common ownership, control/management with the Group, or whose activities the Group has an ability to control. As of 31 December 2002 and 2001, the Group had advances and loans to customers totaling KZT 419,927 thousand and KZT 132,393 thousand to related parties, respectively, for which the Group had an allowance for possible loan losses of KZT 25,923 thousand and KZT 6,847 thousand, respectively. During the years ended 31 December 2002 and 2001 the Group originated advances and loans customers - related parties amounting to KZT 205,597 thousand and KZT 84,170 thousand, respectively, and received loans and advances repaid of KZT 40,278 thousand and KZT 6,826 thousand, respectively. The Group has interest income accrued in respect of loans and advances granted to related parties, included into loan portfolio totaling KZT 26,946 thousand and KZT 10,201 thousand, respectively, as of 31 December 2002 and 2001.

The Group also held deposits from banks and customers of KZT nil thousand and KZT nil thousand as of 31 December 2002 and 2001, respectively, from related parties. During the years ended 31 December 2002 and 2001 the Group received deposits and advances from banks and customers - related parties of KZT 99,864 thousand and KZT 97,694 thousand, respectively, and during the years ended 31 December 2002 and 2001 no such deposits and advances were repaid.

20. TRANSACTIONS WITH RELATED PARTIES (Continued)

As at 31 December 2002 the Group purchased/sold securities under repurchase agreements from/to related parties for the total of KZT 93,839 thousand.

The Group had guarantees and standby letters of credit issued on behalf of related parties and outstanding as at 31 December 2002 and 2001 amounting to KZT 2,338 thousand and KZT 3,004 thousand, respectively, for which the Group had an allowance for possible losses of KZT 117 thousand and KZT nil, respectively. During the years ended 31 December 2002 and 2001 the Group issued guarantees and standby letters of credit on behalf of related parties of KZT 14,329 thousand and KZT 3,161 thousand, respectively.

Included in the profit and loss account for the years ended 31 December 2002 and 2001 are the following amounts which arose due to transactions with related parties:

	2002	2001
Interest income		
- related companies	26,946	10,201
Interest expense		
- related companies	170	7

Transactions with related parties entered by the Group during the years ended 31 December 2002 and 2001 and outstanding as at 31 December 2002 and 2001 were mostly made in the normal course of business and under arm-length conditions, except as discussed below. Loans and advances issued to related parties in 2002 and 2001 bear rates and vary from 7 % to 25 %. Deposits and advances received from related parties outstanding as at 31 December 2002 bear rates up to 25%.

21. PENSIONS AND RETIREMENT PLANS

Employees receive pension benefits from the Republic of Kazakhstan in accordance with the laws and regulations of the country. As at 31 December 2002 and 2001, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As at 31 December 2002 and 2001 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with the National Bank of the Republic of Kazakhstan – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – For these assets, the carrying amount is a reasonable estimate of fair value.

Securities available-for-sale – As at 31 December 2002 and 2001 securities available-for-sale are stated at fair value amounting to KZT 4,207,609 thousand and KZT 3,489,644 thousand, respectively. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and/or maturity, in other cases – by reference to the share in estimated equity capital of investee.

Securities held-to-maturity – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively, less any provision for impairment. The fair value of securities held-to-maturity as at 31 December 2002 was KZT 895,205 thousand, plus accrued coupon income totaling KZT 20,638 thousand. Fair value of securities held-to-maturity was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities fair value was determined by reference to market prices of securities with similar credit risk and/or maturity.

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

Loans and advances from banks – As at 31 December 2002 and 2001 the carrying amount of loans and advances from banks of KZT 8,781,847 thousand and KZT 5,443,963 thousand, respectively, is a reasonable estimate of their fair value. It was determined based on a discounted cash flow model using interest rates on loans with similar credit risk level and maturity period current at the reporting dates.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Customer accounts – It is not possible to estimate the fair value of short-term deposits and current accounts of the Group's customers with the carrying amount of KZT 34,748,703 thousand and KZT 21,373,186 thousand, as at 31 December 2002 and 2001 respectively due the absence of the market data.

Securities purchased/sold under repurchase agreements - As at 31 December 2002 the carrying value of securities sold under agreement to repurchase amounting to KZT 74,760 thousand is a reasonable estimate of their fair value. The fair value of securities purchased under agreements to resell with carrying value of KZT 100,001 thousand amounted to KZT 100,001 thousand as at 31 December 2002 that is determined based on market value of backed securities and other assets with reference to an active market.

Subordinated debt – As at 31 December 2002 and 2001 the carrying amount of the subordinated debt amounting to KZT 2,174,811 thousand and KZT 678,780 thousand. The fair value of subordinated debt amounted to KZT 2,021,120 thousand and KZT 725,165 thousand as at 31 December 2002 and 31 December 2001, respectively, that is determined based on market value of securities with reference to an active market.

22A. SUBSEQUENT EVENTS

During 2003 the Group issued additional common stock with the value of KZT 2,000,000,000. The paid portion as of 20 June 2003 was KZT 710,575 thousands.

Subsequent to the year end, the Group acquired additional 25% in Pension Fund Capital thereby bringing the total shareholding in the company to 50%.

23. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus the Group's provisions for the principal risks on condition that the total provision for possible loan losses does not exceed 1.25% of the risk weighted assets.

Risk weighted assets were calculated according to the principles employed by the Basle Committee by applying the following risk estimates:

Estimate	Description of position
0%	Cash and balances with the National Bank of the Republic of Kazakhstan
0%	State debt securities in KZT
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Guarantees
100%	Other assets

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

Capital amounts and ratios	Actual Amount in KZT thousand	For Capital Adequacy purposes Amount in KZT thousand	Ratio For Capital Adequacy purposes	Minimum Required Ratio
At 31 December 2002				
Total capital	4,146,691	6,436,177	13.88%	8 %
Tier 1 capital	3,862,472	3,862,472	8.13%	4 %
At 31 December 2001				
Total capital	2,920,597	3,518,337	13.04%	8 %
Tier 1 capital	2,636,378	2,636,378	8.82%	4 %

24. RISK MANAGEMENT POLICY

The Bank manages the following risks:

Credit Risk – The Credit Committee approves each new loan and lease, and any changes and amendments to such agreements. The Credit Department performs current monitoring.

Liquidity and cash flow risks – The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimisation.

Currency risk – The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies.

Interest rate and market risks – The Treasury Department performs management of interest rate and market risks through interest position monitoring, which enables the Group to avoid negative interest margin.

Country risk – The Management of the Group performs risk optimisation related to changes in legislation and regulative documents, and its impact on the Group.

25. MATURITY ANALYSIS

The following table presents an analysis of interest rate risk and liquidity risk. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

	31 December 2002					
	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS						
Loans and advances to banks	3,643,599	516,419	102,548	-	-	4,262,566
Investment securities, less allowance for impairment losses	3,263,002	-	242,649	1,566,767	191,032	5,263,450
Loans and advances to customers, less allowance for possible loan losses	4,803,547	4,009,642	14,452,423	11,046,756	794,795	35,107,163
Securities purchased under agreement to resell	100,001	-	-	-	-	100,001
Total interest earning assets	<u>11,810,149</u>	<u>4,526,061</u>	<u>14,797,620</u>	<u>12,613,523</u>	<u>985,827</u>	<u>44,733,180</u>
Cash and balances with the NBRK	3,174,061	-	-	-	-	3,174,061
Investments in associates	-	-	-	100,134	-	100,134
Fixed and intangible assets, less accumulated depreciation	-	-	-	1,375,806	608,788	1,984,594
Other assets, less allowance for possible losses	556,556	2,314	26,122	276,402	-	861,394
TOTAL ASSETS	<u>15,540,766</u>	<u>4,528,375</u>	<u>14,823,742</u>	<u>14,365,865</u>	<u>1,594,615</u>	<u>50,853,363</u>
LIABILITIES						
Deposits from banks	1,185,738	1,315,128	5,648,587	632,394	-	8,781,847
Customer time deposits	2,752,384	6,192,854	11,462,663	1,114,607	-	21,522,508
Securities sold under agreements to repurchase	74,760	-	-	-	-	74,760
Subordinated debt	-	-	-	701,235	1,473,576	2,174,811
Total interest bearing liabilities	<u>4,012,882</u>	<u>7,507,982</u>	<u>17,111,250</u>	<u>2,448,236</u>	<u>1,473,576</u>	<u>32,553,926</u>
Customer demand deposits	13,226,195	-	-	-	-	13,226,195
Other liabilities	724,372	54,417	137,087	8,592	-	924,468
TOTAL LIABILITIES	<u>17,963,449</u>	<u>7,562,399</u>	<u>17,248,337</u>	<u>2,456,828</u>	<u>1,473,576</u>	<u>46,704,589</u>
Interest sensitivity gap	<u>7,797,267</u>	<u>(2,981,921)</u>	<u>(2,313,630)</u>	<u>10,165,287</u>	<u>(487,749)</u>	<u>12,179,254</u>
Cumulative interest sensitivity gap	<u>7,797,267</u>	<u>4,815,346</u>	<u>2,501,716</u>	<u>12,667,003</u>	<u>12,179,254</u>	
Cumulative interest sensitivity gap as a percentage of total assets	<u>15%</u>	<u>9%</u>	<u>5%</u>	<u>25%</u>	<u>24%</u>	

25. MATURITY ANALYSIS (Continued)

						31 December 2001
						(Restated)
	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Total
ASSETS						
Loans and advances to banks	1,404,710	101,385	623,998	16,123	-	2,146,216
Investment securities, less allowance for impairment losses	448,659	517,008	731,808	1,449,657	570,312	3,717,444
Loans and advances to customers, less allowance for possible loan losses	1,965,246	510,407	7,354,305	10,507,242	1,304,454	21,641,654
Securities purchased under agreement to resell	13,081	-	-	-	-	13,081
Total interest earning assets	<u>3,831,696</u>	<u>1,128,800</u>	<u>8,710,111</u>	<u>11,973,022</u>	<u>1,874,766</u>	<u>27,518,395</u>
Cash and balances with the NBRK	2,539,147	-	-	-	-	2,539,147
Investments in associates	-	-	-	-	32,274	32,274
Fixed and intangible assets, less accumulated depreciation	-	-	-	860,183	728,365	1,588,548
Other assets, less allowance for possible losses	<u>597,619</u>	<u>167,993</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>765,612</u>
TOTAL ASSETS	<u><u>6,968,462</u></u>	<u><u>1,296,793</u></u>	<u><u>8,710,111</u></u>	<u><u>12,833,205</u></u>	<u><u>2,635,405</u></u>	<u><u>32,443,976</u></u>
LIABILITIES						
Deposits from banks	532,175	583,917	3,443,530	884,341	-	5,443,963
Customer time deposits	2,134,294	4,261,521	6,414,751	174,106	-	12,984,672
Securities sold under agreements to repurchase	1,224,321	-	-	-	-	1,224,321
Subordinated debt	<u>-</u>	<u>-</u>	<u>-</u>	<u>678,780</u>	<u>-</u>	<u>678,780</u>
Total interest bearing liabilities	<u>3,890,790</u>	<u>4,845,438</u>	<u>9,858,281</u>	<u>1,737,227</u>	<u>-</u>	<u>20,331,736</u>
Customer demand deposits	8,388,514	-	-	-	-	8,388,514
Other liabilities	<u>769,100</u>	<u>13,900</u>	<u>-</u>	<u>1,579</u>	<u>-</u>	<u>784,579</u>
TOTAL LIABILITIES	<u><u>13,048,404</u></u>	<u><u>4,859,338</u></u>	<u><u>9,858,281</u></u>	<u><u>1,738,806</u></u>	<u><u>-</u></u>	<u><u>29,504,829</u></u>
Interest sensitivity gap	<u>(59,094)</u>	<u>(3,716,638)</u>	<u>(1,148,170)</u>	<u>10,235,795</u>	<u>1,874,766</u>	<u>7,186,659</u>
Cumulative interest sensitivity gap	<u><u>(59,094)</u></u>	<u><u>(3,775,732)</u></u>	<u><u>(4,923,902)</u></u>	<u><u>5,311,893</u></u>	<u><u>7,186,659</u></u>	
Cumulative interest sensitivity gap as a percentage of total assets	<u><u>0%</u></u>	<u><u>(12%)</u></u>	<u><u>(15%)</u></u>	<u><u>16%</u></u>	<u><u>22%</u></u>	

25. MATURITY ANALYSIS (Continued)

Substantially all of the Group's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Group's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Group's previous experience indicate that these deposits are a stable and long-term source of finance for the Group.

26. EFFECTIVE INTEREST RATE ANALYSIS

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	2002			2001		
	KZT	USD	Other currencies	KZT	USD	Other currencies
ASSETS						
Loans and advances to banks	5.2%	3.8%	-	16%	4%	-
Loans and advances to customers	17%	15.9%	8.9%	16.8%	16.9%	19%
Securities purchased under agreement to resell	3.5%	-	-	5%	-	-
Debt securities purchased for investment purposes						
- available for sale	10%	8.5%	-	10.3%	7.65%	-
- held-to-maturity	11.5%	-	-	-	-	-
LIABILITIES						
Deposits from banks	11.5%	8.8%	-	9%	8.4%	-
Time deposits	12.37%	6.8%	5.8%	13.9%	8.5%	6%
Securities sold under agreements to repurchase	3.4%	-	-	6%	-	-
Subordinated debt	10.77%	11.64%	-	-	11.64%	-

27. CURRENCY ANALYSIS

	31 December 2002					
	Tenge	USD 1USD= KZT 155.85	EUR 1USD= KZT 162.46	Gold bullion 1ounce= 54,111 KZT	Other currency	Total
ASSETS						
Cash and balances with the NBRK	670,146	2,305,005	72,039	227	126,644	3,174,061
Loans and advances to banks	2,521,369	1,726,499	14,698	-	-	4,262,566
Investment securities, less allowance for impairment losses	2,748,989	2,514,461	-	-	-	5,263,450
Loans and advances to customers, less allowance for possible loan losses	19,192,027	15,833,202	81,934	-	-	35,107,163
Securities purchased under agreement to resell	100,001	-	-	-	-	100,001
Investments in associates	100,134	-	-	-	-	100,134
Fixed and other intangible assets, less accumulated depreciation	1,984,594	-	-	-	-	1,984,594
Other assets, less allowance for possible losses	160,964	651,835	6,164	-	42,431	861,394
TOTAL ASSETS	<u>27,478,224</u>	<u>23,031,002</u>	<u>174,835</u>	<u>227</u>	<u>169,075</u>	<u>50,853,363</u>
LIABILITIES						
Deposits from banks	972,496	7,623,306	186,045	-	-	8,781,847
Customer accounts	20,021,534	14,338,871	251,712	-	136,586	34,748,703
Securities sold under agreements to repurchase	74,760	-	-	-	-	74,760
Other liabilities	485,137	427,708	7,642	-	3,981	924,468
Subordinated debt	1,478,224	696,587	-	-	-	2,174,811
TOTAL LIABILITIES	<u>23,032,151</u>	<u>23,086,472</u>	<u>445,399</u>	<u>-</u>	<u>140,567</u>	<u>46,704,589</u>
OPEN POSITION	<u>4,446,073</u>	<u>(55,470)</u>	<u>(270,564)</u>	<u>227</u>	<u>28,508</u>	

27. CURRENCY ANALYSIS (Continued)

	31 December 2001					(Restated)
	Tenge	USD 1USD= KZT 150.2	EUR 1USD= KZT 134.77	Gold bullion 1ounce= 38,138 KZT	Other currency	Total
ASSETS						
Cash and balances with the NBRK	1,785,553	623,933	40,433	68,175	21,053	2,539,147
Loans and advances to banks	600,813	1,439,959	34,150	2	71,292	2,146,216
Investment securities, less allowance for impairment losses	2,005,001	1,712,443	-	-	-	3,717,444
Loans and advances to customers, less allowance for possible loan losses	13,016,167	8,361,931	263,556	-	-	21,641,654
Securities purchased under agreement to resell	13,081	-	-	-	-	13,081
Investments in associates	32,274	-	-	-	-	32,274
Fixed and other intangible assets, less accumulated depreciation	1,588,548	-	-	-	-	1,588,548
Other assets, less allowance for possible losses	619,618	127,497	18,497	-	-	765,612
TOTAL ASSETS	<u>19,661,055</u>	<u>12,265,763</u>	<u>356,636</u>	<u>68,177</u>	<u>92,345</u>	<u>32,443,976</u>
LIABILITIES						
Deposits from banks	1,400,488	3,747,536	295,939	-	-	5,443,963
Customer accounts	12,439,683	8,811,140	52,180	-	70,183	21,373,186
Securities sold under agreements to repurchase	1,224,321	-	-	-	-	1,224,321
Other liabilities	378,361	358,516	21,910	-	25,792	784,579
Subordinated debt	-	678,780	-	-	-	678,780
TOTAL LIABILITIES	<u>15,442,853</u>	<u>13,595,972</u>	<u>370,029</u>	<u>-</u>	<u>95,975</u>	<u>29,504,829</u>
OPEN POSITION	<u>4,218,202</u>	<u>(1,330,209)</u>	<u>(13,393)</u>	<u>68,177</u>	<u>(3,630)</u>	

28. GEOGRAPHICAL ANALYSIS

	OECD countries	Non-OECD countries	31December 2002 Total
Cash and balances with the NBRK	-	3,174,061	3,174,061
Loans and advances to banks	3,244,222	1,018,344	4,262,566
Investment securities, less allowance for impairment losses	-	5,263,450	5,263,450
Loans and advances to customers, less allowance for possible loan losses	-	35,107,163	35,107,163
Securities purchased under agreement to resell	-	100,001	100,001
Investments in associates	-	100,134	100,134
Fixed and other intangible assets, less accumulated depreciation	-	1,984,594	1,984,594
Other assets, less allowance for possible losses	-	861,394	861,394
TOTAL ASSETS	<u>3,244,222</u>	<u>47,609,141</u>	<u>50,853,363</u>
LIABILITIES			
Deposits from banks	-	8,781,847	8,781,847
Customer accounts	-	34,748,703	34,748,703
Securities sold under agreements to repurchase	-	74,760	74,760
Other liabilities	-	924,468	924,468
Subordinated debt	-	2,174,811	2,174,811
TOTAL LIABILITIES	<u>-</u>	<u>46,704,589</u>	<u>46,704,589</u>
NET POSITION	<u>3,244,222</u>	<u>904,552</u>	

28. GEOGRAPHICAL ANALYSIS (Continued)

	31 December 2001 (Restated)		
	OECD countries	Non-OECD countries	Total
Cash and balances with the NBRK	-	2,539,147	2,539,147
Loans and advances to banks	1,506,115	640,101	2,146,216
Investment securities, less allowance for impairment losses	-	3,717,444	3,717,444
Loans and advances to customers, less allowance for possible loan losses	-	21,641,654	21,641,654
Securities purchased under agreement to resell	-	13,081	13,081
Investments in associates	-	32,274	32,274
Fixed and other intangible assets, less accumulated depreciation	-	1,588,548	1,588,548
Other assets, less allowance for possible losses	-	765,612	765,612
TOTAL ASSETS	<u>1,506,115</u>	<u>30,937,861</u>	<u>32,443,976</u>
LIABILITIES			
Deposits from banks	3,430,954	2,013,009	5,443,963
Customer accounts	-	21,373,186	21,373,186
Securities sold under agreements to repurchase	-	1,224,321	1,224,321
Other liabilities	-	784,579	784,579
Subordinated debt	-	678,780	678,780
TOTAL LIABILITIES	<u>3,430,954</u>	<u>26,073,875</u>	<u>29,504,829</u>
NET POSITION	<u>(1,924,839)</u>	<u>4,863,986</u>	

**JSC BANK
CENTERCREDIT**

Independent Accountants' Review Report

**Condensed Consolidated Interim
Financial Statements (unaudited)**

For the nine-month period ended 30 September 2004

JSC BANK CENTERCREDIT

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JSC BANK CENTERCREDIT

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2004 (in Kazakhstani Tenge and in thousands except for earnings per share)

	Notes	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Interest income	4, 17	8,989,114	4,733,006
Interest expense	4, 17	<u>(4,343,847)</u>	<u>(2,390,244)</u>
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES		4,645,267	2,342,762
Provision for loan losses		<u>(1,841,577)</u>	<u>(924,173)</u>
NET INTEREST INCOME		<u>2,803,690</u>	<u>1,418,589</u>
Net gain/(loss) on trading securities		639	(25,267)
Net gain on foreign exchange operations		523,296	337,476
Fees and commissions income		2,341,188	1,500,706
Fees and commissions expense		(220,379)	(124,109)
Net (loss)/gain on investment securities		(66,204)	4,206
Other expenses		<u>(409,580)</u>	<u>(151,256)</u>
NET NON-INTEREST INCOME		<u>2,168,960</u>	<u>1,541,756</u>
OPERATING INCOME		4,972,650	2,960,345
OPERATING EXPENSES		<u>(3,143,509)</u>	<u>(2,170,348)</u>
PROFIT BEFORE OTHER PROVISIONS, INCOME FROM ASSOCIATES, INCOME TAX AND MINORITY INTEREST		1,829,141	789,997
Provision for losses on other transactions		<u>(48,724)</u>	<u>(21,473)</u>
Income from associates		<u>4,100</u>	<u>-</u>
PROFIT BEFORE INCOME TAX AND MINORITY INTEREST		1,784,517	768,524
Income tax expense	5	<u>(115,732)</u>	<u>(22,590)</u>
NET PROFIT BEFORE MINORITY INTEREST		1,668,785	745,934
Minority interest	6	<u>(36,558)</u>	<u>14,773</u>
NET PROFIT		<u>1,632,227</u>	<u>760,707</u>
Earnings per share	7	57.90	39.87

On behalf of the Board of Directors:

Chairman

9 November 2004
Almaty

Chief Accountant

9 November 2004
Almaty

The notes on pages 7 to 32 form an integral part of these condensed consolidated interim financial statements.

JSC BANK CENTERCREDIT

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

AS OF 30 SEPTEMBER 2004

(in Kazakhstani Tenge and in thousands, unless otherwise stated)

	Notes	30 September 2004 (unaudited)	31 December 2003
ASSETS:			
Cash and balances with the National Bank of the Republic of Kazakhstan		8,766,331	5,648,630
Loans and advances to banks		4,871,066	9,494,053
Trading securities	8	2,762,508	1,412,897
Securities purchased under repurchase agreements		5,501,922	68,182
Loans and advances to customers, less allowance for loan losses	9, 17	88,713,925	52,068,761
Investment securities:			
- securities available-for-sale, less allowance for impairment	10, 17	24,760,053	8,999,865
- securities held-to-maturity	10	53,994	-
Fixed and intangible assets, less accumulated depreciation		3,057,638	2,688,497
Other assets, less allowance for losses	11	2,522,085	1,532,133
TOTAL ASSETS		141,009,522	81,913,018
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits from banks		31,635,934	20,728,383
Securities sold under repurchase agreements		2,526,808	1,332,711
Customer accounts	12, 17	85,062,294	47,643,364
Income tax liabilities	5	50,882	62,403
Other liabilities	13	4,716,812	556,994
		123,992,730	70,323,855
Subordinated debt	14, 17	5,787,104	4,102,079
Total liabilities		129,779,834	74,425,934
Minority interest	6	154,449	46,492
SHAREHOLDERS' EQUITY:			
Share capital	15	7,166,988	5,166,988
Share premium		1,022	1,022
Revaluation reserve		277,328	278,622
Revenue reserve		3,629,901	1,993,960
Total shareholders' equity		11,075,239	7,440,592
TOTAL LIABILITIES AND EQUITY		141,009,522	81,913,018
FINANCIAL COMMITMENTS AND CONTINGENCIES	16	29,765,359	18,844,472

On behalf of the Board of Directors:

Chairman

9 November 2004
Almaty

Chief Accountant

9 November 2004
Almaty

The notes on pages 7 to 32 form an integral part of these condensed consolidated interim financial statements.

JSC BANK CENTERCREDIT

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2004 (in Kazakhstani Tenge and in thousands, unless otherwise stated)

	Share capital	Share premium	Revaluation reserve	Revenue reserve	Total shareholders' equity
31 December 2002	3,166,988	1,022	284,219	694,462	4,146,691
Share capital increase	1,387,512	-	-	-	1,387,512
Net profit	-	-	-	760,707	760,707
Depreciation of fixed assets	-	-	(4,898)	4,898	-
Balance at 30 September 2003 (unaudited)	4,554,500	1,022	279,321	1,460,067	6,294,910
Share capital increase	612,488	-	-	-	612,488
Net profit	-	-	-	533,194	533,194
Depreciation of fixed assets	-	-	(699)	699	-
31 December 2003	5,166,988	1,022	278,622	1,993,960	7,440,592
Share capital increase	2,000,000	-	-	-	2,000,000
Net profit	-	-	-	1,632,227	1,632,227
Fixed assets revaluation	-	-	-	2,420	2,420
Depreciation of fixed assets	-	-	(1,294)	1,294	-
Balance at 30 September 2004 (unaudited)	7,166,988	1,022	277,328	3,629,901	11,075,239

On behalf of the Board of Directors:

Chairman

9 November 2004
Almaty

Chief Accountant

9 November 2004
Almaty

The notes on pages 7 to 32 form an integral part of these condensed consolidated interim financial statements.

JSC BANK CENTERCREDIT

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2004 *(in Kazakhstani Tenge and in thousands, unless otherwise stated)*

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income taxes and minority interest	1,784,517	768,524
Adjustments for:		
Provision for loan losses	1,841,577	924,173
Provision for losses on other transactions	48,724	21,473
Depreciation charge of fixed and intangible assets	295,490	214,509
Profit on sale of fixed and intangible assets	(39,839)	(7,120)
Change in share of minority	11,399	(16,950)
Minority share of net profit/(loss)	36,558	(14,773)
Net change in accruals	(146,675)	(1,119,895)
Cash flow from operating activities before changes in operating assets and liabilities	3,831,751	769,941
Changes in operating assets and liabilities		
Increase in operating assets:		
Loans and advances to banks	(819,825)	(1,914,525)
Loans and advances to customers	(37,894,797)	(13,263,635)
Securities purchased under repos agreements	(5,430,014)	(175,455)
Trading securities	(1,310,413)	(1,399,088)
Other assets	(998,988)	(676,699)
Increase in operating liabilities:		
Deposits from banks	10,708,548	4,685,720
Customer accounts	37,094,740	13,283,704
Securities sold under repos agreements	1,194,097	1,003,151
Other liabilities	4,108,609	281,973
Cash inflows from operating activities before income taxes	10,483,708	2,595,087
Income tax paid	(123,000)	(21,667)
Net cash inflows from operating activities	10,360,708	2,573,420
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed and intangible assets	(1,075,717)	(1,035,019)
Proceeds on sale of fixed and intangible assets	450,925	539,998
Acquisition of subsidiaries, net of cash acquired	60,000	90,000
Purchase of available-for-sale securities, net	(15,638,051)	(3,278,289)
Purchase of held-to-maturity securities	(53,994)	-
Net cash outflows from investing activities	(16,256,837)	(3,683,310)

JSC BANK CENTERCREDIT

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED) FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2004 *(in Kazakhstani Tenge and in thousands, unless otherwise stated)*

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in share capital	2,000,000	1,387,512
Proceeded subordinated loan	1,565,137	1,994,005
Net cash inflows from financing activities	3,565,137	3,381,517
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,330,992)	2,271,627
CASH AND CASH EQUIVALENTS, at beginning of the period	11,244,376	6,118,281
CASH AND CASH EQUIVALENTS, at end of the period	8,913,384	8,389,908

Interest paid and received by the Group in cash during the nine-month period ended 30 September 2004 amounted to KZT 3,700,766 thousand and KZT 8,226,228 thousand, respectively.

Interest paid and received by the Group in cash during the nine-month period ended 30 September 2003 amounted to KZT 1,793,061 thousand and KZT 3,015,928 thousand, respectively.

On behalf of the Board of Directors:

Chairman

9 November 2004
Almaty

Chief Accountant

9 November 2004
Almaty

The notes on pages 7 to 32 form an integral part of these condensed consolidated interim financial statements.

JSC BANK CENTERCREDIT

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2004

(in Kazakhstani Tenge and in thousands, unless otherwise stated)

1. ORGANISATION

JSC Bank CenterCredit (the "Bank") is a joint-stock bank, which was incorporated in the Republic of Kazakhstan and started its operations in 1988. The address of its registered office is as follows: 100, Shevchenko Street, Almaty, Kazakhstan. The Bank is regulated by the National Bank of the Republic of Kazakhstan (the "NBRK") and conducts its business under license number 248 dated 9 June 2004 given by the Agency of the Republic of Kazakhstan on financial market and financial institutions regulation and inspectorate. The Bank's primary business consists of commercial banking activities, trading with securities, loans, foreign currencies and derivative instruments, originating loans and guarantees.

The Bank has 19 branches in the Republic of Kazakhstan.

The Bank is a parent company of the Banking Group (the "Group"), consisting of the following subsidiaries, which are consolidated in the financial statements as of 30 September 2004:

Name	Type of business	2004 ownership interest	2003 ownership interest	Place of residence
LLP Aktas Zhol	Property appraisal and lease	-	-	Kazakhstan
CJSC Capital	Pension Fund Management Company	62.5%	50%	Kazakhstan
LLP BCC	Property appraisal and lease	-	-	Kazakhstan
LLP Center Leasing	Finance lease of property	100%	100%	Kazakhstan
JSC KIBAM	Securities trading	100%	100%	Kazakhstan

The Bank does not own any shares in "BCC" LLP and "Aktas-Zhol" LLP, but they are consolidated in the Group's financial statement because the Bank has the ability to control and effectively controls their operations.

The number of employees of the Group at 30 September 2004 and 31 December 2003 was 2,308 and 1,746, respectively.

As of 30 September 2004, the following shareholders owned more than 5% of the outstanding shares. (Six shareholders owned 35.98% of the outstanding shares).

Shareholder	%
CJSC Valut-Transit Fund	7.39
CJSC Senim	6.06
Dorra LLC	5.78
Canterbury Valley Ltd.	5.74
CJSC NPF Ular Umit	5.66
Interexport	5.35
Other, individually have less than 5%	64.02
Total	100.00

These financial statements were authorized for issue by the Board of Directors on 9 November 2004.

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These consolidated financial statements are presented in thousands of Kazakhstani Tenge (“KZT”), except for earnings per share amounts and unless otherwise indicated. These consolidated financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities and financial assets and financial liabilities held for trading.

The Group maintains its accounting records in accordance with the Accounting policy authorized by the Resolution of the Board of Directors of the Group #32 on 9 April 2003. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

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

Measurement currency – The measurement currency of these consolidated financial statements is the Kazakhstani Tenge (“KZT”).

The condensed interim consolidated financial statements should be read in conjunction with the 2003 annual consolidated financial statements of the Group, which was authorized for issue on 16 February 2004.

Since the results of the Group’s operation closely relate to and depend on changing market conditions, the results of the Group’s operation for the interim period do not necessarily reflect a trend for the total year end results.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the accounts of majority-owned subsidiaries, and the accounts of the subsidiaries, of which the Bank has no ownership interest in the share capital but has an ability to control and effectively controls their operations.

All significant intercompany transactions and balances have been eliminated. The ownership interest of JSC Bank CenterCredit and proportion of voting power of the Group in the significant subsidiaries as of 30 September 2004 and 31 December 2003 is presented in Note 1.

The share of the Bank in net assets and net income of entities, where the Bank holds 20 to 50% of share capital and has the ability to exercise significant influence over their operating and financial policies (“associates”) is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Group.

Investments in non-consolidated associates – Investments in corporate shares where the Group owns more than 20% of share capital, but does not have the ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not have a significant effect on the consolidated financial statements taken as a whole, or the Group intends to resell such investments in the near future, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair cost or approximated cost, or at cost of acquisition, if the fair value of investments cannot be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary.

Recognition and measurement of financial instruments – The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

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. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents include cash, unrestricted balances on correspondent and deposit accounts with the National Bank of the Republic of Kazakhstan, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, and precious metals in vault, which may be converted to cash within a short period of time.

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

Trading securities – Trading securities represent debt securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for the Group’s trading securities. When market prices are not available or if liquidating the Group’s position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management’s estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

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

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Group uses quoted market prices to determine fair value for the Group’s securities available-for-sale. If such quotes do not exist, management estimation is used.

Repurchase and reverse repurchase agreements – The Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos agreements are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the purchase and sale are recorded with the gain or loss included in net (losses)/gains on investment securities. The obligation to return them is recorded at fair value as a trading liability. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense, accrued using the effective interest method, during the period that the related transactions are open.

Originated loans – Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans granted by the Group are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans – Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Credit Committee. Loans are written off on 181st day of delay.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Purchased loans and receivables – Loans and receivables acquired from another lender subsequent to the original date are either classified as trading, held-to-maturity or as available-for-sale investments. For purchased loans classified as available-for-sale investments, fair value is based on an active market or using an interest rates model. If market price is not available and the interest model is not practicable, the price for similar assets is used.

Allowance for losses – The Group establishes an allowance for losses of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Group expects to realize the loan.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Provisions are made as a result of a detailed appraisal of risk assets.

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

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

Fixed and intangible assets – Fixed and intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed and intangible assets are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings and constructions	2-4%
Furniture and equipment	20-50%
Intangible assets	10-30%

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment loss is recognized in the respective period and is included in other administrative and operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in other administrative and operating expenses unless they qualify for capitalization.

Impairment loss – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit and loss account for the year in which it arises.

Finance leases – Leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. A lease is classified as a finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Group as lessee – The Group recognizes finance leases as assets and liabilities in the balance sheet at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Capital costs incurred to maintain or improve assets received under finance lease are capitalized and reported as leasehold improvements and are amortized over the term of the related lease.

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

Taxation – Taxes on income are computed in accordance with the laws of the Republic of Kazakhstan. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Group has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Group has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

Kazakhstan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Customers and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Subordinated debt – Subordinated debt issued represent interest bearing notes issued by the Group. They are accounted for according to the same principles used for customer and bank deposits. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinated to the repayments of the Group's liabilities to all other creditors.

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

Share capital and share premium – Share capital is recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at cost. Gains and losses on sales of treasury stock are charged or credited to share premium.

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.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. 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.

Retirement and other benefit obligations – The Group does not have any pension arrangements separate from the pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

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.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis calculated using the effective yield method. The recognition of interest income is suspended when loans become overdue by more than 30 days. Interest income also includes interest income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange – The exchange rates as of period-end used by the Group in the preparation of the condensed consolidated interim financial statements are as follows:

	30 September 2004	31 December 2003
KZT/USD	134.56	144.22
KZT/EUR	165.74	180.23

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

Fiduciary activities – The Group provides trustee services to its customers. Assets accepted and liabilities incurred under the trustee activities are not included in the Group’s financial statements. The Group accepts the operational risk on these activities, but the Group’s customers bear the credit and market risks associated with such operations.

Reclassifications – Certain reclassifications have been made to the consolidated profit and loss account for the nine-month period ended 30 September 2003 to conform to the presentation for the nine-month period ended 30 September 2004.

4. NET INTEREST INCOME

Net interest income comprises:

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Interest income		
Interest on loans and advances to customers	7,981,239	4,229,114
Interest on debt securities	826,399	410,260
Interest on loans and advances to banks	113,106	68,156
Interest on reverse repos transactions	68,370	25,476
Total interest income	<u>8,989,114</u>	<u>4,733,006</u>
Interest expense		
Interest on customer accounts	(2,946,375)	(1,753,705)
Interest on deposits from banks	(970,264)	(408,246)
Interest on subordinated debt	(414,452)	(220,027)
Interest on repos transactions	(12,756)	(8,266)
Total interest expense	<u>(4,343,847)</u>	<u>(2,390,244)</u>
Net interest income before provision for loan losses	<u>4,645,267</u>	<u>2,342,762</u>

5. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstani statutory tax regulations which may differ from IFRS.

Tax liabilities consist of the following:

	2004 (unaudited)	2003
Current tax liabilities	-	-
Deferred tax liabilities	50,882	62,403
Tax liabilities	50,882	62,403

The Group is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and certain other expenses and tax-free regime under local tax regulations.

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 30 September 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 30 September 2004 comprise:

	30 September 2004 (unaudited)	31 December 2003
Deferred assets:		
Loans to banks and customers	247,346	155,761
Accruals	41,538	-
Total deferred assets	288,884	155,761
	30 September 2004 (unaudited)	31 December 2003
Deferred liabilities:		
Other assets	(11,733)	-
Fixed assets	(446,757)	(513,517)
Total deferred liabilities	(458,490)	(513,517)
Net deferred liabilities	(169,606)	(357,756)
Deferred tax liabilities at the statutory rate (30%)	(50,882)	(107,327)
Loss carry forward at the statutory tax rate (30%)	-	44,924
Net deferred tax liabilities	(50,882)	(62,403)

Relationships between tax expenses and accounting profit for the 9 month period ended 30 September 2004 and 2003 are explained as follows:

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Profit before income tax and minority interest	<u>1,784,517</u>	<u>768,524</u>
Statutory tax rate	30%	30%
Tax at the statutory tax rate	535,355	230,557
Tax effect of permanent differences	(419,623)	193,463
Loss carry forward	-	(29,973)
Change in valuation allowance	-	(371,457)
Income tax expense	<u>115,732</u>	<u>22,590</u>
Current income tax expense	115,732	22,590
Deferred tax expenses	-	-
Income tax expense	<u>115,732</u>	<u>22,590</u>
Deferred income tax liabilities	30 September 2004 (unaudited)	31 December 2003
At beginning of the period	62,403	-
(Decrease)/increase in the deferred income tax for the period	(11,521)	62,403
At end of the period	<u>50,882</u>	<u>62,403</u>

6. MINORITY INTEREST

The table below represents the movements in minority interests of the Group:

	2004 (unaudited)	2003 (unaudited)
Minority interest at 1 January	46,492	2,083
Share of net profit/(loss)	36,558	(14,773)
Acquisition of subsidiaries	60,000	90,000
Change in share of minority	11,399	(16,950)
Minority interest at 30 September	<u>154,449</u>	<u>60,360</u>
		2003 (unaudited)
Minority interest at 30 September		60,360
Share of net profit/(loss)		(13,868)
Minority interest at 31 December		<u>46,492</u>

7. EARNINGS PER SHARE

	30 September 2004 (unaudited)	30 September 2003 (unaudited)
Net income	1,632,227	760,707
Weighted average number of shares	28,191,453	19,076,623
Earnings per share in KZT, basic and diluted	<u>57.90</u>	<u>39.87</u>

8. TRADING SECURITIES

	Interest to nominal	30 September 2004 (unaudited)	Interest to nominal	31 December 2003
Bank of Development of the Republic of Kazakhstan bonds	7.13%-7.38%	1,566,472	7.13-7.38%	878,903
Eurobonds of Kazkommertsbank	8.50% -10.13%	450,221	-	-
US treasury bonds	2.63%-4.00%	400,502	3.38-4.25%	288,974
OJSC Bank TuranAlem bonds	10%	308,235	10-11.5%	121,654
OJSC KazTransOil bonds	-	-	8.50%	123,366
Other securities	-	37,078	-	-
Total trading securities		<u>2,762,508</u>		<u>1,412,897</u>

9. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

	30 September 2004 (unaudited)	31 December 2003
Originated loans	90,302,996	52,648,291
Accrued interest income on loans and advances to customers	<u>2,299,904</u>	<u>1,707,960</u>
	92,602,900	54,356,251
Less allowance for loan losses	(3,888,975)	(2,287,490)
Total loans and advances to customers, net	<u>88,713,925</u>	<u>52,068,761</u>

	30 September 2004 (unaudited)	31 December 2003
Loans collateralized by real estate	53,400,233	33,931,369
Loans collateralized by goods in turnover	12,262,428	7,326,880
Loans collateralized by equipment	8,401,555	5,285,867
Loans collateralized by other assets	7,390,104	3,317,037
Loans collateralized by cash	6,034,757	1,115,362
Loans collateralized by corporate guarantees	3,475,292	1,758,142
Loans collateralized by precious metals	226,396	817,023
Unsecured loans	1,412,135	804,571
	<u>92,602,900</u>	<u>54,356,251</u>
Less allowance for loan losses	(3,888,975)	(2,287,490)
Total loans and advances to customers, net	<u>88,713,925</u>	<u>52,068,761</u>

Analysis by sector	30 September 2004 (unaudited)	31 December 2003
Trading	23,271,067	14,366,127
Retail loans and mortgage	15,379,648	8,386,031
Food industry	11,321,756	7,445,442
Manufacturing	8,427,991	6,160,992
Agriculture	7,002,573	2,619,504
Construction	6,375,555	2,360,533
Oil and gas	4,638,785	1,486,922
Mining of precious metals	3,298,736	3,725,974
Real estate	2,726,474	1,523,321
Telecommunications and transport	1,089,871	1,554,075
Mass media	915,298	466,034
Financial sector	371,237	70,537
Metallurgy	368,832	323,877
Machinery	320,649	74,377
Energy	192,832	364,592
Other	6,901,596	3,427,913
	<u>92,602,900</u>	<u>54,356,251</u>
Less allowance for loan losses	(3,888,975)	(2,287,490)
Total loans and advances to customers, net	<u>88,713,925</u>	<u>52,068,761</u>

10. INVESTMENT SECURITIES

	30 September 2004 (unaudited)	31 December 2003
Securities available-for-sale	24,760,053	9,043,865
Securities held-to-maturity	53,994	-
	<u>24,814,047</u>	<u>9,043,865</u>
Less allowance for impairment	-	(44,000)
Total investment securities, net	<u>24,814,047</u>	<u>8,999,865</u>

Available-for-sale equity securities comprise:

	% in equity	30 September 2004 (unaudited)	% in equity	31 December 2003
Shares				
OJSC Alliance Bank	3.57	287,500	6.9	250,000
JSC Oil Insurance Company	5.7	42,412	5.45	37,606
CJSC Halyk Pension Fund	12.47	36,700	6.57	17,400
CJSC Pension Fund Korgau	9.44	28,328	5.58	17,000
CJSC Processing center	1.37	10,000	1.37	10,000
KASE	2.6	2,567	-	-
OJSC ValutTransitBank		-	2.9	91,429
CJSC Astana Hotel (100% impairment)		-	-	44,000
OJSC HSBK		-	-	6,378
OJSC Kazakhtelecom		-	-	1,792
Other		1,888	-	14,240
		409,395		489,845

Available-for-sale debt securities comprise:

	Interest to nominal	30 September 2004 (unaudited)	Interest to nominal	31 December 2003
Debt securities				
NBRK notes	-	10,106,594	-	2,348,494
Treasury bills of the Ministry of Finance	4%-8.35%	8,910,511	4%-16.3%	1,911,943
Bonds of Kazakhstan Mortgage Company	7%-11.25%	2,418,816	-	-
Eurobonds issued by the Republic of Kazakhstan	11.13%-13.63%	1,695,897	11.13%-13.63%	1,769,905
OJSC Halyk Bank	5%-9%	623,671	-	-
JSC ATF Bank	8.5%	242,589	-	-
Bonds of Atyrau Region	8.6%	151,868	-	-
OJSC Astana Finance	9%	111,829	9%	15,489
OJSC Valut Transit Bank	11%	88,883	10%	48,564
Eurobonds issued by legal entities	-	-	7.38%-12%	2,455,466
ther securities		-		4,159
		24,350,658		8,554,020
Total securities available-for-sale		24,760,053		9,043,865
Less allowance for impairment		-		(44,000)
Total securities available for sale, net		24,760,053		8,999,865

Held-to-maturity securities comprise:

	Interest to nominal	30 September 2004 (unaudited)	Interest to nominal	31 December 2003
Debt securities held to maturity				
OJSC TexaKaBank	11%	39,000	-	-
NBRK notes	-	6,583	-	-
Bonds of Kazakhstan Mortgage Company	8.09%-11.25%	3,947	-	-
OJSC Astana Finance	9%	2,643	-	-
Bank of Development of Republic of Kazakhstan	8.5%	<u>1,821</u>	-	<u>-</u>
Total securities held to maturity, net		<u>53,994</u>		<u>-</u>

11. OTHER ASSETS

Other assets comprise:

	30 September 2004 (unaudited)	31 December 2003
Debtors on capital investments	796,018	82,691
Prepayments and receivables on other transactions	418,690	452,135
Western Union and other wireless transfers	307,505	122,055
Receivable from sale of collateral repossessed	211,448	472,322
Prepayment for equipment	149,152	-
Inventory	148,520	118,432
Accrued commission	136,390	41,603
Taxes receivable (other than income tax)	108,453	79,008
Accrued income on rent	51,846	-
Due from the Government on foreign exchange losses for long term loans	31,111	49,782
Advances to employees	21,069	3,334
Travelers cheques	10,270	17,351
Other assets	<u>131,965</u>	<u>93,943</u>
	<u>2,522,437</u>	<u>1,532,656</u>
Allowance for losses on other assets	(352)	(523)
Total other assets, net	<u>2,522,085</u>	<u>1,532,133</u>

12. CUSTOMER ACCOUNTS

Customer accounts comprise:

	30 September 2004 (unaudited)	31 December 2003
Time deposits	58,717,953	31,505,738
Repayable on demand	25,655,155	15,772,630
Accrued interest expense on customer accounts	689,186	364,996
Total customer accounts	<u>85,062,294</u>	<u>47,643,364</u>

Analysis of customer accounts by industry:

	30 September 2004 (unaudited)	31 December 2003
Individuals	33,732,839	20,962,386
Social services	12,708,394	5,749,898
Insurance	6,653,348	4,906,777
Fuel	7,293,736	4,120,043
Trade	5,240,277	3,194,544
Real estate constructions	3,605,645	162,358
Transportation and communication	3,134,903	1,668,926
Agriculture	3,067,742	1,597,560
Metallurgy	2,270,257	325
Manufacturing	2,256,464	695,846
Energy	232,202	142,656
Machinery	158,676	169,808
Chemical	9,170	40,950
Other	4,009,455	3,866,291
Accrued interest expense on customer accounts	689,186	364,996
Total customer deposits	<u>85,062,294</u>	<u>47,643,364</u>

13. OTHER LIABILITIES

	30 September 2004 (unaudited)	31 December 2003
Settlement on other transactions	4,247,837	376,433
Allowance for losses on guarantees and credit related commitments	88,212	38,623
Taxes payable, other than income tax	65,682	35,064
Advances received	40,906	9,075
Other	268,066	39,341
Accrued interest expense	6,109	58,458
Total other liabilities	<u>4,716,812</u>	<u>556,994</u>

14. SUBORDINATED DEBT

Subordinated debt comprises:

	30 September 2004 (unaudited)	31 December 2003
Interest bearing notes (indexed in KZT)	5,159,664	3,453,549
Interest bearing notes (USD)	627,440	648,530
	<u>5,787,104</u>	<u>4,102,079</u>

Discount on the interest bearing notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

15. SHAREHOLDERS' EQUITY

As of 30 September 2004 and 31 December 2003 share capital authorized, issued and fully paid comprised of 35,316,695 and 25,316,695 ordinary shares, respectively with par value of KZT 200 each. All ordinary shares are ranked equally and carry one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

16. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

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

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 30 September 2004 and 31 December 2003, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	30 September 2004 (unaudited)		31 December 2003	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingent liabilities and credit commitments				
Guarantees issued and other similar commitments	8,624,109	8,085,662	3,907,898	3,907,898
Letters of credit and other transaction related contingent liabilities	1,141,233	495,084	831,149	339,239
Commitments on unused credit lines	15,524,278	-	8,533,425	-
Trust accounts	4,475,739	4,475,739	5,572,000	5,572,000
Total contingent liabilities and credit commitments	29,765,359	13,056,485	18,844,472	9,819,137

Capital commitments – The Group had no material commitments for capital expenditures outstanding as of 30 September 2004 and 31 December 2003.

Rental commitments – No material rental commitment was outstanding as of 30 September 2004 and 31 December 2003.

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

Fiduciary activities – In the normal course of its business the Group enters into agreements with limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Group may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client. These amounts are the average balance of the clients' funds under the management of the Group during the nine month periods ended 30 September 2004 and 2003, including assets under trusteeship as of 30 September 2004 and 31 December 2003 in the amount of KZT 4,475,739 and KZT 5,572,000 thousand, respectively.

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

Taxation – Kazakhstani commercial legislation, and tax legislation in particular may give rise to varying interpretations and amendments, which may be retrospective. In addition, as Management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as result the Bank may be assessed additional tax charges. Thus by the results of the tax audit of 2002 and 2003 tax returns performed by the Kazakhstani tax authorities completed in august 2004 they accrued additional taxes payables for amount of 337 million tenge.

The principal amount of the claim to the Bank arose because of the lack of the unified interpretation in application of the tax benefits presumed by the tax legislation of the RK whereas interest income proceeded on long-term investment loans issued for more than 3 years for creation and modernization of the property, plant and equipment are tax exempted. The management of the Bank addressed the regulatory competent authorities by enquiring explanations of the above mentioned provisions, and during preparation of its tax returns for 2002 and 2003 adhered received written explanations.

The management of the Bank believes to the integrity of its position and undertakes for cancellation of these claims in part of their timing and procedures in the strict correspondence with the set out procedure regulations.

Also the management of the Bank believes that all requires taxes are accrued and correspondingly there are no required additional accruals of the provisions in the financial statements to those provided previously as liabilities and deferred tax expenses in the corresponding years.

The management of the Bank believes that all taxes are duly and fully paid, thus these interim financial statements do not require any additional provisions.

17. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group` and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding with related parties:

	30 September 2004 (unaudited)		31 December 2003	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers, gross	1,483,692	92,602,900	450,958	54,356,251
Allowance for losses on loans to customers	27,394	3,888,975	68,872	2,287,490
Investment securities:				
- available-for-sale;	-	24,760,053	71,800	8,999,865
Subordinated debt	-	5,787,104	9,054	4,102,079
Customers accounts	335,526	85,062,294	-	47,643,364
Guarantees given	28,051	8,624,109	5,913	3,907,898

Included in the profit and loss account for the nine month periods ended 30 September 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	30 September 2004 (unaudited)		30 September 2003 (unaudited)	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		8,989,114		4,733,006
- related companies	38,047		25,764	
- directors	7,570		3,683	
Interest expense		(4,343,847)		(2,390,244)
- related companies	(21,192)		(19,074)	

Top management compensation for the nine month periods ended 30 September 2004 and 2003 amounted to KZT 14,742 thousand and KZT 11,340 thousand, respectively.

Transactions with related parties entered into by the Group during the nine month period ended 30 September 2004 and 2003 and outstanding as of 30 September 2004 and 31 December 2003 were made in the normal course of business and mostly under arm-length conditions.

19. RISK MANAGEMENT POLICIES

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

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimisation. Risk Analysis and Management Department performs determination of the optimum structure of balance, limits on liquidity ratios and gap-positions approved by the Assets and Liabilities Management Committee. Risk Analysis and Management Department performs monitoring of liquidity ratios.

The following table presents an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2004 (unaudited) KZT thousand Total
ASSETS							
Fixed interest rate bearing assets:							
Loans and advances to banks	4,037,411	141,235	692,420	-	-	-	4,871,066
Trading securities	232,780	-	-	2,529,728	-	-	2,762,508
Securities purchased under repurchase agreements	5,311,908	29,000	161,014	-	-	-	5,501,922
Loans and advances to customers, less allowance for loan losses	9,148,781	10,632,734	35,287,625	37,533,760	-	(3,888,975)	88,713,925
Investment securities, less allowance for impairment	23,472,251	-	10,210	1,331,586	-	-	24,814,047
	42,203,131	10,802,969	36,151,269	41,395,074	-	(3,888,975)	126,663,468
Cash and balances with the NBRK	8,766,331	-	-	-	-	-	8,766,331
Fixed and intangible assets, less accumulated depreciation	-	14	1,699	835,741	2,220,184	-	3,057,638
Other assets, less allowance for losses	1,577,807	-	-	944,630	-	(352)	2,522,085
TOTAL ASSETS	52,547,269	10,802,983	36,152,968	43,175,445	2,220,184	(3,889,327)	141,009,522
LIABILITIES							
Fixed interest rate bearing liabilities:							
Deposits from banks	6,136,468	7,818,488	12,066,317	5,614,661	-	-	31,635,934
Securities sold under repurchase agreements	2,526,808	-	-	-	-	-	2,526,808
Customer accounts	33,891,761	9,160,481	19,034,436	22,975,616	-	-	85,062,294
Subordinated loan	75,000	100,952	2,394	5,608,758	-	-	5,787,104
Total fixed interest bearing liabilities	42,630,037	17,079,921	31,103,147	34,199,035	-	-	125,012,140
Income tax liabilities	50,882	-	-	-	-	-	50,882
Other liabilities	4,628,600	-	-	-	-	88,212	4,716,812
TOTAL LIABILITIES	47,309,519	17,079,921	31,103,147	34,199,035	-	88,212	129,779,834
Liquidity gap	5,237,750	(6,276,938)	5,049,821	8,976,410	2,220,184		
Interest sensitivity gap	(426,906)	(6,276,952)	5,048,122	7,196,039	-		
Cumulative interest sensitivity gap	(426,906)	(6,703,858)	(1,655,736)	5,540,303	5,540,303		
Cumulative interest sensitivity gap as a percentage of total assets	(0.3%)	(4.5%)	(1.1%)	3.9%	3.9%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2003 KZT thousand Total
ASSETS							
Fixed interest rate bearing assets:							
Loans and advances to banks	9,189,186	-	247,179	57,688	-	-	9,494,053
Trading securities	1,412,897	-	-	-	-	-	1,412,897
Securities purchased under repurchase agreement	33,173	-	35,009	-	-	-	68,182
Loans and advances to customers, less allowance for loan losses	5,800,931	7,186,415	23,947,456	16,477,950	943,499	(2,287,490)	52,068,761
Investment securities	6,970,474	117,539	-	1,466,007	-	-	8,554,020
Total fixed interest rate bearing	23,406,661	7,303,954	24,229,644	18,001,645	943,499	(2,287,490)	71,597,913
Cash and balances with the NBRK	5,648,630	-	-	-	-	-	5,648,630
Investment securities, less allowance for impairment	489,845	-	-	-	-	(44,000)	445,845
Fixed and intangible assets, less accumulated depreciation	-	283	4,555	613,066	2,070,593	-	2,688,497
Other assets, less allowance for losses	1,454,010	-	-	78,646	-	(523)	1,532,133
TOTAL ASSETS	30,999,146	7,304,237	24,234,199	18,693,357	3,014,092	(2,332,013)	81,913,018
LIABILITIES							
Fixed interest rate bearing liabilities:							
Deposits from banks	2,264,992	2,007,308	11,850,328	4,605,755	-	-	20,728,383
Securities sold under repurchase agreements	1,332,711	-	-	-	-	-	1,332,711
Customer accounts	19,932,952	8,037,910	11,777,648	7,894,854	-	-	47,643,364
Subordinated loan	-	-	-	-	4,102,079	-	4,102,079
Total fixed interest bearing liabilities	23,530,655	10,045,218	23,627,976	12,500,609	4,102,079	-	73,806,537
Income tax liabilities	-	-	62,403	-	-	-	62,403
Other liabilities	404,955	65,153	12,303	35,960	-	38,623	556,994
TOTAL LIABILITIES	23,935,610	10,110,371	23,702,682	12,536,569	4,102,079	38,623	74,425,934
Liquidity gap	7,063,536	(2,806,134)	531,517	6,156,788	(1,087,987)		
Interest sensitivity gap	(123,994)	(2,741,264)	601,668	5,501,036	(3,158,580)		
Cumulative interest sensitivity gap	(123,994)	(2,865,258)	(2,263,590)	3,237,446	78,866		
Cumulative interest sensitivity gap as a percentage of total assets	(0.2%)	(3%)	(3%)	4%	0.01%		

Interest rate risk

The Treasury Department performs management of interest rate and market risks through determination of the transferring rates and general rates of borrowed and allocated resources, which enables the Group to avoid negative interest margin. Risk Analysis and Management Department develops limits for interest gaps and performs monitoring of spread level and net interest margin. Assets and Liabilities Management Committee approves limits on interest gaps, transferring rates and general interest rates for borrowed and allocated resources.

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	KZT	USD	EURO	30 September 2004 (unaudited) Other currencies	KZT	USD	EURO	31 December 2003 Other currencies
ASSETS								
Loans and advances to banks	5%	1.8%	2%	-	5.5%	2.5%	3%	-
Trading securities	7.8%	-	-	-	5.5%	4.5%	-	-
Securities purchased under repurchase agreement	2.96%	-	-	-	2.5%	1.5%	-	-
Loans and advances to customers	15%	14.2%	9.4%	-	16%	15.2%	13.2%	-
Investment securities:								
- available-for-sale	3.2%	4.5%	-	-	5.5%	4.5%	-	-
LIABILITIES								
Deposits from banks	6%	5.5%	2%	-	7%	6.5%	3%	-
Securities sold under repurchase agreements	2.22%	-	-	-	2.5%	-	-	-
Customer accounts	10%	6.9%	7%	-	10%	6.2%	6%	-
Subordinated debt	11.9%	9.9%	-	-	12%	10%	-	-

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. Risk Analysis and Management Department determines limits on open currency positions, arbitrary positions and stop-loss. All limits and restrictions are approved by the Assets and Liabilities Management Committee. Risk Analysis and Management Department performs monitoring.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	USD	EUR	Other currency	Allowance for losses	2004 (unaudited) KZT thousand Total
ASSETS						
Cash and balances with the NBRK	7,255,000	1,150,318	326,693	34,320	-	8,766,331
Loans and advances to banks	1,245,128	1,298,483	2,158,978	168,477	-	4,871,066
Trading securities	37,078	2,725,430	-	-	-	2,762,508
Securities purchased under repurchase agreements	5,501,922	-	-	-	-	5,501,922
Loans and advances to customers, less allowance for loan losses	37,561,863	54,388,813	652,224	-	(3,888,975)	88,713,925
Investment securities	23,118,147	1,695,900	-	-	-	24,814,047
Fixed and other intangible assets, less accumulated depreciation	3,057,638	-	-	-	-	3,057,638
Other assets, less allowance for losses	2,378,726	139,370	4,341	-	(352)	2,522,085
TOTAL ASSETS	80,155,502	61,398,314	3,142,236	202,797	(3,889,327)	141,009,522
LIABILITIES						
Deposits from banks	4,565,644	25,222,690	1,847,600	-	-	31,635,934
Securities sold under repurchase agreements	559,058	1,967,750	-	-	-	2,526,808
Customer accounts	53,318,587	30,213,084	1,379,693	150,930	-	85,062,294
Subordinated debt	5,787,104	-	-	-	-	5,787,104
Income tax liabilities	50,882	-	-	-	-	50,882
Other liabilities	1,431,560	3,140,596	48,968	7,476	88,212	4,716,812
TOTAL LIABILITIES	65,712,835	60,544,120	3,276,261	158,406	88,212	129,779,834
OPEN BALANCE SHEET POSITION	14,442,667	854,194	(134,025)	44,391		

	KZT	USD 1 USD= KZT 144.22	EUR 1 USD= KZT 180.23	Other currency	Allowance for losses	2003 KZT thousand Total
ASSETS						
Cash and balances with the NBRK	3,700,222	1,685,532	247,474	15,402	-	5,648,630
Loans and advances to banks	1,006,301	7,657,314	623,724	206,714	-	9,494,053
Trading securities	-	1,412,897	-	-	-	1,412,897
Securities purchased under repurchase agreement	68,182	-	-	-	-	68,182
Loans and advances to customers, less allowance for loan losses	29,324,757	24,581,177	450,317	-	(2,287,490)	52,068,761
Investment securities, less allowance for impairment	7,074,237	1,969,628	-	-	(44,000)	8,999,865
Fixed and other intangible assets, less accumulated depreciation	2,688,497	-	-	-	-	2,688,497
Other assets, less allowance for losses	1,302,480	225,757	4,391	28	(523)	1,532,133
TOTAL ASSETS	45,164,676	37,532,305	1,325,906	222,144	(2,332,013)	81,913,018
LIABILITIES						
Deposits from banks	1,494,441	18,653,546	580,396	-	-	20,728,383
Securities sold under repurchase agreements	321,010	1,011,701	-	-	-	1,332,711
Customer accounts	28,935,561	17,727,326	851,840	128,637	-	47,643,364
Subordinated debt	4,102,079	-	-	-	-	4,102,079
Income tax liabilities	62,403	-	-	-	-	62,403
Other liabilities	376,313	118,495	21,178	2,385	38,623	556,994
TOTAL LIABILITIES	35,291,807	37,511,068	1,453,414	131,022	38,623	74,425,934
OPEN BALANCE SHEET POSITION	9,872,869	21,237	(127,508)	91,122		

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Assets and Liabilities Management Committee sets limits on size and structure of risk assets. The Credit Committee approves each new loan and lease, and any changes and amendments to such agreements. The Credit Department performs current monitoring.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrower and product (by industry sector, by region) are approved by the Credit Committee. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

Geographical concentration

The Management of the Group performs risk optimisation related to changes in legislation and regulative documents, and its impact on the Group.

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

	Kazakhstan	Other CIS countries	OECD countries	Allowance for losses	2004 (unaudited) KZT thousand Total
Cash and balances with the NBRK	8,766,331	-	-	-	8,766,331
Loans and advances to banks	2,662,511	1,120,573	1,087,982	-	4,871,066
Trading securities	2,762,508	-	-	-	2,762,508
Securities purchased under repurchase agreement	5,501,922	-	-	-	5,501,922
Loans and advances to customers, less allowance for loan losses	89,325,285	216,954	3,060,661	(3,888,975)	88,713,925
Investment securities	24,814,047	-	-	-	24,814,047
Fixed and other intangible assets, less accumulated depreciation	3,057,638	-	-	-	3,057,638
Other assets, less allowance for losses	2,522,437	-	-	(352)	2,522,085
TOTAL ASSETS	139,412,679	1,337,527	4,148,643	(3,889,327)	141,009,522
LIABILITIES					
Deposits from banks	6,933,389	1,475,952	23,226,593	-	31,635,934
Securities sold under repurchase agreements	2,526,808	-	-	-	2,526,808
Customer accounts	85,062,294	-	-	-	85,062,294
Subordinated debt	5,787,104	-	-	-	5,787,104
Income tax liabilities	50,882	-	-	-	50,882
Other liabilities	4,628,600	-	-	88,212	4,716,812
TOTAL LIABILITIES	104,989,077	1,475,952	23,226,593	88,212	129,779,834
NET BALANCE SHEET POSITION	34,423,602	(138,425)	(19,077,950)		

	Kazakhstan	Other CIS countries	OECD countries	Allowance for losses	2003 KZT thousand Total
Cash and balances with the NBRK	5,648,630	-	-	-	5,648,630
Loans and advances to banks	2,176,328	1,721,979	5,595,746	-	9,494,053
Trading securities	1,412,897	-	-	-	1,412,897
Securities purchased under repurchase agreement	68,182	-	-	-	68,182
Loans and advances to customers, less allowance for loan losses	54,356,251	-	-	(2,287,490)	52,068,761
Investment securities, less allowance for impairment	9,043,865	-	-	(44,000)	8,999,865
Fixed and other intangible assets, less accumulated depreciation	2,688,497	-	-	-	2,688,497
Other assets, less allowance for losses	1,532,656	-	-	(523)	1,532,133
TOTAL ASSETS	76,927,306	1,721,979	5,595,746	(2,332,013)	81,913,018
LIABILITIES					
Deposits from banks	4,188,187	721,617	15,818,579	-	20,728,383
Securities sold under repurchase agreements	1,332,711	-	-	-	1,332,711
Customer accounts	47,643,364	-	-	-	47,643,364
Subordinated debt	4,102,079	-	-	-	4,102,079
Income tax liabilities	62,403	-	-	-	62,403
Other liabilities	518,371	-	-	38,623	556,994
TOTAL LIABILITIES	57,847,115	721,617	15,818,579	38,623	74,425,934
NET BALANCE SHEET POSITION	19,080,191	1,000,362	(10,222,833)		

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