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OFFERING CIRCULAR

ATF Bank

JSC ATF Bank

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

U.S.$200,000,000
8.875% Notes due 2009
Issue Price: 99.014%

The U.S.$200,000,000 8.875 % Notes due 2009 (the "Notes") are issued by JSC ATF Bank (the "Bank", "ATF Bank" or the "Issuer"). Interest on the Notes will accrue from 9 November 2004 and will be payable semi-annually in arrear on 9 May and 9 November of each year, commencing on 9 May 2005. The Notes are subject to, and have the benefit of, a trust deed to be dated 9 November 2004 (the "Trust Deed") between the Issuer and The Bank of New York, acting through its London Branch, 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 14 for a discussion of certain factors that should be considered in connection with an investment in the Notes.

Payments of interest on the Notes are subject to withholding taxes in Kazakhstan. The Bank is, however, obliged to pay additional amounts in certain circumstances. See Condition 8 (*Taxation*), "Investment Considerations – Investment Considerations Relating to the Notes – Taxation in Kazakhstan" and "Taxation".

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 to non-U.S. persons by the Managers (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 bearer form and will initially be in the form of a temporary global note (the "Temporary Global Note"), without interest coupons, which will be deposited on or around 9 November 2004 (the "Closing Date") with The Bank of New York, acting through its London Branch, as common depositary (the "Common Depositary") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "Permanent Global Note"), without interest coupons, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form in the denominations of U.S.$10,000 and U.S.$100,000 each and with interest coupons attached. See "Summary of Provisions Relating to the Notes in Global Form".

Joint Lead Managers

Credit Suisse First Boston **HSBC**

The date of this Offering Circular is 8 November 2004.

The Issuer, having made all reasonable enquiries, 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. Save as provided below, the Issuer accepts responsibility for the information contained in this Offering Circular.

The information in this Offering Circular of the kind described in "Third Party Information" and information contained herein under the heading "The Economy and 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 provided herein. The Issuer accepts responsibility for accurately reproducing such extracts but accepts no further or other responsibility in respect of such information. None of the Managers, 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 nor guarantees the accuracy or completeness of such information, and such information is not to be construed as a representation or warranty by the Managers, 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 attorney, business adviser and tax adviser for legal, business or tax advice.

No person is authorised to give any information or make any representation not contained in this Offering Circular in connection with the issue and offering of the 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 Managers or the Trustee or any of their directors, affiliates, advisers or agents. No representation or warranty, express or implied, is made by the Managers or any of their 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 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 Managers 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, HSBC BANK PLC (THE "STABILISING MANAGER") (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) 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 THE STABILISING MANAGER (OR ANY AGENT OF THE STABILISING MANAGER) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

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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 17 (*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 the United Kingdom. However, each of Kazakhstan and the United Kingdom 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 Kazakhstan (the "Constitutional Council") passed a decree on the interpretation of the Kazakhstan Constitution which stated that when parties enter into a commercial contract which provides that disputes will be submitted to arbitration this will not necessarily exclude the jurisdiction of the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However, in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of international and foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic. Accordingly, such an arbitration award 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.$" and "U.S. Dollars" are to the lawful currency of the United States of America and references to "Tenge" or "KZT" are to Kazakhstan Tenge, the official currency of the Republic of Kazakhstan. References to "Kazakhstan" or the "Republic" are to 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 the "Government" are to the government of Kazakhstan and references to the "CIS" are to the Commonwealth of Independent States. The Bank's measurement and reporting currency is the Tenge. However, solely for the convenience of the reader, this Offering Circular presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any balance sheet data in U.S. Dollars is translated from Tenge at the exchange rate applicable on the date of such balance sheet (or, if no such rate was published for such date, the immediately preceding date) and any income statement data in U.S. Dollars is translated from Tenge into U.S. Dollars at the average exchange rate applicable to the period to which such income statement data relate. Following a recommendation of the National Bank of Kazakhstan (the "NBK") relating to the use of NBK official exchange rates, U.S. Dollar translations of Tenge amounts as at any date falling after 31 December 2001 included in this Offering Circular have been calculated in accordance with the official exchange rates for U.S. Dollars on the Kazakhstan Stock Exchange as published by the NBK. The official U.S. Dollar rate on the Kazakhstan Stock Exchange on 31 December 2003 as published by the NBK was KZT144.22 per U.S.$1.00 and the annual average market rate on the Kazakhstan Stock Exchange for 2003 was KZT149.58 per U.S.$1.00. The official U.S. Dollar rate on the Kazakhstan Stock Exchange on 30 June 2004 as published by the NBK was KZT136.45 per U.S.$1.00 and the average market rate on the Kazakhstan Stock Exchange for the six-month period ending 30 June 2004 was KTZ138.42 per U.S.$1.00. On 5 November 2004, the exchange rate for U.S. Dollars published by the Kazakhstan Stock Exchange was KZT131.30 per U.S.$1.00. For more information on exchange rates, see "Exchange Rates". No representation is made that the Tenge or U.S. Dollar amounts in this Offering Circular could have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate.

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 which appear in this Offering Circular have been derived from statistics published by Kazakhstan's National Statistics Agency ("NSA") and the NBK. It is difficult to obtain precise industry and market information regarding the Kazakhstan 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, the Agency of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisation (the "FMSA"), 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 data has not been independently verified but the Bank accepts responsibility for the correct reproduction of such information.

SUMMARY

The following is a summary of certain information contained elsewhere in this document. Reference is made to, and this summary is qualified in its entirety by, the more detailed information and the Bank's audited consolidated financial statements and notes thereto contained in this document.

Overview

The Bank is the fourth largest commercial bank in Kazakhstan in terms of assets, which as at 30 June 2004 were KZT141,595 million (U.S.$1,038 million). The Bank's net income for the six-month period ending 30 June 2004 was KZT1,164 million (U.S.$8.4 million) as compared to KZT502 million (U.S.$3.5 million) for the same period in 2003. For the year ended 31 December 2003, the Bank's net income was KZT1,456 million (U.S.$10 million). The Bank's shareholders' equity as at 30 June 2004 was KZT13,841 million (U.S.$102 million) as compared to KZT8,342 million (U.S.$58 million) as at 31 December 2003.

The Bank's primary business consists of corporate and retail banking. The Bank accepts deposits, extends credits, provides custodian services, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. The Bank is also an active participant in the fixed income securities market and foreign currency markets in Kazakhstan.

As at the date of this Offering Circular the Bank, in addition to its head office in Almaty, had 15 full service branches and 11 cash settlement offices located throughout Kazakhstan. The Bank anticipates opening a further 3 branches and 2 cash settlement offices in key economic and business areas in Kazakhstan by the end of 2004. The Bank currently has one subsidiary, CJSC ATF Policy ("ATF Policy"), two associate companies, Savings Pensions Fund Otan ("SPF Otan") and, following the acquisition of a 34.4% stake of JSC EnergoBank ("EnergoBank") in June 2004, Energobank, which is the fourth largest bank in Kyrgyzstan in terms of assets, and one affiliate, JSC ATF Leasing ("ATF Leasing").

History

The Bank was incorporated on 3 November 1995 as a closed joint stock company, CJSC Almaty Merchant Bank, by a number of domestic and overseas shareholders, including Nederlandse Financierings-Maatschappig Voor Ontwikkelingslanden N.V. and MeesPierson, with the purpose of developing trade finance banking in Kazakhstan. In 1997, following the acquisition of MeesPierson by the Fortis Group, Nederlandse Financierings-Maatschappig Voor Ontwikkelingslanden N.V. and MeesPierson sold their shareholdings to other shareholders as Fortis Group had a different international strategy.

In April 2001, the Bank changed its status from a closed joint-stock company to an open joint-stock company and, in June 2002, the Bank's name was changed to OJSC ATF Bank, so that the Bank's name would be the same in both the Kazakh and Russian languages. On 3 October 2003, the Bank completed its re-registration as a joint stock company and adopted a new charter, each in accordance with the Law on Joint Stock Companies of 2003. The Bank is incorporated for an unlimited duration.

In April 2001, shareholders of the Bank acquired all of the share capital of CJSC Kazprombank, a small Kazakhstan bank servicing mainly JSC Kazzinc, a large non-ferrous metals producer located in eastern Kazakhstan. In August 2001, Kazprombank was merged into the Bank.

In January 2002, the Bank purchased 89.7% of the issued share capital of JSC Apogei Bank, a small Kazakhstan bank operating in the Kostanai region, increasing its holding to 92.8% later that year. In April 2003, Apogei Bank was merged into the Bank.

The common and preferred shares of the Bank are currently listed on the "A" list of the Kazakhstan Stock Exchange.

Strategy

In order to capitalise on the growth of the Kazakhstan economy, the Bank aims to expand its market share and increase its growth and profitability through: (i) expanding its banking and other financial services; (ii) diversifying and strengthening its funding base; (iii) strengthening risk management; (iv) enhancing operating efficiency; and (v) expanding its regional and international presence to meet the growing demands of its clients.

The components of this strategy are discussed below.

Expanding Banking and Other Financial Services

The Bank is committed to developing further its corporate banking services. The Bank plans to focus on diversifying and expanding its loan portfolio, while maintaining its quality, by attracting new large, medium and small corporate clients (with a particular emphasis on small and medium corporate clients), continuing expansion of its trade financing activities and introducing and expanding new and existing services and products to its corporate clients, such as safe custody, payroll management, investment advisory and custodial services. The Bank's primary objective with respect to its lending activities is to diversify into different sectors of economy in order to reduce its exposure to particular industries and to increase the proportion of its portfolio represented by small and medium enterprises and the retail sector. In particular, the Bank plans to increase its exposure to the communication sector, which represented only 0.6% of its loan portfolio as at 30 June 2004, and which has been identified by the Bank as having strong growth prospects. The Bank is also increasing its business with high net worth and middle income individuals, primarily management and employees of its existing corporate clients.

As Kazakhstan's capital markets gradually develop the Bank is taking steps to further its expertise in this area and to expand its securities trading and financial advisory activities. To improve its investment banking capabilities, in 2001 the Bank established its Corporate Finance Department. This department provides a broad range of services including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice.

The Bank is also focused on increasing revenue from its wholly-owned insurance subsidiary, ATF Policy. The Bank believes that the insurance sector will be a high growth area and is positioning itself to take advantage of this perceived opportunity.

Diversifying and Strengthening Funding Base

The Bank intends to continue to diversify its funding base and reduce its funding costs through borrowing on the local and international capital markets, lower-cost borrowing from international development organisations and other multilateral financial institutions and attracting deposits from a wider range of small, medium and large corporate customers and retail clients. See "The Bank-Foreign Currency Borrowings".

Strengthening Risk Management

The Bank has established internal rules, policies and guidelines for risk management in line with the requirements of FMSA, and, previously, the NBK. In addition, in 2002 the Bank established its Risk Management Department which is primarily responsible for the development and supervision of the Bank's risk management policies and reports directly to the Bank's Board of Directors. The Bank is committed to continue to develop further and strengthen its risk management capabilities. See "The Bank – Asset and Liability Management".

Enhancing Operating Efficiency

The Bank is committed to improving its operational efficiency through organisational restructuring, investment in human resources and increasing use and upgrading of information technology. Whilst the Bank has certain real-time communication capabilities at branch level, management believes that further efficiencies can be obtained through the establishment of additional real-time communications with the branch network, particularly with respect to treasury risk management functions, asset and liability management, liquidity management and monitoring of lending activities. In order to accomplish this, the Bank plans to invest in a more advanced banking information system and to establish a unified computer system, and is in the process of retaining an IT consultant to advise in relation to such plans.

The Bank has designed internal and external training programmes to improve the skill base of its employees. The Bank believes that such programmes together with more clearly defined staffing guidelines and human resources policies will improve the quality of the Bank's personnel.

Expanding Regional and International Presence

As part of its growth strategy, the Bank aims to strengthen its regional presence in the main industrial regions of Kazakhstan.

The Bank also believes that high growth potential opportunities exist in neighbouring countries and as such it plans to establish presences there. As part of such strategy and following the growing demand from its customers, the Bank opened a representative office in Moscow in mid-2004.

The Bank also intends to further establish its presence in Kyrgyzstan. This is primarily driven by current customer demand, growing trade between the two countries and existing opportunities in the Kyrgyzstan banking sector, including in operations in relation to precious metals. In June 2004, the Bank acquired 34.4% of the share capital of EnergoBank (the fourth largest Kyrgyz bank in terms of assets, with total assets of approximately U.S.$23 million as at 30 June 2004).

In addition, the Bank is currently considering acquiring a regional bank in the Omsk region of the Russian Federation. With a population in excess of one million people in the city of Omsk, making it one of the larger cities in the Russian Federation, management believes that there are high growth potentials for developing banking services for small and medium enterprises in the region, which has yet to see any real penetration from the banking sector. However, no assurance can be given that the Bank will complete such acquisition.

Credit Ratings

The Notes will, on issue, be assigned a Ba1 rating by Moody's Investors Service Inc., B rating by Standard & Poor's Rating Services, a division of McGraw-Hill Companies, Inc. and a B+ rating by Fitch Ratings Ltd. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

General Information

The registered office and the head office of the Bank are at 100 Furmanov Street, Almaty 480091, Kazakhstan. The Bank's telephone number is +7 3272 583 022.

SUMMARY FINANCIAL INFORMATION

The following tables contain summary financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2003, 2002 and 2001 and the audited condensed consolidated financial statements as at and for the six-month periods ended 30 June 2004 and 2003, which have been audited by Ernst & Young, Kazakhstan. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Tenge. Solely for the convenience of the reader, consolidated balance sheet data as at 31 December 2003 and 30 June 2004 has been translated into U.S. dollars at a rate of KZT144.22 = U.S.$1.00 and KZT136.45 per U.S.$1.00, respectively, and consolidated income statement data for the year ended 31 December 2003 and six months ended 30 June 2004 have been translated at a rate of KZT149.58 = U.S.$1.00 and KZT138.42 = U.S.$1.00, respectively. See "Presentation of Financial Information".

The selected financial information below should be read in conjunction with the Bank's IFRS financial statements included elsewhere in this document.

Consolidated Income Statement Data

	Six Months ended 30 June			For the years ended 31 December			
	2004	2004	2003	2003	2003	2002	2001
	(U.S.$ thousands)	*(KZT millions)*		*(U.S.$ thousands)*	*(KZT millions)*		
Interest income	40,493	5,605	3,475	52,701	7,883	5,368	3,086
Interest expense	(17,382)	(2,406)	(1,467)	(21,567)	(3,226)	(2,412)	(1,282)
Net interest income before impairment charge	23,111	3,199	2,008	31,134	4,657	2,956	1,804
Impairment charge	(7,889)	(1,092)	(732)	(11,325)	(1,694)	(892)	(914)
Net interest income after impairment charge	15,222	2,107	1,276	19,809	2,963	2,064	890
Fees and commissions, net[1]	5,230	724	583	9,466	1,416	1,084	813
Non-interest income	5,866	812	399	7,869	1,177	691	1,142
Non-interest expense	(15,518)	(2,148)	(1,391)	(22,336)	(3,341)	(2,418)	(2,067)
Income before income tax expense and minority interest	10,800	1,495	867	14,808	2,215	1,421	778
Income tax expense	(2,391)	(331)	(365)	(5,074)	(759)	(413)	—
Income before minority interest	8,409	1,164	502	9,734	1,456	1,008	778
Minority interest	—	—	—	—	—	(2)	—
Net income	8,409	1,164	502	9,734	1,456	1,006	778

(1) Fee and commissions income less fee and commission expense.

Consolidated Balance Sheet Data

	As at 30 June		As at 31 December			
	2004	2004	2003	2003	2002	2001
	(U.S.$ thousands)	*(KZT millions)*	*(U.S.$ thousands)*	*(KZT millions)*		
Assets						
Cash and cash equivalents	156,731	21,386	40,466	5,836	4,478	4,582
Obligatory reserves	16,255	2,218	12,307	1,775	1,230	993
Amounts due from credit institutions	13,119	1,790	—	—	—	—
Trading securities	130,905	17,862	165,650	23,890	15,300	7,716
Investment securities (1)	103,232	14,086	—	—	—	—
Commercial loans and advances(2)	584,353	79,735	419,415	60,488	34,762	24,120
Premises and equipment(3)	18,336	2,502	15,809	2,280	1,758	991
Tax assets	1,576	215	1,817	262	2	86
Other assets	13,199	1,801	6,372	919	691	551
Total assets	1,037,706	141,595	661,836	95,450	58,221	39,039
Liabilities and shareholders' equity						
Amounts due to the Government and NBK	9,132	1,246	23,887	3,445	1,351	517
Amounts due to credit institutions	310,216	42,329	233,241	33,638	18,080	13,216
Amounts due to customers	485,233	66,210	310,817	44,826	31,545	20,067
Reserves for claims, net of reinsurance	2,953	403	374	159	57	51
Debt securities issued	121,605	16,593	19,748	2,848	—	—
Subordinated debt	2,741	374	10,387	1,498	1,594	711
Provisions	1,854	253	1,102	159	109	43
Other liabilities	2,536	346	4,438	535	314	183
Total liabilities	936,270	127,754	603,994	87,108	53,050	34,788
Minority interest	—	—	—	—	29	—
Common Shares	70,883	9,672	30,093	4,340	2,700	2,699
Preferred Shares	13,924	1,900	13,174	1,900	400	400
Additional paid in capital	1,480	202	1,401	202	193	193
Reserves	2,800	382	3,224	465	465	320
Retained earnings	12,349	1,685	9,950	1,435	1,384	639
Total shareholders' equity	101,436	13,841	57,842	8,342	5,142	4,251
Total liabilities and shareholders' equity	1,037,706	141,595	661,836	95,450	58,221	39,039

Selected Financial Ratios

	Six Months ended 30 June	For the years ended 31 December		
	2004(1)	2003	2002	2001
		(expressed as a percentage)		
Net interest margin(4)(5)	6.4(10)	6.9	7.2	7.8
Return on average assets(5)(6)	2.0(10)	1.9	2.1	2.7
Return on average equity(5)(7)	21.0(10)	21.6	21.4	25.8
Non-performing loans as a percentage of total gross loans(8)	2.7	2.4	0.0	0.0
Allowance for loan impairment as a percentage of total loans and advances	5.3	5.3	4.4	4.4
Customer deposits as a percentage of total liabilities	51.8	51.5	59.5	57.7
Capital adequacy ratio(9)	13.9	13.6	15.6	16.9

(1) Starting from 1 January 2004 the Bank started holding securities in held-to-maturity and available-for-sale portfolios in addition to the trading portfolio held by the Bank at 31 December 2003. See note 2 "Significant Accounting Policies – Investment Securities" to the condensed consolidated financial statements of the Bank appearing elsewhere in this Offering Circular.
(2) Net of allowance for impairment.
(3) Net of accumulated depreciation.
(4) Interest income as a percentage of average interest-earning assets.
(5) Averages are calculated based on opening and closing balances for the period.
(6) Net income as a percentage of average assets.
(7) Net income as a percentage of average shareholders' equity.
(8) Non-performing loans consist of loans as described in "The Bank – Loan Classification and Impairment Assessment Policies".
(9) Calculated in accordance with the Capital Accord of the Basel Committee on Banking Supervision. See "The Bank – Capital Adequacy and Other Ratios".
(10) Annualised.

SUMMARY OF THE OFFERING

The following summary does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular and related documents referred to herein. Capitalised terms not specifically defined in this summary have the meaning set out in the "Terms and Conditions of the Notes". Except where otherwise indicated, references to a "Condition" or "Conditions" are to the specified Condition or Conditions in the "Terms and Conditions of the Notes".

Issuer:	JSC ATF Bank.
Issue:	U.S.$200,000,000 8.875% Notes due 2009.
Issue Price:	99.014% of the principal amount of the Notes.
Trustee and Principal Paying Agent:	The Bank of New York, acting through its London branch.
Luxembourg Paying Agent and Listing Agent:	The Bank of New York Europe Limited.
Interest:	The Notes will bear interest from, and including, 9 November 2004 to, but excluding, 9 November 2009 at a rate of 8.875% per annum payable semi-annually in arrear on 9 May and 9 November in each year commencing on 9 May 2005.
Status:	The Notes and the Coupons are direct, general, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Form:	The Notes will be issued in bearer form. The Notes will be in the denominations of U.S.$10,000 and U.S.$100,000 and will be represented initially by the Temporary Global Note, without coupons attached. Interests in the Temporary Global Note will be exchangeable for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will only be exchangeable for Notes in definitive form in the limited circumstances described under "Summary of Provisions relating to the Notes in Global Form".
Negative Pledge:	As long as the Notes remain outstanding neither the Issuer nor any of its subsidiaries shall create, or permit to be created, any Security Interest (other than a Permitted Security Interest) (as defined in the "Terms and Conditions of the Notes"). See Condition 3(a) (*Negative pledge*).
Certain Covenants:	The Issuer 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 immediately become due and repayable at their principal amount together with accrued interest. See Condition 10 (*Events of Default*).

Tax Redemption:	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 7(b) (*Redemption for tax reasons*).
Withholding Tax:	Under Kazakhstan's laws as presently in effect, interest payable by a Kazakhstan obligor to non-residents and certain categories of residents is subject to Kazakhstan withholding tax at a rate of 15%. See "Taxation – Kazakhstan Taxation". The Bank has, however, undertaken subject to certain exceptions, pursuant to Condition 8 of the Terms and Conditions, to pay such additional amounts such that Noteholders would receive (after any withholding required to be made on account of Kazakhstan taxes in respect of any payments under the Notes) such amount as would have been received by such Noteholders had no such withholding been required. The enforceability in Kazakhstan of such an undertaking has not to date been determined by the courts in Kazakhstan and as such there may be some doubt as to whether they would enforce such an undertaking. See "Investment Considerations – Investment Considerations Relating to the Notes – Taxation in Kazakhstan".
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer to fund loans to its customers and for general corporate purposes.
Listing:	Application has been made to list the Notes on the Luxembourg Stock Exchange. The EU Transparency Obligations Directive is currently being finalised and may be implemented in Luxembourg in a manner that is unduly burdensome for the Issuer. In such circumstances the Issuer may, subject to the provisions of the Trust Deed, decide to seek an alternative listing for the Notes on a stock exchange outside the European Union. 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, the Coupons, the Trust Deed and the Agency Agreement will be governed by English law.
Investment Considerations:	An investment in the Notes involves a high degree of risk. See "Investment Considerations".
Security Codes:	ISIN: XS0205381717
Common Code:	020538171

INVESTMENT CONSIDERATIONS

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

General

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

Investment Considerations Relating to the Republic of Kazakhstan

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

Political and Regional Considerations

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

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

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

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

Macroeconomic Considerations and Exchange Rate Policies

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

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

The Tenge is convertible for current account transactions, although it is not fully convertible outside Kazakhstan. Depressed export markets in 1998 and early 1999, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and in April 1999 allowed the Tenge to float freely. In the period from the adoption of a floating exchange rate policy on 4 April 1999 to 31 December 1999, the Tenge depreciated by 58.0% against the U.S. Dollar, resulting in an overall depreciation of the Tenge of 64.6% against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7% in the year ended 31 December 1998. Following the adoption of a floating exchange rate policy in 1999, the Tenge continued to depreciate in value against the U.S. Dollar, although at a much lower rate, depreciating by 3.8% in 2001 and 3.3% in 2002. However, the Tenge appreciated in value against the U.S. Dollar during 2003 to KZT144.22 per U.S.$1.00 as at 31 December 2003 compared to KZT155.60 per U.S.$1.00 as at 31 December 2002. As at 30 June 2004, the exchange rate was KZT136.45 per U.S.$1.00. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

Implementation of Further Market-Based Economic Reforms

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

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including a new tax code in January 2002, laws relating to foreign investments, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, state enterprise reform and privatisation, the legal framework in Kazakhstan (although one of the most developed among the CIS countries) is at a relatively early stage of development compared to countries with established market economies. The judicial system in Kazakhstan may not be fully independent of social, economic and political forces and court decisions can be difficult to predict. In addition, senior Government officials may not be fully independent of outside economic forces owing to the underdeveloped regulatory supervision system enabling improper payments to be made without detection. Moreover, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a lack of any established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system. The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful.

It is expected that the tax legislation in Kazakhstan will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these provisions may affect the overall tax efficiency of companies operating in Kazakhstan and may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Bank's business, financial condition and results of operation of companies operating in Kazakhstan.

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

Less Developed Securities Market

An organised securities market was established in Kazakhstan in the mid-to-late 1990s 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 Western European countries and the United States, and existing laws and regulations may be applied inconsistently with consequent 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 Western European countries or the United States.

Investment Considerations Relating to the Bank

Loan Portfolio Growth

The Bank's gross commercial loans and advances (before allowances) have increased rapidly in recent years growing by 169.2% in 2001 to KZT25,235 million as at 31 December 2001, by 44.1% in 2002 to KZT36,358 million, by 75.7% in 2003 to KZT63,885 million and by a further 31.8% in the first half of 2004 to KZT84,196 million. The significant increase in the loan portfolio size has increased the Bank's credit exposure and will require continued monitoring by the Bank's management of credit quality and the adequacy of its impairment assessment and continued improvement in the Bank's credit risk management programme. Growth rates such as those recently experienced by the Bank also require the Bank to attract and retain qualified personnel and to train new personnel.

In addition, the Bank's strategy of further diversifying its customer base, including through increased lending to medium and small corporate clients and retail customers, may well also increase further the credit risk exposure in the Bank's loan portfolio. Medium and small companies and retail customers typically are less financially resilient than larger borrowers as there is generally less financial information available about small companies and retail customers. Negative developments in Kazakhstan economy could also affect smaller companies and retail customers more significantly than the larger borrowers. As a result, the Bank may need to change its estimates of impairment and implement additional credit risk management policies and procedures. Failure to manage growth and development successfully and to maintain the quality of its assets could have a material adverse effect on the Bank's results of operations and financial condition.

Concentration of Lending and Deposit Base

As at 30 June 2004, the Bank's 10 major borrowers accounted for 16.0% of gross commercial loans and advances, compared to 20.3% as at 31 December 2003 and 29.0% as at 31 December 2002. Whilst this reduction reflects, in part, the increase in a number of strong corporate credits in Kazakhstan as well as the Bank's efforts to diversify its loan portfolio, the Bank will require continued emphasis on credit quality and the further development of financial and management controls to monitor this credit exposure, the failure to achieve which could have a material adverse effect on the Bank's results of operations and financial condition.

As at 30 June 2004, the Bank's 10 largest corporate depositors accounted for approximately 42.5% of total amounts owed to customers compared to 47.5% and 47% as at 31 December 2003 and 2002 respectively. The Bank intends to reduce the concentration in its deposit base by attracting small and medium corporate and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's result 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 further through the issuance of common and preferred shares and subordinated debt. See "The Bank – Funding and Liquidity" and "Share Capital and Principal Shareholders".

In particular, the recent rapid increase and projected growth of the Bank's loan portfolio requires further equity capital to strengthen the Bank's capital base. In addition, commercial loans funded through increased levels of debt financing from financial institutions and capital markets, including the offering of the Notes, will also require the Bank to raise additional capital in order to meet required capital adequacy levels. Following a submission by the Bank, on 21 October 2004, the FMSA approved an increase in the Bank's share capital of up to KZT8.4 billion (approximately U.S$63 million). To increase its capital by such amount, the Bank proposes to offer a combination of common shares (totalling approximately U.S.$51 million) and preferred shares (totalling approximately U.S.$12 million) to existing shareholders and new investors before the end of 2004. Initially, certain shareholders subscribed for 3,180,000 common shares for a total consideration of KZT3.2 billion (KZT1,000 per share), such shares being issued and fully paid by the end of October 2004. The Bank plans to keep the subscription period open for the remaining common shares until fully subscribed. The failure to raise capital as planned could substantially limit the Bank's ability to increase the size of its loan portfolio whilst complying with applicable capital adequacy requirements and may result in breach of the capital adequacy rules and breach of covenants relating to its capital adequacy contained in certain of its outstanding financing documents. Any such events could have a material adverse effect on the Bank's prospects, business, financial condition and results of operations.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to the Kazakhstan economy generally or specific economic sectors within it or corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that found in 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 retail 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 impairment assessment and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it.

Competition

The Bank, in common with other banks in Kazakhstan, is subject to competition from both domestic and foreign banks. As at 30 June 2004, there were a total of 35 commercial banks in Kazakhstan, excluding the NBK and JSC Development Bank of Kazakhstan ("DBK"), of which 15 were banks with foreign ownership, including subsidiaries of foreign banks. The banking system in Kazakhstan is dominated by the three large domestic banks, JSC Kazkommertsbank, JSC Halyk Bank and JSC Bank TuranAlem, and despite the Bank's position as the fourth largest bank in Kazakhstan in terms of assets, it faces significant competition from these banks. In addition, the Bank considers some of the banks with foreign participation as its competitors, primarily ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, as their international experience and low cost funding allow them to attract large domestic and foreign corporate customers. See "The Bank – Competition"

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. These norms are now applicable to the Bank. Further, Kazakhstan banks are also required to join a bank-funded deposit insurance scheme and be audited annually by a public accountancy firm approved by the NBK, which is likely to be one of the leading international firms. Following legislative changes in July 2003, the FMSA was formed, and as at 1 January 2004 took responsibility for most of the supervisory and regulatory functions in the financial sector, which had previously been performed by the NBK. The FMSA's main task is to regulate and supervise the financial markets and financial institutions in Kazakhstan. See "The Banking Sector in Kazakhstan". Notwithstanding the FMSA's, and previously the NBK's, regulations, regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. See "– Investment Considerations Relating to the Republic of Kazakhstan – Underdevelopment and Evolution of Legislative and Regulatory Framework". There can be no assurance that the Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation or exchange controls, or otherwise take action, that could have a material adverse effect on the Bank's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

Reform of the International Capital Adequacy Framework

The Basel Committee has issued a proposal for a new capital adequacy framework to replace the current 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 with a system that would use both external and internal credit assessments for determining risk weightings. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk weighting of exposures to banks, securities firms and 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.

Liquidity Risks

The Bank, like other commercial banks in Kazakhstan and elsewhere, is exposed to maturity mismatches between its assets and liabilities, which could lead to lack of liquidity at certain times. At 30 June 2004, the Bank had a negative cumulative maturity gap for a period of between one and three months. Although the Bank believes that its level of access to domestic and international inter-bank markets and its liquidity risk management policy, which includes maintaining liquidity reserves sufficient to meet the Bank's liquidity needs for a certain period, allow and will continue to allow the Bank to meet its short-term and long-term liquidity needs, any maturity mismatches between the Bank's assets and liabilities (including by reason of the withdrawal of large deposits) may have a material adverse effect on its results of operations and financial condition. See "The Bank – Asset and Liability Management – Liquidity Risk".

Interest Rate Risks

The Bank is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. While the Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments, interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of the Bank. See "The Bank – Asset and Liability Management – Interest Rate Risk".

Foreign Currency Risks

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. Although the Bank is subject to limits on its open currency positions pursuant to NBK and FMSA regulations and the Bank's internal policies, future changes in currency exchange rates and the volatility of the Tenge may adversely affect the Bank's foreign currency positions. See "The Bank – Foreign Currency Management".

Dependence on Key Personnel

The Bank's success in growing its business will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in Kazakhstan for personnel with relevant expertise is intense due to a disproportionately low number of available qualified and/or experienced individuals compared to demand. The Bank's failure to successfully manage its personnel needs could adversely affect the Bank's business and results of operations.

Investment Considerations Relating to the Notes

Taxation in Kazakhstan

Tax legislation in Kazakhstan currently levies an income tax of 20% on gains from the sale of securities issued by Kazakhstan companies where such securities are not listed on the official "A" or "B" lists of the Kazakhstan Stock Exchange. Such income tax would be applicable to holders of securities (including the Notes until they are listed on the Kazakhstan Stock Exchange), regardless of whether the holder is resident in Kazakhstan for tax purposes, unless reduced by an applicable double tax treaty. Under the terms of double tax treaties Kazakhstan has concluded with certain countries, including, among others, the United States, United Kingdom, France, Germany and the Netherlands, gains made by tax residents in such countries are not subject to such Kazakhstan income tax. Holders who are resident for tax purposes in other countries where there is no such double tax treaty providing relief, however, would be subject to such tax.

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

Upon the issue of the Notes, the Bank intends to apply to the Kazakhstan Stock Exchange for a listing of the Notes and has convenanted in the Trust Deed to use its reasonable endeavours to obtain such a listing. However, there can be no assurance that the Kazakhstan Stock Exchange will list the Notes or, if a listing is obtained, that such listing can be maintained by the Bank.

In addition, as discussed in "Taxation – Kazakhstan Taxation", payments of interest on the Notes will be subject to Kazakhstan withholding tax at a rate of 15%. The Bank has agreed, subject to certain exceptions, to pay additional amounts in respect of such withholding. See "Terms and Conditions of the Notes – Condition 8". The enforceability in Kazakhstan of such an agreement has not to date been determined by the courts in Kazakhstan and there may be some doubt as to whether they would enforce such an agreement. The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See ''Terms and Conditions of the Notes – Condition 7(b)''.

Emerging Market Risks

The markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, are, to varying degrees, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including Kazakhstan. Accordingly, the price and liquidity of the Notes may be subject to significant fluctuations, which may not necessarily be directly or indirectly related to the financial performance of the Bank.

Absence of Trading Market for the Notes

Although application has been made to list the Notes on the Luxembourg Stock Exchange, prior to the offering of the Notes, there has been no existing market for the Notes. In addition, after their issue, the Bank will also apply for the Notes to be listed on the Kazakhstan Stock Exchange although there can be no assurance that such a listing or declaration will be obtained. 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. There can be no assurance that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Further, Kazakhstan is considered by international investors to be an emerging market. Political economic, social and other developments in other emerging markets may have an adverse effect on the market value and liquidity of the Notes. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

Subordination to Secured Obligations

The Notes are effectively subordinated in right of payment to the existing and/or future secured indebtedness of the Bank. As at 30 June 2004, the Bank's repurchase agreements were secured by a pledge over certain of the Bank's trading securities whose fair value at 30 June 2004 was KZT2,126 million. In addition, the Terms and Conditions of the Notes will permit the Bank to incur substantial additional secured indebtedness under some circumstances. See ''Terms and Conditions of the Notes – Negative Pledge and Certain Covenants''. If an event of default occurs under a secured credit facility, the lenders may foreclose upon the respective collateral. Additionally, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding, the holders of any secured indebtedness of the Bank will be entitled to proceed against the collateral that secured such indebtedness and such collateral will not be available for satisfaction of any amounts owed to holders of the Notes.

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 8.875% Notes due 2009 (the ''Notes'', which expression includes any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of JSC ATF Bank (the ''Issuer'') are (a) subject to, and have the benefit of, a trust deed dated 9 November 2004 (as amended or supplemented from time to time, the ''Trust Deed'') between the Issuer and The Bank of New York, acting through its London Branch, as trustee (the ''Trustee'', which expression includes all persons for the time being appointed as trustee for the holders of the Notes (''Noteholders'') under the Trust Deed) and (b) are the subject of a paying agency agreement dated 9 November 2004 (as amended or supplemented from time to time, the ''Agency Agreement'') between the Issuer, The Bank of New York, acting through its London Branch, as principal paying agent (the ''Principal Paying Agent'', which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying 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.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The Noteholders and the holders of the related interest coupons (the ''Couponholders'' and the ''Coupons'', respectively) are bound by, and are deemed to have notice of all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the 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 One Canada Square, London E14 5AL, United Kingdom.

1. Form, Denomination and Title

(a) *Form and denomination*

The Notes are serially numbered and in bearer form in the denominations of U.S.$10,000 and U.S.$100,000 with Coupons attached at the time of issue.

(b) *Title*

Title to the Notes and the Coupons will pass by delivery.

(c) *Ownership*

The holder of any Note or Coupon 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.

(d) *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. Status

The Notes and the Coupons are direct, general, unconditional and (subject to Condition 3(a) (*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* in right of payment 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.

3. Negative Pledge and Certain Covenants

(a) *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 any 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.

(b) *Limitations on certain transactions*

For so long as any Note remains outstanding, the Issuer will not, directly or indirectly, enter into or suffer to exist any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) involving aggregate consideration equal to or greater than U.S.$3,000,000 unless such transaction or series of transactions is or are at a Fair Market Value.

(c) *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 10 (*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, (x) more frequently than once during any calendar year or (y) in an aggregate amount exceeding 50% of the Issuer's net income for the period in respect of which the dividends are being paid or the distribution is being made, calculated in accordance with IFRS, for which purpose, the amount of the Issuer's net income shall be determined by reference to its audited financial statements of the period in respect of which the dividend is being paid. The foregoing limitation shall not apply to the payment of (i) any dividends in respect of any preferred shares of the Issuer which may be issued by the Issuer from time to time and (ii) any dividends in respect of any common shares of the Issuer which are paid through the issuance of additional common shares.

(d) *Maintenance of capital adequacy*

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

(e) *Provision of Financial Information*

So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer shall deliver to the Trustee:

(i) not later than 120 days after the end of each of the Issuer's financial years, copies of the Issuer's audited consolidated financial statements for such financial year, prepared in accordance with IFRS, together with the corresponding financial statements for the preceding period, and all such annual financial statements of the Issuer shall be accompanied by the report of the Issuer's independent auditors thereon; and

(ii) not later than 90 days after the end of the first six months of each of the Issuer's financial years, copies of its unaudited or, as the case may be, audited condensed consolidated financial statements for such six month period, prepared in accordance with IFRS, together with the corresponding interim financial statements for the preceding period.

(f) *Certificate of Directors*

The Issuer shall send to the Trustee, within 14 days (or such longer period as the Trustee may determine) of its annual audited financial statements (which are to be prepared in accordance with IFRS) and its interim financial statements being made available to its members, and also within 14 days (or such longer period as the Trustee may determine) of any request by the Trustee, a certificate of the Issuer signed by any two of its Directors that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "Certification Date") (i) not more than five days before the date of the certificate no Event of Default or Potential Event of Default (as defined in the Trust Deed) or other breach of the Trust Deed had occurred since the Certification Date of the last such certificate or (if none) the date on which the Trust Deed was first executed by the Issuer or, if such an event had occurred, giving details of it, (ii) the total amount of transactions or series of transactions that the Issuer has entered into or suffered to exist at less than Fair Market Value since the date on which the Trust Deed was first executed by the Issuer, (iii) a statement that the Issuer has not paid any dividends or made any other distributions which would breach Condition 3(c) (*Limitation on payment of dividends*), (iv) a statement of the Issuer's total capital ratio calculated in accordance with the recommendation of the Committee, as at the date of the certificate and (e) a statement that the Issuer is in compliance with Condition 3(a) (*Negative Pledge*) and that the Issuer has not exceeded the limits imposed by Permitted Security Interests generally, and, in particular, Clauses (h), (i) and (j) of the definition thereof.

4. Definitions

For the purposes of these Conditions:

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

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

"**IFRS**" means International Financial Reporting Standards as in effect from time to time (formely referred to as International Accounting Standards).

"**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, including bonds, standby letters of credit or other similar instruments issued in connection with the performance of contracts.

"**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.

"**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 Subsidiary to the Issuer,

(b) 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,

(c) arising in the ordinary course of the Issuer's or a Subsidiary's business and (i) which is 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,

(d) 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,

(e) 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, entered into by the Issuer in the ordinary course of its business for liquidity management purposes,

(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 a Development Organisation to secure Indebtedness for Borrowed Money owed by the Issuer to such Development Organisation pursuant to any loan agreement or other credit facility entered into between the Issuer and such Development 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 15% of the Issuer's loans and advances to customers before allowances for impairment (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 of the Issuer or any Subsidiary arising out of any securitisation of such property or assets or other similar structured finance transaction in relation to such property or assets where the recourse in relation to the Indebtedness for Borrowed Money secured by such property or assets is limited to such property or assets, provided that, the amount of Indebtedness for Borrowed Money so secured pursuant to this clause (i) at any one time shall not exceed an amount in any currency or currencies equivalent to 15% of the Issuer's loans and advances to customers before allowances for impairment (calculated by reference to the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS),

(j) not included in any of the above exceptions, in aggregate securing Indebtedness for Borrowed Money or Indebtedness Guarantee in respect of such Indebtedness for Borrowed Money with an aggregate principal amount at any time not exceeding U.S.$20,000,000 (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 supernational, international or multilateral or organisation.

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

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

5. Interest

(a) *Interest Accrual*

Each Note bears interest from 9 November 2004 (the "Issue Date") at the rate of 8.875% per annum (the "Rate of Interest"), payable on 9 May and 9 November in each year (each, an "Interest Payment Date"), subject as provided in Condition 6 (*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".

(b) *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 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).

(c) *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).

(d) *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.

The determination of the amount of interest payable under Condition 5(c) and 5(d) by the Principal Paying Agent shall, in the absence of manifest error, be binding on all parties.

6. Payments

(a) *Principal*

Save as provided in Condition 6(c), payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

(b) *Interest*

Save as provided in Condition 6(c), payments of interest shall, subject to Condition 6(g), be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 6(a) above.

(c) *Payments in New York City*

Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (a) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in U.S. dollars when due, (b) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (c) payment is permitted by applicable United States law.

(d) *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 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deduction for unmatured Coupons*

If a Note is presented without all unmatured Coupons relating thereto, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the principal amount of such Note, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the principal amount of such Note. Each sum of principal so deducted shall be paid in the manner provided in Condition 6(a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

(f) *Payment on a business day*

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder thereof shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 6(f), "business day" means any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and, in the case of transfer to a U.S. dollar account as referred to above, and which is also a day on which dealings in foreign currencies may be carried on in New York City.

(g) *Payment other than in respect of matured Coupons*

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by Condition 6(c) above).

(h) *Partial payment*

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(i) *Paying Agents*

In acting under the Agency Agreement and in connection with the Notes and the Coupons, 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 or Couponholders. 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 principal paying agent and additional or successor paying agents; provided, however, that the Issuer shall at all times maintain a paying agent in Luxembourg 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 member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings 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 13 (*Notices*).

7. Redemption and Purchase

(a) *Scheduled redemption*

Unless previously redeemed, or purchased and cancelled as provided below, the Notes will be redeemed at their principal amount on 9 November 2009, subject as provided in Condition 6 (*Payments*).

(b) *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 (i) the Issuer has or will become obliged to pay on the next date on which any amount would be payable with respect to the Notes additional amounts as provided or referred to in Condition 8 (*Taxation*) to any greater extent than would have been required had such a payment been required to be made on 9 November 2004 as a result of any change in, or amendment to, the laws or regulations of the Republic of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction but excluding any such change or amendment which obliges the Issuer to pay additional amounts in respect of Notes or Coupons held by or on behalf of a person resident, domiciled or organised in the Republic of Kazakhstan, in respect of whom no additional amounts would be required to be paid in relation to a payment of interest on the Notes or Coupons if it were required to be made on 9 May 2005), which change or amendment becomes effective on or after 9 November 2004 and (ii) 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 (x) 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 (y) 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 (i) and (ii) 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 7(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(b).

(c) *No other redemption*

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 7(a) and 7(b) above.

(d) *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, provided that all unmatured Coupons are purchased therewith. Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be. 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.

(e) *Cancellation of Notes*

All Notes which are redeemed pursuant to Condition 7(b) or submitted for cancellation pursuant to Condition 7(d) and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

8. Taxation

(a) *Taxation*

All payments of principal and interest in respect of the Notes and the Coupons 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 and the Couponholders 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 or Coupon:

(i) presented for payment by a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of such holder having some connection with the Republic of Kazakhstan other than the mere holding of such Note or Coupon; or

(ii) presented 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 presented such Note or Coupon on the last day of such period of 30 days; or

(iii) 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

(iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a member state of the European Union.

(b) *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 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.

(c) *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 8 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 8 (*Taxation*) pursuant to the Trust Deed.

(d) *Taxing jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Kazakhstan, references in this Condition 8 (*Taxation*) to the Republic of Kazakhstan shall be construed as references to the Republic of Kazakhstan and/or such other jurisdiction.

The Trust Deed provides that if and for so long as the Notes are represented by a Global Note Condition 8(a)(i) will not apply to any of the Notes or Coupons unless the Trustee agrees that such Condition shall apply.

9. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Events of Default

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

(a) *Non-payment*

The Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise 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 10 days; or

(b) *Breach of other obligations*

The Issuer is in default in the performance, or is otherwise in breach, of any covenant, obligation, undertaking or other agreement under the Notes or the Trust Deed (other than a default or breach elsewhere specifically dealt with in this Condition 10 (*Events of Default*)) and, where such default or breach is, in the opinion of the Trustee, capable of remedy, 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

(c) *Cross-default*

(a) any Indebtedness for Borrowed Money of the Issuer or any of its Subsidiaries (i) becomes (or becomes capable of being declared) due and payable prior to the due date for the payment thereof by reason of default of the Issuer or (as the case may be) the relevant Subsidiary, or (ii) is not paid when due or within any originally applicable grace period, if any; or (b) any Indebtedness Guarantee given by the Issuer or any of its Subsidiaries is not honoured when due and called, provided that the amount of Indebtedness for Borrowed Money referred to in (a) above and/or the amount payable under any Indebtedness Guarantee referred to in (b) above individually or in the aggregate exceeds U.S.$5,000,000 (or its equivalent in any other currency or currencies (as determined by the Trustee)); or

(d) *Judgment default*

A judgment or order or arbitration award for the payment of an aggregate amount in excess of U.S.$5,000,000 (or its equivalent in any other currency or currencies) is rendered or granted against the Issuer or any Subsidiary and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or

(e) *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 in its sole discretion); or

(f) *Substantial change in business*

The Issuer makes or threatens to make any substantial change in the principal nature of its business as presently conducted which is (in the opinion of the Trustee in its sole discretion) materially prejudicial to the interests of the Noteholders; or

(g) *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

(h) *Material compliance with applicable laws*

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

(i) *Invalidity or unenforceability*

(a) the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer or shall deny any of its obligations under the Notes, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (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 Agency Agreement or (c) all or any of its obligations set out in the Notes, the Trust Deed or the Agency Agreement shall be or become unenforceable or invalid and, following the occurrence of any of the events specified in this Condition 10(i), the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

(j) *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 10(j), the Trustee is of the opinion in its sole discretion that such occurrence is materially prejudicial to the interests of the Noteholders.

As used in this Condition 10 (*Events of Default*), "Material Subsidiary" means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 10 per cent. of the consolidated gross assets or, as the case may be, consolidated gross revenues of the 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.

11. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent and the Paying 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 Notes or Coupons must be surrendered before replacements will be issued.

12. Meetings of Noteholders; Modification and Waiver

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any 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 a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so 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 payment 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 and Couponholders, whether present or not.

(b) *Written resolution*

A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all of Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes. 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.

(c) *Modification without Noteholders' consent*

The Trustee may, without the consent of the Noteholders or Couponholders 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 or Couponholders, 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.

13. Notices

So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, notices to the Noteholders shall be valid if published 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. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

14. Trustee

(a) *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.

(b) *Exercise of power and discretion*

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

(c) *Enforcement; Reliance*

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 unless:

(i) it has been so requested in writing by the holders of a least one fifth in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified or provided with security to its satisfaction.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer with the Conditions (including Conditions 3 and 10) and may rely upon the information provided pursuant to Condition 3(e) and the certificates provided pursuant to Condition 3(f).

(d) *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.

(e) *Confidentiality*

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Luxembourg Stock Exchange, the Trustee shall not be required to disclose to any Noteholder or Couponholder any confidential financial or other information made available to the Trustee by the Issuer.

15. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders 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.

16. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons 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 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.

17. Governing Law; Jurisdiction and Arbitration

(a) *Governing law*

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

(b) *Submission to Jurisdiction; Arbitration*

The Issuer has in the Trust Deed (i) 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; (ii) 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; (iii) designated Hackwood Secretaries Limited at One Silk Street, London EC2V 8HQ to accept service of any process on its behalf in England; (iv) consented to the enforcement of any judgement; (v) 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 judgement 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 (vi) 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.

SUMMARY OF PROVISION RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of certain provisions to be contained in the Temporary Global Note and the Permanent Global Note which apply to the Notes:

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common depositary for the Euroclear and Clearstream, Luxembourg. The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("Definitive Notes") in the denominations of U.S.$10,000 and U.S.$100,000 each at the request of the bearer of the Permanent Global Note if (a) the 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 does in fact do so, (b) any of the circumstances described in Condition 10 (*Events of Default*) occurs or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) (other than as a result of an event which would not give the Issuer the right to redeem the Notes under Condition 7*(b)*) which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Directors of the Issuer is delivered to the Trustee and the Issuer gives notice to the Principal Paying Agent and the Noteholders of its intention to exchange the Permanent Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

The following is a summary of certain of the provisions of the Temporary Global Note and the Permanent Global Note which modify the Terms and Conditions of the Notes whilst the Notes are represented by the Temporary Global Note and the Permanent Global Note:

Payments

All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

Notices

Notwithstanding Condition 13 (*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 Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for the Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to the Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 (*Notices*) on the date of delivery to the Euroclear and Clearstream, Luxembourg.

Meetings

The holder of the Permanent Global Note or the Temporary Global Note (as the case may be) (unless the Permanent Global Note or the Temporary Global Note (as the case may be) 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.$10,000 principal amount of Notes for which the Permanent Global Note or the Temporary Global Note (as the case may be) so held may be exchanged.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to U.S.$197,028,000 after deduction of the underwriting fees incurred in connection with the issue of the Notes, will be used by the Issuer to fund loans to its customers and for general corporate purposes.

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.

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 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. The Tenge continued to depreciate in nominal terms against the U.S. Dollar until 2003, but towards the end of 2003 the trend reversed. The following table sets out certain period-end, high, average and low Tenge/U.S. Dollar official exchange rates as reported by the NBK:

	Period-end	High	Average	Low
1999	138.20	140.80	119.52	83.80
2000	144.50	144.50	142.13	138.20
2001	150.20	150.20	146.74	144.50
2002	155.60	156.29	153.28	150.20
2003	144.22	155.89	149.58	143.66
Period ending 30 June 2004	136.45	144.22	138.42	136.00

Source: NBK

On 5 November 2004, the exchange rate for U.S. Dollars on the Kazakhstan Stock Exchange was KZT131.30 = U.S.$1.00.

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.

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% of the voting interests in a company incorporated in an OECD country or for an individual to open an account with a bank rated not 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 June 2004 and as adjusted to reflect the issuance of the Notes:

	As at 30 June 2004			
	Actual		As Adjusted	
	(U.S.$ thousands)	*(KZT millions)*	*(U.S.$ thousands)*	*(KZT millions)*
Long-term debt	166,911	22,775	166,911	22,775
Debt securities issued	121,605	16,593	321,605	43,883
Subordinated long-term debt(1)	2,741	374	2,741	374
Total long-term debt(2)	291,257	39,742	491,257	67,032
Common Shares(3)	70,883	9,672	70,883	9,672
Preferred Shares(3)	13,924	1,900	13,924	1,900
Additional paid in capital	1,480	202	1,480	202
Reserves	2,800	382	2,800	382
Retained earnings	12,349	1,685	12,349	1,685
Total shareholders' equity	101,436	13,841	101,436	13,841
Total capitalisation	392,693	53,583	592,693	80,873

(1) Subordinated long-term debt represents subordinated debt that falls due after one year.

(2) In addition to long-term debt, the Bank had short-term debt of KZT32,547 million at 30 June 2004 comprising amounts due to the Government and NBK, amounts due to credit institutions, debt securities issued and subordinated debt, in each case maturing within one year.

(3) As at 30 June 2004, the Bank's authorised share capital comprised of 9,690,761 common and 1,900,000 preferred shares and the Bank's issued and paid share capital comprised of 9,671,911 common and 1,900,000 preferred shares, each having a par value of KZT1.

After 30 June 2004, the Bank repaid KZT11,745 million of short-term debt and incurred a further KZT3,955 million of long-term debt.

There are no warrants to acquire, or securities convertible into, the Bank's capital outstanding.

On 21 October 2004, the FMSA approved an increase in the Bank's share capital of up to KZT8.4 billion. As at the date hereof, certain shareholders had subscribed for 3,180,000 common shares for a total consideration of KZT3.2 billion (KZT1,000 per share) and the Bank expects to issue further common and preferred shares before the end of 2004.

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

REVIEW OF RESULTS OF OPERATIONS

The Bank's net income is affected by several factors, including: the volume of business; interest margins; changes in the mix of assets and liabilities; provisions; the ability to generate non-interest income; level of operating expenses; and taxes.

Review of Results of Operations for the six-month Periods ended 30 June 2004 and 2003

The Bank recorded net income of KZT1,164 million for the six-month period ended 30 June 2004, a 131.9% increase from the KZT502 million for the same period in 2003. The increase was primarily attributable to a KZT2,130 million increase (61.3%) in the Bank's interest income in the six-month period ended 30 June 2004 whilst interest expense increased by only KZT939 million (64.0%) for the same period. This was partially offset by a KZT757 million (54.4%) increase in non-interest expense from KZT1,391 million for the six-month period ended 30 June 2003 to KZT2,148 million for the same period in 2004.

Net interest income before impairment charge increased by 59.3% to KZT3,199 million for the six-month period ended 30 June 2004 from KZT2,008 million for the same period in 2003. Interest income increased 61.3% to KZT5,605 million for the six-month period ended 30 June 2004 from KZT3,475 million for the same period in 2003, principally reflecting an increase in the Bank's gross commercial loan portfolio, which increased by 81.0% as at 30 June 2004 compared to 30 June 2003.

Interest expense increased 64.1% to KZT2,406 million for the six-month period ended 30 June 2004 from KZT1,467 million for the same period in 2003. The increase was primarily attributable to borrowings and debt securities issued increasing by 87.7% and 100%, respectively during that period. The increase in interest expense for debt securities issued was due to the issue by the Bank in April 2004, of U.S.$100,000,000 8.5% Notes due 2007.

The Bank's impairment charge increased to KZT1,092 million for the six-month period ended 30 June 2004 from KZT732 million for the same period in 2003. Non-performing commercial loans and advances as a percentage of total commercial loans and advances increased to 2.7% at 30 June 2004 as compared to 0.9% at 30 June 2003.

The Bank's non-interest income increased 103.5% to KZT812 million for the six-month period ended 30 June 2004 from KZT399 million for the same period in 2003. The increase was primarily attributable to an increase of 288.4% in gains from trading securities for the six-month period ended 30 June 2004 compared to the same period in 2003, together with an increase of 201.0% in income from insurance operations of ATF Policy amounting to KZT150 million for the six-month period ended 30 June 2004, compared to KZT50 million for the same period in 2003.

Fees and commissions increased by 24.2% to KZT724 million for the six-month period ended 30 June 2004 from KZT583 million for the same period in 2003. The increase was primarily attributable to an increase in the volume of operations, although was partially offset by increased fees and commission expense, representing a 110.3% increase to KZT246 million for the six-month period ended 30 June 2004 from KZT117 million for the same period in 2003.

The Bank's non-interest expenses increased by 54.4% to KZT2,148 million for the six-month period ended 30 June 2004 from KZT1,391 million for the same period in 2003. The increase was primarily attributable to increased staff and administrative and other expenses. The Bank employed an additional 150 employees in 2004 to support the growth of the Bank's network of branches and cash settlement offices. Reflecting this, staff salaries increased by 55.6% to KZT1,099 million for the six-month period ended 30 June 2004 as compared to the same period in 2003. In addition, bonuses for year end 2003 were paid in 2004, which contributed to the increase in non-interest expenses. Administrative and other operating expenses increased to KZT631 million, representing a 52.8% increase compared to the same period in 2003.

Despite income before income tax increasing by 72.4% for the six-month period ended 30 June 2004 compared to the same period in 2003, from KZT867 million to KZT1,495 million, the Bank's income tax expense decreased 9.3% to KZT331 million from KZT365 million for the same period as a result of an overaccrual of tax in 2003. The Bank's effective tax rate for the six-month period ended 30 June 2004 decreased from 34.2% in 2003 to 22.0%, mainly because the Bank reassessed its estimate of taxes relating to 2003, resulting in a decrease of KZT111 million in the tax charge for the six-month period ended 30 June 2004.

Review of Results of Operations for the Years ended 31 December 2003 and 2002

The Bank recorded net income of KZT1,456 million for 2003, a 44.7% increase from the KZT1,006 million recorded in 2002, which in turn represented a 29.3% increase from the KZT778 million recorded in 2001. The increase in 2003 was primarily due to a substantial increase in net interest income and increases in net fees and commissions and profits on dealing securities, partially offset by higher impairment charge for loan losses and increased staff and administrative costs and income tax expense.

Net interest income before impairment of loans increased 57.5% in 2003 compared to 2002, reaching KZT4,657 million in 2003 from KZT2,956 million in 2002. Interest income increased by 46.9% during the period, to KZT7,883 million in 2003 from KZT5,368 million in 2002, primarily due to the increase in the Bank's commercial loans and advances to KZT60,488 million at 31 December 2003 from KZT34,672 million at 31 December 2002, a 74.0% increase. Interest expense increased 33.7% in the period to KZT3,226 million in 2003 from KZT2,412 million in 2002 primarily due to the increase in the Bank's funding accompanying the growth of its loan portfolio. The components of the Bank's funding which registered the highest growth were customer deposits and borrowings from international banks. Customer deposits, which represent the most important source of funding for the Bank, increased by 42.1% to KZT44,826 million at 31 December 2003 from KZT31,545 million at 31 December 2002. Interest expense on customer deposits increased due to the increased customer deposit funding in 2003, partially offset by lower average rates paid on deposits both in Tenge and in U.S. Dollars. Borrowings from international banks, taking the form primarily of syndicated loans with maturities of one to two years and bearing interest at LIBOR plus a margin, increased by approximately 100% increase, reflecting improved terms available to the Bank in the syndicated loan market.

The Bank's net interest margin has declined over the past three years to 6.9% in 2003 from 7.2% in 2002 and 7.8% in 2001. This decline is consistent with the decline in net interest margins at other Kazakhstan banks as competition increases and the banking system matures.

The Bank's impairment charge increased to KZT1,694 million in 2003 from KZT892 million in 2002 primarily due to the increase in the Bank's commercial loans and advances. Allowances as a percentage of commercial loans and advances increased to 5.3% in 2003 from 4.4% in 2002 and remained relatively stable in 2002 compared to 2001 (4.4%). Non-performing commercial loans and advances as a percentage of total commercial loans and advances increased to 2.4% in 2003 from 0.0% in 2002.

The Bank's non-interest income increased by 70.3% in 2003 as compared to 2002, primarily due to increases in income on dealing securities and underwriting income. Income on dealing securities increased to KZT308 million in 2003 from KZT78 million in 2002 due to an increase of 56.0% in the Bank's securities portfolio, from KZT15,300 million at 31 December 2002 to KZT23,890 million at 31 December 2003.

Net fees and commissions increased 30.6% to KZT1,416 million in 2003 from KZT1,084 million in 2002 due to an increase in the Bank's customer base. Underwriting income increased 44.9% to KZT303 million in 2003 from KZT209 million in 2002 due to an increase in insurance services provided by the Bank's subsidiary, ATF Policy.

The Bank's non-interest expenses increased by 38.2% during 2003 as compared to 2002, reaching KZT3,341 million in 2003. This increase was primarily due to the increase in staff costs and administrative and other expenses. Staff costs increased 32.8% to KZT1,686 million in 2003. This increase reflected the 40.9% increase in the number of the Bank's employees to 1,593 at 31 December 2003 from 1,131 at 31 December 2002, which was required to support the growth of the Bank's network of branches and cash settlement offices as well as the overall growth of the Bank's business. Administrative and other expenses, consisting primarily of advertising, communication and business trip expenses, increased 36.4% reaching KZT1,056 million in 2003, primarily due to an increase in the Bank's operations.

The Bank's income tax expense increased to KZT759 million in 2003 from KZT413 million in 2002, an 83.8% increase. This was due primarily to the 55.9% increase in income before income tax expense and minority interest and the increase in income tax expense of KZT142 million in 2003 following the Bank's reassessment of its tax charge relating to 2002.

The Bank's effective tax rate increased to 34.2% in 2003 from 29.1% in 2002 and from 0% in 2001. During 2003, the Bank reassessed its estimate of taxes relating to 2002 resulting in an increase of KZT142 million in 2003 tax charge thus increasing the effective tax rate for 2003 by 6.4%. The Bank effectively had no tax charges in 2001 because a significant portion of its income arose from non-taxable income from government securities.

THE BANK

Overview

The Bank is the fourth largest commercial bank in Kazakhstan in terms of assets, which as at 30 June 2004 were KZT141,595 million (U.S.$1,038 million). The Bank's net income for the six-month period ending 30 June 2004 was KZT1,164 million (U.S.$8.4 million) as compared to KZT502 million (U.S.$3.5 million) for the same period in 2003. For the year ended 31 December 2003, the Bank's net income was KZT1,456 million (U.S.$10 million). The Bank's shareholders' equity as at 30 June 2004 was KZT13,841 million (U.S.$102 million) as compared to KZT8,342 million (U.S.$58 million) as at 31 December 2003.

The Bank's primary business consists of corporate and retail banking. The Bank accepts deposits, extends credits, provides custodian services, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers. The Bank is also an active participant in the fixed income securities market and foreign currency markets in Kazakhstan.

As at the date of this Offering Circular the Bank, in addition to its head office in Almaty, had 15 full service branches and 11 cash settlement offices located throughout Kazakhstan. The Bank anticipates opening a further 3 branches and 2 cash settlement offices in key economic and business areas in Kazakhstan by the end of 2004. The Bank currently has one subsidiary, ATF Policy, two associate companies, EnergoBank in Kyrgyzstan and SPF Otan, and one affiliate, ATF Leasing.

In June 2004, the Bank acquired a 34.4% stake in EnergoBank, which is the fourth largest bank in Kyrgyzstan in terms of assets.

The common and preferred shares of the Bank are currently listed on the "A" list of the Kazakhstan Stock Exchange.

The Bank is registered with the Ministry of Justice under certificate number 345-1900-AO(IU). The registered office and the head office of the Bank are at 100 Furmanov Street, Almaty 480091, Kazakhstan. The Bank's telephone number is +7 3272 583 022 and its fax number is +7 3272 501 995. The Bank's current banking licence No. 239 was issued to it by the FMSA in March 2004.

History

The Bank was incorporated on 3 November 1995 as a closed joint-stock company, CJSC Almaty Merchant Bank, by a number of domestic and overseas shareholders, including Nederlandse Financierings-Maatschappig Voor Ontwikkelingslanden N.V. and MeesPierson with the purpose of developing trade finance banking in Kazakhstan. In 1997, following the acquisition of MeesPierson by the Fortis Group, Nederlandse Financierings-Maatschappig Voor Ontwikkelingslanden N.V. and MeesPierson sold their shareholdings as Fortis Group had a different international strategy.

In April 2001, the Bank changed its status from a closed joint-stock company to an open joint-stock company and, in June 2002, the Bank's name was changed to OJSC ATF Bank, so that the Bank's name would be the same in both the Kazakh and Russian languages. On 3 October 2003, the Bank completed its re-registration as a joint stock company and adopted a new charter, each in accordance with the Law on Joint Stock Companies of 2003. The Bank is incorporated for an unlimited duration.

In April 2001, shareholders of the Bank acquired all of the share capital of CJSC Kazprombank ("Kazprombank"), a small Kazakhstan bank servicing mainly Kazzinc JSC, a large non-ferrous metals producer company located in eastern Kazakhstan. In August 2001, Kazprombank was merged into the Bank by exchanging all Kazprombank's shares for new common shares in the Bank with a nominal value of KZT1,088 million.

In January 2002, the Bank purchased 89.7% of the issued share capital of OJSC Apogei Bank ("Apogei Bank"), a small Kazakhstan bank operating in the Kostanai region, increasing its holding to 92.8% later that year. In March 2003, the shareholders of both banks agreed to transfer the assets and liabilities of Apogei Bank to the Bank and to exchange their shares in Apogei Bank for the Bank's common shares at a ratio of one Apogei Bank share for 10 common shares in the Bank. In April 2003, Apogei Bank was merged into the Bank.

Paragraph II of the Bank's Charter provides that its main objects are to, *inter alia*, contribute to the establishment and further development of the market economy of the Republic of Kazakhstan, extend external economic links, improve the financial situation of enterprises, organisations and institutions, generate income for the benefit of its shareholders and preserve its commercial interests and those of its clients.

Strategy

In order to capitalise on the growth of the Kazakhstan economy, the Bank aims to expand its market share and increase its growth and profitability through: (i) expanding its banking and other financial services; (ii) diversifying and strengthening its funding base; (iii) strengthening risk management; (iv) enhancing operating efficiency; and (v) expanding its regional and international presence to meet the growing demands of its clients.

The components of this strategy are discussed below.

Expanding Banking and Other Financial Services

The Bank's strategy is to continue to diversify its business operations in order to become a full-scale universal bank by offering its high quality and diverse banking products and services to large, medium and small corporate clients and retail customers.

The Bank is committed to developing further its corporate banking services. The Bank plans to focus on diversifying and expanding its loan portfolio, while maintaining its quality, by attracting new large, medium and small corporate clients (with a particular emphasis on small and medium corporate clients), continuing expansion of its trade financing activities and introducing and expanding new and existing services and products to its corporate clients, such as safe custody, payroll management, investment advisory and custodial services. The Bank's primary objective with respect to its lending activities is to diversify into different sectors of economy in order to reduce its exposure to particular industries and to increase the proportion of its portfolio represented by the small and medium enterprises and the retail sector. In particular, the Bank plans to increase its exposure to the communication sector, which represented 0.6% of its loan portfolio as at 30 June 2004, and which has been identified by the Bank as having strong growth prospects.

In order to diversify its deposit base and to increase its market share in fee earning retail products, the Bank is increasing its business with high net worth (with an annual income in excess of U.S.$50,000) and middle income (with an annual income ranging from U.S.$30,000 to U.S.$50,000) individuals, primarily management and employees of its corporate clients. The Bank offers these clients a range of retail banking services and products, including traditional services, such as deposit taking and consumer lending (primarily mortgage and car loans), as well as more sophisticated products and services, such as safe custody services, insurance products and credit and debit cards with special attention being paid to the quality of service.

As Kazakhstan's capital markets gradually develop, the Bank is taking steps to further develop its expertise in this area and to expand its securities trading and financial advisory activities. To improve its investment banking capabilities, in 2001 the Bank established its Corporate Finance Department. This department provides a broad range of services including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice.

The Bank is also focused on increasing revenue from its wholly-owned insurance subsidiary, ATF Policy. The Bank believes that the insurance sector will be a high growth area and is positioning itself to take advantage of this perceived opportunity.

Diversifying and Strengthening Funding Base

The Bank intends to continue to diversify its funding base and reduce its funding costs through borrowing on the local and international capital markets, borrowing from international development organisations and other multilateral financial institutions and attracting deposits from a wider range of small, medium and large corporate customers and retail clients. See "The Bank – Foreign Currency Borrowings".

Strengthening Risk Management

The Bank has established internal rules, policies and guidelines for risk management in line with the requirements of FMSA, and, previously, the NBK, regulations. The Bank's three Credit Committees are responsible for credit risks related to corporate and retail clients. The Bank's Assets and Liability Committee (the "ALCO") is involved in management of liquidity, maturity, interest rate and foreign exchange risks. In addition, in 2002 the Bank established its Risk Management Department which is primarily responsible for the development and supervision of the Bank's risk management polices and reports directly to the Bank's Board of Directors. The Bank is committed to continue to develop further and strengthen its risk management capabilities. See "The Bank – Asset and Liability Management".

Enhancing Operating Efficiency

The Bank is committed to improving its operational efficiency through organisational restructuring, investment in human resources and increasing use and upgrading of information technology. All of the Bank's full service branches are integrated into a wide area network allowing for on-line communication with the Bank's head office. The branches maintain their own databases independent of the mainframe at the head office and use an email system to connect to the head office for data transmission. Whilst the Bank has certain real-time communication capabilities at branch level (including monitoring cash withdrawals and deposits), management believes that further efficiencies can be obtained through the establishment of additional real-time communications with the branch network, particularly with respect to treasury risk management functions, asset and liability management, liquidity management and monitoring of lending activities. In order to address this, the Bank plans to invest in a more advanced banking information system and to establish a unified computer system connecting all branches on a real-time basis and is in the process of retaining an IT consultant to advise in relation to such plans.

The Bank has designed internal and external training programmes to improve the skill base of its employees. The Bank believes that such programmes together with more clearly defined staffing guidelines and human resources policies will improve the quality of the Bank's personnel.

Expanding Regional and International Presence

As part of its growth strategy, the Bank aims to strengthen its regional presence in the main industrial regions of Kazakhstan. Thus, through the acquisition of two small domestic banks in 2001 and 2002, the Bank enhanced its presence in the Kostanai and eastern Kazakhstan regions. See "— History".

The Bank believes that high growth potential opportunities exist in neighbouring countries and as such it plans to establish a presence there. As part of such strategy and following the growing demand from its customers, the Bank opened a representative office in Moscow in 2004.

The Bank also intends to further establish its presence in Kyrgyzstan. This is primarily driven by current customer demand, growing trade between the two countries and existing opportunities in the Kyrgyzstan banking sector, including operations in relation to precious metals. In June 2004, the Bank acquired 34.4% of the share capital of EnergoBank (the fourth largest Kyrgyz bank in terms of assets, with total assets of approximately U.S.$23 million as at 30 June 2004).

In addition, the Bank is currently considering acquiring a regional bank in the Omsk region of the Russian Federation. With a population in excess of one million people in the city of Omsk, making it one of the larger cities in the Russian Federation, management believes that there are high growth potentials for developing banking services for small and medium enterprises in the region, which has yet to see any real penetration from the banking sector. However, no assurance can be given that the Bank will complete such acquisition.

Business of the Bank

Overview

The Bank is a commercial bank in Kazakhstan servicing private commercial enterprises, state-owned enterprises and individual customers. Pursuant to its current banking licence, the Bank is authorised to offer products and services such as retail and corporate deposit taking, discount operations, settlements, custody, issuance of payment cards, foreign currency exchange transactions, issuance of bank guarantees, correspondent banking, securities, cash and transfer operations, lending, trust operations, collateral operations, cash collection, transactions in precious metals, leasing, factoring, forfeiting, broker-dealer transactions, clearing operations, safe keeping operations, issuance of cheque books and promissory note and bill of exchange operations.

Group Structure

In addition to its head office in Almaty, the Bank's network as at the date of this Offering Circular, comprised 15 full service branches and 11 cash settlement offices located throughout Kazakhstan.

As at the date of this Offering Circular, the Bank had one subsidiary, ATF Policy, two associate companies, EnergoBank in Kyrgyzstan and SPF Otan, and one affiliate, ATF Leasing. The Bank has a representative office in Moscow, Russia. See "– Strategy – Expanding Regional and International Presence".

To streamline banking operations and increase efficiencies within the Bank, the Bank has created three core banking groups:

- "Corporate Banking" which concentrates on providing services to the corporate clients of the Bank, both large and medium and small, and includes the Credit Department divided into three divisions (each responsible for a particular industry sector) as well as the Medium Term Credit Division and the Small and Medium Business Credit Division;
- "Retail Banking" which concentrates on providing services to retail clients of the Bank; and
- "Investment Banking" which concentrates on providing investment banking services to the Bank's large corporate clients including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice and includes the Corporate Finance Department, the Client Relationships Division and the International Department.

The core groups are supported by the following departments and divisions: Operational Department, Treasury Department, Risk Management Department, Analysis Department, Credit Security Department, Credit Administrative Division, Custody Division, Economic Research Division, Marketing Divisions, Administrative Division, Accounting Department, Legal Department, Security Department, Information Technology Department, Human Resources Division, Branch Development Division and Branch and Subsidiaries Division.

In addition, the Bank conducts insurance business through its wholly-owned insurance subsidiary, ATF Policy.

Corporate Banking

When first established in 1995, the majority of the Bank's clients were large industrial and trading companies in Kazakhstan as its initial focus was trade finance. Since then, the Bank has expanded its presence in the small and medium sized business market. Today, the Bank provides a full range of commercial banking products and services to small, medium and large businesses in Kazakhstan. Among its corporate customers are leading industrial companies such as JSC KazMunaiGas, a national oil and gas company, together with its subsidiaries JSC KazTransOil, a national oil transportation company, JSC KazTransGas, a national gas transportation company, JSC Atyrau Refinery, JSC EmbaMunaiGas and JSC UzenMunaiGas, JSC Kazzinc, a leading non-ferrous metals producing company, JSC Kazakhstan Electricity Grid Operating Company, a large power distribution company, JSC Kazakhstan Temir Zholy, the national railways company, and others.

The Bank's primary objectives with respect to its corporate lending activities are to diversify into different sectors of the economy in order to reduce its exposure to particular industries and to expand its corporate client base (large, medium and small) and increase the quality of its loan portfolio. The Bank currently classifies its corporate clients based on annual turnover. Corporate clients with an annual turnover of less than U.S.$10 million are classified as "small and medium" and corporate clients with annual turnover in excess of U.S.$10 million as "large".

A major part of the Bank's corporate banking activities is the provision of trade finance and short to medium term credit facilities, mostly in Tenge and in U.S. Dollars, including letters of credit, guarantees and working capital facilities. As at 30 June 2004, the Bank had approximately 19,600 corporate accounts and lending to corporate clients represented approximately 56% of the Bank's total assets and 89% of the Bank's gross commercial loans. As at 30 June 2004, according to information compiled by the NBK, the Bank's share of the corporate lending market in Kazakhstan was approximately 7%. The Bank participates in a number of special programmes for financing medium and small sized enterprises and enterprises in targeted industries, which have been arranged and sponsored by the NBK, the Ministry of Finance and several local or regional executive bodies as well as international financial institutions such as the European Bank for Reconstruction and Development ("EBRD") Kreditanstalt für Wiederaufbau ("KfW"), the Asian Development Bank ("ADB") and the World Bank. See "– Funding and Liquidity".

The Bank offers a wide range of trade finance products such as pre-export and import financing, factoring, forfeiting and promissory note and bills of exchange operations. The Bank collaborates with various export credit agencies, such as Hermes Kreditversicherungs, Oesterreichische KontrollBank Aktiengesellschaft, I'Instituto per Servizi Assicurativi del Commercio Estero and Nederlandsche Credietverzekering Maatschappij, and offers various banking products to its corporate customers with the benefit of guarantees from such agencies.

In addition to lending, the Bank offers a wide range of banking products and services to its corporate clients, which include deposit taking, payroll management and custody services.

Historically, the Bank was one of the leading participants in Kazakhstan's precious metals markets. The Bank offers a broad range of services including the sale of standard gold bullion domestically, gold loans, hedging and financing Kazakhstan's gold mining industry. The country's major gold producers are among the Bank's clients. Due to changes in Kazakhstan tax legislation in 2002 imposing value added tax on precious metals sales, the Bank reduced the volume of its transactions in precious metals. In an effort to restore the Bank's market share in dealing in precious metals, the Bank established a presence in Kyrgyzstan, where there are a number of gold producers and to introduce a new product line for paper trading of gold and is currently developing internal policies and guidelines for this.

In line with other banks, the Bank plans to start offering limited tele-banking and internet banking to its corporate customers. The Bank does not anticipate significant demand for these services in particular for internet banking services, in the short term, as the penetration of appropriate telecommunications capacities in Kazakhstan remains relatively low.

Retail Banking

The retail banking market in Kazakhstan experienced considerable expansion following the introduction of the bank-funded deposit insurance scheme in 1999. The Bank is a participant in the scheme. Further, the Government announced a tax amnesty during June and July 2001 in relation to any amounts deposited with banks during those months. The programme was successful and brought approximately U.S.$480 million into the banking system.

Until recently, the Bank did not have a significant retail business. However, following the expansion of the retail banking market in 2001 and in furtherance of its strategy of positioning itself as a full service bank to its corporate clients, management has recognised the retail banking market as an increasingly important source of business. As part of this strategy, the Bank is developing its business with high net worth (with an annual income in excess of U.S.$50,000) and middle income (with an annual income ranging from U.S.$30,000 to U.S.$50,000) individuals, primarily management and employees of the Bank's existing corporate clients. The Bank offers these clients a range of retail banking services and products, including traditional services, such as deposit taking and consumer lending (primarily mortgage and car loans), as well as more sophisticated products and services, such as safe custody services, insurance products and credit and debit cards with special attention being paid to the quality of service.

The Bank believes that its network of branches and cash settlement offices will allow it to expand its individual customer and depositor base. As at 30 June 2004, the Bank held KZT11,094 million of retail term deposits in approximately 67,000 individual accounts.

The Bank also provides loans to its retail customers. As at 30 June 2004 such loans represented 14.0% of gross commercial loans made by the Bank. Car loans account for a large portion of the loan portfolio and mortgages represent a growing portion of the loan portfolio. Security is taken in respect of all car loans and mortgages and the Bank requires borrowers to insure any cars or real estate acquired using such loans or mortgages. See "– Loan Portfolio – Loan Portfolio Structure by Sector".

In March 1999, the Bank became a participating member in the VISA system and began issuing VISA Classic, VISA Gold and VISA Business debit and credit cards. The Bank uses the card processing centres of CJSC Processing Centre, a subsidiary of the NBK, and Halyk Bank. As at 30 June 2004, the Bank had issued approximately 19,900 debit and 12,700 credit cards.

Currently, the Bank has 13 ATMs, in Ust-Kamenogorsk, Zyryanovsk, Ridder and Almaty, and is in the process of installing an additional 19 ATMs. The Bank has also entered into ATM sharing agreements with all the major banks including Halyk Bank, Bank TuranAlem and Kazkommertsbank, allowing its customers to use their ATM networks, giving the Bank's customers access to around

1,000 ATMs in Kazakhstan. In common with other retail banks in Kazakhstan, customers of the Bank are charged a small fee per withdrawal.

In September 1999, the Bank became a participating member of the Western Union payment system for international money transfers within Central Asia and Kazakhstan.

Early in 2003, the Government adopted a programme for gradual liberalisation of the currency regime in Kazakhstan through 2003 and 2004 and the removal of restrictions on individuals investing in foreign investment-grade securities and opening accounts with OECD banks. The Bank's management expects that such developments will increase demand for new product lines from retail customers, and as such, the Bank intends to introduce domestic and foreign investment advisory and consultancy services and asset management services.

Investment Banking

Kazakhstan's capital markets are gradually developing as the economy grows. An important factor in this was the establishment in 1998 of domestic private pension funds and asset management companies.

The Bank has been active as a broker dealer on the Kazakhstan securities market since November 1995. In 1997, the Bank was granted the status of a Primary Dealer for Government securities, providing a full range of services to corporate and retail clients wishing to invest in Government securities.

To further enhance its investment banking services, the Bank established its Corporate Finance Department in 2001. This department provides a broad range of investment banking services including investment advisory and financial consulting, market research and mergers and acquisitions structuring advice. In 2003, the Bank was appointed as the financial advisor and sole lead manager for the issue of municipal bonds by the Western Kazakhstan region. The Bank intends to expand its securities trading and financial advisory activities.

Insurance Services

The insurance market is developing rapidly in Kazakhstan following enhanced regulatory supervision and general economic development in Kazakhstan. There are currently approximately 36 insurance companies operating in Kazakhstan, with a total capital estimated at approximately KZT250 billion as at 30 June 2004.

The Bank offers a broad range of non-life insurance products through its wholly-owned subsidiary, ATF Policy. As at 30 June 2004, ATF Policy had approximately a 3% share of the insurance market in Kazakhstan (in terms of premium income). ATF Policy's obligations are reinsured with various international insurance organisations. The Bank is focused on furthering its penetration of the insurance market over the next few years and intends to obtain authorisation to expand its range of products to include life insurance. See "– Subsidiaries and Associate Companies – ATF Policy".

Branch Operations

The Bank's branch network as at 30 June 2004, comprised, in addition to its head office, 15 full service branches and 11 cash settlement offices, located throughout Kazakhstan. The Bank anticipates opening a further 3 branches and 2 cash settlement offices in key economic and business areas in Kazakhstan by the end of 2004. The operations of each branch are subject to its own internal regulations and to oversight by the Bank's head office. Each full service branch provides a broad range of banking services. In comparison with branches, cash settlement offices provide a limited number of banking services such as utility payments, cash withdrawals and money transfers, mainly for individual customers.

Each branch has limits on its lending authority set by the Principal Credit Committee which range from U.S.$3,000 to U.S.$150,000 for any single corporate borrower and from U.S.$3,000 to U.S.$75,000 for any single retail borrower. The aggregate lending limit of an individual branch is limited by the total deposit base of such branch. The Credit Department co-ordinates and plans the operations of the branches and monitors their operations and financial results. It is also responsible for the development of branch policies and expansion strategies. See "– Lending Policies and Procedures – General". Cash settlement units do not make loans.

Technology

The Bank operates an integrated banking system and has a unified payment system, which allows for on-line interactive communication between the head office of the Bank and its branches throughout the entire branch network. In addition, branches maintain their own databases, independent of the mainframe at the head office, and use an email system to connect to the head office for data transmission. However, whilst the Bank has certain real-time communication capabilities at branch level, management believes that inefficiencies and technical capability issues may arise in the absence of further real-time communication with the branches, particularly with respect to treasury risk management functions, asset and liability management, liquidity management and monitoring of lending activities. In order to address these problems, the Bank plans to invest in a more advanced banking information system and to establish a unified computer system to provide comprehensive real-time, interactive communication between the branches and the head office, and is in the process of retaining an IT consultant for such purpose.

Competition

As at 30 June 2004, there were 35 commercial banks, excluding the NBK and the DBK, operating in Kazakhstan. The commercial banks can be divided into four groups: large domestic banks, namely Kazkommertsbank, Halyk Bank and Bank TuranAlem; foreign owned or controlled banks, known as banks with foreign participation, such as ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan; medium sized domestic banks, such as the Bank, Bank CenterCredit and Temirbank, and various small domestic banks.

The banking system in Kazakhstan is dominated by the three large domestic banks, Kazkommertsbank, Halyk Bank and Bank TuranAlem, and despite the Bank being the fourth largest bank in Kazakhstan in terms of assets, it faces significant competition from these banks. In addition, the Bank considers some of the banks with foreign participation as its competitors, primarily ABN AMRO Bank Kazakhstan and Citibank Kazakhstan, as their international experience and low cost funding allow them to attract large domestic and foreign corporate customers. The management of the Bank believes that the Bank faces materially less competition from other medium and small domestic banks.

The following table sets out certain financial information relating to the Bank and several other domestic banks and banks with foreign participation:

	As at 31 December 2003	
	Assets	**Shareholders' Equity**
	(KZT millions)	
Large Domestic Banks		
Kazkommertsbank	434,241	45,579
Bank TuranAlem	373,064	30,683
Halyk Bank	249,523	21,238
Medium sized Domestic Banks		
ATF Bank	95,450	8,342
Bank CenterCredit	81,913	7,441
Temirbank	28,662	4,413
Banks with Foreign Participation		
Citibank Kazakhstan	35,168	6,303
ABN AMRO Bank Kazakhstan	30,650	5,139
HSBC Kazakhstan	20,287	2,805

Source: Published financial statements.

In 2001, the Government and a number of local executive bodies founded DBK. The purpose of DBK is to provide medium- and long-term financing for large (at least U.S.$5 million) industrial projects, export financing, guarantees for investment projects and to act as principal paying and collection agent for the Government. DBK is restricted from lending to financial institutions and taking 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 and ranking computations in this Offering Circular.

Subsidiaries and Associate Companies

As at the date of this Offering Circular, the Bank had one subsidiary, ATF Policy, two associate companies, EnergoBank and SPF Otan, and one affiliate, ATF Leasing.

ATF Policy

ATF Policy was established in December 1999 as a closed joint stock company and as at 30 June 2004, it had an authorised issued and fully paid up share capital of KZT475 million, shareholders equity of KZT408 million and total assets of KZT959 million. For the year ended 31 December 2003, ATF Policy did not pay any dividends. ATF Policy offers a full range of property and casualty insurance products and as at 30 June 2004, it had a approximately a 3% share of the insurance market in Kazakhstan (in terms of premium income). The Bank is focused on furthering its penetration of the insurance market over the next few years and intends to obtain authorisation to expand its range of products to include life insurance. See "Business of the Bank – Insurance Services".

ATF Policy holds state insurance licence No. 24-1/1 issued in March 2001. The registered address of ATF Policy is 83 Kabanbai Batyr Street, Almaty 480091, Kazakhstan.

EnergoBank

In June 2004, the Bank completed its acquisition of a 34.4% stake in EnergoBank, for KZT119.7 million. EnergoBank is the fourth largest bank in Kyrgyzstan in terms of assets, with assets of U.S.$23 million as at 30 June 2004. EnergoBank has its head office in Bishkek and currently has seven branches located in Kyrgyzstan. As at 30 June 2004, the Bank's holding in EnergoBank was accounted for in the consolidated financial statements of the Bank using the equity method. For the six months ended 30 June 2004, EnergoBank's net income, as derived from the unaudited management records of EnergoBank, was U.S.$515,000. Whilst the Bank currently has no plans to purchase the entire share capital of EnergoBank, the majority of which is currently held by two corporate shareholders, the Bank hopes to increase its holding in EnergoBank to 53% before the end of 2004. The Bank targeted EnergoBank as a strategic opportunity to expand its operations in Kyrgyzstan, with the Bank's current 34.4% holding comprising new shares issued by EnergoBank following a letter of intent sent by the Management Board of the Bank to EnergoBank in February 2003 stating its intention to purchase a controlling interest in the bank, although no assurance can be given that the Bank will or will be able to increase its holding as intended.

Savings Pension Fund Otan

In April 2004, the Bank purchased a 24.3% holding in SPF Otan for KZT119.0 million. As at 30 June 2004, SPF Otan had assets under management exceeding KZT8 billion, with a 1.74% market share of the pension fund market in Kazakhstan. For the six months ended 30 June 2004, SPF Otan's net income, as derived from the unaudited management records of SPF Otan, was KZT30 million.

ATF Leasing

As at 30 June 2004, the Bank held 9% of the issued share capital of its former wholly-owned subsidiary ATF Leasing, having sold 91% of its shares in April 2001 for U.S.$91,000 to various third parties. Whilst the Bank is represented on the supervisory board of ATF Leasing, it does not now exercise any significant influence over the operating and financing affairs of ATF Leasing and so ATF Leasing is no longer consolidated with the Bank. ATF Leasing provides financial expertise and leasing services to various corporate clients.

Employees

As at 30 June 2004, the Group had 1,743 full-time employees, of which 838 were employed at the Bank's branches. Currently, none of the Bank's employees are represented by a labour union. The Bank has never experienced industrial action or other work stoppages resulting from labour disputes. All employees in professional positions hold university degrees. A number of key staff have been trained at the Bank's main correspondent banks including Deutsche Bank AG, Dresdner Bank AG, ING Bank N.V., Commerzbank AG and Credit Suisse First Boston.

Property

The Bank owns its head office at 100 Furmanov Street, Almaty and in June 2003, completed construction of another building in Almaty to which it moved its operating units.

The Bank owns the buildings used by its Astana, Almaty and Atyrau branches. The Bank leases offices used by its other branches and cash settlement offices.

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.

The Bank monitors and manages its asset and liability position through ALCO, which reports to the Management Board. The ALCO is headed by the Chairman of the Management Board and comprises the Bank's First Deputy Chairman, the Managing Director of the Treasury Department, the Managing Director of the Credit Department, the Managing Director of the Retail Business Department, the Director of the Risk Management Department, the Director of the International Department and the Head of the Analysis Division. The ALCO meets every other week to review the Bank's asset and liability position based on information provided by the Analysis Division and 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 compliance with operational ratios established by the NBK and FMSA, exchange rates, inflation rates and other economic data; and general national and international political and economic trends.

Based on a review of this information, the Bank manages its credit risk by placing limits on the amount of risk accepted in relation to one borrower or counterparty, or group of borrowers or counterparties and to industry and geographical segments. Compliance with limits is monitored continuously and limits are reviewed at least monthly. In 2002, the Bank established the Risk Management Department which is responsible for devising, implementing and monitoring the Bank's risk management policies.

The Bank conducts its risk management at several levels, depending upon the amount of risk involved. The Bank has four main credit committees located within its head office which are responsible for approving credit decisions within the Bank: (i) the Retail Business Credit Committee, (ii) the Small Credit Committee, (iii) the Medium Credit Committee and (iv) the Principal Credit Committee. See "– Lending Policies and Procedures".

Liquidity Risk

The following table summarises the Bank's banking assets and liabilities by maturity as at 30 June 2004 and contains certain information regarding the liquidity risk facing the Bank. Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they fall due. See also "– Funding and Liquidity".

	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
				(KZT thousands)			
Assets							
Cash and cash equivalents	20,354,768	1,021,428	10,300	—	—	—	21,386,496
Obligatory reserves	—	—	—	—	—	2,217,635	2,217,635
Amounts due from credit institutions	—	—	—	1,760,156	30,000	—	1,790,156
Trading securities	17,862,235	—	—	—	—	—	17,862,235
Investment securities:							
– available for sale	8,158,440	—	—	—	—	—	8,158,440
– held to maturity	—	997,635	496,366	4,067,789	304,052	61,924	5,927,766
Commercial loans and advances	—	7,010,884	5,187,219	30,077,056	37,437,580	4,483,546	84,196,285
Tax assets		214,632	—	—	—	—	214,632
Other assets	38,365	1,145,373	8,472	31,113	33,735	676,249	1,933,307
	46,413,808	10,389,952	5,702,357	35,936,114	37,805,367	7,439,354	143,686,952
Liabilities							
Amounts owed to the Government	—	23,228	—	125,847	316,919	779,897	1,245,891
Amounts owed to other banks and – financial institutions	1,919,381	14,491,225	2,576,800	13,410,788	9,314,600	616,120	42,328,914
Amounts owed to customers	25,646,449	15,455,209	3,408,826	9,954,398	11,413,643	331,650	66,210,175
Reserves for claims, net of reinsurance	402,567	—	—	—	—	—	402,567
Debt securities issued	—	—	—	—	16,593,127	—	16,593,127
Subordinated Debt	—	—	—	—	374,444	—	374,444
Provisions	252,618	—	—	—	—	—	252,618
Other liabilities	285,961	28,842	1,723	27,530	2,049	—	346,105
	28,506,976	29,998,504	5,987,349	23,518,563	38,014,782	1,727,667	127,753,841
Net position	17,906,832	(19,608,552)	(284,992)	12,417,551	(209,415)	5,711,687	15,933,111
Accumulated gap	17,906,832	(1,701,720)	(1,986,712)	10,430,839	10,221,424	15,933,111	

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The above maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

The issuance of the Notes is one of the steps being taken by management in an effort to diversify and extend the maturity of its funding sources. In addition, on 21 October 2004, the FMSA approved an increase in the Bank's share capital of up to KZT8.4 billion. As at the date hereof, the Bank had issued 3,180,000 common shares subscribed for by certain existing shareholders for a total consideration of KZT3.2 billion, and the Bank proposes to seek subscriptions from existing and new shareholders for further common and preferred shares totalling KZT5.2 billion before the end of 2004. The Bank has also recently applied to the FMSA to issue up to U.S.$30 million of subordinated bonds to investors on the domestic market, and anticipates placing such bonds before the end of 2004, once such approval has been obtained.

Interest Rate Risk

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.

Although the relative maturities of the Bank's assets and liabilities shown under "Liquidity Risk" above 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 by its relatively short-term maturity of its loan portfolio and its ability under some of its loan agreements to adjust the applicable rate of interest or call for repayment in another currency. Furthermore, in the event of material changes in circumstances, the Bank is also entitled to call for prepayment of loans. Accordingly, a substantial portion of the Bank's assets are susceptible to repricing prior to maturity. Nevertheless, as the average maturity of the Bank's loan portfolio increases it will, without a matching increase in the average maturity of its liabilities, face increasing interest rate risk and will be obliged to introduce more sophisticated risk management techniques and/or more sophisticated standard terms and conditions in its loan agreements.

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 NBK and FMSA regulations and covenants contained in the Bank's various EBRD credit facilities. See "– Foreign Currency Borrowings." 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 daily basis by the Treasury Department according to real-time requirements and forecasts for all the Bank's divisions and branches. The Risk Management Department sets daily limits on the minimum proportion of maturing funds available to cover cash outflows and the minimum level of inter-bank and other borrowed facilities required to cover deposit withdrawals at unexpected levels of demand. In addition, the ALCO reviews the Bank's liquidity guidelines and strategy on a monthly basis.

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

	As at 30 June	As at 31 December	
	2004	2003	2002
	(%)	(%)	
Net loans/total assets	56.3	63.4	59.7
Net loans/deposits	120.4	134.9	110.2
Net loans/equity	576.1	725.1	675.9
Liquid assets[(1)]/total assets	40.5	33.0	36.1
Liquid assets[(1)]/total amounts owed to customers	86.6	70.3	66.6

(1) Liquid assets comprise securities plus cash and cash equivalents, obligatory reserves and due from credit instructions.

The Bank's funding base consists largely of customer deposits, and as at 30 June 2004, 42.5% of total amounts owed to customers comprised deposits of the Bank's 10 largest corporate depositors. This structure positively affects funding costs and improves the Bank's liquidity. Other important sources of funding are bilateral and special purpose facilities from banks and financial institutions and the issue of senior and subordinated debt securities. The Bank intends to reduce the concentration in its deposit base by attracting small and medium corporate and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's result of operations and financial condition. The Bank also plans to diversify its funding base through the offering of the Notes. In addition, the Bank plans to issue up to U.S.$30 million subordinated notes to be placed on the domestic market before the end of 2004.

The Bank believes that new borrowings together with the proceeds of the offering of the Notes should further improve its medium term funding base.

The following table sets out the Bank's sources of funds as at the dates indicated:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Amounts due to customers	66,210	52.1	44,826	51.6	31,545	59.7
Loans from other banks and financial institutions	34,846	27.3	28,183	32.4	12,915	24.3
Deposits from banks	7,483	5.9	5,455	6.3	5,165	9.8
Amounts due to the Government and NBK	1,246	1.0	3,445	4.0	1,351	2.6
Debt securities issued	16,593	13.1	2,848	3.3	—	—
Subordinated debt	374	0.30	1,498	1.7	1,594	3.0
Other liabilities	346	0.30	535	0.7	314	0.6
Total liabilities	127,098	100	86,790	100.0	52,884	100.0

Customer Accounts

During 2003, the Bank increased the total amount of its deposits by 42.1% from KZT31,545 million as at 31 December 2002 to KZT44,826 million as at 31 December 2003. During the first six months of 2004, the Bank increased its deposits by a further 47.7% to KZT66,210 million as at 30 June 2004. A significant portion of the Bank's funding base is represented by corporate customer accounts. The share of corporate deposits in the Bank's deposit base remained relatively unchanged in 2002 and 2003 amounting to 77.9% and 75.5% of amounts owed to customers as at 31 December 2003, and 2002, respectively. As at 30 June 2004, corporate deposits represented 80.9% of amounts owed to customers. As at 30 June 2004, the Bank's ten largest depositors accounted for approximately 42.5% of total amounts owed to customers, compared to 47.5% as at 31 December 2003 and 47.0% as at 31 December 2002. Such depositors include leading industrial companies and trading corporations, such as JSC KazMunaiGas, JSC KazTranOil, JSC Kazakhstan Electricity Grid Operating Company, JSC Kazakhstan Temir Zholy and JSC Kazzinc. The Bank intends further to reduce the concentration of domestic funding by attracting small and medium sized corporate and retail depositors.

The Bank has continued to increase its retail deposit funding base in 2004, which represents an increasingly important source of funding for the Bank. Because retail funding mainly consists of term deposits, it is less volatile than corporate funding, but also more costly for the Bank. The Bank intends to expand its market share of the high net worth and middle-income customers retail market by increasing the range and quality of services it offers. Retail deposits represented 19.1% and 22.1% of the Bank's total amounts owed to customers as at 30 June 2004 and 31 December 2003, respectively. As at 30 June 2004, approximately 54.2% of the Bank's retail accounts were covered by the deposit insurance scheme, compared to 68.3% as at 31 December 2003. See "– The Economy and the Banking Sector in Kazakhstan".

As at 30 June 2004, term deposits were KZT40,397 million or 61.0% of total amounts owed to customers, compared to KZT27,763 million or 61.9% and KZT19,397 million or 61.5% of total amounts owed to customers as at 31 December 2003 and 31 December 2002, respectively.

The following table sets out details of customer accounts (retail and corporate) broken down into term and demand deposits as at the dates indicated:

	As at 30 June	As at 31 December	
	2004	2003	2002
	(KZT millions)	(KZT millions)	
Demand deposits:			
Retail	1,542	1,397	862
Corporate	23,784	15,334	11,172
Total	25,326	16,731	12,034
Term deposits:			
Retail	11,094	8,524	6,856
Corporate	29,303	19,239	12,541
Total	40,397	27,763	19,397
Held as security against letters of credit	487	332	114
Total deposits	66,210	44,826	31,545

Interest rates on the Bank's deposits are close to the 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 as at the dates indicated:

	As at 30 June	As at 31 December	
	2004	2003	2002
	(%)	(%)	
KZT deposits:			
Demand deposits	0.7	0.6	1.1
Time deposits	6.7	6.0	8.3
Foreign currency deposits:			
Demand deposits	0.8	0.9	1.2
Time deposits	7.6	7.5	6.2

Foreign Currency Borrowings

Since 1998, 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 World Bank, ADB, the EBRD and KfW.

The Bank participates in the Governmental Programme for State Support of Small Business Development funded by the EBRD and ADB, under which the EBRD and ADB provide funds to the Small Business Development Fund, a "quasi-governmental" financial institution, which in turn distributes funds to various participating Kazakhstan banks for further on-lending to small businesses. The Bank grants loans to small businesses on the basis of its analysis of their credit worthiness. As at 30 June 2004, the Bank had one credit facility, through the Small Business Development Fund funded by the EBRD, with a total outstanding amount of U.S.$11.4 million. The obligations of the Bank under this credit facility are secured by an assignment in favour of the EBRD of the rights of the Bank to the loans granted by the Bank under such programme. The Bank anticipates that EBRD's funding of the Programme for State Support of Small Business Development will cease in 2005, although as the Bank continues to diversify its funding sources, such funding has become increasingly less strategic.

As at 30 June 2004, the Bank had an outstanding loan from the Ministry of Finance funded by KfW to finance small and medium importers with a total outstanding amount of KZT780 million maturing in 2009.

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

In September 2001, Raiffeisen Zentralbank Oesterreich, Austria and Deutsche Bank AG co-arranged a debut six-month U.S.$20 million syndicated loan which was extended in April 2002 by another six months and increased in size to U.S.$26.5 million. This loan was repaid in November 2002. In October 2002, the Bank entered into a one-year U.S.$40 million syndicated loan facility arranged by Deutsche Bank AG which was fully repaid in October 2003. In June 2003, the Bank entered into a new one year syndicated loan facility for U.S.$30 million arranged by ING Bank N.V. and in November 2003, the Bank entered into another one year facility for U.S.$62 million arranged by ABN AMRO Bank N.V. In October 2004, the Bank entered into an Amendment and Restatement Agreement pursuant to which the facility was extended for a further one year period and increased to US$75 million. The facility is arranged by ABN AMRO Bank N.V. and Deutsche Bank AG. Interest payments on both facilities are linked to LIBOR. In December 2003, the Bank entered into a five-year U.S.$10 million loan agreement with Deutsche Investitions-und Entwicklungsgesellschaft GmbH and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. In July 2004, the Bank entered into an eighteen-month U.S.$50 million syndicated loan with Standard Bank.

In addition, as part of its programme to increase its capital base, in January 2002, the Bank issued U.S.$10 million 9% subordinated notes due in 2007. The notes were primarily placed with pension funds and other financial institutions in Kazakhstan.

In April 2004, the Bank issued U.S.$100,000,000 8.5% Notes due 2007, its debut international capital markets transaction.

The following tables set out certain information as to currency and tenor of the Bank's foreign currency borrowings outstanding as at 30 June 2004 and repayable by 2008:

	2004	2005	2006	2007	2008
			(KZT millions)		
U.S. Dollars	23,215	5,570	539	518	1,365
Euros	2,245	230	0	684	646

Apart from its recent syndicated loans and its international bond offering, most of the Bank's foreign currency borrowings mature in 2004. The Bank believes that it will be able to meet its obligations under these facilities through an increase in borrowings (including the Notes) and an increase in demand and time deposits.

Foreign Currency Management

The Tenge has been generally stable against the U.S. Dollar with the U.S. Dollar appreciating 3.9% in 2001, 3.6% in 2002 and depreciating 7.3% in 2003 against the Tenge.

The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk Management Department monitors the Bank's net currency position and advises on the Bank's strategy accordingly. The ALCO sets the Bank's limits on the level of exposure by currencies. These limits comply with the minimum requirements of the NBK or the FMSA, as applicable.

Regulation and monitoring of the net foreign currency positions of banks is carried out by the NBK and FMSA. According to current NBK and FMSA regulations, the ratio of a bank's net open foreign currency position relative to its own capital must not exceed 50% and the net open foreign currency position for any currency of a country rated "A" or higher or the Euro must not exceed 30% of its own capital. The open long and short position for any currency of a country rated from "B" to "A" is limited to 5% and 15% of own capital, respectively. See "– Capital Adequacy and Other Ratios". The NBK and FMSA regulations define a bank's net open foreign currency position as the difference between the Tenge equivalent of all its foreign currency assets and all foreign currency liabilities. Foreign currency assets include all foreign currency claims and the total value of forward currency purchases. Foreign currency liabilities include all foreign currency accounts and the total value of forward currency sales. The Bank furnishes to the NBK and FMSA on a weekly basis a report on foreign currency position maintenance.

The following table shows details of the net foreign currency position of the Bank as at the dates indicated:

	As at 30 June	As at 31 December	
	2004	2003	2002
Net long (short) position (millions of Tenge)	2,436.0	1,320.0	412.4
Net position as a percentage of shareholders' equity (%)	17.6	15.8	8.0
Net position as a percentage of foreign currency liabilities (%)	3.1	2.6	1.3

Treasury Operations

The main objective of the Bank's treasury operations is to achieve efficient management of the Bank's liquidity, interest rate and market risk by using the foreign exchange and money markets; thus managing foreign currency exposure and funding costs and maximising investment returns. The Treasury Department calculates the Bank's cash position on a daily basis and provides the Bank's management with weekly reports on the Bank's liquidity and cash flows.

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 the underdeveloped nature of the local banking sector means that futures, options and forward currency trading is rare. The Bank is one of the principal banks in Kazakhstan involved in money market operations and Government securities trading. See "Trading and Investment Portfolio".

Capital Adequacy and Other Ratios

The following table sets out certain ratios calculated in accordance with the requirements of the FMSA, formerly the requirements of the NBK, as at the dates indicated:

	FMSA minimum requirements	As at 30 June	As at 31 December	
		2004	2003	2002
		(%, unless otherwise indicated)		
Minimum charter fund(1)	Not less than KZT2,000 million(2)	KZT11,572 million	KZT6,240 million	KZT3,100 million
Capital Adequacy Ratios				
K1 – Tier I capital to total risk-weighted assets	Not less than 6%	8.3	7.2	6.7
K2 – Own capital to total risk-weighted assets	Not less than 12%	13.2	13.2	13.3
K4 – Current Liquidity ratio	Greater than 30%	118.8	91.8	96.7
K5 – Short-term Liquidity Ratio	Greater than 50%	81.1	72.5	68.9
Reserves with the NBK and cash	Not less than 6% of average balances of customer accounts	14.0	13.4	10.8
K6 – investments into fixed assets and non financial assets to equity	Not greater than 50%	21.8	26.9	29.8
Maximum aggregate net open foreign currency position(3)	50% of bank's own capital(4)	4.5	4.8	5.6
Maximum net open (short or long) position in currencies of countries rated "A" or higher and the Euro	30% of bank's own capital(4)	3.1	4.3	11.5
Maximum net short open position in currencies of countries rated from "B" to "A"	15% of bank's own capital(4)	0.1	0.3	3.2
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	100% of bank's own capital(4)	11.4	8.3	3.7
Maximum exposure to any single borrower				
— related parties	10%	4.8	3.7	2.8
— other borrowers	25%	19.5	23.9	23.0
— on unsecured loans	10%	4.7	0.4	—

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

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

(3) The difference between the aggregate long and aggregate short foreign currency positions.

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

The following table gives certain information regarding the Bank's Tier I and Tier II capital and its risk weighted capital adequacy ratio as at the dates indicated based on the requirements of the Basel Capital Accord using the Bank's financial statements prepared in accordance with IFRS:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(U.S.$ thousands)	*(KZT millions)*	*(U.S.$ thousands)*	*(KZT millions)*	*(U.S.$ thousands)*	*(KZT millions)*
Tier I capital	88,122	12,024	44,669	6,442	30,177	4,695
Tier II capital	24,090	3,287	25,851	3,728	14,276	2,221
Gross Tier I and II available capital	112,212	15,311	70,521	10,170	44,453	6,916
Less investments	(2,024)	(276)	(130)	(19)	(606)	(94)
Tier I and Tier II capital	110,188	15,035	70,390	10,151	43,847	6,822
Total risk weighted assets	794,958	108,472	515,684	74,372	280,983	43,721
Tier I capital adequacy ratio . . .	11.1%	11.1%	8.7%	8.7%	10.7%	10.7%
Total risk weighted capital adequacy ratio(1)	13.9%	13.9%	13.6%	13.6%	15.6%	15.6%

(1) Comprising Tier I plus Tier II capital (less investments) divided by total risk weighted assets.

Using ratios established by the Bank for International Settlements to monitor capital adequacy, the Bank had a Tier I capital ratio (Tier I capital less goodwill divided by total risk weighted assets) of 8.7% at 31 December 2003, compared to 10.7% at 31 December 2002, and a capital adequacy ratio (comprising the sum of Tier I and Tier II capital less investments in unconsolidated financial companies divided by total risk weighted assets) of 13.6% at 31 December 2003, compared to 15.6% at 31 December 2002. As at 30 June 2004, the Bank's Tier 1 capital ratio was 11.1% and its capital adequacy ratio 13.9%.

In anticipation of receiving the approval of the FMSA for a capital increase of up to KZT8.4 billion, which was received on 21 October 2004, the Bank entered into subscription agreements with certain shareholders on 19 October 2004 which provided that, following such approval, such shareholders would subscribe for 3,180,000 common shares for a total consideration of KZT3.2 billion (KZT1,000 per share), and the Bank expects to receive the proceeds of such subscriptions within 10 days from the date of the FMSA approval. Until such proceeds are received, there can be no assurance that the proposed capital increase will take place on time, or at all. See ''Investment Considerations – Low Capitalisation''.

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 by it. Due to its status as a primary dealer for Government securities in Kazakhstan, a significant portion of the Bank's total securities portfolio (67.6% as at 30 June 2004 compared to 84.8% as at 31 December 2003 and 86.7% as at 31 December 2002) is comprised of Government, Ministry of Finance and NBK securities. The remaining portfolio consists of securities issued by Kazakhstan issuers, U.S. Treasury Bills and German Treasury Bills. Other than the U.S. Treasury bills, the Bank does not currently hold securities issued by non-Kazakhstan entities or securities issued by foreign governments.

As from 1 January 2004, the Bank expanded the classification of its securities portfolio to include investment securities, including securities held-to-maturity and securities available for sale in addition to the trading portfolio held by the Bank as at 31 December 2003.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase of such securities. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale.

The following table shows the composition of the Bank's securities portfolio as at the dates indicated:

	As at 30 June	As at 31 December	
	2004[(1)]	2003	2002
	(KZT millions)	*(KZT millions)*	
Notes of the NBK	8,125	9,454	3,563
Treasury bills of the Ministry of Finance	4,384	6,559	4,534
Sovereign bonds of the Republic of Kazakhstan	3,165	4,239	5,166
U.S. Treasury bills	1,576	2,582	665
Bonds of local financial organisations	517	556	540
Equity investments	—	416	698
Corporate bonds	94	84	134
Total	17,862	23,890	15,300

(1) Excludes securities classified as investment securities from 1 January 2004.

The following table shows the composition of the Bank's investment securities portfolio as at 30 June 2004:

	As at 30 June 2004
	(KZT millions)
Available-for-sale securities	
US Treasury bills	6,610
Treasury bills of Germany	1,548
Total available-for-sale securities	8,158
Held-to-maturity securities	
Notes of the NBK	4,878
Treasury bills of the Ministry of Finance	1,050
Total held-to-maturity securities	5,928
Total	14,086

The Bank's total securities portfolio increased by 56.1% in 2003, from KZT15,300 million as at 31 December 2002, to KZT23,890 million as at 31 December 2003. A significant portion of this increase represents an increase in the Bank's holding of NBK notes, an increase of 165.3% from KZT3,563 million as at 31 December 2002, to KZT9,454 million as at 31 December 2003. As at 30 June 2004 the Bank's total securities portfolio (including trading and investment securities) increased to KZT31,948 million, representing a 34.0% increase compared to 31 December 2003.

In 2002, in an attempt to differentiate its country risks and to improve the liquidity of its securities portfolio, the Bank decided to diversify its securities portfolio to include U.S. Treasury bills. A significant portion of the increase in the Bank's total securities portfolio can be attributed to a continued increase in U.S. Treasury bills held by the Bank, in particular those held as securities available-for-sale. Total trading and investment U.S. Treasury Bills increased to KZT8,186 million as at 30 June 2004, an increase of 217% compared to KZT2,582 million as at 31 December 2003. In addition, since 1 January 2004, the Bank has also begun holding German Treasury bills, with a total of KZT1,548 million held as available-for-sale as at 30 June 2004.

Loan Portfolio

Introduction

Loans to customers represent the largest part of the Bank's assets. 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 to 18 months or less. However, as demand for longer-term financing from existing customers and other high quality corporate credits increases, the Bank intends to increase its maturity limits, provided that it can match its funding base with longer-term funding through an increase in borrowings and time deposits. Lending to individuals primarily comprises mortgages, car loans and other loans to finance purchases of consumer products.

The Bank's loan portfolio, net of allowances, grew by 74.0% in 2003, from KZT34,762 million as at 31 December 2002, to KZT60,488 million as at 31 December 2003. In the first six months of 2004, the Bank's loan portfolio, net of allowances, grew by a further 31.8% to KZT79,735 million, compared to KZT60,488 million as at 31 December 2003. As at 30 June 2004, the 10 largest borrowers comprised 16.0% of the Bank's gross loan portfolio, compared to 20.3% as at 31 December 2003 and 29.0% as at 31 December 2002.

Loans, Guarantees and Letters of Credit

The following table sets out the composition of the Bank's loans and contingent liability exposure as at the dates indicated:

	As at 30 June	As at 31 December	
	2004	2003	2002
	(KZT millions)	*(KZT millions)*	
Loans			
Loans and advances to customers, gross	84,196	63,885	36,358
Allowances for impairment	(4,461)	(3,397)	(1,596)
Loans and advances to customers	79,735	60,488	34,762
Contingent liabilities			
Undrawn loan commitments	16,063	7,544	344
Guarantees	13,863	6,364	3,682
Letters of credit	7,066	2,986	4,455
Provisions	(253)	(159)	(109)
Cash collateral	(2,202)	(684)	(113)
Total contingent liabilities	34,537	16,051	8,259
Total loans and contingent liabilities	114,272	76,539	43,021

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

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:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Up to $ 50,000	11,608	13.9	9,101	14.2	3,667	10.1
$50,001 – $200,000	8,216	9.8	6,737	10.5	3,268	9.0
$200,001 – $1,000,000	14,941	17.9	11,635	18.2	7,528	20.7
$1,000,001 – $3,000,000	18,889	22.6	14,484	22.7	10,052	27.6
$3,000,001 – $5,000,000	11,838	14.1	9,499	14.9	5,976	16.4
Over $5,000,000	18,173	21.7	12,429	19.5	5,867	16.2
Total	83,665	100.0	63,885	100.0	36,358	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:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Up to 1 month	4,440	5.3	2,338	3.6	388	1.0
1-3 months	469	0.5	1,968	3.1	424	1.0
3-6 months	1,585	1.9	4,959	7.8	3,196	8.8
6-12 months	10,954	13.1	17,061	26.7	13,236	36.4
1-2 years	24,381	29.1	19,184	30.0	11,918	32.8
2-3 years	13,288	15.9	7,468	11.7	3,437	9.5
3-5 years	17,874	21.4	8,889	13.9	3,149	8.7
over 5 years	10,674	12.8	2,018	3.2	610	1.8
Total	83,665	100.0	63,885	100.0	36,358	100.0

Loan Portfolio Structure by Sector

The Bank's primary objective with respect to its lending activities is to diversify into different sectors of the economy in order to reduce its exposure to particular industries.

The following table sets out certain information as to the structure of the Bank's gross commercial loans portfolio, not including advances and before allowances, by economic sector, as at the dates indicated:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Wholesale trading . . .	18,805	22.5	14,416	22.7	9,221	25.4
Construction	11,541	13.8	9,600	15.1	5,411	14.9
Individuals	11,164	13.3	7,034	11.1	2,285	6.3
Food industry.	7,994	9.6	5,456	8.6	3,543	9.8
Agriculture.	6,079	7.3	6,722	10.6	3,835	10.6
Retail trading	5,725	6.8	6,348	10.0	3,024	8.3
Metallurgy	1,649	2.0	898	1.4	941	2.6
Hospitality	1,318	1.6	1,107	1.7	324	0.9
Oil and Gas	1,205	1.4	1,134	1.8	702	1.9
Transport.	1,136	1.4	1,135	1.8	595	1.6
Mining.	732	0.9	355	0.6	895	2.5
Communications. . . .	546	0.6	518	0.8	545	1.5
Chemical	340	0.4	863	1.4	109	0.3
Light industry.	282	0.3	187	0.3	1,618	4.5
Entertainment.	228	0.3	217	0.3	230	0.7
Other.	14,921	17.8	7,490	11.8	2,970	8.2
	83,665	100.0	63,481	100.0	36,249	100.0

The Bank increased its gross commercial loans by 75.1% in 2003 from KZT36,249 million in 2002, to KZT63,481 million in 2003 and by 31.8% in the sixth-month period ended 30 June 2004 to KZT83,665 million. Wholesale trading companies continued to represent the Bank's largest borrowing sector, borrowing a total of KZT18,805 million for the six-month period ended 30 June 2004 and KZT14,416 million as at 31 December 2003, or 22.5% and 22.7%, respectively, of the total volume of loans made. Despite the continued predominance of lending to this sector, loans to it decreased in percentage terms, from 25.4% of the Bank's gross commercial loans as at 31 December 2002 to 22.7% as at 31 December 2003 and 22.5% for the sixth-month period ended 30 June 2004, due mainly to the growth in the total volume of the Bank's lending and Bank's decision to diversify its lending activities into other sectors.

Construction companies increased their borrowing by 77.4% from KZT5,411 million as at 31 December 2002, to KZT9,600 million as at 31 December 2003. Such an increase in lending can be attributed to the Bank's assessment of this sector as high growth due to the significant infrastructure development programme currently under way in Kazakhstan. Whilst the total amount lent to construction companies increased as at 30 June 2004 to KZT11,541 million (20.2% compared to 31 December 2003), the Bank reduced its total exposure to construction companies as a percentage of its total gross loan portfolio to 13.8%. Following an announcement by the Government in mid-2004 to promote low-cost housing in major cities such as Astana and Almaty, the Bank decided to reduce its exposure to this sector in anticipation of a downward trend in the high-end construction market which formed a significant portion of the market serviced by its construction customers. At the same time, the Bank decided to increase its exposure to companies supplying construction materials to low-cost housing construction companies and to construction companies.

The Bank made KZT2,285 million loans to individuals at the end of 2002, representing 6.3% of the Bank's loan portfolio and its fifth largest borrowing sector. As at 31 December 2003, loans to individuals were KZT7,034 million, or 11.1% of total gross loans. The increase is attributable to expanding consumer confidence in the economy and the Bank's strategic decision to increase its exposure to retail customers, in particular high net worth and middle income individuals. In line with the Bank's policy of developing its retail business, the volume of personal loans increased to KZT11,164 million for the six-month period ended 30 June 2004, or 13.3% of total gross loans. The Bank anticipates significant growth in the application for car loans and mortgages, and expects its lending activities to increase in these areas accordingly.

Loans to agriculture and food processing organisations increased from KZT7,378 million as at 31 December 2002 to KZT12,178 million as at 31 December 2003. Despite this year-on-year growth of 65.0%, as a proportion of the Bank's total loan portfolio, lending to this sector remained relatively stable, decreasing from 20.4% to 19.2% in 2002 and 2003, respectively. For the six-month period ended 30 June 2004, loans to agriculture further decreased to KZT6,079 million, representing 7.3% of the Bank's total loan portfolio. However, for the same period, loans to food processing organisations increased to KZT7,994 million, representing 9.6% of the Bank's total loan portfolio.

Retail trading and consumer borrowing, represented a large proportion of the Bank's increased lending. Retail trading companies had borrowed KZT6,348 million by 31 December 2003, compared to only KZT3,024 million as at 31 December 2002. However, for the six-month period ended 30 June 2004, retail trading borrowing amounted to KZT5,725 million, representing a decrease from 10.0% of total loans in 2003 to 6.8%.

In addition, the Bank intends to increase its exposure to the communications sector, which is a rapidly expanding industry in Kazakhstan, currently representing 0.6% of the Bank's total loan portfolio.

Loan Portfolio Structure by Currencies

In line with the Bank's policy of limiting its exposure to currency fluctuations, non-Tenge loans comprise the major part of the Bank's loan portfolio, of which U.S. Dollar obligations are the most significant. As at 30 June 2004, 31 December 2003 and 2002, U.S. Dollar and Euro denominated or indexed loans comprised 67.3%, 66.4% and 71.0% of the Bank's gross commercial loans and advances, respectively. However, following increased domestic demand and an expanded Tenge funding base as well as relatively stable interest rates on Tenge loans, the Bank increased its Tenge denominated loan portfolio in 2002, 2003 and for the six-month period ended 30 June 2004. Tenge denominated loans represented 33.6%, 29.0% and 32.7% of the Bank's gross commercial loans and advances as at 31 December 2003 and 2002 and as at 30 June 2004, respectively. However, such loans have a shorter-term maturity profile and usually contain provisions to allow the Bank to increase interest rates or demand early repayment in the event of devaluation of Tenge.

The following table sets out certain information as to the currency profile of the Bank's gross commercial loans and advances as at the dates indicated:

	As at 30 June		**As at 31 December**			
	2004		**2003**		**2002**	
	(KZT millions)	***(share %)***	***(KZT millions)***	***(share %)***	***(KZT millions)***	***(share %)***
Tenge.	27,528	32.7	21,490	33.6	10,540	29.0
U.S. Dollars	52,574	62.4	38,208	59.8	23,137	66.4
Euro	4,094	4.9	4,187	6.6	1,681	4.6
Total	84,196	100.0	63,885	100.0	36,358	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 loans. Relevant regulations limit the exposure to any single borrower or group of borrowers to 10% of a bank's equity, for parties related to the bank, and to 25% of a bank's equity for unrelated parties. See "– Capital Adequacy and Other Ratios". 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 four main credit committees based at its head office which are responsible for approving credit decisions within the Bank. The Retail Business Credit Committee is responsible for implementation of the Bank's credit policy in respect of retail customers and approving the terms of loans to individuals extended by the Bank for amounts up to U.S.$150,000. The Small Credit Committee is responsible for approving the terms of credit facilities and/or guarantees extended by the Bank to corporate clients for amounts up to U.S.$100,000. The Medium Credit Committee is responsible for implementation of the Bank's credit policy in respect of small and medium-sized enterprises and approving the terms of credit facilities and/or guarantees extended by the Bank to corporate clients for amounts from U.S.$100,000 to U.S.$600,000. The Principal Credit Committee is responsible for implementation of the Bank's credit policy in respect of large corporate customers and approving the terms of credit facilities and/or guarantees extended by the Bank for amounts above U.S.$150,000 for retail customers and U.S.$600,000 for corporate clients. The Management Board must also approve any loan in excess of U.S.$10,000,000 in addition to the approval of the Principal Credit Committee. The Board of Directors must approve all transactions with related parties.

Within each branch, credit decisions on 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 Principal Credit Committee and range from U.S.$3,000 to U.S.$150,000 for any single corporate borrower and from U.S.$3,000 to U.S.$75,000 for any single retail borrower. As the Bank grows, these limits are expected to be increased. The Credit Administration Division monitors loans approved by individual branches. 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. Lending limits are reviewed on a quarterly basis.

All applications for credit/guarantee by corporate and retail customers must be submitted to the Bank on its standard forms. In the case of corporate customers an application submitted to the head office, depending on the type of the borrower, the credit and the industry sector, is reviewed by one of three divisions of the Credit Department, (each of which is responsible for a particular industry sector), the Small and Medium Business Credit Division (which is responsible for small and medium businesses) or the Medium Term Credit Division (which is responsible for credits financed under programmes of the Bank with EBRD, KfW, ADB or the World Bank), as appropriate. In the case of retail clients an application is reviewed by the Retail Business Department. The relevant division/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 such results. If applicable, the Security Department obtains references on the potential borrower from third parties including other banks and various governmental authorities, such as taxation bodies, the NBK, FMSA and the Interior Ministry. If the loan is collateralised, the Credit Security Department of the Bank makes an appraisal of the collateral being offered, including an appraisal as to valuation, legality and enforceability. The Bank's Legal Department or external legal counsel retained by the Bank from time to time reviews legal documentation involved in the lending process.

Depending on the amount of the credit/guarantee, 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.

The application review process within the branches is similar to that of the head office. If the application is for an amount in excess of U.S.$500,000 a representative of the relevant division/ department of head office of the Bank, as described above, is involved in an on-site review and analysis of the application.

Maturity Limit

The maximum maturity of a loan depends on the type of loan as indicated in the following table:

Nature of the Loan	Maximum Maturity
Working capital facilities	1.5 years
Consumer credits	3 years
Project finance	5 years
Inter-bank credit	up to 1 year
Mortgage loans	10 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 other commercial goods, as well as cash deposits, securities and financial institution guarantees. The Bank regularly monitors the quality of the collateral. In certain cases when existing collateral declines in value, additional collateral may be requested. In addition, the terms of its 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
	(%)
Cash	100
Guarantees from financial institutions	100
Government debt securities	100
Real estate	60-80
Inventories	50-60
Equipment	50-70
Precious metals	100

The following table sets forth the nominal amount of the Bank's collateralised and non-collateralised gross commercial loans (not including advances and before allowances) and such amount as a percentage of total gross commercial loans as at the dates indicated:

	As at 30 June		As at 31 December			
	2004		2003		2002	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Collateralised	82,608	98.7	63,314	99.7	36,249	100.0
Uncollateralised	1,057	1.3	167	0.3	—	—
Total gross loans	83,665	100.0	63,481	100.0	36,249	100.0

Where borrowers of the Bank are connected or related in some way, by for example, having common shareholders or being owned by other related companies, these borrowers are treated as a single borrower by the Bank and are required to provide collateral for each other. Thus, if there is a default by one company in the group, all the other companies of the same group become jointly and severally liable and the Bank can enforce collateral given 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, security over immovable property is required to be registered with local departments of the Ministry of Justice. No such registration is required for security over certain types of movable property. However, registration of security over either immovable or movable property establishes priority of that security over an unregistered security. The Bank requires all of its security to be so registered.

Loan Classification and Impairment Assessment

General

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

NBK and FMSA Classification and Impairment Assessment Guidelines

Until 2003, banks classified their portfolio and established allowances for impairment for regulatory purposes under NBK policy based on event-oriented criteria relying primarily on the timeliness of a borrower's payment of interest and principal. As of 1 January 2003, the NBK (and now the FMSA) revised its policies regarding loan classifications and requirements for provisions and allowances.

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

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

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

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

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

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

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

The loan classifications described above are used to determine the adequacy of the allowance for impairment of loans and the adequacy of the allowance for other assets and off-balance sheet risks for regulatory purposes in accordance with the NBK and FMSA regulations.

The following provisioning rates are used by the Bank to establish regulatory allowances:

Standard – 0% to 5%

Sub-standard – 5% to 10%

Unsatisfactory – 10% to 25%

Doubtful – 25% to 50%

Loss – 50% to 100%

IFRS Impairment Assessment

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

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

	As at 30 June			As at 31 December					
Rate of Estimated Impairment	Total exposure	Total Allowances	Allowances Exposure(1)	Total exposure	2003 Total Allowances	Allowances Exposure(1)	Total exposure	2002 Total Allowances	Allowances Exposure(1)
	(KZT millions except for percentage)				*(KZT millions except for percentage)*				
0% – 5%	69,117	1,698	2.5%	43,635	569	1.3%	23,004	401	1.7%
5% – 10%	8,443	514	6.1%	15,486	1,000	6.5%	12,142	531	4.4%
10% – 25%	3,353	752	22.4%	3,006	589	19.6%	305	67	21.9%
25% – 50%	2,474	1,220	49.3%	985	467	47.4%	449	139	30.9%
50% – 100%. . . .	278	278	100%	773	772	99.9%	458	458	100.0%
	83,665	4,462	5.3%	63,885	3,397	5.3%	36,358	1,596	4.4%

(1) Allowances are stated net of the estimated value of any realisable collateral that could be estimated with reasonable accuracy.

The effective level of allowances in accordance with IFRS remained constant at 5.3% as at 30 June 2004 and as at 31 December 2003, which represented an increase of 0.91% from 2002.

Allowances are made against off-balance sheet exposures when it is more likely than not that there will be a loss. In such cases an adequate allowance is made.

Portfolio Monitoring and Write Offs

The review and monitoring of the loan portfolio of the Bank is conducted by the Risk Management Department and the Credit Administration Division. The Credit Administration Division is responsible for daily monitoring through an automated centralised programme of timely debt service of particular loan or off-balance sheet exposure. This allows the Credit Administration Division to identify problem loans at an early stage. Immediate action is taken by the relevant division of the Credit Department, the Small and Medium Business Credit Division, the Medium Term Credit Division or the Retail Business Department, as appropriate, if any principal or accrued interest repayment problems arise. The Risk Management Department reviews and monitors the Bank's credit activity on a weekly basis. The Risk Management Department provides weekly and monthly reports to the Bank's Management Board detailing all aspects of the Bank's credit activity. In addition, an in-depth review of each borrower is carried out on site by representatives of the relevant division of the Credit Department, the Small and Medium Business Credit Division, the Medium Term Credit Division or Retail Business Division, as appropriate, on a semi-annual basis in order to assess the financial condition of the borrower and the status of any collateral. Any overall deterioration in the quality of the Bank's loan portfolio or increased exposure relating to off-balance sheet contingent liabilities is brought to the attention of the Bank's Management Board.

The Bank's determination of whether a repayment problem has arisen is based on a number of objective and subjective criteria, including changes in the borrower's turnover in accounts held by the Bank, changes in the borrower's economic and financial activity giving rise to a suspicion that a loan is not being used for its original purpose, applications to change credit terms, failure of the borrower to fulfil the terms and conditions of its loan agreement and refusal of a borrower to cooperate in supplying current information. Once any repayment problem arises the Bank's Credit Security Department is immediately notified. The Bank believes that it has a good record of enforcing its security and attempts to resolve security enforcement without resorting to court action or arbitration where possible. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any collateral either in reliance on its legal rights or with the co-operation of the customer.

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 and is not recognised in the Bank's accounting records. A non-performing loan is restored to accrual status when all arrears have been paid and it is considered likely that the customer will continue timely performance. A non-performing loan may also be restored to accrual status if it is determined that the repayment of principal and interest is reasonably assured of collection, such as in the case when all amounts due under a loan are fully collateralised by cash or marketable securities and actions have been taken to foreclose on the collateral. Non-performing loans (loans whose recognition of interest has been suspended) amounted to KZT2,238 million, or 2.7%, of the Bank's gross loan portfolio as at 30 June 2004 as compared with KZT1,552 million, or 2.4%, as at 31 December 2003.

The Bank fully impairs 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 uncollectible 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. Once a loan has been fully impaired by the Bank, the Problem Loan Sector of the Credit Administration Department continues to monitor the loan and related collateral for a five-year period in order to assess the possibility of making a subsequent recovery.

MANAGEMENT

Management

The Bank's corporate governance bodies comprise the Board of Directors, a supervisory body, the Management Board, an executive body and the Reviser, who is responsible for overseeing the financial and economic control of the Bank's activities. Members of the Board of Directors and the Management Board cannot be appointed as the Reviser. The Reviser audits the financial statements of the Bank prior to approval thereof by the general shareholders' meeting. The general shareholders' meeting represents the highest corporate body of the Bank. Kazakhstan law vests in the general shareholders' meeting authority for the final approval of certain major corporate decisions, including the authorisation to issue the Notes.

The shareholders elect the Board of Directors and the Reviser. 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. The Reviser oversees the Bank's accounting and internal control processes and reports to the shareholders.

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 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), calling extraordinary general shareholders' meetings and approving the Bank's budget.

The current members of the Board of Directors are:

Name	Position	Other Significant Positions
Serik Svyatov	Chairman of the Board of Directors	None
Timur Issatayev	Director	Chairman of the Management Board
Timur Bergaliev	Director	President of JSC Fintrade
Nurlan Smagulov	Director	President of LLP Astana Motors
Marat Mukhambetov	Director	None

The business address of the Members of the Board of Directors is 100 Furmanov Street, Almaty 480091, Kazakhstan.

Management Board

The Management Board is responsible for the day-to-day management and administration of the Bank activities. The Management Board's responsibilities include making executive business decisions, implementing the Bank's business strategy, appointing senior management and branch representatives, approving all loans in excess of U.S.$10 million and dealing with all other matters not reserved to the Board of Directors or the general meeting of shareholders.

The Management Board consists of nine members. The members of the Management Board are elected for a period of five years. The business address of the Members of the Management Board is 100 Furmanov Street, Almaty 480091, Kazakhstan.

The current members of the Management Board are:

Name	Position
Timur Issatayev	Chairman
Berik Beisengaliyev	First Deputy Chairman
Kairat Rakhmanov	Managing Director
Aidar Seitbekov	Managing Director
Irina Sindonis	Managing Director
Talgat Abdukhalikov	Managing Director

Name	Position
Talgat Kuanyshev	Managing Director
Aida Derevyanko.	Chief Accountant
Nadim Shaidarov.	Managing Director

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

Timur Issatayev (35), Chairman, graduated from the Kazakhstan State University of Management in 1991 with a degree in philosophy and from Yale University in 1993 with a Masters degree in economics. Mr. Issatayev was the head of the representative office of ING Bank in Kazakhstan from April 1996 to April 1999 and the First Deputy Chairman of ABN AMRO Bank Kazakhstan from April 1999 to April 2001. Mr. Issatayev has been Chairman of the Management Board since September 2003. Previously he had been Deputy Chairman since joining the Bank in May 2003.

Berik Beisengaliyev (38), First Deputy Chairman, graduated from the Karaganda State University in 1990 with a degree in finance and in 1999 graduated from the Kazakhstan State University with a degree in law. In 1997, Mr. Beisengaliyev was appointed Director of the Akmola branch of TuranAlem Bank. In 1998, he joined the Bank as Director of the Akmola branch, Mr Beisengaliyev has been in his current position since March 2004.

Kairat Rakhmanov (39), Managing Director, graduated from the Kazakhstan State University of Management in 1995 with a degree in economics. Mr. Rakhmanov was the Deputy Director of the Operations Department at Alem Bank Kazakhstan from September 1993 to February 1997. In July 1997 Mr. Rakhmanov joined the Bank as the Director of the Operations Department. In January 2002 he took up the position of Managing Director of Investment Activities at Halyk Bank until June 2004, at which time he returned to the Bank in his current position.

Aidar Seitbekov (39), Managing Director, was educated at Lomonosov Moscow State University, from which he graduated in 1987 with a degree in mathematics. He also holds a degree in finance and credit studies from Eurasia Market Institute. Mr. Seitbekov joined the Bank in 1995, as head of its IT division and has been in his current position since November 1998.

Irina Sindonis (41), Managing Director, graduated from Finance College in 1980 with a degree in banking accounting and the Almaty Institute of National Economy in 1986 with a degree in finance. Mrs. Sindonis was Managing Director of the Halyk Savings Bank of Kazakhstan from March 1999, before being appointed Director of Operations in February 2000 and Chief Accountant in June 2000. Mrs. Sindonis has been in her current position since joining the Bank in May 2001.

Talgat Abdukhalikov (41), Managing Director, graduated from the Almaty Managers School in 1998 with a degree in finance and credit studies. Mr. Abdukhalikov started his career at the Bank in 1995 as head of the Securities division and became head of the Assets Management division in 1996. In 1998 Mr. Abdukhalikov was appointed Director of the Treasury Department and he has been in his current position since January 2002.

Talgat Kuanyshev (31), Managing Director, graduated from the Kazakhstan State University of Management in 1994 with a degree in international financial relationships. Mr. Kuanyshev started his career at the Bank in 1997 as head of the Loan Department and became Deputy Director of the Commercial Department in May 1998. In July 1998 Mr. Kuanyshev was appointed Director of the Commercial Department and he has been in his current position since January 2002.

Aida Derevyanko (41), Chief Accountant, graduated from Finance College in 1980 with a degree in banking accounting and the Almaty Institute of National Economy in 1987 with a degree in accounting and business analysis. Mrs. Derevyanko was appointed Chief Accountant of the Almaty branch of Alem Bank Kazakhstan in 1993 and Deputy Chief Accountant in 1991 of Commercial Bank Bereke. Mrs. Derevyanko has been in her current position since October 1997.

Nadim Shaidarov (40), Managing Director, graduated from the University of Moscow in 1990 with a degree in economy and business planning. In 1997 Mr. Shaidarov was appointed Deputy Director of commercial activity of the Almaty branch of Halyk Bank and in 1998 he was appointed First Deputy Director of the Akmola branch of Halyk Bank. Mr. Shaidarov has been in his current position since joining the Bank in July 2002.

Reviser

The current Reviser is Mrs. Nelchai Satova, Chief Accountant of Otan Accumulation Pension Fund. She was elected in 2003 for a three-year term.

Management Remuneration

In accordance with the Bank's charter, the remuneration of the senior management of the Bank and 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 the senior and middle management of the Bank as at 30 June 2004:

Name	As at 30 June 2004
	(KZT thousands)
Talgat Adbukhalikov	18,263
Timur Issatayev	49,819
Talgat Kuanyshev	151
Aida Derevyanko	4,264
Total	72,497

There are no other outstanding loans or guarantees granted by the Bank to the senior and middle management of the Bank, nor to any parties related to them.

As at 30 June 2004, the Bank's senior and middle management held in aggregate 4,689 preferred shares of the Bank which represents 0.04% the issued and outstanding share capital of the Bank.

SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

Share Capital

As at 30 June 2004, the Bank's issued and outstanding share capital comprised 9,671 million common voting shares and 1,900 million preferred shares each having a nominal value of KZT1,000. Each common voting share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 12% (400,000 shares) and 10% (1,500,000 shares) per annum and do not have voting rights unless the Bank fails to make payment of dividends.

In 2003, and in accordance with a general shareholders' meeting resolutions, the Group declared dividends of KZT105.8 million on preferred shares and KZT1,163.9 million on common shares. The share capital was increased by KZT902.8 million through the capitalisation of dividends on common shares. Withholding tax of KZT174.6 million relating to the capitalised dividends was paid on behalf of the shareholders and disclosed as dividends paid.

During 2003, the share capital was increased by KZT20,180,000 via conversion of the minority shareholders' shares in the former banking subsidiary Apogee Bank to common shares of the Bank.

In November 2003, the Bank agreed, by resolution, to increase its share capital by approximately U.S.$30 million through a new equity issue for cash of this amount. Approximately U.S.$20 million in aggregate amount of common shares of the Bank were placed through a domestic offering by April 2004, with the final U.S.$10 million being placed prior to August 2004.

In May 2004, the Bank declared dividends of KZT304 million on preferred shares and KZT694 million on common shares. The share capital of the Bank was increased through the capitalisation of dividends declared on common shares of KZT588 million.

Following a submission by the Bank, on 21 October 2004, the FMSA approved an increase in the Bank's share capital of up to KZT8.4 billion. In anticipation of such approval, the Bank entered into subscription agreements with certain shareholders on 19 October 2004 which provided that, following such approval, such shareholders would subscribe for 3,180,000 common shares for a total consideration of KZT3.2 billion (KZT1,000 per share), and the proceeds of such subscriptions were received by the Bank by the end of October 2004. In addition, the Bank intends to offer up to approximately U.S.$12 million of preferred shares and up to approximately a further U.S.$26 million of common shares to existing and new shareholders to complete the current FMSA approved capital increase by the end of 2004, although no assurance can be given that such further capital increase will take place on time, or at all, or that the Bank will be able to place such shares on commercially acceptable terms.

The Bank's common voting shares and preferred shares are listed on the "A" list of the Kazakhstan Stock Exchange. Among the Bank's shareholders are various industrial companies, pension funds and private investors.

Principal Shareholders

The following table sets forth certain information with respect to the ownership of the Bank's outstanding common shares as at 1 October 2004:

Shareholder	Number of Common Shares	Percentage of Common Shares
JSC Saving Pension Fund of Halyk Bank of Kazakhstan	1,334,724	13.8
Rink Invest LLP	1,044,566	10.8
CJSC SPF Ural Umit	706,050	7.3
Agrotechpostavki LLP	580,315	6.0
The Bank of New York, ADR's	541,627	5.6
Dakot LLP	512,611	5.3
Others(1)	4,939,445	51.1
Total	9,671,911	100.0

(1) Shareholders holding less than 5%

Based on the information available to the Bank as at 1 October 2004, no one shareholder holds directly or indirectly a controlling stake in the Bank.

TRANSACTIONS WITH RELATED PARTIES

As at the dates indicated, the Group had the following outstanding transactions with related parties:

	30 June 2004	31 December 2003
	(KZT thousands)	
Loans and advances	1,683	847
Amounts owed to customers	582	448

Related parties are considered to include shareholders, affiliates and entities under common ownership, control or management with the Bank, or whose activities the Bank has an ability to control.

All transactions with related parties outstanding at the dates indicated above, were made in the normal course of business and at arm's length.

THE ECONOMY AND BANKING SECTOR IN KAZAKHSTAN

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; for example, real GDP, which fell by 38.6% 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, the 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 shadow economy 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 shadow economy (including the household sector) has been that, at times, it has exceeded 35% of GDP. Others have, however, given even higher estimates of the contribution of the shadow economy.

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

	Six months ended 30 June	Year ended 31 December				
	2004(1)	2003	2002	2001	2000	1999
Nominal GDP (KZT millions)	2,401,400	4,498,800	3,747,200	3,285,400	2,595,965	2,016,240
Real GDP (per cent. change from the previous year)	9.1	9.2	9.5	13.5	9.8	2.7
Nominal GDP per capital (KZT)	159,987	297,645	252,677	219,169	174,853	135,088
Population (millions average annual)	15.01	14.95	14.83	14.82	14.84	14.9

Source: NSA

(1) Estimate.

Increases in real GDP 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 out the composition of nominal GDP by source for the periods indicated:

	Six months ended 30 June	Year ended 31 December				
	2004(1)	2003(1)	2002	2001	2000	1999
			(% share of GDP)			
Industry	32.5	29.5	29.3	30.7	31.9	28.2
Construction	4.6	6.2	6.1	5.5	5.3	4.8
Agriculture	3.9	7.3	7.9	8.7	8.7	9.9
Transport and Telecommunications	12.0	12.1	11.5	11.2	12.0	12.0
Trade	11.7	12.1	12.0	12.1	12.6	13.6
Other(2)	35.3	32.8	33.2	31.8	29.5	31.5
Total(3)	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

(1) Estimate.

(2) Includes finance and service sectors such as medicine, education, culture, defence and state administration, as well as taxes.

(3) Components of GDP by source are measured on the basis of factor cost, whereas total GDP is calculated by reference to market prices (including net taxes).

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 50% 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 65% of total exports in the first six months of 2004 and in 2003.

Inflation

The year-on-year rate of consumer price inflation has fallen from 1,258.3% at the end of 1994 to 6.8% as at the end of December 2003, although there have been times in the period when inflationary pressures have resumed, 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:

	As at 30 June	As at 31 December				
	2004	2003	2002	2001	2000	1999
Consumer Prices. . . .	6.6	6.8	6.6	6.4	9.8	17.8
Producer Prices.	9.4	5.9	11.9	(14.1)	19.4	57.2

Source: NSA, NBK

Current account

Based on NBK data, Kazakhstan's current account deficit in 2002 was U.S.$596.0 million and U.S.$1,092.6 million in 2001 compared with a surplus of U.S.$563.1 million in 2000. The current account deficit in 2003 was U.S.$68.8 million. The current account surplus in the first quarter of 2004 was U.S.$348.7 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.$2,860.6 million resulted in a capital and financial account surplus of U.S.$2,034.9 million. In 2002, foreign direct investment for the year amounted to U.S.$2,163.5 million, which resulted in a capital and financial account surplus of U.S.$710.1 million. In 2003, foreign direct investment was U.S.$2,188.1 million and the capital and financial account surplus was U.S.$1,166.6 million. In the first quarter of 2004, foreign direct investment was U.S.$951.2 million and the capital and financial account deficit was U.S.$253.1 million.

The Banking Sector

Introduction

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

The National Bank of Kazakhstan and the FMSA

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

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

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

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

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

Banking

Structure of the Banking System of Kazakhstan

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

Banking Reform and Supervision

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

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

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

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

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

In December 1999, a self-funded domestic deposit insurance scheme was established and as at 30 June 2004, 33 banks, including subsidiaries of foreign banks and the Bank, were covered by the scheme. The insurance coverage is presently limited to personal time deposits in any currency and current accounts up to KZT400,000 in total at any given bank. As at 2004, only banks participating in such deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

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

Commercial Banks

As at 30 June 2004, there were 35 banks in Kazakhstan, compared to 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks. In November 2001, the Government divested its remaining 33% stake in Halyk Savings Bank, by means of privatisation through a public auction. This stake has since been sold to a group of companies, including ATF Bank. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a State-owned bank, was sold by tender to a consortium of 11 members for KZT2.1 billion.

As at 30 June 2004, two commercial banks failed to comply with prudential regulatory requirements, compared to one as at 31 December 2003 and one as at 31 December 2002. These banks did not meet the single borrower exposure ratio, the open currency position ratio and the maximum asset investment ratio. Provisions for bad debts as at 30 June 2004 amounted to KZT33.4 billion.

The financial standing of Kazakhstan's banks varies. As at 30 June 2004, 16 of the 35 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 a registered capital of less than KZT500 million; any bank whose capital falls below this level is required to submit to the NBK an application for voluntary reorganisation into an organisation performing only limited banking operations.

Foreign Capital in the Banking Sector

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

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

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

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

TAXATION

Kazakhstan Taxation

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

Under Kazakhstan's laws as presently in effect, interest payable by a Kazakhstan obligor to (i) an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") or (ii) residents in Kazakhstan, or to non-residents who maintain a registered permanent establishment in Kazakhstan (together, "Kazakhstan Holders"), other than individuals, banks resident in Kazakhstan and Kazakhstan accumulative pension funds, will be subject to Kazakhstan withholding tax at a rate of 15%. The Bank has agreed to pay additional amounts in respect of such withholding, subject to certain exceptions. See "Terms and Conditions of the Notes – Condition 8 (*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. The Notes are subject to redemption in whole at their principal amount plus accrued interest (if any) at the option of the Bank, in the event of certain changes in taxation in Kazakhstan. See "Terms and Conditions of the Notes – Condition 7(b) (*Redemption for tax reasons*)". See "Investment Considerations-Investment Considerations Relating to the Notes – Taxation in Kazakhstan".

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

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

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

European Union Taxation

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

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited and HSBC Bank plc (together, the "Managers") have, in a subscription agreement dated 8 November 2004 (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 99.014% of their principal amount less an underwriting fee of 0.5% 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.

The Managers and their respective affiliates have from time to time performed and may in the future perform various financial advisory, commercial banking and investment banking services for the Bank and its affiliates, for which they received or will receive customary fees.

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 Manager 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 Manager has represented and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any 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 Manager has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in Kazakhstan except in compliance with the laws of Kazakhstan.

General

No action has been or will be taken in any jurisdiction by the Issuer or any Manager 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 each Manager 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 resolutions of a general meeting of the Issuer's shareholders passed on 11 May 2004 and a meeting of the board of directors passed on 18 October 2004.

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 Trade and Companies Register (*Registre de Commerce et des Sociétés*) in Luxembourg, where copies of these documents may be obtained upon request.

3. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg. The common code is 020538171 and the International Securities Identification Number (ISIN) is XS0205381717.

4. Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Bank 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 30 June 2004, 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 Agent and the Paying Agent in Luxembourg namely:

   (a) the Trust Deed (which contains the forms of the Notes in global and definitive form);

   (b) the Agency Agreement;

   (c) the Bank's charter and certificate of incorporation; and

   (d) this Offering Circular.

7. For so long as any Notes shall be outstanding, copies and, where appropriate, English translations of the audited consolidated financial statements of the Issuer for the years ended 31 December 2003, 2002 and 2001 and the audited condensed consolidated financial statements of the Issuer for the six months ended 30 June 2004 and 2003, prepared in accordance with IFRS may be obtained during normal business hours at the Specified Office of each Paying Agent.

   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 to the extent that it does, such interim financial statements will be made available in Luxembourg.

8. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code." The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

9. The EU Transparency Obligations Directive is currently being finalised and may be implemented in Luxembourg in a manner that is unduly burdensome for the Issuer. In such circumstances the Issuer may, subject to the provisions of the Trust Deed, decide to seek an alternative listing for the Notes on a stock exchange outside the European Union.

10. The Trust Deed provides that any certificate or report of any expert called for by or provided to the Trustee in accordance with or pursuant to the Conditions or the Trust Deed may be relied upon by the Trustee without liability to the Noteholders or Couponholders, whether or not the expert's liability in respect thereof is limited by a monetary cap or otherwise.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of ATF Bank JSC and Subsidiary –

We have audited the accompanying condensed consolidated balance sheet of ATF Bank JSC and Subsidiary (the "Group") as of June 30, 2004 and the related condensed interim consolidated statements of income, changes in shareholders' equity and cash flows for the six-month periods ended June 30, 2004 and 2003. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at June 30, 2004, and the consolidated results of its operations and its cash flows for the six-month periods ended June 30, 2004 and 2003, in accordance with International Financial Reporting Standards.

We have previously audited, in accordance with International Standards on Auditing, the consolidated balance sheet of the Group at December 31, 2003, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (not presented herein), and in our report dated February 6, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet and related notes as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Ernst & Young Kazakhstan

October 8, 2004

CONDENSED CONSOLIDATED BALANCE SHEETS

	Notes	June 30, 2004	December 31, 2003
		(KZT thousands)	
Assets			
Cash and cash equivalents	3	21,386,496	5,835,819
Obligatory reserves		2,217,635	1,775,133
Amounts due from credit institutions		1,790,156	—
Trading securities	4	17,862,235	23,890,146
Investment securities:			
– available-for-sale	5	8,158,440	—
– held-to-maturity	5	5,927,766	—
Commercial loans and advances	6, 7	79,734,581	60,487,547
Premises and equipment		2,501,839	2,279,689
Tax assets		214,632	262,267
Other assets		1,801,235	919,223
Total assets		141,595,015	95,449,824
Liabilities			
Amounts due to the Government and NBK	8	1,245,891	3,445,225
Amounts due to credit institutions	9	42,328,914	33,637,685
Amounts due to customers	10	66,210,175	44,825,775
Reserves for claims, net of reinsurance		402,567	159,231
Debt securities issued	11	16,593,127	2,848,226
Subordinated debt	12	374,444	1,497,743
Provisions	7	252,618	158,964
Other liabilities		346,105	534,742
Total liabilities		127,753,841	87,107,591
Shareholders' equity:			
Share capital:			
Common shares	13	9,671,911	4,339,523
Preferred shares	13	1,900,000	1,900,000
Additional paid in capital		201,900	201,900
Reserves		382,315	465,325
Retained earnings		1,685,048	1,435,485
Total shareholders' equity		13,841,174	8,342,233
Total liabilities and shareholders' equity		141,595,015	95,449,824
Financial commitments and contingencies	14		

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

Timur Isatayev — Chairman of the Board

Aida Derevyanko — Chief Accountant

October 8, 2004

The accompanying notes on pages F-7 to F-19 are an integral part of these consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME

	Notes	Six months ended June 30, 2004	2003
		(KZT thousands)	
Interest income			
Loans		4,874,264	2,774,469
Securities		659,528	657,217
Credit institutions		71,828	43,145
		5,605,620	3,474,831
Interest expense			
Deposits		(1,315,825)	(1,007,489)
Borrowings		(733,808)	(391,041)
Subordinated debt		(49,221)	(68,225)
Debt securities issued		(307,602)	—
		(2,406,456)	(1,466,755)
Net interest income		3,199,164	2,008,076
Impairment charge	7	(1,091,748)	(731,854)
		2,107,416	1,276,222
Fee and commission income	15	969,878	699,878
Fee and commission expense	15	(245,990)	(117,380)
Fees and commissions		723,888	582,498
Gains less losses from trading securities		356,097	91,672
Gains less losses from available-for-sale securities		76,808	—
Dealing profits, net		1,416	29,194
Gains less losses from foreign currencies			
– dealing		315,513	219,296
– translation differences		(128,959)	(30,810)
Income from insurance operations		149,879	49,799
Other operating income		41,067	39,644
Non interest income		811,821	398,795
Salaries and benefits		(1,099,304)	(706,473)
Administrative and operating expenses		(630,695)	(413,011)
Depreciation and amortization		(164,554)	(101,836)
Other impairment and provisions	7	(93,654)	(70,963)
Taxes other than income taxes		(160,120)	(98,539)
Non interest expense		(2,148,327)	(1,390,822)
Net income before income taxes		1,494,798	866,693
Income tax expense	16	(330,911)	(364,707)
Net income		1,163,887	501,986
Earnings per share, KZT	17	158.30	128.45

The accompanying notes on pages F-7 to F-19 are an integral part of these consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Treasury shares	Additional paid in capital	Reserves	Retained earnings	Total
			(KZT thousands)			
At December 31, 2002	3,100,000	(26)	193,306	465,325	1,384,212	5,142,817
Share conversion – minority interest	20,180	—	8,545	—	—	28,725
Dividends capitalized	902,782	—	—	—	(902,782)	—
Sale of treasury stock	—	26	—	—	—	26
Dividends – preferred shares	—	—	—	—	(115,285)	(115,285)
Dividends – common share	—	—	—	—	(101,837)	(101,837)
Capital contributions	1,552,554	—	—	—	—	1,552,554
Net income	—	—	—	—	501,986	501,986
At June 30, 2003	5,575,516	—	201,851	465,325	766,294	7,008,986
Dividends paid	—	—	—	—	(159,314)	(159,314)
Dividends – preferred shares	—	—	—	—	(125,522)	(125,522)
Capital contributions	664,007	—	49	—	—	664,056
Net income	—	—	—	—	954,027	954,027
At December 31, 2003	6,239,523	—	201,900	465,325	1,435,485	8,342,233
Dividends capitalized	588,078	—	—	—	(588,078)	—
Dividends paid	—	—	—	—	(106,246)	(106,246)
Fair value change of available-for-sale securities, net of tax	—	—	—	(83,010)	—	(83,010)
Dividends – preferred shares	—	—	—	—	(220,000)	(220,000)
Capital contributions	4,744,310	—	—	—	—	4,744,310
Net income	—	—	—	—	1,163,887	1,163,887
At June 30, 2004	11,571,911	—	201,900	382,315	1,685,048	13,841,174

The accompanying notes on pages F-7 to F-19 are an integral part of these consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended June 30, 2004	2003
	(KZT thousands)	
Cash flows from operating activities:		
Net income before income taxes	1,494,798	866,693
Adjustments for:		
Depreciation and amortization	164,554	101,836
Impairment charge and other provisions	1,185,402	802,817
Provision for insurance claims	152,997	102,989
Unrealised foreign exchange loss (gain)	423,010	(82,456)
Share of income of associates	(10,997)	—
Loss on sale of premises and equipment	5,243	10,142
Change in unrealised gain on trading securities	(84,964)	(61,748)
Cash flow from operating activities before changes in operating assets and liabilities	3,330,043	1,740,273
(Increase) decrease in operating assets:		
Obligatory reserves	(442,502)	(172,158)
Trading securities	5,895,888	862,394
Commercial loans and advances	(23,096,128)	(11,497,809)
Due from credit institutions	(1,837,862)	
Other assets	(691,487)	(142,802)
Increase (decrease) in operating liabilities:		
Amounts due to the Government and NBK	(2,112,450)	185,032
Amounts due to credit institutions	4,853,859	3,359,942
Amounts due to customers	22,674,580	7,262,969
Reserve for claims, net of reinsurance	90,339	52,849
Other liabilities	(104,636)	(216,649)
Net cash flows from operating activities before income tax	8,559,644	1,434,041
Income tax paid	(352,333)	(304,448)
Net cash flows from operating activities	8,207,311	1,129,593
Cash flows from investing activities:		
Purchase of available-for-sale securities	(8,364,975)	—
Proceeds from sale of available-for-sale securities	19,027	—
Purchase of held-to-maturity securities	(7,200,635)	—
Proceeds from redemption of held-to-maturity securities	850,000	—
Purchases of premises and equipment	(381,454)	(317,128)
Proceeds from sale of premises and equipment	9,423	9,897
Purchases of intangible assets	(130,386)	(10,227)
Proceeds from sale of intangible assets	—	84
Net cash flows from investing activities	(15,199,000)	(317,374)
Cash flows from financing activities:		
Subordinated debt paid	(1,048,110)	—
Long term borrowings received from credit institutions	6,272,513	—
Long term borrowings repaid to credit institutions	(539,208)	(44,000)
Capital contribution	4,744,310	1,552,554
Debt securities issued	13,882,258	—
Sale of treasury shares	—	26
Dividends paid	(410,246)	(265,122)
Net cash flows from financing activities	22,901,517	1,243,458
Effect of changes in exchange rates on cash and equivalents	(359,151)	(127,381)
Net change in cash and cash equivalents	15,550,677	1,928,296
Cash and cash equivalents at the beginning of the period	5,835,819	4,477,990
Cash and cash equivalents at the end of the period (Note 3)	21,386,496	6,406,286
Supplemental information:		
Interest paid	1,793,857	1,111,671
Interest received	5,410,951	3,510,722

The accompanying notes on pages F-7 to F-19 are an integral part of these consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2004

1. Principal Activities

ATF Bank and subsidiaries ("the Group") provide retail and corporate banking services in Kazakhstan. The parent company of the Group, ATF Bank (the "Bank"), is registered as a joint stock company and incorporated and domiciled in the Republic of Kazakhstan.

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides banking services to its commercial and retail customers. The Bank is among the five largest banks in Kazakhstan in terms of total assets. The Bank also has an insurance subsidiary (Note 2). The Bank's registered legal address is 100 Furmanov Avenue, Almaty, Republic of Kazakhstan.

The Bank's head office is in Almaty. The Bank has a primary listing on the Kazakhstani Stock Exchange and certain of its debt securities are listed on the Luxemburg Stock Exchange. At June 30, 2004 and December 31, 2003, the Group had fifteen and fourteen branches respectively located throughout Kazakhstan. At June 30, 2004 and December 31, 2003, the Group had 1,744 and 1,593 employees, respectively.

2. Basis of Preparation

General

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

The accompanying condensed interim financial statements have been prepared in accordance with IFRS for interim financial information. Accordingly, they do not include all of the information required by IFRS for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and provisions) considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

These condensed interim financial statements are in compliance with IAS 34 "Interim Financial Reporting". The accounting policies and methods of computations adopted in the preparation of these interim financial statements are principally the same as those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2003.

The balance sheet at December 31, 2003, has been derived from the audited financial statements at that date but does not include all the information and notes required by IFRS for complete financial statements. These condensed interim financial statements should be read in conjunction with the complete financial statements as of December 31, 2003, along with the corresponding figures.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The primary estimates, which relate to the allowance for loan losses, insurance reserves, the fair value of securities, deferred taxes and the carrying value of property and investments, are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Consolidated Subsidiaries

The condensed interim consolidated financial statements include the financial statements of the following subsidiaries:

June 30, 2004 and December 31, 2003

Subsidiary	Holding %	Country	Date of incorporation	Industry	Date of acquisition
ATF Policy	100%	Kazakhstan	December 1999	Insurance	December 1999

Associates accounted for under the equity method

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

	Holding, %				
Associates	June 30, 2004	December 31, 2003	Country	Activities	Share in net income
Energobank OJSC	34.44	—	Kyrgyzstan	Bank	2,697
National Pension Fund Otan	24.29	—	Kazakhstan	Pension Fund	8,301

During 2004, the Bank acquired 34.44% of the share capital of Energobank OJSC for KZT 119,680. The consideration was paid on June 15, 2004.

During 2004, the Bank acquired 24.29% of the share capital of National Pension Fund Otan for KZT 119,000. The consideration was paid on April 30, 2004.

Significant Accounting Policies

Investment securities

Starting from January 1, 2004 the Bank started holding securities in held-to-maturity and available for sale portfolios in addition to the trading portfolio held by the Bank at December 31, 2003.

The Bank classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- Securities that are not classified by the Bank as held-to-maturity or trading are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

   Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the statement of income as gains less losses from available-for-sale securities.

Recently issued International Financial Reporting Standards

Revised IAS 32 and 39

In December 2003, the International Accounting Standards Board (IASB) issued revised IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. Both standards are effective for financial years beginning on or after January 1, 2005, with earlier application of both standards together being permitted. Together, the two standards provide comprehensive guidance on recognition, measurement, presentation and disclosure of financial instruments. The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Bank decided to adopt these revised standards as of January 1, 2005. Therefore, comparative prior years 2004, 2003 and 2002 presented in the 2005 financial statements will need to be restated as if the revised standards had always been in effect. The impact, if any, from the newly issued accounting guidance is currently not expected to be material to the Bank.

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Correspondent accounts with other banks	8,743,960	1,617,342
Correspondent account with the NBK	8,684,142	262,132
Cash on hand	2,928,470	2,476,142
Time deposits with the NBK	1,001,410	1,002,167
Short term deposits with other banks	28,514	478,036
Cash and cash equivalents	21,386,496	5,835,819

At June 30, 2004, the top ten placements accounted for 86% of total cash and cash equivalents and represented 132% of the Group's total shareholders' equity (2003: 28% and 20%).

4. Trading Securities

Trading securities consisted of the following:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Notes of the NBK	8,125,028	9,454,076
Treasury bills of the Ministry of Finance	4,384,133	6,559,534
Sovereign bonds of the Republic of Kazakhstan	3,165,156	4,239,264
US Treasury bills	1,576,121	2,581,952
Bonds of local financial institutions	517,344	556,067
Corporate bonds	94,453	83,565
Equity investments	—	415,688
Trading securities	17,862,235	23,890,146
Subject to repurchase agreements	2,125,756	1,241,553

5. Investment Securities

Available-for-sale securities comprise:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
US Treasury bills	6,610,490	—
Treasury bills of Germany	1,547,950	—
Available-for-sale securities	8,158,440	—

Interest rates and maturity of these securities follow:

	June 30, 2004		December 31, 2003	
	%	Maturity	%	Maturity
	(KZT thousands)			
US Treasury bills	4.0% – 5.4%	2014 – 2031	—	—
Treasury bills of Germany	4.3%	2014	—	—

Held-to-maturity securities comprise:

	June 30, 2004		December 31, 2003	
	Carrying value	Nominal value	Carrying value	Nominal value
Notes of the NBK	4,877,508	5,000,000	—	—
Treasury bills of the Ministry of Finance	1,050,258	1,060,735	—	—
Held-to-maturity securities	5,927,766	6,060,735	—	—

Interest rates and maturity of these securities follow:

	June 30, 2004		December 31, 2003	
	%	Maturity	%	Maturity
	(KZT thousands)			
Notes of the NBK	3.7% – 8.6%	2004 – 2005	—	—
Treasury bills of the Ministry of Finance	4.1% – 7.0%	2004 – 2013	—	—

6. Commercial Loans and Advances

Commercial loans and advances consisted of the following:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Commercial loans portfolio	83,665,351	63,481,410
Advances	530,934	403,340
	84,196,285	63,884,750
Allowance for impairment	(4,461,704)	(3,397,203)
Total commercial loans and advances	79,734,581	60,487,547

The Group's gross commercial loan portfolio is concentrated in the following main sectors:

	June 30, 2004	%	December 31, 2003	%
	(KZT thousands)		*(KZT thousands)*	
Wholesale trading	18,804,775	22%	14,416,121	22%
Construction	11,541,364	14%	9,600,197	15%
Individuals	11,163,778	14%	7,034,254	11%
Food industry	7,993,670	10%	5,456,412	9%
Agriculture	6,079,374	7%	6,721,801	11%
Retail trading	5,724,658	7%	6,347,996	10%
Metallurgy	1,649,344	2%	898,297	1%
Hospitality	1,317,594	2%	1,107,370	2%
Oil and Gas	1,204,938	1%	1,134,458	2%
Transport	1,136,060	1%	1,135,134	2%
Mining	732,012	1%	354,624	1%
Communications	546,230	1%	517,762	1%
Chemical	339,989	0%	862,879	1%
Light industry	282,006	0%	186,598	0%
Entertainment	228,415	0%	217,078	0%
Other	14,921,144	18%	7,490,429	12%
	83,665,351		63,481,410	

At June 30, 2004, the largest ten borrowers accounted for 16% of the Group's gross commercial loans and advances (December 31, 2003: 20.3%).

7. Allowance for Impairment and Other Provisions

The movements on the allowance for impairment of loans and other assets, were as follows:

	Other assets	Loans to customers	Total
		(KZT thousands)	
December 31, 2002	(4,838)	(1,595,876)	(1,600,714)
Charge	(49,662)	(682,192)	(731,854)
Write-offs	1,825	322,647	324,472
Recoveries	—	(163,937)	(163,937)
June 30, 2003	(52,675)	(2,119,358)	(2,172,033)
Charge	(28,403)	(1,011,762)	(1,040,165)
Write-offs	85	319,667	319,752
Recoveries	(3,195)	(585,750)	(588,945)
December 31, 2003	(84,188)	(3,397,203)	(3,481,391)
Charge	(53,923)	(1,037,825)	(1,091,748)
Write-offs	11,400	259,773	271,173
Recoveries	(5,361)	(286,449)	(291,810)
June 30, 2004	(132,072)	(4,461,704)	(4,593,776)

The movements on other provisions, were as follows:

	Letters of credit and guarantees
	(KZT thousands)
December 31, 2002	109,037
Charge	70,963
June 30, 2003	180,000
Reversal	(21,036)
December 31, 2003	158,964
Charge	93,654
June 30, 2004	252,618

8. Amounts due to the Government and NBK

Amounts due to the Government of the Republic of Kazakhstan and the NBK consisted of the following:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Kreditanshtalt fur Wideraufbau	779,897	922,694
Local municipal authorities	350,817	342,624
World Bank	115,177	173,407
Time deposit from NBK	—	2,006,500
Amounts due to the Government	1,245,891	3,445,225

9. Amounts due to Credit Institutions

Amounts due to credit institutions consisted of the following:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Loans from foreign banks and financial organisations in USD	27,210,300	22,438,351
Time deposits from local banks	5,563,728	4,490,600
Loans from Kazakh banks secured by repurchase agreements	1,925,003	1,120,071
Overnight loans from banks	1,904,244	958,565
Loans from foreign banks in Euro	4,150,303	2,863,595
Loans from the Small Business Development Fund of Kazakhstan	1,560,199	1,761,001
Current accounts	15,137	5,502
Amounts due to credit institutions	42,328,914	33,637,685

10. Amounts due to Customers

The amounts owed to customers included balances in customer current accounts, term deposits, and certain other liabilities, and were analyzed as follows:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Customer current accounts:		
Individuals	1,542,214	1,396,432
Commercial	23,783,798	15,334,203
Term deposits:		
Individuals	11,094,353	8,524,242
Commercial	29,302,578	19,238,759
Amounts payable under letters of credit	487,232	332,139
Amounts due to customers	66,210,175	44,825,775

At June 30, 2004 and December 31, 2003, the Group's ten largest customers accounted for approximately 42.5% and 47.5% respectively, of the total amounts owed to customers.

An analysis of amounts due to customers by sector follows:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Transport and communication	15,946,796	10,510,754
Trade	13,470,827	3,984,129
Individuals	11,585,397	9,251,041
Oil and Gas	5,672,978	6,718,325
Non-credit financial companies	4,841,630	3,857,590
Services	4,168,978	759,727
Energy	1,946,939	2,575,966
Construction	1,778,900	1,600,587
Manufacturing	899,020	743,176
Metallurgy	809,576	655,753
Research and Development	646,850	527,056
Agriculture	539,954	1,520,779
Government	22,656	768,141
Other	3,879,674	1,352,751
	66,210,175	44,825,775

11. Debt Securities Issued

The debt securities issued comprised:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
USD denominated notes	13,741,736	—
KZT denominated bonds	4,530,457	2,919,723
Own USD denominated notes held by the Group	(1,389,512)	—
Own bonds held by the Group	(67,930)	(71,497)
	16,814,751	2,848,226
Less unamortized cost of issuance	(221,624)	—
Debt securities issued	16,593,127	2,848,226

The interest rates and maturities of these debt securities issued follow:

	Coupon rate	Maturity date	June 30, 2004	December 31, 2003
		(KZT thousands)		
USD denominated notes	8.5%	05/04/2007	12,130,600	—
KZT denominated bonds	8.5%	12/01/2008	4,462,527	2,848,226

12. Subordinated debt

The subordinated debt issued comprised:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
USD denominated subordinated bonds	1,406,631	1,497,743
Own USD subordinated bonds held by the Group	(1,032,187)	—
Subordinated debt	374,444	1,497,743

13. Shareholders' Equity

At June 30, 2004 the authorised share capital comprised 9,690,761 ordinary and 1,900,000 preferred shares and the Bank's issued and paid share capital comprised 9,671,911 common and 1,900,000 preferred shares (December 31, 2003: 4,339,523 and 1,900,000). Each share has a nominal value of KKZT 1. Each ordinary share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 10% per annum and do not have any voting rights. During the six months ended June 30, 2004, the Group 5,332,388 ordinary shares were issued and paid.

In May 2004, and in accordance with a general shareholders' meeting resolution, the Group declared dividends of KKZT 694,324 on ordinary shares. The share capital was increased through the capitalization of dividends declared on ordinary shares of KKZT 588,078 with withholding tax of KKZT 106,246 as dividends paid.

During the six month period ended June 30, 2004, the Bank accrued dividends of KKZT 220,000 on preferred shares (six month period ended June 30, 2003: KKZT 115,285).

14. Commitments and Contingencies

The Group's financial commitments and contingencies comprised the following:

	June 30, 2004	December 31, 2003
	(KZT thousands)	
Undrawn loan commitments	16,063,191	7,543,664
Letters of credit	7,065,958	2,986,545
Guarantees	13,862,770	6,363,603
	36,991,919	16,893,812
Less – Provisions	(252,618)	(158,964)
Less – Cash collateral	(2,201,934)	(683,857)
Financial commitments and contingencies	34,537,367	16,050,991

Other

On May 10, 2004 the Board has approved the issuance of Eurobonds of up to USD 150 million during 2004. The Eurobonds are expected to be issued in the last quarter of 2004.

15. Fees and Commissions

Fees and commissions income for the six month periods ended June 30 comprised the following:

	2004	2003
	(KZT thousands)	
Settlement operations	299,036	206,425
Cash operations	195,478	123,350
Foreign currency trading	154,624	126,065
Guarantees	129,133	116,406
Debit/credit cards	89,126	61,807
Projects management	24,889	7,729
Bank references	10,980	10,848
Cash collection	10,750	6,884
Custodian activity	8,789	11,272
Other	47,073	29,092
Fee and commission income	969,878	699,878

Fee and commission expense for the six month periods ended June 30, comprised the following:

	2004	2003
	(KZT thousands)	
Securities	(74,992)	(13,880)
Debit/credit cards	(54,173)	(35,085)
Fees related to cancelled issue of Eurobonds	(51,405)	—
Settlement operations	(31,101)	(17,786)
Insurance	(21,839)	(22,312)
Guarantees	(1,379)	(5,056)
Foreign currency banknote transactions	(770)	(8,082)
Other	(10,331)	(15,179)
Fee and commission expense	(245,990)	(117,380)

16. Income Taxes

Income Taxes for the six month periods ended June 30, comprised the following:

	2004	2003
	(KZT thousands)	
Current tax	396,595	222,296
Current tax of prior periods	(110,634)	142,411
Deferred tax	44,950	—
	330,911	364,707

17. Earnings per Share

The following reflects the income and share data used in the basic earnings per share computations for the six month periods ended June 30:

	2004	2003
	(KZT thousands)	
Net income	1,163,887	501,986
Less dividends on preferred shares	(220,000)	(115,285)
Net income attributable to common shareholders	943,887	386,701
Weighted average number of common shares for basic earnings per share	5,962,663	3,010,491
Basic earnings per share (Tenge)	158.30	128.45

18. 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 marketmovements in interest rates and foreign exchange rates.

Currency Risk

The Group's monetary assets and liabilities were denominated in various currencies as follows:

	June 30, 2004			
	KZT	Freely convertible currencies	Other currencies	Total
	(KZT thousands)			
Cash and cash equivalents	10,755,748	10,488,525	142,223	21,386,496
Obligatory reserves	2,217,635	—	—	2,217,635
Amounts due from credit institutions	167,926	1,622,230	—	1,790,156
Trading securities	13,026,504	4,835,731	—	17,862,235
Investment securities:				
– available-for-sale	—	8,158,440	—	8,158,440
– held-to-maturity	5,927,766	—	—	5,927,766
Commercial loans and advances	27,528,099	56,668,186	—	84,196,285
Tax assets	214,632	—	—	214,632
Other assets	1,786,517	146,790	—	1,933,307
	61,624,827	81,919,902	142,223	143,686,952
Amounts due to the Government and NBK	354,366	891,525	—	1,245,891
Amounts due to credit institutions	5,657,383	36,671,531	—	42,328,914
Amounts due to customers	36,653,858	29,411,631	144,686	66,210,175
Reserves for claims, net of reinsurance	402,567	—	—	402,567
Debt securities issued	4,462,527	12,130,600	—	16,593,127
Subordinated debt	—	374,444	—	374,444
Provisions	252,618	—	—	252,618
Other liabilities	344,332	1,773	—	346,105
	48,127,651	79,481,504	144,686	127,753,841
Net position	13,477,176	2,438,398	(2,463)	15,933,111

	December 31, 2003			
	KZT	Freely convertible currencies	Other currencies	Total
	(KZT thousands)			
Cash and cash equivalents	2,505,834	3,179,105	150,880	5,835,819
Obligatory reserves	1,775,133	—	—	1,775,133
Trading securities	17,045,965	6,844,181	—	23,890,146
Commercial loans and advances	21,490,000	42,394,750	—	63,884,750
Tax assets	262,267	—	—	262,267
Other assets	848,748	154,546	117	1,003,411
	43,927,947	52,572,582	150,997	96,651,526
Amounts due to the Government and NBK	2,349,123	1,096,102	—	3,445,225
Amounts due to credit institutions	4,500,746	29,136,939	—	33,637,685
Amounts due to customers	25,245,572	19,404,429	175,774	44,825,775
Reserves for claims, net of reinsurance	159,231	—	—	159,231
Debt securities issued	2,848,226	—	—	2,848,226
Subordinated debt	—	1,497,743	—	1,497,743
Provisions	158,964	—	—	158,964
Other liabilities	442,517	92,225	—	534,742
	35,704,379	51,227,438	175,774	87,107,591
Net position	8,223,568	1,345,144	(24,777)	9,543,935

A substantial portion of the Group's net position in freely convertible currencies is held in US Dollars.

Liquidity risk

The contractual maturities of monetary assets and liabilities were as follows:

	June 30, 2004						
	On demand	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
				(KZT thousands)			
Monetary assets							
Cash and cash equivalents	20,354,768	1,021,428	10,300	—	—	—	21,386,496
Obligatory reserves	—	—	—	—	—	2,217,635	2,217,635
Amounts due from credit institutions	—	—	—	1,760,156	30,000	—	1,790,156
Trading securities	17,862,235	—	—	—	—	—	17,862,235
Investment securities:							
– available-for-sale	8,158,440	—	—	—	—	—	8,158,440
– held-to-maturity	—	997,635	496,366	4,067,789	304,052	61,924	5,927,766
Commercial loans and advances	—	7,010,884	5,187,219	30,077,056	37,437,580	4,483,546	84,196,285
Tax assets	—	214,632	—	—	—	—	214,632
Other assets	38,365	1,145,373	8,472	31,113	33,735	676,249	1,933,307
	46,413,808	10,389,952	5,702,357	35,936,114	37,805,367	7,439,354	143,686,952
Monetary liabilities:							
Amounts due to the Government and NBK	—	23,228	—	125,847	316,919	779,897	1,245,891
Amounts due to credit institutions	1,919,381	14,491,225	2,576,800	13,410,788	9,314,600	616,120	42,328,914
Amounts due to customers	25,646,449	15,455,209	3,408,826	9,954,398	11,413,643	331,650	66,210,175
Reserves for claims, net of reinsurance	402,567	—	—	—	—	—	402,567
Debt securities issued	—	—	—	—	16,593,127	—	16,593,127
Subordinated debt	—	—	—	—	374,444	—	374,444
Provisions	252,618	—	—	—	—	—	252,618
Other liabilities	285,961	28,842	1,723	27,530	2,049	—	346,105
	28,506,976	29,998,504	5,987,349	23,518,563	38,014,782	1,727,667	127,753,841
Net position	17,906,832	(19,608,552)	(284,992)	12,417,551	(209,415)	5,711,687	15,933,111
Accumulated gap	17,906,832	(1,701,720)	(1,986,712)	10,430,839	10,221,424	15,933,111	

	December 31, 2003:						
	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
	(KZT thousands)						
Monetary assets:							
Cash and cash equivalents	4,355,616	1,323,802	156,401	—	—	—	5,835,819
Obligatory reserves	—	—	—	—	—	1,775,133	1,775,133
Trading securities	23,890,146	—	—	—	—	—	23,890,146
Commercial loans and advances	—	2,083,382	6,953,567	24,384,909	25,085,456	5,377,436	63,884,750
Tax assets	—	—	176,480	—	85,787	—	262,267
Other assets	116	611,998	96,349	55,073	25,372	214,503	1,003,411
	28,245,878	4,019,182	7,382,797	24,439,982	25,196,615	7,367,072	96,651,526
Monetary liabilities:							
Amounts due to the Government and NBK	—	7,400	2,006,500	36,395	472,236	922,694	3,445,225
Amounts due to credit institutions	964,068	2,628,406	3,993,266	21,356,437	4,423,023	272,485	33,637,685
Amounts due to customers	16,730,635	7,188,692	2,673,013	10,005,363	8,224,184	3,888	44,825,775
Reserves for claims, net of reinsurance	159,231	—	—	—	—	—	159,231
Debt securities issued	—	—	—	—	2,848,226	—	2,848,226
Subordinated debt	—	—	—	14,787	1,482,956	—	1,497,743
Provisions	158,964	—	—	—	—	—	158,964
Other liabilities	85,598	420,488	7,767	20,813	76	—	534,742
	18,098,496	10,244,986	8,680,546	31,433,795	17,450,701	1,199,067	87,107,591
Net position	10,147,382	(6,225,804)	(1,297,749)	(6,993,813)	7,745,914	6,168,005	9,543,935
Accumulated gap	10,147,382	3,921,578	2,623,829	(4,369,984)	3,375,930	9,543,935	

The above tables do not include the effect of allowances for impairment of loans, due from credit institutions and other assets totalling KKZT 4,593,776 and KKZT 3,481,391 as of June 30, 2004 and December 31, 2003 respectively.

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

19. Related Parties

At June 30, 2004, and December 31, 2003, the Group had balances with related parties, which comprised the following:

	June 30, 2004			December 31, 2003		
	Related party balances	Percentage on normal conditions	Total asset or liability category	Related party balances	Percentage on normal conditions	Total asset or liability category
Loans and advances	1,682,606	100%	84,196,285	847,495	100%	63,884,750
Amounts owed to customers	582,493	100%	66,210,175	448,197	100%	44,825,775

	2004			2003		
	Related party transaction	Percentage on normal conditions	Total category	Related party transaction	Percentage on normal conditions	Total category
Interest income – loans	68,154	100%	4,874,264	14,031	100%	2,774,469
Interest expense – deposits	15,937	100%	1,315,825	21,603	100%	1,007,489

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of ATF Bank JSC and Subsidiary –

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

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

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

Ernst & Young Kazakhstan

February 6, 2004

CONSOLIDATED BALANCE SHEETS
(Thousands of Kazakh Tenge)

		December 31,		
	Notes	2003	2002	2001
Assets				
Cash and cash equivalents	4	**5,835,819**	4,477,990	4,581,655
Obligatory reserves	5	**1,775,133**	1,230,037	993,201
Trading securities	6	**23,890,146**	15,300,440	7,716,295
Commercial loans and advances	7, 8	**60,487,547**	34,761,711	24,119,982
Premises and equipment	9	**2,279,689**	1,758,371	991,269
Tax assets	10	**262,267**	2,169	85,420
Other assets		**919,223**	690,714	550,730
Total assets		**95,449,824**	58,221,432	39,038,552
Liabilities				
Amounts due to the Government and NBK	11	**3,445,225**	1,351,420	516,600
Amounts due to credit institutions	12	**33,637,685**	18,080,343	13,216,677
Amounts due to customers	13	**44,825,775**	31,545,022	20,066,744
Reserves for claims, net of reinsurance		**159,231**	57,030	50,577
Debt securities issued	14	**2,848,226**	–	–
Subordinated debt	15	**1,497,743**	1,593,595	711,431
Provisions	8	**158,964**	109,037	42,500
Other liabilities		**534,742**	313,443	183,112
Total liabilities		**87,107,591**	53,049,890	34,787,641
Minority interest		**–**	28,725	–
Shareholders' equity:				
Share capital:				
Common shares	16	**4,339,523**	2,700,000	2,699,100
Preferred shares	16	**1,900,000**	400,000	400,000
Additional paid in capital		**201,900**	193,306	193,332
Treasury stock		**–**	(26)	–
Reserves		**465,325**	465,325	319,607
Retained earnings		**1,435,485**	1,384,212	638,872
Total shareholders' equity		**8,342,233**	5,142,817	4,250,911
Total liabilities, shareholders' equity and minority interest		**95,449,824**	58,221,432	39,038,552
Financial commitments and contingencies	17			

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

Timur Isatayev — Chairman of the Board

Aida Derevyanko — Chief Accountant

February 6, 2004

The accompanying notes on pages F-25 to F-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

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

	Notes	Years ended December 31, 2003	2002	2001
Interest income				
Loans		**6,655,362**	4,404,769	2,195,537
Securities		**1,115,935**	862,297	816,103
Credit institutions		**112,307**	101,245	73,999
		7,883,604	5,368,311	3,085,639
Interest expense				
Deposits		**(2,126,092)**	(1,662,623)	(753,911)
Borrowings		**(957,269)**	(615,962)	(387,488)
Subordinated debt		**(130,020)**	(134,107)	(87,561)
Debt securities issued		**(12,981)**	–	(53,268)
		(3,226,362)	(2,412,692)	(1,282,228)
Net interest income		**4,657,242**	2,955,619	1,803,411
Impairment of interest earning assets	8	**(1,693,954)**	(891,835)	(913,574)
		2,963,288	2,063,784	889,837
Fee and commission income	18	**1,635,435**	1,245,280	965,278
Fee and commission expense		**(219,780)**	(160,876)	(152,273)
Fees and commissions		**1,415,655**	1,084,404	813,005
Gains less losses from trading securities		**307,734**	78,140	473,880
Dealing profits (losses)		**35,160**	(39,226)	115,296
Gains less losses from foreign currencies:				
– dealing		**527,928**	548,471	428,156
– translation differences		**(76,186)**	(134,243)	29,486
Underwriting income		**303,325**	209,213	49,332
Other income		**79,021**	28,789	46,028
Non interest income		**1,176,982**	691,144	1,142,178
Salaries and benefits	19	**(1,685,764)**	(1,269,270)	(998,667)
Administrative and operating expenses	19	**(1,056,381)**	(774,296)	(824,837)
Depreciation and amortization	9	**(251,008)**	(162,494)	(121,770)
Taxes other than income taxes		**(219,568)**	(142,066)	(97,630)
Other impairment and provisions	8	**(127,992)**	(69,859)	(23,797)
Non interest expense		**(3,340,713)**	(2,417,985)	(2,066,701)
Income before income tax expense and minority interest		**2,215,212**	1,421,347	778,319
Income tax expense	10	**(759,199)**	(413,626)	(16)
Income before minority interest		**1,456,013**	1,007,721	778,303
Minority interest in net income		**–**	(2,035)	–
Net income		**1,456,013**	1,005,686	778,303
Earnings per share, KZT	20	**361**	348	399

The accompanying notes on pages F-25 to F-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Thousands of Kazakh Tenge)

	Share capital	Additional paid in capital	Treasury stock	Reserves	Retained earnings	Total
December 31, 2000	1,211,100	–	–	161,283	418,893	1,791,276
Dividends capitalized	400,000	–	–	–	(400,000)	–
Capital contributions	400,000	260	–	–	–	400,260
Shares on acquisition of Kazprombank	1,088,000	193,072	–	–	–	1,281,072
Transfers	–	–	–	158,324	(158,324)	–
Net income	–	–	–	–	778,303	778,303
At December 31, 2001	3,099,100	193,332	–	319,607	638,872	4,250,911
Capital contributions	900	–	–	–	–	900
Dividends – preferred shares	–	–	–	–	(114,628)	(114,628)
Transfers	–	–	–	145,718	(145,718)	–
Purchase of treasury stock	–	(26)	(26)	–	–	(52)
Net income	–	–	–	–	1,005,686	1,005,686
At December 31, 2002	3,100,000	193,306	(26)	465,325	1,384,212	5,142,817
Share conversion – minority interest	**20,180**	**8,545**	**–**	**–**	**–**	**28,725**
Dividends capitalized	**902,782**	**–**	**–**	**–**	**(902,782)**	**–**
Dividends – common shares	**–**	**–**	**–**	**–**	**(261,151)**	**(261,151)**
Sale of treasury stock	**–**	**–**	**26**	**–**	**–**	**26**
Dividends – preferred shares	**–**	**–**	**–**	**–**	**(240,807)**	**(240,807)**
Capital contributions	**2,216,561**	**49**	**–**	**–**	**–**	**2,216,610**
Net income	**–**	**–**	**–**	**–**	**1,456,013**	**1,456,013**
At December 31, 2003	**6,239,523**	**201,900**	**–**	**465,325**	**1,435,485**	**8,342,233**

The accompanying notes on pages F-25 to F-49 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Kazakh Tenge)

	Years ended December 31,		
	2003	**2002**	**2001**
Cash flows from operating activities:			
Net income before minority interest and income taxes	**2,215,212**	1,421,347	778,319
Adjustments for:			
Depreciation and amortization	**251,008**	162,494	121,770
Minority interest	**–**	(2,035)	–
Provision for losses	**1,821,946**	961,695	937,371
Provision for claims	**121,637**	86,368	57,728
Loss on sale of premises and equipment	**15,018**	10,690	11,738
Unrealized foreign exchange (gain) loss	**(383,134)**	292,630	85,850
Unrealized (gain) loss on securities	**(147,068)**	17,852	333,975
Operating income before changes in net operating assets	**3,894,619**	2,951,041	2,326,751
(Increase) decrease in operating assets:			
Obligatory reserves	**(545,096)**	(236,836)	(169,715)
Trading securities	**(8,769,507)**	(7,601,997)	(2,892,511)
Commercial loans and advances	**(29,275,926)**	(10,932,468)	(14,614,125)
Other assets	**(310,554)**	151,809	(125,486)
Increase (decrease) in operating liabilities:			
Amounts due to the Government and NBK	**2,010,056**	805,620	355,512
Amounts due to credit institutions	**14,361,634**	4,323,249	7,950,825
Amounts due to customers	**14,688,716**	10,997,567	8,076,245
Claims paid net of reinsurance	**(124,785)**	(79,914)	(22,535)
Other liabilities	**191,537**	130,330	96,666
Net cash flow from operating activities before income tax	**(3,879,306)**	508,401	981,627
Income tax paid	**(1,019,297)**	(413,626)	(78,156)
Net cash flows from operating activities	**(4,898,603)**	94,775	903,471
Cash flows from investing activities:			
Cash paid on acquisitions, net of cash acquired	**–**	(116,979)	1,319,038
Purchases of premises and equipment	**(800,277)**	(973,319)	(286,851)
Proceeds from sale of premises and equipment	**42,803**	47,849	38,459
Purchases of intangible assets	**(25,890)**	(80,977)	(36,280)
Net cash flows from investing activities	**(783,364)**	(1,123,426)	1,034,366
Cash flows from financing activities:			
Subordinated debt received	**–**	1,551,328	–
Borrowings received from credit institutions	**5,117,682**	376,074	1,039,619
Borrowings repaid to credit institutions	**(2,543,079)**	(292,241)	(111,375)
Subordinated debt repaid	**(95,852)**	(711,431)	(145,400)
Debt securities issued (repaid)	**2,848,226**	–	(677,628)
Capital contribution	**2,216,610**	900	400,260
Sale (purchase) of treasury stock	**26**	(52)	–
Dividends paid	**(366,846)**	(114,628)	–
Net cash flows from financing activities	**7,176,767**	809,950	505,476
Effects of exchange rates changes on cash and equivalents	**(136,971)**	115,036	29,524
Net change in cash and cash equivalents	**1,357,829**	(103,665)	2,472,837
Cash and cash equivalents at the beginning of year	**4,477,990**	4,581,655	2,108,818
Cash and cash equivalents at the end of year (Note 4)	**5,835,819**	4,477,990	4,581,655
Supplemental information:			
Interest received	**7,073,820**	4,872,840	2,797,920
Interest paid	**3,169,065**	2,055,460	1,172,858

The accompanying notes on pages F-25 to F-49 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Kazakh Tenge)

1. Principal Activities

ATF Bank and subsidiary (“the Group”) provide retail and corporate banking services in Kazakhstan. The parent company of the Group, ATF Bank (the “Bank”), is registered as an open joint stock company and incorporated and domiciled in the Republic of Kazakhstan.

The Bank accepts deposits from the public, extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank is among the four largest banks in Kazakhstan in terms of total assets. At December 31, 2003 and 2001, the Bank had an insurance subsidiary (December 31, 2001: a banking and an insurance subsidiaries) (Note 2). The Bank’s registered legal address is 100 Furmanov Avenue, Almaty, Republic of Kazakhstan.

The Bank has a primary listing on the Kazakhstani Stock Exchange. At December 31, 2003, 2002 and 2001, the Group had fourteen, ten and ten branches located throughout Kazakhstan, respectively. At December 31, 2003, 2002 and 2001 the Group had 1,593, 1,131 and 886 employees, respectively.

2. Basis of Preparation

General

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

During 2002 and 2001 the Group was required to maintain its records and prepare its financial statements for regulatory purposes in KZT in accordance with Kazakh accounting and banking legislation and related instructions (“KAL”). The consolidated financial statements for 2002 and 2001 were based on the Group’s statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 and 2001 between KAL and IFRS is presented later in this note. Starting January 1, 2003, the Group maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. Significant estimates related to the allowance for losses, deferred taxes and insurance reserves. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

The KZT is not a fully convertible currency outside the Republic of Kazakhstan. Transactions denominated in foreign currencies are recorded using the market exchange rates quoted by the Kazakhstani Stock exchange (KASE). The market exchange rates at December 31, 2003, 2002 and 2001 were KZT 144.22 = US Dollar 1, KZT 155.6 = US Dollar 1 and KZT 150.94 = US Dollar 1 respectively. At February 6, 2004, the market exchange rate was KZT 139.41 = US Dollar 1.

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

2003

Subsidiary	Holding %	Country	Date of incorporation	Industry	Date of acquisition
ATF Policy	100%	Kazakhstan	December 1999	Insurance	December 1999

2002

Subsidiary	Holding %	Country	Date of incorporation	Industry	Date of acquisition
Apogee Bank	94.68%	Kazakhstan	February 1993	Banking	February 2002
ATF Policy	100%	Kazakhstan	December 1999	Insurance	December 1999

2001

Subsidiary	Holding %	Country	Date of incorporation	Industry	Date of acquisition
ATF Policy	100%	Kazakhstan	December 1999	Insurance	December 1999

In April 2001, the shareholders of the Bank acquired 100% of shares of Kazprombank for USD 8,500,000, which approximated the fair value of the net assets of Kazprombank at the date of acquisition. Subsequently, in August 2001 the shareholders merged these two banks together, which were under common control at the date of the merger, by exchanging 100% of the issued share capital of Kazprombank for additional share issue of the Bank amounting to KZT 1,088,000 (1,088,000 shares with nominal value at KZT 1 each). At the date of merger net assets of Kazprombank were as follows:

Net assets acquired	2001
Due from financial institutions	1,319,038
Loans to customers	1,471,500
Tangible assets, net	4,909
Accrued income	9,413
Other assets	1,198
Due to credit institutions	(1,471,500)
Due to customers	(20,557)
Accrued interest payable	(32,268)
Other creditors	(661)
	1,281,072
Share issue	1,088,000
Difference accounted as additional paid-in capital of the Bank	193,072

In February 2002 the Group acquired 34,188 shares (89.68% of issued and paid shares) of Apogee Bank for KZT 504,011. Accordingly, the results of operations of this subsidiary are included in these financial statements of the Group in 2002 starting from the date of acquisition.

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

At the date of acquisition (February 1, 2002), the net assets of Apogee Bank comprised:

Net assets acquired	**2001**
Cash and cash equivalents	387,032
Due from financial institutions	18,649
Loans to customers	585,309
Premises and equipment	110,805
Other assets	100,550
Due to customers	(686,148)
Other creditors	(5,945)
Net assets	510,252
Less minority interest	(52,658)
Net assets less minority interest	457,594
Purchase consideration paid in cash	504,011
Goodwill	46,417

The consideration was paid and control was obtained at February 1, 2002.

During 2003, the Group cancelled the registration of Apogee Bank and merged its operations with the operations of the Bank. The minority shareholders of Apogee Bank converted their ordinary shares to shares of ATF Bank in the ratio of 10 shares of ATF Bank for 1 share of Apogee Bank. The acquisition was accounted for using the acquisition method of accounting based on the fair value of shares issued.

Reconciliation of KAL and IFRS Equity and Net Income

Shareholders' equity and net income are reconciled between KAL and IFRS for 2002 and 2001 as follows (the 2003 books and records are prepared in accordance with IFRS):

	2002		**2001**	
	Shareholders' equity	**Net income**	**Shareholders' equity**	**Net income**
Kazakh Accounting Legislation	5,534,789	1,122,181	4,457,394	788,774
Provisions for losses	(572,723)	(229,189)	(343,534)	(166,806)
Fair value re-measurement of securities	228,751	(105,224)	333,975	333,975
Dividends on preferred stocks	(48,000)	–	(129,563)	(129,563)
Fair value re-measurement of loans to customers	–	129,563	–	–
Unearned premium reserve	–	88,355	(67,361)	(48,439)
Other	–	–	–	729
International Financial Reporting Standards	5,142,817	1,005,686	4,250,911	778,303

3. Summary of Significant Accounting Policies

Principles of consolidation

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

3. Summary of Significant Accounting Policies (continued)

Recognition of Financial Instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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

Cash and Cash Equivalents

Cash and cash equivalents are recognized and measured at the fair value of consideration received. Cash and cash equivalents consist of cash on hand, amounts due from NBK – excluding obligatory reserves, and due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Trading Securities

Securities purchased principally for the purpose of generating a profit from short-term fluctuations in price or dealers' margin are classified as trading securities. Trading securities are initially recognized under the policy for financial instruments and are subsequently measured at fair value, based on market values as of the balance sheet date. Realized and unrealized gains and losses resulting from operations with trading securities are recognized in the statement of income as gains less losses from trading securities. Interest earned on trading securities is reported as interest income.

In determining estimated fair value, securities are valued at the last trade price if quoted on an exchange, or the last bid price if traded over-the-counter. When market prices are not available or if liquidating the Group's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management's estimates of the amounts that can be realized.

Amounts Due from Credit Institutions

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

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business. These agreements are accounted for as financing transactions.

Securities sold under repurchase agreements are accounted for as trading securities and funds received under these agreements are included in amounts due to credit institutions or amounts due to customers. Securities purchased under agreements to resell ('reverse repos') are recorded as amounts due from credit institutions or as loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in gains less losses from trading securities. The obligation to return them is recorded at fair value as a trading liability.

Any related income or expense arising from the pricing spreads of the underlying securities is recognized as interest income or expense, accrued using the effective interest method, during the period that the related transactions are open.

3. Summary of Significant Accounting Policies (continued)

Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value in income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except were the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The Republic of Kazakhstan also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component in the statement of income.

Allowances for Impairment of Financial Assets

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

3. Summary of Significant Accounting Policies (continued)

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying consolidated financial statements have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Premises and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings and constructions	25
Furniture, fixtures and equipment	8
Computers	5
Leasehold improvements	5
Vehicles	7

Leasehold improvements are amortized over the life of the related leased asset. The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down. An impairment is recognized in the respective period and is included in administrative and operating expenses.

Costs related to repairs and renewals are charged when incurred and included in administrative and operating expenses, unless they qualify for capitalization.

Amounts Due to NBK, Credit Institutions and to Customers

Amounts due to NBK, credit institutions and to customers are initially recorded in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method. If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

Debt Securities Issued

Debt securities issued represent bonds issued by the Group to its customers. They are accounted for according to the same principles used for amounts due to credit institutions and to customers.

Provisions

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

Retirement and Other Benefit Obligations

The Group does not have any pension arrangements separate from the State pension system of 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.

3. Summary of Significant Accounting Policies (continued)

Reinsurance

In the ordinary course of business, the Group cedes reinsurance. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from legal risks and provide additional capacity for growth.

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Reinsurance assets are recorded gross unless a right of offset exists and are included in the accompanying consolidated balance sheets within other assets.

Reinsurance contracts are assessed to ensure that underwriting risk, defined as the reasonable possibility of significant loss, and timing risk, defined as the reasonable possibility of a significant variation in the timing of cash flows, are transferred by the Group to the reinsurer.

Share Capital

Share capital, additional paid-in capital and treasury stock are recognized at the fair value of consideration received or paid. Purchases of treasury stock are recorded at nominal value with any premium or discount recorded in additional paid in capital. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Dividends on ordinary shares are recognized as a reduction in shareholders' equity 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.

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The recognition of contractual interest income is suspended when loans become overdue by more than ninety days. Commissions and other income are recognised when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at market exchange rates at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statement of income as gains less losses from foreign currencies (translation differences).

Underwriting Income

Underwriting income includes net written insurance premiums and commissions earned on ceded reinsurance reduced by the net change in the unearned premium reserve, the provision of insurance losses and loss adjustment expenses, and policy acquisition costs.

Net written insurance premiums represent gross written premiums less premiums ceded to reinsurers.

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Upon inception of a contract, premiums are recorded as written and are earned on a prorata basis over the term of the related policy coverage. The unearned premium reserve represents the portion of the premiums written relating to the unexpired terms of coverage and is included within other liabilities in the accompanying consolidated balance sheets.

Losses and loss adjustments are charged to income as incurred through the reassessment of the reserve for claims and loss adjustment expenses.

Commissions earned on ceded reinsurance contracts are recorded as income at the date the reinsurance contract is written and deemed enforceable.

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	2003	**2002**	**2001**
Cash on hand	**2,476,142**	1,373,004	1,247,924
Correspondent accounts with other banks	**1,617,342**	2,693,981	1,801,203
Time deposits with the NBK	**1,002,167**	–	–
Short term deposits with other banks	**478,036**	79,969	135,895
Correspondent account with the NBK	**262,132**	170,963	684,606
Overnight deposits with other banks	**–**	155,850	300,400
Short term loans to other banks	**–**	4,223	411,627
Cash and cash equivalents	**5,835,819**	4,477,990	4,581,655

Interest rates and maturity of the term deposits follow:

	2003		**2002**		**2001**	
	%	**Maturity**	**%**	**Maturity**	**%**	**Maturity**
Time deposits with the NBK	**4%**	**2004**	–	–	–	–
Short term deposits with other banks	**8-15.1%**	**2004**	10%	2003	9%	2002
Overnight deposits with other banks	**–**	**–**	4%	2003	4.5%	2002
Short term loans to other banks	**–**	**–**	4%	2003	4-12%	2002

At December 31, 2003, ten banks accounted for 28% of total cash and cash equivalents and represented 20% of the Group's total shareholders' equity (2002: 44% and 39%; 2001: 54% and 59%).

5. Obligatory Reserves

Obligatory reserves consisted of the following at December 31:

	2003	**2002**	**2001**
Correspondent account with the NBK allocated to obligatory reserves	**1,775,133**	1,221,167	993,201
Reserve account with the NBK	**–**	8,870	–
Obligatory reserves	**1,775,133**	1,230,037	993,201

Under Kazakh legislation, the Group is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Group. Such reserves must be held in either non-interest bearing deposits with NBK or in physical cash and maintained based on average monthly balances of the aggregate of deposits with NBK and physical cash. The use of such funds is, therefore, subject to certain restrictions.

(Thousands of Kazakh Tenge)

6. Trading Securities

Trading securities consisted of the following at December 31:

	2003	2002	2001
Notes of the NBK	**9,454,076**	3,562,487	–
Treasury bills of the Ministry of Finance	**6,559,534**	4,534,073	4,264,635
Sovereign bonds of the Republic of Kazakhstan	**4,239,264**	5,166,482	2,939,513
US Treasury bills	**2,581,952**	665,300	–
Bonds of local financial organizations	**556,067**	540,142	–
Equity investments	**415,688**	697,938	83,624
Corporate bonds	**83,565**	134,018	428,523
Trading securities	**23,890,146**	15,300,440	7,716,295
Subject to repurchase agreements	**1,241,553**	2,731,743	3,459,029

Interest rates and maturity of trading securities follow:

	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Notes of the NBK	**4.91%-5.48%**	**2004**	5.35%-5.89%	2003	–	–
Treasury bills of the Ministry of Finance	**3.85%-16.85%**	**2004-2013**	7.85%-17.5%	2003-2008	7.85%-17.5%	2002-2007
Sovereign bonds of the Republic of Kazakhstan	**11.13%-13.63%**	**2004-2007**	11.13%	2007	8.375%-13.625%	2002-2007
US Treasury bills	**4.25%-5.38%**	**2013-2031**	4.38%-5.38%	2012	–	–
Bonds of local financial organizations	**6.29%-9.00%**	**2007-2009**	8.50%	2007	–	–
Corporate bonds	**8.00%-13.00%**	**2005-2010**	8.00%	2006	8.00%-11%	2002-2005

7. Commercial Loans and Advances

Commercial loans and advances consisted of the following at December 31:

	2003	2002	2001
Commercial loans	**63,481,410**	36,248,642	25,188,056
Advances	**403,340**	108,945	47,926
	63,884,750	36,357,587	25,235,982
Less – Allowance for impairment	**(3,397,203)**	(1,595,876)	(1,116,000)
Commercial loans and advances	**60,487,547**	34,761,711	24,119,982

(Thousands of Kazakh Tenge)

7. Commercial Loans and Advances (continued)

The Group's gross commercial loan portfolio is concentrated in the following main sectors at December 31:

	2003	**%**	**2002**	**%**	**2001**	**%**
Wholesale trading	**14,416,121**	**23%**	9,221,102	25%	6,603,132	26%
Construction	**9,600,197**	**15%**	5,410,785	15%	686,513	3%
Food industry	**5,456,412**	**9%**	3,543,242	10%	2,790,812	11%
Individuals	**7,034,254**	**11%**	2,284,805	6%	487,383	2%
Agriculture	**6,721,801**	**11%**	3,835,295	11%	5,974,120	24%
Retail trading	**6,347,996**	**10%**	3,023,825	8%	851,533	3%
Transport	**1,135,134**	**2%**	595,208	2%	311,505	1%
Oil and Gas	**1,134,458**	**2%**	702,383	2%	665,294	3%
Hospitality	**1,107,370**	**2%**	323,672	1%	26,263	1%
Chemical	**862,879**	**1%**	108,578	0%	10,195	1%
Metallurgy	**898,297**	**1%**	940,997	3%	2,734,404	11%
Communications	**517,762**	**1%**	545,475	2%	798,879	3%
Mining	**354,624**	**1%**	895,166	2%	714,743	3%
Entertainment	**217,078**	**0%**	230,414	1%	143,122	1%
Light industry	**186,598**	**0%**	1,617,736	4%	5,364	0%
Other	**7,490,429**	**12%**	2,969,959	8%	2,384,794	9%
	63,481,410		36,248,642		25,188,056	

At December 31, 2003, the largest ten borrowers accounted for 20.3% of the Group's gross commercial loans and advances (2002: 29%; 2001: 32%). Loans are placed on non-accrual status as to contractual interest when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least thirty days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of timely repayment.

At December 31, 2003, 2002 and 2001 loans for which the accrual of contractual interest has been suspended approximated KZT 171,349, KZT 1,615 and KZT 1,502 respectively.

8. Allowance for Losses and Provisions

The movements in the allowance for loan losses, were as follows:

	Loans to customers
December 31, 2000	409,000
Charge	913,574
Write-offs	(206,574)
December 31, 2001	1,116,000
Charge	891,835
Write-offs	(772,947)
Recoveries	360,988
December 31, 2002	**1,595,876**
Charge	**1,693,954**
Write-offs	**(642,314)**
Recoveries	**749,687**
December 31, 2003	**3,397,203**

(Thousands of Kazakh Tenge)

8. Allowance for Losses and Provisions (continued)

The movements in allowances for other losses and provisions, were as follows:

	Other assets	Letters of credit and guarantees	Total
December 31, 2000	486	33,173	33,659
Charge	14,470	9,327	23,797
Write-offs	(11,141)	–	(11,141)
December 31, 2001	3,815	42,500	46,315
Charge	3,322	66,537	69,859
Write-offs	(2,299)	–	(2,299)
December 31, 2002	**4,838**	**109,037**	**113,875**
Charge	**78,065**	**49,927**	**127,992**
Write-offs	**(1,910)**	**–**	**(1,910)**
Recoveries	**3,195**	**–**	**3,195**
December 31, 2003	**84,188**	**158,964**	**243,152**

9. Premises and Equipment

The movements on the Group's premises and equipment during the year were as follows:

	Land and Buildings	Vehicles	Computers	Other assets	Total 2003	Total 2002	Total 2001
Cost							
At beginning of the year	**1,176,654**	**237,280**	**195,725**	**541,064**	**2,150,723**	1,251,840	1,023,716
Additions	**199,416**	**77,112**	**120,336**	**403,412**	**800,276**	973,319	292,223
Disposals	**(42,676)**	**(8,152)**	**(17,487)**	**(23,954)**	**(92,269)**	(74,436)	(64,099)
At December 31	**1,333,394**	**306,240**	**298,574**	**920,522**	**2,858,730**	2,150,723	1,251,840
Depreciation:							
At beginning of the year	**(69,619)**	**(51,649)**	**(103,689)**	**(167,395)**	**(392,352)**	(260,571)	(166,972)
Charge	**(38,023)**	**(32,167)**	**(58,148)**	**(92,800)**	**(221,138)**	(147,678)	(108,199)
Disposals	**2,987**	**4,525**	**13,450**	**13,487**	**34,449**	15,897	14,600
At December 31	**(104,655)**	**(79,291)**	**(148,387)**	**(246,708)**	**(579,041)**	(392,352)	(260,571)
At December 31, 2003	**1,228,739**	**226,949**	**150,187**	**673,814**	**2,279,689**		
At December 31, 2002	1,107,035	185,631	92,036	373,669		1,758,371	
At December 31, 2001	478,342	109,678	68,045	335,204			991,269

Depreciation and amortization in the consolidated statements of income accounts also include amortization of intangible assets of KZT 29,870, KZT 14,816 and KZT 13,571 for 2003, 2002 and 2001, respectively.

10. Income Taxes

The Republic of Kazakhstan was the only tax jurisdiction in which the Group's income is taxable. The components of income tax expense were as follows for the years ended December 31:

	2003	2002	2001
Current tax charge	**702,575**	413,626	16
Current tax of prior periods	**142,411**	–	–
Deferred tax benefit	**(85,787)**	–	–
Income tax expense	**759,199**	413,626	16

(Thousands of Kazakh Tenge)

10. Income Taxes (continued)

A reconciliation between the provision for income taxes in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the years ended December 31 is as follows:

	2003	2002	2001
IFRS income before tax	**2,215,212**	1,421,347	778,319
Statutory income tax	**30%**	30%	30%
Income tax computed at the statutory tax rate	**664,563**	426,404	233,495
Non deductible expenses:			
Interest on deposits	**240,000**	196,420	–
Non deductible business expenses	**62,331**	3,993	89,999
Reassessment of the estimate of tax of prior periods	**142,411**	–	3,867
Other, net	**4,866**	(694)	96,846
Loan loss general provisions	**46,749**	68,756	(74,560)
Tax exempt income:			
Government securities	**(355,078)**	(247,846)	(349,647)
Income on long-term loans granted for modernization of property and equipment	**(62,505)**	(41,576)	–
Income of subsidiaries	**15,861**	8,169	16
Income tax expense	**759,199**	413,626	16

Tax assets comprised the following at December 31:

	2003	2002	2001
Current tax assets	**176,480**	2,169	85,420
Deferred tax assets	**85,787**	–	–
Tax assets	**262,267**	2,169	85,420

Deferred tax assets and liabilities as of December 31 comprise:

	2003	2002	2001
Tax effect of deductible temporary differences:			
Allowances for impairment and provisions for other losses	**85,787**	–	–
Deferred tax assets	**85,787**	–	–

Current tax of prior periods comprises reassessment of the estimate of tax of prior periods.

Kazakhstan currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, income tax, a number of turnover-based taxes, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

(Thousands of Kazakh Tenge)

11. Amounts due to the Government and NBK

At December 31, amounts due to the Government of the Republic of Kazakhstan and NBK consisted of the following:

	2003	2002	2001
Time deposit from NBK	**2,006,500**	–	–
Kreditanshtalt fur Wideraufbau	**922,694**	965,846	370,658
Local municipal authorities	**342,624**	173,292	98,780
World Bank	**173,407**	212,282	47,162
Amounts due to the Government	**3,445,225**	1,351,420	516,600

At December 31, 2003, the Group had a KZT denominated time deposit from the NBK bearing interest at 6.5% per annum and maturing on February 9, 2004.

At December 31, 2003, 2002 and 2001 amounts due to the Government include a loan obtained under a program for co-financing development of small businesses within a framework agreement with Kreditanshtalt fur Wideraufbau (Germany). The balance outstanding at December 31, 2003, amounted to 5,119,534 Euro (2002: 5,936,000 Euro; 2001: 2,746,500 Euro) and matures in December 2009. The interest rate on this indebtedness is 5% per annum, payable semi-annually.

The Group participates in the small and medium size business development program conducted and funded by local authorities of the Atyrau, Almaty and Karaganda regions. The loans mature between 2004 and 2007 and bear interest at rates up to 7% per annum.

At December 31, 2003, 2002 and 2001, the Group had a loan from the World Bank through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. The loan matures in December 2007 and bears interest at 1.63% per annum.

12. Amounts due to Credit Institutions

Amounts due to credit institutions consisted of the following at December 31:

	2003	2002	2001
Loans from foreign banks in USD	**22,438,351**	10,066,660	4,744,266
Time deposits from local banks	**4,490,600**	4,435,943	3,744,529
Loans from foreign banks in Euro	**2,863,595**	883,462	–
Loans from the Small Business Development Fund of Kazakhstan	**1,761,001**	858,065	933,679
Repurchase agreements	**1,120,071**	1,107,002	3,459,029
Overnight deposits	**958,565**	350,000	–
Current accounts	**5,502**	379,211	335,174
Amounts due to credit institutions	**33,637,685**	18,080,343	13,216,677

At December 31, 2003 loans from foreign banks in USD bear interest at rates ranging from 1.68% to 4.89% per annum (2002: 1.8% – 3.5%; 2001: 3.8% – 6.04%), and mature in 2004. Certain of these loans are secured by a pledge over certain of the Group's trading securities whose fair value at December 31, 2003 was KZT 4,189,325 (2002: KZT 1,624,741; 2001: KZT 1,403,335).

At December 31, 2003, interest-bearing deposits from local banks include US Dollar denominated deposits of KZT 1,655,756 (2002: KZT 3,527,568; 2001: KZT 3,565,000), that mature in 2004 (2002: 2003; 2001: January 2002), and bear interest at rates ranging from 3.25% to 9.125% per annum (2002: from 2.5% to 9%; 2001: from 4% to 10%) and a KZT denominated deposit of KZT 2,834 (2002: KZT 850,000; 2001: KZT 169,056) that matures in May 2004 (2002: January 2003; 2001: January 2002) and bears interest at 8% per annum (2002: from 9% to 12.5%; 2001: 10%).

At December 31, 2003, the Group had unsecured loans from foreign banks totaling Euro 15,890,000 (2002: Euro 4,163,000) that bear interest at rates ranging from 2.85% to 6% and mature in 2004 (2002: 2003).

(Thousands of Kazakh Tenge)

12. Amounts due to Credit Institutions (continued)

At December 31, 2003, the Group had liabilities relating to repurchase agreements with local banks in connection with the repurchase of Treasury bills with fair value at December 31, 2003 of KZT 1,120,071 (2002: KZT 1,107,002; 2001: KZT 2,466,566) bearing interest at rates ranging from 0.5% to 3% per annum and maturing on January 5, 2004 (2002: January 6, 2003; 2001: January 6, 2002). These deals were closed on the agreed dates.

In accordance with the contractual terms of the loans from foreign banks, the Group is required to maintain certain financial ratios, particularly with regard to its liquidity, capital adequacy, and lending exposures. In addition, and in accordance with the terms of certain of those loans, the Group is required to obtain the approval of the lender before distributing any dividends to the common shareholders other than share dividends.

Loans from the Small Business Development Fund of Kazakhstan comprise USD denominated funds provided by the Fund as follows:

Amount				Date of	
2003	**2002**	**2001**	**Rate**	**Issue**	**Maturity**
439,723	–	–	5.20%	26/06/2003	26/12/2006
433,833	–	–	6.10%	15/12/2003	13/06/2007
221,796	239,682	231,597	8.05%	23/08/2001	10/02/2005
191,788	206,954	197,639	7.31%	24/10/2001	24/04/2005
140,342	–	–	7.75%	23/01/2003	23/07/2006
119,066	128,668	123,935	10.19%	13/10/2000	06/03/2004
110,796	119,730	29,405	7.75%	30/05/2002	28/11/2005
103,657	112,016	107,905	8.53%	30/05/2003	28/11/2004
–	39,856	75,254	7.30%	19/12/2001	01/10/2003
–	11,159	21,457	7.30%	19/10/2001	01/10/2003
–	–	146,487	8.63%	21/10/1999	29/04/2002
1,761,001	858,065	933,679			

The loans from the Small Business Development Fund represent pass through loans provided to the Government of Kazakhstan by EBRD for use by authorized banks in extending loans to small and medium size enterprises. Interest on the loans is payable semi-annually.

13. Amounts due to Customers

The amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and were analyzed as follows at December 31:

	2003	**2002**	**2001**
Customer current accounts:			
Individuals	**1,396,432**	862,340	377,175
Commercial	**15,334,203**	11,171,996	9,653,572
Term deposits:			
Individuals	**8,524,242**	6,856,153	4,260,460
Commercial	**19,238,759**	12,541,169	5,404,243
Held as security against letters of credit	**332,139**	113,364	371,294
Amounts due to customers	**44,825,775**	31,545,022	20,066,744

At December 31 2003, 2002 and 2001, the Group's ten largest customers accounted for approximately 47.5%, 47% and 11% respectively, of the total amounts due to customers.

(Thousands of Kazakh Tenge)

13. Amounts due to Customers (continued)

An analysis of amounts due to customers by sector follows:

	2003	2002	2001
Transport and communication	**10,510,754**	9,894,370	3,217,639
Individuals	**9,251,041**	7,504,292	4,124,275
Oil and Gas	**6,718,325**	508,586	89,761
Trade	**3,984,129**	2,731,033	2,765,334
Non-credit financial companies	**3,857,590**	1,987,652	2,592,353
Energy	**2,575,966**	2,683,550	617,527
Construction	**1,600,587**	1,221,674	742,423
Agriculture	**1,520,779**	906,820	603,124
Government	**768,141**	374,203	15,909
Services provided to enterprises	**759,727**	306,246	420,723
Manufacturing	**743,176**	515,364	336,380
Metallurgy	**655,753**	991,136	2,267,823
Research and Development	**527,056**	379,381	483,061
Other	**1,352,751**	1,540,715	1,790,412
	44,825,775	31,545,022	20,066,744

14. Debt Securities Issued

In November 2003, the Group issued interest bearing bonds having an aggregate nominal value of KZT 2,848,226 maturing in November 2008 and bearing annual interest at 8.5%.

15. Subordinated Debt

On 1 October 1999, the Group signed an agreement with a foreign company under which it received a subordinated loan. According to the terms of this agreement, the Group received a loan amounting to US Dollar 5,000,000 at 14% per annum maturing on 1 October 2004. Interest is payable annually. The loan ranks behind the claims against the Group depositors and other unsecured, un-subordinated creditors. On May 2002 and April 2001 the Group repaid US Dollar 4,000,000 and 1,000,000 of the loan, respectively, and related accrued interest.

At December 31, 2003 and 2002, subordinated debt comprised US Dollar denominated bonds amounting to US Dollar 10,000,000 (KZT 1,442,220) issued by the Group in 2002. The bonds bear interest at 9% per annum and were sold at a 2% discount. The bonds mature in 2007. The bonds rank behind the claims against the Group depositors and other creditors.

16. Shareholders' Equity

At December 31, 2003, the Bank's authorized share capital comprised 9,690,761 common and 1,900,000 preferred shares and the Bank's issued and paid share capital comprised 4,339,523 common and 1,900,000 preferred shares (2002: 2,700,000 and 400,000; 2001: 2,699,100 and 400,000) each having a nominal value of KZT 1. Each common share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 12% (400,000 shares) and 9% (1,500,000 shares) per annum and do not have any voting rights.

In 2003, and in accordance with a general shareholders' meeting resolutions, the Group declared dividends of KZT 159,644 on preferred shares and KZT 1,163,933 on common shares. The share capital was increased by KZT 902,782 through the capitalization of dividends on common shares. Withholding tax of KZT 159,314 relating to the capitalized dividends was paid on behalf of the shareholders and disclosed as dividends paid.

During 2003, the share capital was increased by KZT 28,725 via conversion of the minority shareholders' shares in the former banking subsidiary Apogee Bank to common shares of the Bank.

During 2002, certain shareholders contributed additional capital to settle the unpaid portion of the Group's share capital relating to their shares.

During 2002, the Group's shareholders increased the reserve fund from appropriations of retained earnings.

(Thousands of Kazakh Tenge)

17. Commitments and Contingencies

Operating Environment

The Kazakhstani economy, while deemed to be of market status beginning in 2002, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

Legal

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

Financial commitments and contingencies

At December 31, the Group's financial commitments and contingencies comprised the following:

	2003	2002	2001
Undrawn loan commitments	**7,543,664**	343,841	–
Letters of credit	**2,986,545**	4,455,152	767,306
Guarantees	**6,363,603**	3,682,214	2,726,999
	16,893,812	8,481,207	3,494,305
Less – Provisions	**(158,964)**	(109,037)	(42,500)
Less cash collateral	**(332,139)**	(113,364)	(371,294)
Financial commitments and contingencies	**16,402,709**	8,258,806	3,080,511

Financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as involved in extend facilities to other customers.

The Group applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under a guarantee. Commercial letters of credit represent a financing transaction by the Group to its customer where the customer is usually the buyer/ importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

The Group requires collateral to support credit-related financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in bank, government securities, and other.

At December 31, 2003, the top ten guarantees accounted for 67% (2002: 82%; 2001: 55%) of total financial guarantees and represented 51% (2002: 58%; 2001: 48%) of the Group's total shareholders' equity.

At December 31, 2003, the top ten letters of credit accounted for 84% (2002: 92.8%; 2001: 54%) of total commercial letters of credit and represented 30% (2002: 80%; 2001: 10%) of the Group's total shareholders' equity.

Insurance

The Group has not currently obtained insurance coverage related to property, except for vehicles as motor insurance is obligatory in accordance with the legislation of the Republic of Kazakhstan, and insurance for transportation of cash funds and other valuables. Also, the Group has no insurance against liabilities arising from errors or omissions. Errors or omissions insurance is generally not available in Kazakhstan at present.

(Thousands of Kazakh Tenge)

18. Fee and Commission Income

Fee and commission income for the years ended December 31 was made from the following sources:

	2003	2002	2001
Settlement operations	**359,711**	290,309	194,961
Foreign currency trading	**262,339**	226,578	237,781
Guarantees issued	**248,500**	128,427	114,183
Petty cash operations	**311,468**	252,849	200,761
Debit/credit cards	**149,636**	92,790	54,749
Letters of credit provided	**151,107**	129,560	64,292
Custodian activity	**23,446**	19,422	20,581
Other	**129,228**	105,345	77,970
Fee and commission income	**1,635,435**	1,245,280	965,278

19. Salaries and Administrative and Operating Expenses

Salaries and administrative and operating expenses comprise:

	2003	2002	2001
Salaries and bonuses	**(1,392,073)**	(1,070,741)	(698,914)
Social costs	**(266,238)**	(182,101)	(172,024)
Other payments	**(27,453)**	(16,428)	(127,729)
Salaries and benefits	**(1,685,764)**	(1,269,270)	(998,667)
Advertising	**(166,300)**	(105,111)	(87,843)
Communications	**(176,004)**	(136,092)	(83,870)
Stationery, publications and training	**(73,984)**	(69,087)	(81,457)
Business trip expenses	**(96,400)**	(68,002)	(45,881)
Leasing expenses	**(78,728)**	(38,032)	(22,138)
Insurance expenses	**(57,326)**	(33,826)	(16,688)
Maintenance and repairs	**(66,820)**	(60,361)	(45,459)
Transport expenses	**(40,741)**	(28,619)	(21,110)
Security systems and guards	**(27,749)**	(16,387)	(13,168)
Entertainment	**(27,317)**	(23,827)	(27,398)
Charity	**(26,066)**	(14,741)	(40,443)
Customs charges – foreign currency banknote transactions	**(17,132)**	(99,865)	(191,067)
Other	**(201,814)**	(80,346)	(148,315)
Administrative and operating expenses	**(1,056,381)**	(774,296)	(824,837)

The Group does not have pension arrangements separate from the State pension system of the Republic of Kazakhstan. This system requires current contributions by the employer calculated as a percentage of current gross salary payments and a contribution withheld from employees; such expense is charged to the consolidated statement of income in the period the related compensation is earned by the employee.

(Thousands of Kazakh Tenge)

20. Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Group does not have any options or convertible debt or equity instruments.

The following reflects the income and share data used in the basic earnings per share computations:

	2003	**2002**	**2001**
Net income	**1,456,013**	1,005,686	778,303
Less dividends on preferred shares	**(240,807)**	(66,628)	(48,000)
Net income attributable to common shareholders	**1,215,206**	939,058	730,303
Weighted average number of common shares for basic earnings per share	**3,365,000**	2,699,775	1,831,475
Basic earnings per share (Tenge)	**361**	348	399

21. Risk Management Policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit, liquidity and market movements in interest and foreign exchange rates. A summary description of the Group's risk management policies in relation to those risks follows.

Credit risk

The Group is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and by industry sector are approved monthly by the Board of Directors.

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 which is called once a week. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore bear no credit risk.

With respect to undrawn loan commitments the Group is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

(Thousands of Kazakh Tenge)

21. Risk Management Policies (continued)

Concentration

The geographical concentration of monetary assets and liabilities were as follows at December 31:

2003

	Kazakhstan	OECD	Other non-OECD	Total
Cash and cash equivalents	**4,026,497**	**1,682,542**	**126,780**	**5,835,819**
Obligatory reserves	**1,775,133**	**–**	**–**	**1,775,133**
Trading securities	**21,043,959**	**2,846,187**	**–**	**23,890,146**
Commercial loans and advances	**60,487,547**	**–**	**–**	**60,487,547**
Tax assets	**262,267**	**–**	**–**	**262,267**
Other assets	**677,064**	**149,106**	**93,053**	**919,223**
	88,272,467	**4,677,835**	**219,833**	**93,170,135**
Amounts due to the Government and NBK	**3,445,225**	**–**	**–**	**3,445,225**
Amounts due to credit institutions	**8,718,165**	**24,761,512**	**158,008**	**33,637,685**
Amounts due to customers	**44,825,775**	**–**	**–**	**44,825,775**
Debt securities issued	**2,848,226**	**–**	**–**	**2,848,226**
Subordinated debt	**1,497,743**	**–**	**–**	**1,497,743**
Other liabilities	**567,232**	**72,822**	**37**	**640,091**
	61,902,366	**24,834,334**	**158,045**	**86,894,745**
	26,370,101	**(20,156,499)**	**61,788**	**6,275,390**

2002

	Kazakhstan	OECD	Other non-OECD	Total
Cash and cash equivalents	2,399,208	1,634,616	444,166	4,477,990
Obligatory reserves	1,230,037	–	–	1,230,037
Trading securities	14,635,140	665,300	–	15,300,440
Commercial loans and advances	34,761,711	–	–	34,761,711
Tax assets	2,169	–	–	2,169
Other assets	690,714	–	–	690,714
	53,718,979	2,299,916	444,166	56,463,061
Amounts due to the Government and NBK	1,351,420	–	–	1,351,420
Amounts due to credit institutions	7,527,727	10,386,065	166,551	18,080,343
Amounts due to customers	31,545,022	–	–	31,545,022
Subordinated debt	1,593,595	–	–	1,593,595
Other liabilities	313,443	–	–	313,443
	42,331,207	10,386,065	166,551	52,883,823
	11,387,772	(8,086,149)	277,615	3,579,238

(Thousands of Kazakh Tenge)

21. Risk Management Policies (continued)

2001

	Kazakhstan	OECD	Other non-OECD	Total
Cash and cash equivalents	2,651,838	1,808,837	120,980	4,581,655
Obligatory reserves	993,201	–	–	993,201
Trading securities	7,716,295	–	–	7,716,295
Commercial loans and advances, net	24,119,982	–	–	24,119,982
Other assets	474,642	–	–	474,642
	35,955,958	1,808,837	120,980	37,885,775
Amounts due to the Government	516,600	–	–	516,600
Amounts due to credit institutions	7,355,144	5,701,775	159,758	13,216,677
Amounts due to customers	19,973,391	–	93,353	20,066,744
Subordinated loan	–	–	711,431	711,431
Other liabilities	183,112	–	–	183,112
	28,028,247	5,701,775	964,542	34,694,564
	7,927,711	(3,892,938)	(843,562)	3,191,211

Currency risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of NBK. The Group's exposure to foreign currency exchange rate risk follows.

The Group's monetary assets and liabilities were denominated as follows at December 31:

2003

	KZT	Freely convertible currencies	Other non-convertible currencies	Total
Cash and cash equivalents	**2,505,834**	**3,179,105**	**150,880**	**5,835,819**
Obligatory reserves	**1,775,133**	**–**	**–**	**1,775,133**
Trading securities	**17,045,965**	**6,844,181**	**–**	**23,890,146**
Commercial loans and advances, net	**18,092,797**	**42,394,750**	**–**	**60,487,547**
Tax assets	**262,267**	**–**	**–**	**262,267**
Other assets	**764,560**	**154,546**	**117**	**919,223**
	40,446,556	**52,572,582**	**150,997**	**93,170,135**
Amounts due to the Government and NBK	**2,349,123**	**1,096,102**	**–**	**3,445,225**
Amounts due to credit institutions	**4,500,746**	**29,136,939**	**–**	**33,637,685**
Amounts due to customers	**25,245,572**	**19,404,429**	**175,774**	**44,825,775**
Debt securities issued	**2,848,226**	**–**	**–**	**2,848,226**
Subordinated debt	**–**	**1,497,743**	**–**	**1,497,743**
Other liabilities	**547,866**	**92,225**	**–**	**640,091**
	35,491,533	**51,227,438**	**175,774**	**86,894,745**
Net position	**4,955,023**	**1,345,144**	**(24,777)**	**6,275,390**

(Thousands of Kazakh Tenge)

21. Risk Management Policies (continued)

2002

	KZT	Freely convertible currencies	Other non-convertible currencies	Total
Cash and cash equivalents	1,098,272	3,250,446	129,272	4,477,990
Obligatory reserves	1,230,037	–	–	1,230,037
Trading securities	11,194,899	4,105,541	–	15,300,440
Commercial loans and advances, net	10,547,320	24,214,391	–	34,761,711
Tax assets	2,169	–	–	2,169
Other assets	643,959	46,755	–	690,714
	24,716,656	31,617,133	129,272	56,463,061
Amounts due to the Government	173,292	1,178,128	–	1,351,420
Amounts due to credit financial institutions	5,441,110	12,638,510	723	18,080,343
Amounts due to customers	15,621,939	15,864,500	58,583	31,545,022
Subordinated debt	–	1,593,595	–	1,593,595
Other liabilities	313,443	–	–	313,443
	21,549,784	31,274,733	59,306	52,883,823
Net position	3,166,872	342,400	69,966	3,579,238

A substantial portion of the Group's net position in freely convertible currencies is held in US Dollars.

2001

	KZT	Freely convertible currencies	Other non-convertible currencies	Total
Cash and cash equivalents	1,722,618	128,937	2,730,100	4,581,655
Obligatory reserves	993,201	–	–	993,201
Trading securities	4,471,614	–	3,244,681	7,716,295
Commercial loans and advances, net	5,941,511	–	18,178,471	24,119,982
Other assets	393,493	81,149	–	474,642
	13,522,437	210,086	24,153,252	37,885,775
Amounts due to the Government	99,530	–	417,070	516,600
Amounts due to credit institutions	188,308	–	13,028,369	13,216,677
Amounts due to customers	9,854,070	–	10,154,091	20,066,744
Subordinated debt	–	711,431	–	711,431
Other liabilities	183,112	–	–	183,112
	10,325,020	711,431	23,599,530	34,694,564
Net position	3,197,417	(501,345)	553,722	3,191,211

Liquidity risk

The Group is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan drawdowns and guarantees. The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Thousands of Kazakh Tenge)

21. Risk Management Policies (continued)

The contractual maturities of monetary assets and liabilities at December 31 were as follows:

2003

	On demand	Up to 1 Month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	4,355,616	1,323,802	156,401	–	–	–	5,835,819
Obligatory reserves	–	–	–	–	–	1,775,133	1,775,133
Trading securities	23,890,146	–	–	–	–	–	23,890,146
Commercial loans and advances	–	2,083,382	6,953,567	24,384,909	25,085,456	1,980,233	60,487,547
Tax assets	–	–	176,480	–	85,787	–	262,267
Other assets	116	611,998	96,349	55,073	25,372	130,315	919,223
	28,245,878	4,019,182	7,382,797	24,439,982	25,196,615	3,885,681	93,170,135
Amounts due to the Government and NBK	–	7,400	2,006,500	36,395	472,236	922,694	3,445,225
Amounts due to credit institutions	964,068	2,628,406	3,993,266	21,356,437	4,423,023	272,485	33,637,685
Amounts due to customers	16,730,635	7,188,692	2,673,013	10,005,363	8,224,184	3,888	44,825,775
Debt securities issued	–	–	–	–	2,848,226	–	2,848,226
Subordinated debt	–	–	–	14,787	1,482,956	–	1,497,743
Other liabilities	190,947	420,488	7,767	20,813	76	–	640,091
	17,885,650	10,244,986	8,680,546	31,433,795	17,450,701	1,199,067	86,894,745
Net position	10,360,228	(6,225,804)	(1,297,749)	(6,993,813)	7,745,914	2,686,614	6,275,390
Accumulated gap	10,360,228	4,134,424	2,836,675	(4,157,138)	3,588,776	6,275,390	

2002

	On demand	Up to 1 Month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	2,761,182	1,698,593	18,215	–	–	–	4,477,990
Obligatory reserves	–	–	–	–	–	1,230,037	1,230,037
Trading securities	15,300,440	–	–	–	–	–	15,300,440
Commercial loans and advances, net	–	2,930,822	3,397,826	15,503,717	12,927,812	1,534	34,761,711
Tax assets	–	–	2,169				2,169
Other assets	–	690,714	–	–	–	–	690,714
	18,061,622	5,320,129	3,418,210	15,503,717	12,927,812	1,231,571	56,463,061
Amounts due to the Government and NBK	–	–	–	214,042	173,292	964,086	1,351,420
Amounts due to credit institutions	379,211	5,049,472	209,183	10,979,388	1,463,089	–	18,080,343
Amounts due to customers	12,034,336	6,551,863	2,108,980	8,050,502	2,799,341	–	31,545,022
Subordinated debt	–	–	–	–	1,593,595	–	1,593,595
Other liabilities	–	313,443	–	–	–	–	313,443
	12,413,547	11,914,778	2,318,163	19,243,932	6,029,317	964,086	52,883,823
Net position	5,648,075	(6,594,649)	1,100,047	(3,740,215)	6,898,495	267,485	3,579,238
Accumulated gap	5,648,075	(946,574)	153,473	(3,586,742)	3,311,753	3,579,238	

(Thousands of Kazakh Tenge)

21. Risk Management Policies (continued)

2001

	On demand	Up to 1 Month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	4,581,655	–	–	–	–	–	4,581,655
Obligatory reserves	–	–	–	–	–	993,201	993,201
Trading securities	7,716,295	–	–	–	–	–	7,716,295
Commercial loans and advances, net	–	1,168,749	3,859,004	8,159,484	10,932,745	–	24,119,982
Other assets	–	474,642	–	–	–	–	474,642
	12,297,950	1,643,391	3,859,004	8,159,484	10,932,745	993,201	37,885,775
Monetary liabilities:							
Amounts due to the Government	–	–	–	145,304	–	371,296	516,600
Amounts due to credit institutions	335,174	6,624,274	5,154,494	315,543	787,192	–	13,216,677
Amounts due to customers	10,402,041	8,727,112	492,600	196,816	248,175	–	20,066,744
Other liabilities	–	183,112	–	–	–	–	183,112
Subordinated loan	–	–	–	–	711,431	–	711,431
	10,737,215	15,534,498	5,647,094	657,663	1,746,798	371,296	34,694,564
Net position	1,560,735	(13,891,107)	(1,788,090)	7,501,821	9,185,947	621,905	3,191,211
Accumulated gap	1,560,735	(12,330,372)	(14,118,462)	(6,616,641)	2,569,306	3,191,211	

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

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Group's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Group's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee.

22. Fair Values of Monetary Assets and Liabilities

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

Amounts Due from and to Credit Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer-term deposits, the interest rates applicable reflect market rates.

(Thousands of Kazakh Tenge)

22. Fair Values of Monetary Assets and Liabilities (continued)

Loans to Customers

The estimate was made by discounting of scheduled future cash flows of the individual loans through the estimated maturity using prevailing market rates as of the respective year-end.

Amounts Due to Customers

For balances maturing within one month the carrying amount approximates fair value due to the relatively short term maturity of these financial instruments. For longer term fixed interest bearing deposits and other borrowings the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt Securities Issued

Debt securities are issued at interest rates approximate to market rates and consequently the carrying amount of debt securities issued is a reasonable estimate of their fair value.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value.

	Carrying Amount			Fair Value		
	2003	**2002**	**2001**	**2003**	**2002**	**2001**
Financial assets						
Commercial loans and advances	**60,487,547**	34,761,711	24,119,982	**64,553,436**	33,594,546	24,174,487
Financial liabilities						
Amounts due to the Government and NBK	**3,445,225**	1,351,420	516,600	**3,431,905**	1,202,245	493,247
Amounts due to credit institutions	**33,637,685**	18,080,343	13,216,677	**33,856,029**	17,107,438	13,216,677
Amounts due to customers	**44,825,775**	31,545,022	20,066,744	**43,084,436**	30,299,204	20,035,742

23. Capital Adequacy

The NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2003, 2002 and 2001 the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratios at December 31, 2003, 2002 and 2001 were 14%, 16% and 17% respectively, which exceeded the minimum ratio of 8% recommended by the Basle Accord.

24. Related Parties Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parts that represent:

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

(b) associates enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group, and anyone expected to influence, or be influenced by, that person in their dealings with the Group;

(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and

(Thousands of Kazakh Tenge)

24. Related Parties Transactions (continued)

(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. At December 31, the Group had the following balances with related parties:

	2003			2002	2001
	Related party transactions	**Percentage on normal conditions**	**Total asset or liability category**	**Related party transactions**	**Related party transactions**
Loans and advances	**847,495**	**100%**	**60,487,547**	238,814	13,843
Amounts due to customers	**448,197**	**100%**	**44,825,775**	221,390	12,456
Cash and cash equivalents	**80,882**	**100%**	**5,835,819**	50,533	–
Amounts due to credit institutions	**90,115**	**100%**	**33,637,685**	–	–

The related income and expense items are not material. The Group prices all transactions with related parties at market terms of conditions.

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