

ҚАЗАҚСТАННЫҢ ДАМУ БАНКІ  
БАНК РАЗВИТИЯ КАЗАХСТАНА



## **JSC Development Bank of Kazakhstan**

*(A joint stock company organised in the Republic of Kazakhstan)*

**U.S.\$400,000,000**

### **Euro Medium Term Note Programme**

Under this U.S.\$400,000,000 Euro Medium Term Note Programme (the “Programme”), JSC Development Bank of Kazakhstan (the “Issuer” or “DBK”) may from time to time issue notes (the “Notes”) denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The maximum aggregate nominal amount of Notes outstanding under the Programme will not exceed U.S.\$400,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement referred to herein), subject to increase as described herein.

Application has been made to list Notes issued under the Programme described in this Offering Circular during the period of twelve months after the date hereof on the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on an unlisted basis or to be listed on such other or further listing authorities, stock exchanges or quotation systems as may be agreed between the Issuer and the relevant Dealer. In addition, the Issuer may apply for Notes issued under the Programme to be listed on the Kazakhstan Stock Exchange.

See “Investment Considerations” starting on page 10 for a discussion of certain factors that should be considered in connection with an investment in the Notes issued under the Programme.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under “Summary of the Programme” and any additional Dealer appointed under the Programme from time to time by the Issuer (each, a “Dealer” and together, the “Dealers”), which appointment may be for a specific issue of Notes or an ongoing basis. References in this Offering Circular to the “relevant Dealer” shall, in relation to an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all the Dealers agreeing to subscribe for such Notes, or in the case of a syndicated issue of Notes, the lead manager of such issue, as the case may be.

### **Arranger and Dealer**

**UBS Investment Bank**

**The date of this Offering Circular is • October 2003.**

The Issuer, having made all reasonable inquiries, confirms that this Offering Circular (including for this purpose, each relevant Pricing Supplement) contains all information with regard to the Issuer, the Notes and the Programme 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 or (ii) the omission of which made or makes any statement herein misleading in any material respect. Save as provided in the next sentence, the Issuer accepts responsibility for the information contained in this Offering Circular. The information contained herein under the headings “The Banking Sector in Kazakhstan” and Annex A “The Republic of Kazakhstan” has been extracted from documents and other publications released by, and is presented on the authority of, various official and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan. There is not necessarily any uniformity of view among such sources as to such information provided herein. The Issuer accepts responsibility for accurately reproducing such extracts but accepts no further or other responsibility in respect of such information.

This Offering Circular should be read and construed together with any amendments or supplements hereto and with any other documents incorporated by reference herein and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Pricing Supplement.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Trustee or any Dealer.

No representation or warranty is made or implied by the Dealers, the Trustee or any of their respective affiliates, and neither the Dealers, the Trustee nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Offering Circular or any Pricing Supplement and other offering material relating to the Notes, see “Subscription and Sale”. In particular, 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 U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons. In addition, the Issuer has not

authorised any offer of Notes having a maturity of one year or more 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 which do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Dealers or the Trustee or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

In this Offering Circular, unless otherwise specified or the context otherwise requires, references to “[euro]”, “Euro” or “EUR” are to the single currency of the participating member states of the European Economic and Monetary Union which was introduced on 1 January 1999, references to “£”, “pounds sterling”, “GBP” and “Sterling” are to the lawful currency of the United Kingdom, references to “U.S.\$”, “USD” and “U.S. Dollars” are to the lawful currency of the United States of America, references to “¥”, “JPY”, “Japanese yen” and “Yen” are to the lawful currency of Japan, references to “Swiss francs” or “CHF” are to the lawful currency of Switzerland and references to “Tenge” or “KZT” are to Kazakhstani Tenge, the official currency of the Republic of Kazakhstan. References to “Kazakhstan” or the “Republic” are to the Republic of Kazakhstan, references to the “Government” are to the government of Kazakhstan and references to the “CIS” are to the Commonwealth of Independent States.

On 25 September 2002, the official (middle) exchange rates for U.S. Dollars announced by the National Bank of Kazakhstan was U.S. \$1.00 = KZT 154.45. For details of all applicable exchange rates, see Annex A “The Republic of Kazakhstan Exchange Rates”.

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.

Macroeconomic data which appears in this Offering Circular have been derived from statistics published by Kazakhstan’s National Statistics Agency (“NSA”).

In connection with the issue and distribution of any Tranche of Notes under the Programme, the Dealer (if any) which is specified in the relevant Pricing Supplement as the stabilising manager or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes of the Series of which such Tranche forms part at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the stabilising manager or any agent of its to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

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## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (1) the most recently published annual report of the Issuer; and
- (2) all amendments and supplements to this Offering Circular prepared by the Issuer from time to time,

save that any statement contained in this Offering Circular or in any of the documents incorporated by reference in, and forming part of, this Offering Circular shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any document subsequently incorporated by reference modifies or supersedes such statement.

The Issuer will, at the specified offices of the Paying Agents (including the Paying Agent having its specified office in Luxembourg), provide, free of charge, upon oral or written request, a copy of this Offering Circular (or any document incorporated by reference in this Offering Circular). Written or telephone requests for such documents should be directed to the specified office of any Paying Agent or the specified office of the Listing Agent in Luxembourg.

## **SUPPLEMENTARY OFFERING CIRCULAR**

The Issuer has undertaken, in connection with the listing of the Notes on the Luxembourg Stock Exchange, that if there shall occur any adverse change in the business or financial position of the Issuer or any change in the information set out under “Terms and Conditions of the Notes”, that is material in the context of issuance under the Programme, the Issuer will prepare or procure the preparation of an amendment or supplement to this Offering Circular or, as the case may be, publish a new Offering Circular, for use in connection with any subsequent issue by the Issuer of Notes to be listed on the Luxembourg Stock Exchange.

## **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 23 under “Terms and Conditions of the Notes”. Kazakhstan’s courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. However, each of Kazakhstan and England are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the “Convention”), although there has recently been some doubt as to whether the courts of Kazakhstan would enforce an arbitral award under the Convention. In February 2002, the Constitutional Council of the Republic passed a decree on the interpretation of the Kazakhstani Constitution which stated that

the conclusion by parties to a commercial contract in which a dispute is submitted for consideration to arbitration should not exclude the possibility that such dispute may be considered by the courts of Kazakhstan. The decree made no distinction between foreign and domestic arbitral awards. However in April 2002, the Constitutional Council passed a further decree stating that the original decree did not apply to the recognition and enforcement of foreign arbitration awards where the procedure for such awards is established by a treaty obligation of the Republic. Accordingly, English arbitration awards are generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

## **SUMMARY OF THE PROGRAMME**

*The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular. Words and expressions defined in “Forms of the Notes” or “Terms and Conditions of the Notes” below shall have the same meanings in this summary.*

Issuer:	JSC Development Bank of Kazakhstan.
Arranger:	UBS Limited.
Dealers:	UBS Limited and any other Dealer appointed in accordance with the Programme Agreement.
Trustee:	Deutsche Trustee Company Limited.
Principal Paying Agent:	Deutsche Bank AG London.
Luxembourg Listing Agent:	Dexia Banque Internationale à Luxembourg.
Programme Size:	U.S.\$400,000,000 (or its equivalent in other currencies calculated in accordance with the provisions of the Programme Agreement) outstanding at any one time. The Issuer may increase the amount of the Programme at any time in accordance with the Programme Agreement.
Listing:	Each Series may be listed on the Luxembourg Stock Exchange and/or admitted to Listing, trading and/or quotation by any other stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.
Issuance:	<p>Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.</p> <p>Each Tranche will be the subject of a Pricing Supplement which, for the purposes of that Tranche only, supplements the Conditions of the Notes and this Offering Circular and must be read in conjunction with this Offering Circular. The terms and conditions applicable to any particular Tranche of Notes are the Conditions of the Notes as supplemented, amended and/or replaced by the relevant Pricing Supplement.</p>

Forms of Notes:	The Notes will be issued in bearer form as described in this Offering Circular see “Forms of the Notes”.
Currencies:	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Certain Restrictions:	Issues of Notes with a maturity of more than one year denominated in Swiss Francs or carrying a Swiss Franc-related element (other than Notes privately placed with a single investor with no publicity) will be effected in compliance with the relevant regulations of the Swiss National Bank based on article 7 of the Federal Law on Banks and Savings Banks of 8 November 1934 (as amended) and article 15 of the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995 in connection with article 2, paragraph 2 of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of 2 December 1996. Under these regulations, the relevant Dealer or, in the case of a syndicated issue, the lead manager (the “Swiss Dealer”), must be a bank domiciled in Switzerland (which includes branches or subsidiaries of a foreign bank located in Switzerland) or a securities dealer duly licensed by the Swiss Federal Banking Commission pursuant to the Federal Law on Stock Exchanges and Securities Trading of 24 March 1995. The Swiss Dealer must report certain details of the relevant transaction to the Swiss National Bank no later than the Issue Date specified in the Pricing Supplement of the relevant Notes.
Status of the Notes:	The Notes will constitute direct, general, unconditional and unsecured obligations of the Issuer which rank and will rank <i>pari passu</i> in right of payment with all other present and future unsecured obligations of the Issuer, save only for such obligations as may be preferred by mandatory provisions of applicable law. See “Terms and Conditions of the Notes Status”.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement.
Maturities:	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 (the “FSMA”) will have a minimum

redemption amount of £100,000 (or its equivalent in other currencies).

**Optional Redemption:** Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.

**Tax Redemption:** Except as described in “Optional Redemption” above or following an Event of Default, early redemption will only be permitted for tax reasons as described in Condition 10.2.

**Interest:** Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

**Denominations:** Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in other currencies).

**Negative Pledge and Covenant:**  
The Notes will have the benefit of a negative pledge and a covenant relating to compliance with the legislative act constituting DBK each as more fully described in Condition 5.

**Cross Default:** The Notes will have the benefit of a cross default as described in Condition 13.3.

**Taxation:** All payments in respect of Notes will be made free and clear of withholding taxes of Kazakhstan unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 12) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.

**Redenomination:** The applicable Pricing Supplement may provide that Notes may be redenominated in euro.

**Governing Law:** English law.

**Listing:** Application has been made to list Notes issued under the Programme during the period of twelve months after the date of this Offering Circular on the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on an unlisted basis or to be listed on such other or further listing authorities, stock exchanges or quotation systems as may be agreed with the Issuer. In addition, the Issuer may apply for Notes issued under the Programme to be listed on the Kazakhstan Stock Exchange, although no assurance can be given that such listing will be obtained.



Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the United Kingdom, Kazakhstan, Japan, the Republic of France and Switzerland, see “Subscription and Sale” below.

## **INVESTMENT CONSIDERATIONS**

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

### **GENERAL**

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

## **CONSIDERATIONS RELATING TO THE REPUBLIC OF KAZAKHSTAN**

### **Political and Regional Considerations**

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

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

Kazakhstan depends on neighbouring states to access world markets for a number of its major exports, including oil, steel, copper and wheat. Kazakhstan is thus dependent upon good relations with its neighbours to ensure its ability to export. In January 1995, Kazakhstan, Russia, the Kyrgyz Republic and Belarus, joined by Tajikistan in 1999, signed a customs union which, among other things, provides for the removal of trade tariffs between these nations, and the Republic has taken other steps to promote regional economic integration. In September 2003, Kazakhstan, Ukraine, Russia and Belarus signed an agreement for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on tariffs and trade. 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 coordinate their fiscal, credit and

currency policies. Government policy advocates further economic integration within the CIS, one of the aims of which is to assure continued access to export routes. However, should access to these routes be materially impaired, this could adversely impact the economy of Kazakhstan.

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

### **Macroeconomic Considerations and Exchange Rate Policies**

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

The Government began implementing market-based economic reforms in 1992 (including the implementation of a significant privatisation programme, the promotion of high levels of foreign direct investment (particularly in the oil and gas sector) and the introduction of an extensive legal framework). Despite uneven progress in this regard, Kazakhstan has experienced extensive economic transformation over the last ten years. Since mid-1994, the Government has adhered to a macroeconomic stabilisation programme aimed at curtailing inflation, reducing the fiscal deficit and boosting international currency reserves. According to figures compiled by the NSA, while gross domestic product ("GDP") fell in 1998 by 1.9 per cent. in the aftermath of the Asian and Russian financial crises, it began to rebound in 1999 following the flotation of the Tenge in April of that year, increasing by 2.7 per cent. for the year 1999 and 9.8 per cent. for the year 2000. In 2001, GDP grew by 13.2 per cent. in real terms and in 2002 it grew by 9.5 per cent.

The Tenge is convertible for current account transactions, although it is not fully convertible currency outside Kazakhstan. Between 1991, when Kazakhstan began its transition to a market-based economy, and April 1999, the NBK maintained a managed exchange rate policy which, although permitting the general trend in the exchange rate to reflect market conditions, involved official intervention aimed at limiting fluctuations. Depressed export markets in 1998 and early 1999, however, caused considerable pressure on Kazakhstan's managed exchange rate and resulting official intervention in the foreign exchange markets led to losses on foreign currency reserves. In response to these pressures, the NBK instituted a number of expenditure cuts, took revenue increasing measures and, in April 1999, floated the Tenge. In the period from flotation on 4 April 1999 to 31 December 1999, the Tenge declined by 58.0 per cent. against the U.S. Dollar, for an overall decline of 64.9 per cent. against the U.S. Dollar in the year ended 31 December 1999, compared to a decline of 10.9 per cent. in the year ended 31 December 1998. In 2000, the Tenge declined by 4.6 per cent. and during 2001 by 3.8 per cent. against the U.S. Dollar. It declined a further 3.3 per cent. in 2002, but as at 30 June 2003 the Tenge had shown an increase against the U.S. Dollar of 5.24 per cent. since the beginning of 2003. While the NBK has stated that it has no plans to resume a managed exchange rate policy, there can be no

assurance that the NBK's exchange rate policy will not change and any subsequent decision to support the exchange rate could have an adverse impact on Kazakhstan's public finances and economy.

### **Implementation of Further Market-Based Economic Reforms**

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

### **Underdevelopment and Evolution of Legislative and Regulatory Framework**

Although a large volume of legislation has come into force since early 1995, including a new tax code in 2002, laws relating to foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, corporate organisation and governance, state enterprise reform and privatisation, the legal framework in Kazakhstan is at an early stage of development compared to countries with established market economies. In addition, the judicial system in Kazakhstan may not be fully independent of outside social, economic and political forces, and court decisions can be difficult to predict. The Government has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, there can be no assurance that the Government will continue such policy, or that such policy, if continued, will ultimately prove to be successful. Therefore, it is not possible to predict the effect of future legislative developments on the Issuer's business and prospects.

### **Less Developed Securities Market**

An organised securities market was established in Kazakhstan only relatively recently and procedures for settlement, clearing and registration of securities transactions may therefore be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are less well developed in Kazakhstan, and less strictly enforced, than in Western European countries, 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 Issuer, 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.

## **INVESTMENT CONSIDERATIONS RELATING TO THE ISSUER**

### **Loan Portfolio Growth**

The Issuer started funding loans to borrowers during the first quarter of 2002 and as at 30 June 2003, its net loan portfolio was KZT13,200 million. Continued growth of the Issuer's loan portfolio is contingent upon (i) the Issuer finding sufficient suitable projects to finance, and (ii) growth of the commercial banking sector sufficient to meet the lending limit requirement of the Issuer to provide guarantees as a security for such projects. Failure by the Issuer to find additional development projects that meet its credit policies and criteria and constrained growth of the commercial banking sector in Kazakhstan and hence limited ability to provide guarantees for such development projects could affect the Issuer's ability to maintain the quality of its assets and result in a material adverse effect on the Issuer's results of operation and financial condition.

### **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 those of many countries with established market economies. Thus, the statistical, corporate and financial information, including audited financial statements, available to the Issuer relating to its prospective corporate borrowers or other clients makes the assessment of credit risk, including the valuation of collateral, more difficult. Although the Issuer ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable provisioning and collateralisation requirements, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Issuer's assessments of credit risk, thereby increasing the risk of borrower default and decreasing the likelihood that the Issuer 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.

### **Credit Risk**

The Issuer has implemented specific credit risk policies. See "Asset and Liability Management Lending Policies and Procedures". However since the Issuer's credit portfolio consists of medium- to long-term loans and there has been little historical experience and information for such loans, there can be no assurance that the Issuer's credit policies shall be sufficient to mitigate risks involved in making loans with such tenors in an emerging market such as Kazakhstan. Further, the Issuer according to the DBK Law and the Memorandum has independence from the influence of the Government as to its credit decisions. If the DBK Law and/or Memorandum are amended there can be no assurance that such amendments would not have material adverse effect on the Issuer's credit policies and accordingly on the operations or financial results of the Issuer.

### **Regulation**

The Issuer's operations are regulated by the Law on the Development Bank of Kazakhstan dated 25 April 2001, the Memorandum on Credit Policy of the Development Bank of Kazakhstan dated 12 September 2001 and other implementing regulations. There can be no assurance that the Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, inflation, exchange controls, or otherwise take action that could have a material adverse effect on the Issuer's business, financial condition or results of operations or that could adversely affect the market price and liquidity of the Notes.

## **State Ownership**

The Issuer was established as the Government's primary vehicle for promoting economic development and exports in certain sectors of the Kazakhstan economy. Although the Government has stated that it maintains a distant relationship with the Issuer and does not influence its financing policies, through its ownership of 75 per cent. of the issued and outstanding share capital of the Issuer, the Government has the right to decide on all matters requiring a vote of shareholders, including but not limited to election of the Issuer's Board of Directors which is the main management body of the Issuer responsible for approval of the credit decisions and the financial strategy of the Issuer.

There can be no assurance that the Government will not change its policy towards the Issuer, which could result in material adverse changes to the Issuer's current strategies and management or could materially affect the Issuer's ability to operate with a commercial rate of return.

## **Ministry of Economy and Budget Planning Comfort Letter**

Recognising the importance of DBK to Kazakhstan's development strategy, the Ministry of Economy and Budget Planning (the "Ministry of Budget Planning") has provided a letter of comfort dated • 2003 to the Dealers and the Trustee, a copy of which is included elsewhere in this Offering Circular. See "Annex B—Comfort Letter of the Ministry of Economy and Budget Planning". The comfort letter is not a guarantee in relation to the Notes and does not constitute a legally binding obligation of the Ministry of Budget Planning. Accordingly, neither the Trustee nor the holders of the Notes will be able to bring any action to enforce the letter.

## **INVESTMENT CONSIDERATIONS RELATING TO THE NOTES**

### **Enforcement of Rights**

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, arbitration in London, England. See "Terms and Conditions of the Notes — Condition 23". Kazakhstan courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments, and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and England. Since each of Kazakhstan and England are parties to the Convention, English arbitration awards are generally recognised and enforceable in Kazakhstan provided that the conditions to enforcement set out in the Convention are met. See "Enforcement of Foreign Judgments".

It should be noted, however, that a recent decision of the Constitutional Council of Kazakhstan raised doubts as to the enforcement by the courts in Kazakhstan of arbitration awards. This decision held that the fact that a party had entered into an arbitration agreement did not preclude that party's recourse to his right to judicial defence guaranteed by Kazakhstan's constitution and that only courts in Kazakhstan could provide this defence. This decision was later clarified to the effect that it does not pertain to foreign arbitration awards under the Convention. In addition, although the Supreme Court in its ruling dated 19 October 2001 established procedures for the enforcement of arbitration awards, this ruling was subsequently suspended by the Supreme Court in June 2002 following a petition from the General Prosecutor. Therefore, while English arbitration awards are generally recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met, as a result of the recent developments in Kazakhstan on the issue of enforcement of arbitration awards, some uncertainty remains as to how a claim for enforcement of an international arbitration award under the Convention will be treated by Kazakhstan's courts.

## **Emerging Market Risks**

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

On 11 September 2001 terrorist attacks were conducted against multiple targets in the United States, causing large loss of life and extensive damage. These events, their aftermath, and the ensuing conflicts in Afghanistan and in Iraq, have had a significant effect on international financial markets generally and may in the future have further such effects both internationally and, specifically, in the Central Asian region.

## **Absence of Trading Market for the Notes**

There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of holders of the Notes to sell their Notes, or the price at which such holders would be able to sell Notes. Application has been made for the listing of the Notes on the Luxembourg Stock Exchange and the Kazakhstan Stock Exchange. There can be no assurance that such a listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. 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.

## **FORMS OF THE NOTES**

Each Tranche of Notes will initially be in the form of either a temporary global note (the "Temporary Global Note"), without interest coupons, or a permanent global note (the "Permanent Global Note"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "Global Note") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depository or a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and/or any other relevant clearing system.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation ½1.163-5(c)(2)(i)(C) (the "TEFRA C Rules") or United States Treasury Regulation ½1.163-5(c)(2)(i)(D) (the "TEFRA D Rules") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent

Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes 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.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against (a) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent; and (b) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership, within seven days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; provided, however, that in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

The Permanent Global Note will be exchangeable in whole, but not in part, for Notes in definitive form (“Definitive Notes”):

- (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or
- (b) at any time, if so specified in the relevant Pricing Supplement; or
- (c) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (ii) any of the circumstances described in Condition 13 occurs.

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 and Talons attached (if so specified in the relevant Pricing Supplement), 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.

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes 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.

Whenever the Temporary 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 and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If the relevant Pricing Supplement specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes: (a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or (b) at any time, if so specified in the relevant Pricing Supplement; or (c) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if (i) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (ii) any of the circumstances described in Condition 13 occurs.

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 and Talons attached (if so specified in the relevant Pricing Supplement), 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 terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “Terms and Conditions of the Notes” below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described below.

Each Global Note will contain provisions which modify the terms and conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

**Payments:** All payments in respect of the 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 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. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

**Exercise of put option:** In order to exercise the option contained in Condition 10.5 the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

**Partial exercise of call option:** In connection with an exercise of the option contained in Condition 10.3 in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

**Notices:** Notwithstanding Condition 19, while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other



relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 19 on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

**Redenomination:** If the Notes are redenominated pursuant to Condition 22, then following redenomination:

- (a) if Definitive Notes are required to be issued, they shall be issued at the expense of the Issuer in the denominations of euro 1, euro 1,000, euro 10,000, euro 100,000 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders; and
- (b) the amount of interest due in respect of Notes represented by a Permanent Global Note and/or a Temporary Global Note will be calculated by reference to the aggregate principal amount of such Notes and the amount of such payment shall be rounded down to the nearest euro 0.01.

The following legend will appear on all Notes which have an original maturity of more than 365 days and any Coupons and Talons relating to such Notes:

“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 provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, disposition, or redemption will be treated as ordinary income.

## **FORM OF PRICING SUPPLEMENT**

*Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.*

Pricing Supplement dated ● 200●

### **JSC DEVELOPMENT BANK OF KAZAKHSTAN**

**Issue of [Aggregate Nominal Amount of Tranche][Title of Notes] (the “Notes”)**

**Under the U.S.\$400,000,000**

### **Euro Medium Term Note Programme**

This Pricing Supplement, under which the Notes are issued, is supplemental to, and should be read in conjunction with, the Offering Circular (the “Offering Circular”) dated ● October 2003 issued in relation to the U.S.\$400,000,000 Euro Medium Term Note Programme of the Issuer. Terms defined in the Offering Circular have the same meaning in this Pricing Supplement. The Notes will be issued on the terms of this Pricing Supplement, which contains the final terms of the Notes, read together with the Offering Circular. The Issuer accepts responsibility for the information contained in this Pricing Supplement which, when read together with the Offering Circular, contains all information that is material in the context of the issue of the Notes.

This Pricing Supplement does not constitute, and may not be used for the purposes of, an offer of, or an invitation by or on behalf of anyone to subscribe or purchase any of the Notes.

[Except as disclosed in this document, there/There] has been no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or other) or general affairs of the Issuer since [*date of last audited accounts or interim accounts (if later)*] and no material adverse change in the prospects, results of operations or general affairs of the Issuer since [*date of last published annual accounts*] that is material in the context of the Programme or the issue of the Notes.<sup>1</sup>

The Offering Circular, together with this Pricing Supplement, contains all information relating to the assets and liabilities, financial position, profits and losses of the Issuer which is material in the context of the issue and offering of the Notes and nothing has happened which would require the Offering Circular to be [further] supplemented or to be updated in the context of the issue and offering of the Notes.

[In connection with this issue, [name of Stabilising Agent] (the “Stabilising Agent”) or any person acting for him may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there may be no obligation on the Stabilising Agent or any agent of his to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation will be carried out in accordance with applicable laws and regulations.]<sup>2</sup>

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual*

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<sup>1</sup> N.B., if any such change is disclosed in the Pricing Supplement, it will require approval by the Luxembourg Stock Exchange (or such other relevant stock exchange). Consideration should be given as to whether or not such disclosure should be made by means of a supplemental Offering Circular rather than in a Pricing Supplement.

<sup>2</sup> Delete if there is no Stabilising Agent.

*paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]*

1. Issuer: JSC Development Bank of Kazakhstan
2. [(i)] Series Number: [ ]  
[(ii)] Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]*
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
[(i)] Series: [ ]  
[(ii)] Tranche: [ ]
5. [(i)] Issue Price: [ ] per cent. of the Aggregate Nominal Amount  
[plus accrued interest from [insert date] *(in the case of fungible issues only, if applicable)*]  
[(ii)] Net proceeds: [ ] *(Required only for listed issues)*
6. Specified Denomination(s): [ ]<sup>3</sup>
7. [(i)] Issue Date: [ ]  
[(ii)] Interest Commencement Date: [ ]
8. Maturity Date: *[Specify date, or (for Floating Rate Notes) Interest Payment Date falling on or nearest to the relevant month and year]*
9. Interest Basis:  
[[ ] per cent. Fixed Rate]  
*[Specify reference rate]* +/- [ ]  
per cent. Floating Rate]  
[Zero Coupon]  
[Dual Currency Interest]  
[Index-Linked Interest]  
[Other *(specify)*]  
*(further particulars specified below)*
10. Redemption/Payment Basis:  
[Redemption at par]  
[Index-Linked Redemption]  
[Dual Currency Redemption]  
[Partly Paid]  
[Instalment]

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<sup>3</sup> Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

- [Other (*specify*)]
11. Change of Interest or Redemption /Payment Basis: [*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. Status of the Notes: [Senior/[Dated/Perpetual]/Subordinated]]
14. Listing: [Luxembourg/Other (*specify*)/None]
15. Method of distribution: [Syndicated/Non-syndicated]

### PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16. Fixed Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [ ] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [ ] in each year [adjusted in accordance with [*specify Business Day convention and any applicable Business Centre(s) for the definition of "Business Day"*]/ not adjusted]
- (iii) Fixed Coupon Amount[(s)]: [ ] per [ ] in Nominal Amount
- (iv) Broken Amount(s): [*Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]*]
- (v) Day Count Fraction: [30/360]/[Actual/Actual (ISMA/ISDA/other)] / [*specify other*]
- (vi) Determination Date(s): [ ] in each year (*insert regular Interest Payment Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon.*)
- [Note: only relevant where Day Count Fraction is Actual/Actual (ISMA)].*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]
17. Floating Rate Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-*

*paragraphs of this paragraph)*

- (i) Interest Period(s): [ ]
- (ii) Specified Interest Payment Dates: [ ]
- (iii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (iv) Additional Business Centre(s): [ ]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (*give details*)]
- (vi) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Principal Paying Agent]): [ ]
- (vii) Screen Rate Determination:
- Reference Rate: [ ]
- (Either LIBOR, EURIBOR or other, although additional information is required if other including any amendment to fallback provisions in the Agency Agreement)
- Interest Determination Date(s): [ ]
- (A day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each Interest Period if LIBOR (other than euro LIBOR or Sterling LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
- Relevant Screen Page: [ ]
- (In the case of EURIBOR, if not Telerate page 248 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- Relevant Time: [ ]
- [For example, 11.00am London time/Brussels time]

- Relevant Financial Centre: [ ]
- [For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)]
- (viii) ISDA Determination: [ ]
- Floating Rate Option: [ ]
- Designated Maturity: [ ]
- Reset Date: [ ]
- (ix) Margin(s): [+/-][ ] per cent. per annum
- (x) Minimum Rate of Interest: [ ] per cent. per annum
- (xi) Maximum Rate of Interest: [ ] per cent. per annum
- (xii) Day Count Fraction: [ ]
- (xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [ ]
18. Zero Coupon Note Provisions: [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Accrual Yield: [ ] per cent. per annum
- (ii) Reference Price: [ ]
- (iii) Any other formula/basis of determining amount payable: [ ]
19. Index-Linked Interest Note Provisions: [Applicable/Not Applicable]
- (if not applicable delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula: [Give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: [ ]
- (iii) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or

impracticable:

- (iv) Interest Period(s): [ ]
  - (v) Specified Period(s)/Specified Interest Payment Dates: [ ]
  - (vi) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
  - (vii) Additional Business Centre(s): [ ]
  - (viii) Minimum Rate of Interest: [ ] per cent. per annum
  - (ix) Maximum Rate of Interest: [ ] per cent. per annum
  - (x) Day Count Fraction: [ ]
20. Dual Currency Note Provisions: [Applicable/Not Applicable]
- (if not applicable delete the remaining sub-paragraphs of this paragraph)*
- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give details]
  - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [ ]
  - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [ ]
  - (iv) Person at whose option Specified Currency(ies) is/are payable: [ ]

## PROVISIONS RELATING TO REDEMPTION

21. Call Option: [Applicable/Not Applicable]
- (if not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s)(Call): [ ]
  - (ii) Optional Redemption Amount(s) (Call) of each Note and method, if any, of [ ] per Note of [ ] specified denomination

calculation of such amount(s):

(iii) If redeemable in part:

(a) Minimum Redemption Amount: [ ]

(b) Maximum Redemption Amount: [ ]

(iv) Notice period<sup>4</sup>: [ ]

22. Put Option: [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(i) Optional Redemption Date(s) (Put): [ ] per Note of [ ] specified denomination

(ii) Optional Redemption Amount(s) (Put) and method, if any, of calculation of such amount(s): [ ]

(iii) Notice period (if other than as set out in the Conditions): [ ]

23. Final Redemption Amount: Per Note of [ ] specified denomination/other [see Appendix]

24. Early Redemption Amount: [ ]  
Early Redemption Amount(s) payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):

## GENERAL PROVISIONS APPLICABLE TO THE NOTES

25. Form of Notes: Bearer Notes

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the

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<sup>4</sup> If setting notice periods which are different to those provided in the Terms and Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the issuer and its fiscal agent or own trustee.



Permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes on [ ] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note].

26. Financial Centre(s) or other special provisions relating to Payment Dates: [Not Applicable/give details. Note that this item relates to the date and place of payment and not Interest Period end dates, to which items 16(ii), 17(iii) and 19(vi) relate]
- (Note that this item relates to the place of payment, and not Interest Period end dates, to which item 17(iii) relates)
27. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on such late payment: [Not Applicable/give details] (Note: a new form of Global Note may be required for Partly Paid issues).
29. Details relating to Instalment Notes:
- Instalment Amount(s): [Not Applicable/give details]
- Instalment Date(s): [Not Applicable/give details]
30. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 22] annexed to this Pricing Supplement] apply]
31. Consolidation provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
32. Other terms or special conditions: [Not Applicable/give details]

## DISTRIBUTION

33. (i) If syndicated, names of Managers: [Not Applicable/give names]
- (ii) Stabilising Manager (if any): [Not Applicable/give name]

34. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
35. TEFRA: [Not Applicable] (*Note: If TEFRA D rules apply, Notes may only be distributed in accordance with TEFRA D rules*)
36. Additional selling restrictions: [Not Applicable/*give details*]

#### **OPERATIONAL INFORMATION**

37. ISIN: [ ]
38. Common Code: [ ]
39. Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification and number(s): [Not Applicable/*give name(s) and numbers(s)*]
40. Delivery: Delivery [against/free of] payment
41. Additional Paying Agent(s) (if any): [ ]

#### **LISTING APPLICATION**

This Pricing Supplement comprises the final terms required for the Notes described herein to be admitted to the Luxembourg Stock Exchange of the U.S.\$400,000,000 Euro Medium Term Note Programme of JSC Development Bank of Kazakhstan.

#### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By: Duly authorised

## **TERMS AND CONDITIONS OF THE NOTES**

*The following are the Terms and Conditions of the Notes which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Definitive Note and attached to or incorporated by reference into each Global Note. The relevant Pricing Supplement (or relevant provisions thereof) will be endorsed upon or attached to each Global Note and Definitive Note. The Terms and Conditions of the Notes applicable to Global Notes will differ from those which would apply to a Definitive Note to the extent described under "Forms of Notes".*

### **1. INTRODUCTION**

JSC Development Bank of Kazakhstan (the "Issuer") has established a Euro Medium Term Note Programme (the "Programme") for the issuance of up to U.S.\$400,000,000 in aggregate principal amount of notes (the "Notes"). The Notes are constituted by a trust deed (as amended or supplemented or restated from time to time, the "Trust Deed") dated 27 September 2002 between the Issuer, and Deutsche Trustee Company Limited (the "Trustee", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). The Notes are the subject of an agency agreement dated 27 September 2002 (as amended or supplemented from time to time, the "Agency Agreement") between the Issuer, the Trustee, Deutsche Bank AG London 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) and the 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).

Notes issued under the Programme are issued in series (each, a "Series") and each Series may comprise one or more tranches (each, a "Tranche") of Notes. Each Tranche is the subject of a pricing supplement (the "Pricing Supplement") which supplements these terms and conditions (the "Conditions"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons, if any, (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 by Noteholders during normal business hours at the Specified Offices of each of the Trustee and the Paying Agents, the initial Specified Offices of which are set out below.

### **2. INTERPRETATION**

2.1 In these Conditions the following expressions have the following meanings:

"Accrual Yield" has the meaning given in the relevant Pricing Supplement;

"Additional Business Centre(s)" means the city or cities specified as such in the relevant Pricing Supplement;

“Additional Financial Centre(s)” means the city or cities specified as such in the relevant Pricing Supplement;

“Business Day” means:

- (a) in the case of Euro, a TARGET Settlement Day; and/or
- (b) in the case of a specified currency other than Euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for that currency; and/or
- (c) in the case of a specified currency and/or one or more Additional Business Centre(s) specified in the relevant Pricing Supplement, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Centre(s) or, if no currency is indicated, generally in each of the Additional Business Centres so specified;

“Business Day Convention”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (a) “Following Business Day Convention” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (b) “Modified Following Business Day Convention” or “Modified Business Day Convention” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (c) “Preceding Business Day Convention” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (d) “FRN Convention”, “Floating Rate Convention” or “Eurodollar Convention” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of Months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred provided, however, that:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (e) “No Adjustment” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“Calculation Agent” means the Principal Paying Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

“Coupon Sheet” means, in respect of a Note, a coupon sheet relating to the Note;

“Day Count Fraction” means (subject as provided in Condition 6), in respect of the calculation of an amount of interest for any Interest Period:

- (a) if “Actual/365” or “Actual/Actual (ISDA)” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365 (or, if any portion of the Interest Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if “Actual/365” (Fixed)” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 365;
- (c) if “Actual/360” is specified in the relevant Pricing Supplement, the actual number of days in the Interest Period divided by 360;
- (d) if “30/360”, “360/360” or “Bond “Basis” is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other London than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (e) if “30E/360” or “Eurobond Basis” is specified in the relevant Pricing Supplement, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

“Determination Period” means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

“Early Redemption Amount (Tax)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Early Termination Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

“Extraordinary Resolution” has the meaning given in the Trust Deed;

“Final Redemption Amount” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Fixed Coupon Amount” has the meaning given in the relevant Pricing Supplement;

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

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

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

“Interest Amount” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“Interest Commencement Date” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

“Interest Determination Date” has the meaning given in the relevant Pricing Supplement;

“Interest Payment Date” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“Interest Period” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“ISDA Definitions” means the 2000 ISDA Definitions (as supplemented by the Annex to the 2000 ISDA Definitions and as further amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement)) as published by the International Swaps and Derivatives Association, Inc. (formerly the International Swap Dealers Association, Inc.);

“Issue Date” has the meaning given in the relevant Pricing Supplement;

“Maximum Redemption Amount” has the meaning given in the relevant Pricing Supplement;

“Margin” has the meaning given in the relevant Pricing Supplement;

“Material Subsidiary” means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5 per cent. of the consolidated gross assets, or, as the case may be, consolidated gross revenues of the Issuer and its consolidated Subsidiaries or any other Subsidiary to which is transferred either (a) all or substantially all of the assets of another Subsidiary which immediately prior to the transfer was a Material Subsidiary or (b) sufficient assets of the Issuer that such Subsidiary would have been a Material Subsidiary had the transfer occurred on or before either (i) the date of the most recent audited consolidated accounts of the Issuer or (ii) if management accounts or other unaudited financial statements of the Issuer are available for any period subsequent to the most recent audited consolidated accounts, such accounts or financial statements and, for these purposes:

- (a) the gross assets and gross revenues of a Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts or other financial statements); and
- (b) 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 (or, if none, its then most recent consolidated management accounts or other unaudited consolidated financial statements);

“Maturity Date” has the meaning given in the relevant Pricing Supplement;

“Minimum Redemption Amount” has the meaning given in the relevant Pricing Supplement;

“Optional Redemption Amount (Call)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Amount (Put)” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

“Optional Redemption Date (Call)” has the meaning given in the relevant Pricing Supplement;

“Optional Redemption Date (Put)” has the meaning given in the relevant Pricing Supplement;

“Participating Member State” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“Payment Business Day” means:

- (a) if the currency of payment is euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation

and payment of bearer debt securities and for dealings in foreign currencies; and

- (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre and which, if the currency of payment is Australian dollars or New Zealand dollars, shall be Melbourne and Wellington, respectively;

“Permitted Security Interest” means any Security Interest (A) granted in favour of the Issuer by any Subsidiary to secure Indebtedness for Borrowed Money owed by such entity to the Issuer, (B) which arises pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings or as security for costs and expenses in any such proceedings, so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings, (C) being liens or rights of set-off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of set-off with respect to demand or time deposits maintained with financial institutions and bankers’ liens with respect to property of the Issuer held by financial institutions, (D) arising in the ordinary course of the Issuer’s or a Subsidiary’s business and (a) which are necessary in order to enable the Issuer or such Subsidiary to comply with any mandatory or customary requirement imposed on it by a banking or other regulatory authority in connection with the Issuer’s or such Subsidiary’s business or (b) limited to deposits made in the name of the Issuer or such Subsidiary to secure obligations of the Issuer’s or such Subsidiary’s customers, (E) on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property, provided that any such encumbrance secures only rentals and other amounts payable under such lease, (F) arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market (and not for the purpose of raising credit or funds for the operation of the Issuer or any Subsidiary), in connection with (a) contracts entered into substantially simultaneously for sales and purchases at market prices of securities, (b) the establishment of margin deposits and similar securities in connection with interest rate and foreign currency hedging operations and trading in securities or precious metals or (c) the Issuer’s foreign exchange dealings or other proprietary trading activities including, without limitation, Repos, (G) 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 and (H) 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;

“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 separate legal personality;

“Principal Financial Centre” means, in relation to any currency, the principal financial centre for that currency provided, however, that:

- (a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and



(b) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“Put Option Notice” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Put Option Receipt” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“Rate of Interest” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement”;

“Redemption Amount” means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

“Reference Banks” has the meaning given in the relevant Pricing Supplement or, if none, four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

“Reference Price” has the meaning given in the relevant Pricing Supplement;

“Reference Rate” has the meaning given in the relevant Pricing Supplement;

“Relevant Date” means, in relation to any payment, 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 the Principal Financial Centre of the currency of payment 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;

“Relevant Financial Centre” has the meaning given in the relevant Pricing Supplement;

“Relevant Indebtedness” means any Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

“Relevant Screen Page” means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 Money Rates Service and Bridge/Telerate) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“Relevant Time” has the meaning given in the relevant Pricing Supplement;

“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 derivative thereof, whether issued by any private or public company, any government or agency or instrumentality thereof or any supernatural,

international or multilateral organisation.

“Reserved Matter” means 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 any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“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;

“Specified Currency” has the meaning given in the relevant Pricing Supplement;

“Specified Denomination(s)” has the meaning given in the relevant Pricing Supplement;

“Specified Interest Payment Date” has the meaning given in the relevant Pricing Supplement;

“Specified Office” has the meaning given in the Trust Deed;

“Specified Period” has the meaning given in the relevant Pricing Supplement;

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

“Talon” means a talon for further Coupons;

“Tangible Net Worth” means, at any time, the aggregate amount of the paid up share capital of the Issuer plus or minus the aggregate amount standing to the credit of the consolidated capital accounts or reserves (including reserve capital, other reserve capital and profit (or loss) for the relevant period) as shown in the then latest financial statements of the Issuer (prepared in accordance with international accounting standards published from time to time by the International Accounting Standards Committee), but:

- (a) adjusted as may be appropriate to take account of any variation in such share capital and amounts standing to the credit of the share premium account since the date to which the said financial statements shall have been made up;
- (b) excluding any capital accounts or reserves derived from any writing up of the book value of any assets of the Issuer above historic cost less accumulated depreciation, the amount of any reserves for deferred taxation and any other amounts specifically provided for, amounts of goodwill and of all other intangible assets and any amount which is attributable to minority interests; and
- (c) deducting any distribution by the Issuer out of profits earned prior to the date of such financial statements recommended, declared or paid since such date insofar as such distribution was not provided for in such financial statements;

“TARGET Settlement Day” means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

“Treaty” means the Treaty establishing the European Communities, as amended; and

“Zero Coupon Note” means a Note specified as such in the relevant Pricing Supplement.

2.2 In these Conditions:

- (a) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (b) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (c) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (d) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 8, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (e) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 8 and any other amount in the nature of interest payable pursuant to these Conditions;
- (f) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement; and
- (g) if an expression is stated in Condition 2.1 to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes.

### **3. FORM, DENOMINATION AND TITLE**

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. 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.

### **4. STATUS**

The Notes and Coupons constitute direct, general and unconditional obligations of the Issuer, which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

### **5. NEGATIVE PLEDGE AND COVENANT**

- 5.1 So long as any Note remains outstanding the Issuer shall not, and shall not permit any Material Subsidiary to, create, incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of their respective undertakings, assets or revenues, present or future, to secure any Indebtedness for Borrowed

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

- 5.2 So long as any Note remains outstanding, the Issuer shall ensure that it is fully in compliance with the Law on Development Bank of Kazakhstan of 25 April 2001, as amended (the "DBK Law") and the Memorandum on Credit Policy of the Issuer referred to in the DBK Law, as amended (the "Memorandum").
- 5.3 Notwithstanding the provisions of Condition 5.2, so long as any Note remains outstanding, the Issuer shall:
- (a) ensure that its Tangible Net Worth shall not at any time be less than KZT28,000,000,000; and
  - (b) not pay or cause to be paid 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 at any time.

## **6. FIXED RATE NOTE PROVISIONS**

- 6.1 This Condition 6 is applicable to the Notes only if the relevant Pricing Supplement specifies the Fixed Rate Note Provisions as being applicable.
- 6.2 The Notes bear interest on the outstanding principal amount from the Interest Commencement Date at the rate(s) per annum equal to Rate(s) of Interest payable in arrear on each Interest Payment Date in each year and on the Maturity Date if that does not fall on Interest Payment Date, subject as provided in Condition 11. Unless otherwise specified in the relevant Pricing Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the relevant Pricing Supplement, amount to the Broken Amount(s) so specified.
- 6.3 If interest is required to be calculated for a period ending other than on an Interest Payment Date, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. In these Conditions "sub-unit" means, with respect of any currency other than the euro, the lowest amount of such currency that is available as legal tender in the country of such currency, and with respect to euro means one cent.
- 6.4 For the purposes of these Conditions, "Day Count Fraction" means:
- (a) if "Actual/Actual (ISMA)" is specified in the relevant Pricing Supplement:
    - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "Accrual Period") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as

specified in the relevant Pricing Supplement) that would occur in one calendar year; or

- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (x) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Dates (as specified in the relevant Pricing Supplement) that would occur in one calendar year; and
  - (y) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (i) the number of days in such Determination Period and (ii) the number of Determination Dates that would occur in one calendar year; and
- (b) if “30/360” is specified in the relevant Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

## **7. FLOATING RATE NOTE AND INDEX-LINKED INTEREST NOTE PROVISIONS**

7.1 This Condition 7 is applicable to the Notes only if the relevant Pricing Supplement specifies the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions as being applicable.

7.2 The Notes bear interest on the outstanding principal amount from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (a) the Specified Interest Payment Date(s) (each, an “Interest Payment Date”) in each year specified in the relevant Pricing Supplement; or
- (b) if no Specified Interest Payment Date(s) is/are specified in the relevant Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an “Interest Payment Date”) which falls in the number of months or other period specified as the Specified Period in the relevant Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall in these Conditions, mean the period from (and including) an Interest Payment Date (or, as the case may be, the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

7.3 The Rate of Interest payable from time to time in respect of the Notes will be determined in the manner specified in the relevant Pricing Supplement.

- (a) Where Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be either:

- (i) the offered quotation; or
- (ii) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (i) above, no such offered quotation appears or, in the case of (ii) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Pricing Supplement.

- (b) Where ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;
  - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and
  - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

7.4 If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

7.5 If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum

or be less than the minimum so specified.

- 7.6 The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, determine the Rate of Interest for the relevant Interest Period and calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the principal amount of such Note during such Interest Period and multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.
- 7.7 If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.
- 7.8 The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders in accordance with Condition 19. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
- 7.9 All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

## **8. ZERO COUPON NOTE PROVISIONS**

- 8.1 This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- 8.2 If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
- (a) the Reference Price; and
  - (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) 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 (ii) the day which is seven days after the Principal Paying Agent 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).

## **9. DUAL CURRENCY NOTE PROVISIONS**

- 9.1 This Condition 9 is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- 9.2 If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

## **10. REDEMPTION AND PURCHASE**

- 10.1 Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11.
- 10.2 The Notes may be redeemed at the option of the Issuer in whole, but not in part:
- (a) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable); or
  - (b) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 19 (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (i) the Issuer satisfies the Trustee immediately before the giving of notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 12 as a result of any change in, or amendment to, the laws or regulations of Kazakhstan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; 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:

- (A) where the Notes may be redeemed at any time, 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; or
- (B) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before 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 (A) 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 (B) an opinion 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. Upon the expiry of any such notice as is referred to in this Condition 10.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 10.2.

- 10.3 If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).
- 10.4 If the Notes are to be redeemed in part only on any date in accordance with Condition 10.3, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange, and/or quotation system (if any) on which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 10.3 on which the Notes are then listed, and the notice to Noteholders referred to in Condition 10.3 shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- 10.5 If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10.5, the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10.5, may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10.5, the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.
- 10.6 The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs 10.1 to 10.5 above.
- 10.7 Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be

an amount equal to the sum of:

- (a) the Reference Price; and
- (b) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10.7 or, if none is so specified, a Day Count Fraction of 30E/360.

- 10.8 The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith.
- 10.9 All Notes which are redeemed pursuant to Conditions 10.1 to 10.6 by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold. All Notes so cancelled and all Notes purchased and cancelled pursuant to Condition 10.8 (together with all unmatured Coupons) shall be forwarded to the Principal Paying Agent.

## **11. PAYMENTS**

- 11.1 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 cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- 11.2 Payments of interest shall, subject to Condition 11.7 below, 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 11.1.
- 11.3 Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) 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 the currency in which the payment is due when due, (ii) 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 (iii) payment is permitted by applicable United States law.
- 11.4 All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- 11.5 If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:
  - (a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, 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 amount of principal due for payment, 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 amount of principal due for payment;

- (b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
  - (i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “Relevant Coupons”) being equal to the amount of principal due for payment; provided, however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
  - (ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) 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 amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

- 11.6 If the relevant Pricing Supplement specifies that this Condition 11.6 is applicable or that the Floating Rate Note Provisions or the Index- Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Conditions 10.2, 10.3, 10.4 or 10.5, all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- 11.7 If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- 11.8 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 11.3 above).
- 11.9 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.
- 11.10 On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14. Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

## **12. TAXATION**

- 12.1 All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer 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 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 presented for payment:
- (a) by a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with Kazakhstan other than the mere holding of such Note or Coupon; or
  - (b) 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
  - (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the Taxation of Savings Income (Directive 2003/48/EC) or any law implementing or complying with, or introduced in order to conform to, such Directive; or
  - (d) presented for payment by or on behalf of a holder who would be 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.
- 12.2 If the Issuer becomes subject at any time to any taxing jurisdiction other than Kazakhstan respectively, references in these Conditions to Kazakhstan shall be construed as references to Kazakhstan and/or such other jurisdiction.

## **13. 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:

- 13.1 the Issuer fails to pay the principal of any of the Notes when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or Additional Amounts on any of the Notes and such default in respect of interest or Additional Amounts continues for a period of seven days; or
- 13.2 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 13) and such default or breach is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer by the Trustee; or
- 13.3 (a) any Indebtedness for Borrowed Money of the Issuer or any Material Subsidiary (i) becomes (or becomes capable of being declared) due and payable prior to the due date for

payment thereof or (ii) is not repaid at maturity as extended by the period of grace, if any, applicable thereto or (b) any Indebtedness Guarantee given by the Issuer or any Material Subsidiary in respect of Indebtedness for Borrowed Money of any other Person is not honoured when due and called, provided that the aggregate principal amount of such Indebtedness for Borrowed Money exceeds U.S.\$10,000,000 (or its equivalent in other currencies (as determined by the Trustee)); or

- 13.4 (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 Material Subsidiary or all or (in the opinion of the Trustee) 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 Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its property or (in the opinion of the Trustee) substantially all thereof, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness and, in any case as is specified in this Condition 13.4 in relation to a Material Subsidiary, the event is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or
- 13.5 the Issuer makes or threatens to make any substantial change in the principal nature of its business as presently conducted which is (in the opinion of the Trustee) materially prejudicial to the interests of the Noteholders; or
- 13.6 the Issuer fails to take any action as is required of it under the DBK Law, the Memorandum or any 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
- 13.7 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
- 13.8 (a) the validity of the Notes, the Trust Deed or the Agency Agreement is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes, the Trust Deed or the Agency Agreement (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (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 or (d) the DBK Law is repealed and, following the occurrence of any of the events specified in this Condition 13, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or

- 13.9 (a) all or any substantial part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (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 13.9, the Trustee is of the opinion that such occurrence is materially prejudicial to the interests of the Noteholders; or
- 13.10 the Republic of Kazakhstan ceases to be a member, or eligible to use the general resources of the International Monetary Fund; or
- 13.11 the Republic of Kazakhstan takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an agreement or composition with or for the benefit of its creditors or a moratorium is declared in respect of the payment of any class of obligations of the Republic of Kazakhstan (such payment being due in a currency other than the lawful currency for the time being of the Republic of Kazakhstan); or
- 13.12 the Government of the Republic of Kazakhstan and the regional authorities of the Republic of Kazakhstan who, together, are the registered holders of the entire issued and outstanding share capital of the Issuer as at 27 September 2002 (together, the “Existing Shareholders”) cease to own directly 100 per cent. of the paid-up share capital of the Issuer, *provided, however, that* in the event that any Existing Shareholder sells, transfers or otherwise disposes of part of its shareholding to one or more supranational entities established by treaty each having a credit rating assigned by at least one statistical rating organisation generally recognised by banks, securities houses and investors in the European financial markets of AA or its equivalent (both at the time of such sale, transfer or disposal and so long as such supranational entity owns any shares of the Issuer), such event shall not constitute an Event of Default under this Condition 13.12. Notwithstanding any other provision of this Condition 13.12 to the contrary, if at any time the Government of the Republic of Kazakhstan ceases to own directly 51 per cent. or more of the paid-up share capital of the Issuer, such circumstance shall constitute an Event of Default under this Condition 13.12.

#### **14. 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.

#### **15. 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, if the Notes are then admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such listing authority stock exchange or quotation system), subject to all applicable laws and listing authority stock exchange or quotation system 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.

## **16. AGENTS**

- 16.1 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, in certain circumstances, the Trustee. The Paying Agents do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.
- 16.2 The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer, with the prior written approval of the Trustee, reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor Principal Paying Agent or Calculation Agent and additional or successor paying agents; provided, however, that:
- (a) the Issuer shall at all times maintain a Principal Paying Agent;
  - (b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent;
  - (c) if and for so long as the Notes are admitted to listing, trading and/or quotation, by any listing authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer shall maintain a Paying Agent having its Specified Office in the place required by such listing authority, stock exchange or quotation system; and
  - (d) the Issuer shall maintain a Paying Agent 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 income 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.

## **17. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER AND ENFORCEMENT**

- 17.1 The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer and shall be convened by the Issuer upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that Reserved Matters 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.

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

- 17.2 The Trustee may agree, without the consent of the Noteholders or Couponholders, to (a) any modification of any of the provisions of the Trust Deed that is of a formal, minor or technical nature or is made to correct a manifest error, (b) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed and (c) determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) will not be treated as such, provided that such modification, waiver or determination is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.
- 17.3 At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes (whether by arbitration or by litigation), but it need not take any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in principal amount of the Notes outstanding and (b) it shall have been indemnified to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.
- 17.4 The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances and to be paid its costs and expenses in priority to claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.
- 17.5 In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

## **18. FURTHER ISSUES AND CONSOLIDATION**

- 18.1 The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, 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 Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides.
- 18.2 The Issuer may, with the prior approval of the Trustee and the Principal Paying Agent (which shall not be unreasonably withheld), from time to time on any Interest Payment Date occurring on or after the Redenomination Date (as defined in Condition 22) on giving not less than 30 days' prior notice to the Noteholders in accordance with Condition 19, without the consent of the Noteholders or Couponholders, consolidate the Notes of one Series with the Notes of one or more other Series issued by it, whether or not originally issued in one of the European national currencies or in Euro, provided such other Notes have been redenominated in Euro (if not originally denominated in Euro) and which otherwise have, in respect of all periods subsequent to such consolidation, the same terms and conditions as the Notes.



## **19. NOTICES**

Notices to the Noteholders shall be valid if published in a leading daily newspaper of general circulation in Europe and so long as the Notes are listed on any stock exchange, in a leading daily newspaper with general circulation in the city or cities where the stock exchange(s) on which the Notes are listed (which in the case of the Luxembourg Stock Exchange, is expected to be the *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

## **20. CURRENCY INDEMNITY**

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

## **21. ROUNDING**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

## **22. REDENOMINATION**

- 22.1 This Condition 22 is applicable to the Notes only if it is specified in the relevant Pricing Supplement as being applicable.
- 22.2 If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days’ prior notice to the Trustee, the Noteholders and the Paying Agents, designate a date (the “Redenomination Date”), being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State.

22.3 Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:

- (a) the Notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each Note equal to the principal amount of that Note in the Specified Currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Trustee and the Principal Paying Agent that the then market practice in respect of the re-denomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and Couponholders, each listing authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;
- (b) if Notes have been issued in definitive form:
  - (i) all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date (the “Euro Exchange Date”) on which the Issuer gives notice (the “Euro Exchange Notice”) to the Trustee and the Noteholders that replacement Notes and Coupons denominated in euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
  - (ii) the payment obligations contained in all Notes denominated in the Specified Currency will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 22) shall remain in full force and effect; and
  - (iii) new Notes and Coupons denominated in euro will be issued in exchange for Notes and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice; and
- (c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as the Specified Currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Member State of the European Communities.

22.4 Following redenomination of the Notes pursuant to this Condition 22, where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate principal amount of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder.

22.5 If the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, with effect from the Redenomination Date the Interest Determination date shall be deemed to be the second

TARGET Settlement Day before the first day of the relevant Interest Period.

### **23. GOVERNING LAW, JURISDICTION AND ARBITRATION**

- 23.1 The Trust Deed, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.
- 23.2 Subject to Condition 23.6, the Issuer has agreed in the Trust Deed for the benefit of the Noteholders and the Couponholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings which may arise out of or in connection with the Notes (“Proceedings”) and, for such purposes, irrevocably submits to the jurisdiction of such courts.
- 23.3 Subject to Condition 23.6, the submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Noteholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.
- 23.4 For the purpose of Conditions 23.2 and 23.3, the Issuer has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.
- 23.5 The Issuer has agreed that the process by which any Proceedings in England are begun may be served on it by being delivered to Bracewell & Patterson LLP at 1 Cornhill, London EC3V 3ND, England or, if different, its registered office for the time being or at any address of the Issuer or in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such Person is not or ceases to be effectively appointed to accept service of process on the Issuer’s behalf, the Issuer shall, on the written demand of any Noteholder addressed to the Issuer or and delivered to the Issuer or to the Specified Office of the Principal Paying Agent, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a Person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Principal Paying Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.
- 23.6 The Issuer has agreed in the Trust Deed 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 (the “Rules”) as at present in force and as modified by this Condition, which Rules shall be deemed incorporated in this Condition. The number of arbitrators shall be three. The parties may nominate and the London Court of International Arbitration may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. Each arbitrator appointed shall be a lawyer experienced in international securities transactions. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.
- 23.7 The Issuer has consented generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.
- 23.8 In relation to any Proceedings and to the enforcement of any judgment, order or award

(whether or not given or made in those Proceedings), to the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

**24. RIGHTS OF THIRD PARTIES**

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

## CAPITALISATION

The following table sets out the total capitalisation of the Issuer as at 30 June 2003.

	As at 30 June 2003	
	(U.S. \$ thousand) <sup>(1)</sup>	(KZT thousand)
Long-term Debt:		
U.S.\$100 million 7.125 per cent notes due 2007.....	99,248	14,688,745
KZT 4.5 billion 8.5 per cent notes due 2007 .....	30,016	4,442,402
Total long-term debt.....	129,264	19,131,147
Shareholders' Equity:		
Share capital <sup>(2)</sup> .....	202,702	30,000,000
Retained earnings .....	22,441	3,321,244
Total shareholders' equity.....	225,143	33,321,244
Total capitalisation.....	354,407	52,452,391

### Notes

(1) U.S.\$1: KZT148.0.

(2) Comprises of 600,000 common shares of par value KZT50,000 each. In July 2003, the Issuer's share capital increased to KZT37,700,000 comprising of 754,000 common shares of par value KZT50,000 each.

Other than as set forth in the notes to the capitalisation table, there has been no material change to the capitalisation of the Issuer since 30 June 2002.

## JSC DEVELOPMENT BANK OF KAZAKHSTAN

### General

The Issuer was registered on 31 May 2001 as Closed Joint Stock Company Development Bank of the Republic of Kazakhstan. Its governing legislation comprises a Presidential Decree dated 28 December 2001, the Law On Development Bank of Kazakhstan dated 25 April 2001, No. 178-II, as amended (the “DBK Law”), the Resolution of the Government dated 12 September 2001, No. 1187 On Credit Policy of the Development Bank of Kazakhstan for 2001-2003 (the “Memorandum”) and other normative acts regulating the activities of the Issuer. In August 2003, the Issuer was re-registered as Joint Stock Company Development Bank of the Republic of Kazakhstan to comply with the requirements of the new law on Joint Stock Companies in Kazakhstan adopted in May 2003. The Issuer was re-registered with the Ministry of Justice on 18 August 2003 under re-registration number No.4686-1900-AO.

The Issuer’s legal address is Republic Avenue 66/1, Astana, 473000, Republic of Kazakhstan.

### Purpose and Authority

The Issuer’s stated purpose is to stimulate the development of industrial infrastructure and processing industries in Kazakhstan and to attract foreign and domestic investment into Kazakhstan’s economy. To promote such purpose, the Issuer provides medium and long-term financing for investment projects (of not less than U.S.\$5 million) and export transactions (of not less than U.S.\$1 million) by companies operating in various priority sectors of economy, as set out in the Memorandum. The Issuer may not invest in sectors of the economy regarded as having already received significant foreign and domestic investment, such as oil and gas production or exploration. See “—Lending”.

The Issuer’s investments are funded through the issuance and placement of bonds domestically and internationally and through borrowings from financial institutions and loans financed from the state and local budgets. To strengthen the Issuer's financial intermediary position, the NBK pursuant to the Resolution dated 25 July 2003, No. 253 assigned the Issuer “financial agency” status, which exempts payments made relating to any debt securities issued by the Issuer from taxes payable in Kazakhstan.

In addition to financing investment projects and export-related transactions, the Issuer acts as a collection and payment agent for the Government and local authorities in connection with the investment projects financed from the state and local budgets and Government guaranteed loans. The Issuer also acts as a financial advisor and consultant to its customers in relation to the projects financed by the Issuer.

Under the DBK Law, as amended in 2002, the Issuer is authorised to engage in the following activities: (a) lending and issuing guarantees to companies; (b) opening and maintaining special conditional and reserve accounts in connection with Government guaranteed loans; (c) opening and maintaining bank accounts for servicing loans of the Issuer and the loans financed from state and local budgets; (d) money transfers for its customers; (e) collecting certain payments for its customers; (f) issuing debt securities; (g) leasing its own property; and (h) dealing in Government securities as well as other securities as allowed by the banking laws of Kazakhstan. The Issuer may not lend to, or issue guarantees to secure obligations of, individuals, banks, credit unions, non-state pension funds, pension asset management investment funds [*Query: what are these funds?*], insurance companies and other financial institutions.

The Issuer may also offer other banking products and services not specifically authorised by the DBK Law, pursuant to an appropriate banking licence from the NBK. The NBK’s banking licence No. 253, dated 12 October 2001, authorises the Issuer to offer the following banking products and services: (a) trust operations; (b) issuance and confirmation of letters of credit; and (c) financial leasing.

## **Government Control and Supervision**

As at 30 June 2003, the Issuer was the largest bank in the Republic in terms of paid-in share capital of KZT30 billion, of which 75 per cent was held by the Government and the remainder by regional authorities of all 14 regions in the Republic, Almaty and Astana cities, which under the DBK Law, are the only permitted shareholders of the Issuer. In July 2003, the Government made an additional investment of KZT7.7 billion to increase its holding in the Issuer's share capital to 81 per cent, thus increasing authorised and paid-in share capital of the Issuer to KZT37.7 billion. The DBK Law provides that the Government shall maintain a controlling shareholding in the Issuer. As such, the Government is able to determine all matters that require approval by the General Shareholders' Meeting of the Issuer. See "Management—General".

Pursuant to the Resolution of the Government dated December 23, 2002, No. 1343, the authority to manage the Government owned shares of the Issuer together with the voting rights were delegated to the Ministry of Economy and Budget Planning. The Ministry of Economy and Budget Planning also has supervisory powers over the Issuer and monitors compliance by the Issuer with the Memorandum and as such, has the ability to control, to a limited extent, the Issuer's obligations in the both domestic and foreign capital markets. See "Ministry of Economy and Budget Planning Comfort Letter". Until December 2002, such authorities and functions were vested with the Ministry of Finance. [*Query: has the MoF retained any of these functions?*]

The DBK Law requires the Issuer to submit its annual audited financial statements to the Government and Parliament for review. Under the Memorandum, the Issuer is also required, mainly for statistical purposes, to submit monthly, quarterly and annual reports to the NBK, mainly for statistical purposes. The NBK is responsible for the supervision of the Issuer's operations on money transfers and banking operations covered by its banking licence.

## **Competition**

The Issuer is the largest bank in Kazakhstan in terms of paid-in share capital, which as of 30 June 2003, amounted to KZT30 billion and was further increased to KZT37.7 billion in July 2003. See "The Banking Sector in Kazakhstan". However, since pursuant to the DBK Law, the Issuer's main focus is on medium (not less than 5 years) and long-term (10 to 20 years) financings, unlike local commercial banks that generally provide financing for up to 3 years, the Issuer does not consider itself to be a competitor to such commercial banks. However, the Issuer attempts to stimulate the commercial banks' interest in medium and long-term investment projects by promoting lending on a risk-sharing basis.

## **Strategy**

The Issuer's principal strategy is to provide low cost medium and long-term financings in the priority sectors of Kazakhstan's economy, as set out in the Memorandum, while maintaining a commercial rate of return on such financings. The Issuer intends to achieve this through (i) strengthening its position as a development financial institution, (ii) improving its funding base and (iii) effectively managing risks associated with its activities.

The components of this strategy are discussed below.

### **Strengthening its Position**

As part of its medium-term strategy, the Issuer intends to invest up to U.S.\$500 million in the priority sectors of the Kazakhstan economy by the end of 2005. As at 30 June 2003, the outstanding amount of investment projects and export-related credits financed by the Issuer equalled U.S.\$50.9 million and U.S.\$38.4 million, respectively. See "Lending". The Issuer's management believes that additional lending opportunities will appear as a result of implementation of various new Government

programmes to stimulate economic growth in Kazakhstan, in particular, the Industrial Innovation Development Strategy of Kazakhstan from 2003 through 2015. Under this Strategy the Government has established several financial institutions to stimulate development of the service sectors of Kazakhstan's economy. Specifically, the Government has established the Kazakhstan Investment Fund with an initial capitalisation of KZT3 billion, to make equity investments in a number of the non-extraction sectors in Kazakhstan; the Innovation Fund with an initial capitalisation of KZT3 billion, to make equity investments in the high technology sector in Kazakhstan; and Export Insurance Corporation with initial capitalisation of KZT7.7 billion, to provide credit enhancement under certain export related loans through insurance of political and regulatory risks. The Issuer believes that investments by such financial institutions will result in expansion and improvement of the Issuer's corporate borrowers' base. **[Add disclosure in the co-ordinating committee linking the Funds and DBK]**

The Issuer has entered into memoranda of understanding with several national companies to jointly participate in the financing of major infrastructure projects in Kazakhstan.

Following the demand from its customers, the Issuer contemplates extending credit lines to foreign exporters of products manufactured in Kazakhstan to further stimulate exports from Kazakhstan.

In June 2003, the DBK Law was amended to allow the Issuer to hold equity stakes in professional participants of the securities market in Kazakhstan, such as the stock exchange, central depository and in leasing companies. The Issuer intends to develop expertise in the leasing sector and believes that such expertise is complementary to the Issuer's other activities. In addition, as is customary for financial institutions in Kazakhstan, the Issuer intends to acquire minority equity stakes in the Kazakhstan Stock Exchange and the Central Depository of Kazakhstan and obtain a seat on the boards of such entities; membership of these institutions will reduce transaction costs.

The Issuer is constantly improving its operating efficiencies through investment in human resources and increasing the use of, and upgrading its, information technology. The Issuer has developed its own internal documentation and information network protection system allowing for efficient communication and data management. The Issuer has established internal and external training programmes designed to improve the skill base of its employees.

### **Improving Funding Base**

Under the DBK Law, the Issuer funds its operations by borrowing on the domestic and international capital markets and from state and local budgets. The Issuer is not allowed to fund itself through taking deposits.

In July 2002, ING Bank N.V. arranged a one year U.S.\$28 million syndicated loan facility to the Issuer which was fully repaid by the Issuer in July 2003. In 2002, the Issuer issued KZT4.5 billion 8.5 per cent. Notes due 2007 in the domestic markets and U.S.\$100 million 7.125 per cent. Notes due in 2007 under the Programme. The Issuer registered with the NBK an issue of KZT6.3 billion Notes, which the Issuer intends to issue in domestic markets over the course of the next few years.

Between April and August 2003, the Issuer entered into framework agreements with Bankgesellschaft Berlin AG, Deutsche Bank AG, Standard Bank London Limited and Citibank Kazakhstan CJSC to open trade-finance related credit facilities.

The 2003 State Budget allocates KZT 4.3 billion in the state budget to be lent to the Issuer by the end of 2003. The Issuer is currently negotiating the terms and conditions of the loan but, it is expected that the maturity of such loan shall be not less than 15 years and the interest rate shall be below market interest rates. See "Asset and Liability Management – Borrowings".

As at 30 June 2003, the Issuer's authorised and paid-in share capital equaled KZT30 billion. In July



2003, the Issuer's authorised and paid-in share capital was increased to KZT37.7 billion. The draft 2004 State Budget allocates KZT7.7 billion as an additional contribution to increase the Issuer's share capital in 2004. Under the DBK Law the Issuer may not use its share capital to finance investment projects. However, the Issuer is allowed to use its share capital to finance export-related transactions and to invest in high liquidity financial instruments. See "Asset and Liability Management—Investment Portfolio and Management of Share Capital". In addition, the DBK Law prohibits the Issuer from declaring and distributing dividends and requires net income earned by the Issuer to be retained as reserve capital.

## **Managing Risks**

The Issuer has established three key committees to manage its assets and risk associated with its activities: the Asset and Liability Committee (the "ALCO"), the Investment Committee and the Credit Committee.

The ALCO sets the basic lending rates for U.S. Dollar and Tenge loans. The Credit Committee, within the range of margins set out by ALCO, determines the specific margin for each project based upon criteria set by ALCO. The Investment Committee is responsible for managing the Issuer's treasury operations based upon investment criteria set out by the ALCO. The Issuer believes that the interaction of these three committees will allow it effectively to manage its assets and risks. See "Asset and Liability Management".

The main guidelines for the Issuer's risk management policies are set out in the Memorandum. The Issuer has also adopted its own standards and internal rules following consultation with various international development banks and has established provisioning procedures based on those required of commercial banks by the NBK.

The Issuer believes that by maintaining its conservative lending policies, including strict compliance with its various internal lending limits, credit and risk management policies, it will continue to demonstrate independence from the Government on its investment decisions.

## **Structure of the Issuer**

The Issuer's head office is in Astana. As at 30 June 2003, the Issuer had one representative office in Almaty for liaison with the various financial and credit institutions based there.

The Issuer has the following principal operating units: Treasury Operations, Project Financing, Project Analysis, Control of Financial Risks, Export Financing, Problem Credits and Sales of Non-Financial Assets, Borrowings and Structured Finance, Agency Finance and Strategic Planning. The operating units are supported by the Issuer's Finance Department, Operational Department, Department of Information Technologies, Department of Budget Planning, Procurement, Internal Audit, Legal, Monitoring and Methodology, International Relations Department and Administrative Department. The Issuer believes that its efficient organisational structure and the centralisation of its activities in its head office will help to control operating expenses.

## **Lending**

The Issuer, as a development financial institution, provides medium and long-term financing for investment projects and short-term trade financing of export operations in the priority sectors of the economy of Kazakhstan.

According to the Memorandum such priority sectors are:

- agricultural production
- oil and gas services other than research
- production of rubber and plastic goods
- the metallurgical industry

- oil, gas and condensate transportation systems
- production of food and beverages
- textile and leather-shoe production
- manufacturing of electric and electronic equipment
- forestry and wood production
- refined petroleum and nuclear fuel production
- the petrochemical and chemical industry
- machinery and equipment manufacture
- furniture production
- suppliers of electric power, gas, steam and hot water
- the construction industry
- transport, warehousing and communications
- production of pharmaceuticals
- transport infrastructure

The Issuer may not lend to sectors of the economy regarded as having already received significant foreign and domestic investment such as, oil and gas production or exploration.

As at 30 June 2003, the total amount of investment projects and export-related credits approved for financing by the Issuer equaled to U.S.\$79.2 million and U.S.\$82.7 million, respectively.

As at 30 June 2003, the outstanding amount of the investment projects financed by the Issuer was U.S.\$50.9 million. Details of the principal investment projects financed by the Issuer are as follows:

<b>Amount and term of the facility</b>	<b>Borrower</b>	<b>Investment Project Description</b>	<b>Amount drawn as at 30 June 2003</b>
U.S.\$11.7 million 11 years	LLP Tengiz Transportation	Acquisition of 300 tankers for liquified gas transportation. Primary customer: Tengizchevroil.	U.S.\$11.5 million
U.S.\$13.9 million 11 years	LLP Altyn Nan	Construction of maize processing plant for production of corn syrup and animal feed.	U.S.\$9.0 million
U.S.\$10.0 million 5 years	CJSC Kazakhstan Kagazy	Construction of plant for production of paper, corrugated cardboard and packaging materials for the food industry.	U.S.\$9.7 million
U.S.\$10.0 million 5.5 years	CJSC KazTransMorFlot	Construction of port infrastructure on Caspian Sea (Bautino). Primary customers: oil and gas companies.	U.S.\$6.2 million
U.S.\$5.9 million 7 years	LLP Atyrauneftemash	Reconstruction of Atyrau oil machinery plant.	U.S.\$1.9 million
U.S.\$7.5 million 7 years	OJSC Vita	Construction of plant for processing of oil-bearing soy-bean seeds.	U.S.\$7.5 million
U.S.\$7.5 million 9 years	LLP Semeteks	Modernisation of wool storing and production facility.	U.S.\$3.6 million
U.S.\$6.0 million 9 years	LLP Ecoton Plus	Construction of plant for manufacturing cellular concrete units.	U.S.\$1.5 million

As at 30 June 2003, the outstanding amount of the export related credits financed by the Issuer was U.S.\$38.4 million.

All of the above projects have involved some form of credit enhancement, generally in the form of a guarantee from a commercial bank, on average amounting to 60 per cent. of the principal amount financed. See “Asset and Liability Management—Counterparty Risk Management”.

The Issuer is currently reviewing credit applications to finance the investment projects and export-related transactions for the amounts of approximately U.S.\$1.1 billion and U.S.\$17.5 million, respectively. Details of some of the investment projects reviewed by the Issuer are as follows:

<b>Amount of the project</b>	<b>Borrower</b>	<b>Investment Project Description</b>	<b>Application for financing by Issuer</b>
U.S.\$15.2 million	LLP Amitek's Karasai Pipe	Construction of plant for production of glass fibre and polyester pipes and fittings plant in Aktobe.	U.S.\$10.2 million
U.S.\$15.6 million	LLP Hobas Pipes Kazakhstan	Construction of plant for production of glass fibre and polyester pipes and fittings plant in Astana.	U.S.\$14.6 million
U.S.\$17 million	OJSC Kaustik	Production of the chlorine and sodium hydrate.	U.S.\$11 million
U.S.\$90 million	OJSC Atyrau Refinery	Reconstruction of Atyrau Refinery.	U.S.\$25 million
	OJSC KEGOK	Construction of power stations infrastructure in Ekibastus region.	U.S.\$21 million
U.S.\$10.4 million	OJSC Agromashholding	Reconstruction of diesel plant in Kostanai.	U.S.\$27 million
	LLP Kazovoshprom	Creation of infrastructure facility for growing, storing and producing onions in Almaty region.	U.S.\$10.4 million
U.S.\$14.2 million	CJSC Shanyrak Hydro Power Station	Reconstruction of Shanyraskaya and Talaptinskaya hydro power stations.	U.S.\$12 million

## Agency Services

Pursuant to the DBK Law, the Issuer acts as a collection and payment agent for various investment projects financed from the state or local budgets or having Government guarantees. Such agency services do not involve the Issuer in any credit risk. Agency services include project monitoring, servicing of the payments and collections, including opening and maintaining special service and reserve accounts, collecting guarantee commitment fees from the state budget and enforcement of the loan on behalf of the Government. The scope of the Issuer's agency services and the fees for such services are defined by the relevant agency agreements between the parties who have received loans funded from the state or local budgets or Government guarantees.

As of 30 June 2003, the Issuer was providing agency services under seven credit facilities having Government guarantees in the amount of approximately U.S.\$407.1 million. The details of such credit facilities are as follows:

Total amount	Borrower			Description
U.S.\$19.7 million	State	Municipal	Enterprise	Modernisation of domestic waste removal equipment and environmental improvement of Almaty City.
U.S.\$27.4 million	CJSC Kazakhstan Temir Zholy			Reconstruction of Almaty-Astana rail route.
U.S.\$25.0 million	OJSC International Atyrau Airport			Reconstruction of Atyrau airport runway.
U.S.\$207.0 million	CJSC National Company KazMunaiGas			Reconstruction and modernisation of the Atyrau oil refinery.
(Yen 24,798 million)				
U.S.\$69.0 million	OJSC Kazakhstan Airlines			Acquisition of Boeing 767-200 aircraft.
U.S.\$31.3 million	Major Office of Almaty City			Rehabilitation and modernisation of water supply and sewage systems of Almaty City.
(Euro 27.4 million)				
U.S.\$27.7 million	Members of Consumer Co-operatives and Associations of Water-users			Reconstruction of drainage and irrigation systems.

### Financial Advisory Services

The Issuer provides financial advisory services to its customers to assist them in the development of the technical and economic bases of investment projects. The Issuer also provides corporate borrowers with assistance in market analysis, finance structure and terms and drafting project and credit documents in compliance with the internationally recognised requirements of various multilateral development banks.

As of 30 June 2003 the Issuer had collected KZT4.9 million in fees for financial advisory services.

### International Banking

The Issuer maintains relationships with international development organisations and financial institutions such as the International Monetary Fund, the World Bank, the Islamic Bank, the Asian Development Bank and the European Bank for Reconstruction and Development. Through the resulting exchanges of information and experience with such entities, the Issuer believes that it will be more able to further its statutory objectives. The Issuer has also been appointed national co-ordinator and operator for the Islamic Corporation for Private Sector Development.

The Issuer maintains correspondent banking relationships with numerous banks including ING Bank N.V., Deutsche Bank AG, Commerzbank AG, Citibank N.A., Dresener Bank AG, and JP Morgan Chase Bank.

### Employees

As at 30 June 2003, the Issuer had 103 full-time employees. The Issuer has not entered into any collective labour agreements nor are any of its employees members of a labour union. The Issuer has not experienced any work stoppages resulting from labour disputes. The average age of the Issuer's employees is 31 years and all employees in professional positions hold university degrees.

### Technology

The Issuer has developed its own internal documentation and information network protection system allowing efficient communication and data management. The Issuer is committed to further upgrading and maintaining its information technology systems.

**Legal Proceedings**

The Issuer is not a party to any material legal proceedings and there are no material legal proceedings pending or, to the best knowledge of the Issuer, threatened with respect to its properties or assets.

## **ASSET AND LIABILITY MANAGEMENT**

### **General**

The Issuer's operations are subject to a variety of risks, some of which are not within its control. These include risks relating to changes in interest rates, foreign exchange rates, declines in liquidity and deterioration in the credit quality of its loan and securities portfolios. The Issuer monitors and manages the maturities of its loans, interest rate exposure, exchange rate exposure and credit quality in order to minimise the effect of changes relative to the Issuer's profitability and liquidity position.

To manage risk the Issuer has established (i) the ALCO, (ii) the Credit Committee and (iii) the Investment Committee, which are responsible for devising, implementing and monitoring the Issuer's risk policies, including financial, credit and market risks. The basic credit policy of the Issuer is set out and governed by the Memorandum. The Issuer has also adopted and follows a comprehensive Asset and Liability Management Strategy to facilitate management of credit risks.

### **Asset and Liability Committee**

The overall asset and liability position of the Issuer is monitored and managed by the ALCO. The ALCO is a permanent collective body that consists of 13 members and reports to the President. The ALCO regularly monitors the Issuer's liquidity position, maturity gaps, interest income and expenses of assets and liabilities and conditions of domestic and international financial markets. The ALCO is responsible for setting the Issuer's lending rates in both U.S. Dollars and Tenge, establishing the range of margins payable by borrowers and determining various limits and other criteria including individual lending limits and ratios for funding.

### **Credit Committee**

The Credit Committee implements the Issuer's credit policies and approves, in certain cases, loans and overall risk concentration by borrower, industry and geographic exposure. The Credit Committee has, among other functions, the responsibility for minimising credit risk and maximising growth of net income from lending operations. The Credit Committee is a permanent collective body of 13 and reports to the President. See "– Lending Policies and Procedures".

### **Investment Committee**

The Investment Committee monitors and manages the Issuer's treasury portfolio within the guidelines established by the ALCO. The Investment Committee is a permanent collective body of 11 members and reports to the President. The Investment Committee is responsible for the development of the Issuer's internal policy on investment portfolio management. Such policy seeks to minimise credit risk and maximise growth of net income from such treasury portfolio, analysis and monitoring of market conditions.

### **Interest Rate Management**

The Issuer's interest rate risk management activities aim to enhance profitability by limiting the effect of adverse interest rate movements and increasing interest income by managing interest rate exposure.

The following table shows interest rate sensitivity of the Issuer's interest-earning assets and interest-bearing liabilities as at 30 June 2003. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the periodic re-pricing of assets and liabilities. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on interest income:

	Maturity Profile at 30 June 2003					Total
	Less than 1 month	1 to 6 months	6 months to 1 year	1 to 5 years	Above 5 years	
<b>Monetary Assets</b>						
Cash and due from the NBK .....	2,436	-	-	-	-	2,436
Amount due from other banks .....	8,160,312	362,218	5,525,370	841	-	175,893
Amounts receivable under reverse repurchase agreements .....	27,008	-	-	17,862,345	-	17,889,353
Derivative financial assets .....	-	-	-	443,627	-	443,627
Investment Securities available for sale .....	-	-	1,323,024	4,270,379	143,881	5,737,248
held to maturity .....	535,137	-	300,949	6,754,412	-	7,590,498
Loans to customers, gross .....	361,075	129,364	4,035,036	7,314,678	1,621,502	13,461,655
Tax assets .....	-	-	2,085	-	-	2,085
Other assets .....	159	2,473	4,418	2,039	-	9,089
	<u>9,086,127</u>	<u>494,055</u>	<u>11,190,882</u>	<u>36,648,294</u>	<u>1,765,383</u>	59,184,741
<b>Monetary Liabilities</b>						
Amounts due to other banks .....	6,460,956	-	-	33,806	-	6,460,956
Amounts due to customers .....	79,525	-	9	-	-	79,534
Debt securities issued .....	-	139,700	234,333	18,757,114	-	19,131,147
Other liabilities .....	22,157	13,695	70,180	-	-	106,032
	<u>6,562,638</u>	<u>340,660</u>	<u>10,886,360</u>	<u>17,891,180</u>	<u>1,765,383</u>	33,407,072
Net position .....	2,523,489	340,660	10,886,360	17,891,180	1,765,383	33,407,072
Cumulated gap .....	<u>2,523,489</u>	<u>2,864,149</u>	<u>13,750,509</u>	<u>31,641,689</u>	<u>33,407,072</u>	

## Funding and Liquidity Management

### Introduction

The Issuer's funding and liquidity management policies seek to ensure that the Issuer has sufficient funds available to meet its operational needs. Liquidity risk arises in the general funding of the Issuer'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. To provide for unexpected short-term funding requirements, the Issuer invests its funds in highly liquid financial instruments.

In addition, the ALCO establishes and reviews the Issuer's liquidity guidelines. The following table provides certain information as to the Issuer's guidelines for liquidity ratios (as set by the ALCO for 2003 and 2004) and the Issuer's liquidity as at 30 June 2003:

	ALCO Requirement	30 June 2003
Loans/assets .....	100	43.6
Loans/equity .....	70	57
Liquid assets <sup>(1)</sup> /total assets .....	Not less than 30	71

Note:

(1) Liquid assets comprise securities plus cash and cash equivalents.

The Issuer's activities are funded through the issuance and placement of bonds, both domestically and internationally and through borrowings from financial institutions and loans financed from the state and local budgets. The Issuer is not permitted to open any current accounts and to attract deposits from customers that are not borrowers of the Issuer or not customers of the Issuer under the agency agreements. The Issuer is a collection and payment agent for the Government and the local authorities for servicing projects financed from the state and local budgets and Government guaranteed loans. Acting in its agency capacity, the Issuer has opened interest free current and interest bearing (at 1 per cent.) repayment accounts. The customers accumulate funds for repayment of the loans received from, or guaranteed by, the Government or funded from the local budgets.

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

	30 June 2003		31 December 2002	
	KZT million	(%)	KZT million	(%)
Amounts due to other banks.....	6,461	25.1	4,457	18
Amounts due to customers.....	80	0.3	51	0.2
Debt securities.....	19,131	74.2	20,105	81.1
Other liabilities.....	106	0.4	166	0.7
Total liabilities.....	25,778	100	24,779	100

## Borrowings

In July 2002, a syndicate of lenders led by ING Bank N.V. extended a one-year term loan facility (with an option to extend for two semi-annual periods) to the Issuer in a total amount of U.S.\$28 million. The Issuer fully repaid such loan in July 2003.

In June 2002, the Issuer raised short term loans for the total amount of KZT2,241 million from HSBC Bank and Halyk Bank OJSC. These loans were fully repaid by the Issuer at maturity in July 2003.

In 2002, the Issuer issued KZT4.4 billion indexed to U.S. Dollars 8.5 per cent. Notes due 2007 in the domestic market and U.S.\$100 million 7.125 per cent. Notes due 2007 under the Programme. In December 2002, the Issuer registered with the NBK an issue of KZT6.3 billion Notes, which the Issuer intends to issue in domestic markets over the course of the several next years.

In April 2002, the Government designated the Issuer as a successor and assignee of all rights and obligations of Eximbank Kazakhstan CJSC ("Eximbank") under three credit facilities extended by Kreditanstalt fur Weideraufbau and guaranteed by the Government. These credit facilities amounted in aggregate to EUR14.5 million. The proceeds of such credit facilities were used to fund Eximbank's sub-loans to various small and medium-sized businesses in the light, railway and construction industries. After various consultations with the Issuer, the Government decided not to proceed with the proposed assignment and revoked its designation in December 2002.

Additionally, in April 2002, the Government appointed the Issuer as collection and payment agent in place of Eximbank, for the following state loans:

- (a) Loan Agreement dated 25 June 1996 between Kazakhstan and the International Bank for Reconstruction and Development for irrigation and drainage systems improvement;
- (b) Loan Agreement dated 16 April 1996 between Kazakhstan and the European Bank for Reconstruction and Development for Reconstruction of Aktau Sea Port; and
- (c) Loan Agreement dated 5 December 1996 between Kazakhstan and the Japanese Fund for Economic Co-operation with Foreign Countries for railway infrastructure improvements.

The Issuer believes that the Government will revoke such appointment by the end of 2003.

Between April and August 2003, the Issuer entered into framework agreements with Bankgesellschaft Berlin AG, Deutsche Bank AG, Standard Bank London Limited and Citibank Kazakhstan CJSC to open trade-finance related credit facilities. The Issuer has not yet drawn down under any such facilities. The Issuer is also in negotiations with HSBC Bank, Dresdner Bank AG, Sanpaolo IMI Bank and ABN AMRO Bank for trade-finance related credit facilities.

The 2003 State Budget allocates KZT4.3 billion in the state budget to be lent to the Issuer by the end of 2003. The Issuer is currently negotiating the terms and conditions of the loan but, it is expected that the maturity of such loan shall be not less than 15 years and the interest rate shall be below



market interest rates.

### **Counterparty Risk Management**

The Issuer's total exposure to direct and contingent liabilities of any counterparty commercial bank may not exceed the lesser of (i) 25 per cent. of the Issuer's paid-in share capital, and (ii) 25 per cent. of the share capital of such counterparty commercial bank. All projects which have been financed to date by the Issuer have involved credit enhancement in the form of a guarantee from a commercial bank or banks, in an amount on average, equal to 60 per cent. of the value of the financing. The Issuer has approved lending limit policies in relation to the largest commercial banks in Kazakhstan with a view to increasing its permitted exposure to certain of these banks. Currently, the Issuer is considering accepting guarantees from non-bank financial institutions. The Issuer has entered into memoranda of understanding with several national companies such as: National Oil and Gas Company KazMunaiGas; and National Company KazTermirZholy jointly to participate in the financing of major infrastructure projects in Kazakhstan [and already extended loans guaranteed by national companies]. Additionally, the Issuer believes that as certain development projects move from the development and construction stages into operation, security interests in the operational assets and/or the borrowers' businesses will replace certain commercial bank guarantees. Accordingly, the Issuer believes that its loan portfolio growth will not be constrained due to slower growth of the commercial banking sector.

### **Foreign Currency Management**

The Issuer's Financial Risks Control Department monitors the Issuer's net open foreign currency position in relation to prevailing market conditions and outlook.

Although the net foreign currency positions of the Issuer are not subject to the NBK's supervision, the Issuer has adopted the NBK's prudential norms to monitor its foreign currency positions. According to current NBK regulations, the ratio of a bank's net open foreign currency position relative to its own capital must not exceed 50 per cent. and the net open foreign currency position for any currency of a country rated "A" or higher or the Euro must not exceed 30 per cent. of its own capital. The open long and short position for any currency of a country rated from "B" to "A" is limited to 5 per cent. and 15 per cent. of own capital, respectively. The NBK defines 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 following table shows details of the net foreign currency position of the Issuer as at the dates indicated:

	<u>30 June 2003</u>	<u>31 December 2002</u>
Net long (short) position (KZT million) .....	9,119	10,481
Net position as a percentage of shareholders' equity (%) .....	27.4	31.9
Net position as a percentage of foreign currency liabilities (%) .....	37.7	42.5

### **Capital adequacy**

Although the Issuer is not subject to the prudential requirements of the NBK applicable to the banks in Kazakhstan, the Issuer's ALCO, in conformity with the NBK's capital adequacy requirements, has established a Tier 1 capital ratio for the Issuer of not less than 6 per cent. As at 30 June 2003, the Issuer had a Tier 1 capital ratio of 55 per cent. In addition, in July 2003, following the assignment by the NBK to the Issuer of the financial agency status, the Issuer became subject to the prudential requirements of the NBK applicable to the financial agents to maintain a risk weighed capital

adequacy ratio of not less than 8 per cent. As at 29 September 2003, the Issuer had a risk weighted capital adequacy ratio of 34 per cent.

### Loan Portfolio

The Issuer provides medium and long-term financing for investment projects (of not less than U.S.\$5 million) and export transactions (of not less than U.S.\$1 million) of the businesses operating in various priority sectors of the economy, as set out in the Memorandum. See “JSC Development Bank of Kazakhstan—Lending”. Within the classification of the priority economy sectors as set forth in the Memorandum, the Issuer’s Board of Directors sets limits on the Issuer’s total exposure under the investment projects to a specific economic sector as a percentage of the Issuer’s own capital. Current limits include a maximum exposure of 40 per cent. to agricultural sector projects, 40 per cent to transportation sector projects, and 30 per cent. to construction projects. Exposure to other sectors are limited to 20 per cent of the Issuer’s own capital.

As at 30 June 2003, the Issuer’s gross loan portfolio equaled KZT13,462 million. As at 31 December 2002, the Issuer’s gross loan portfolio equaled to KZT11,976 million.

As at 30 June 2003, 10 major borrowers accounted for 88.66 per cent. of the Issuer’s gross loan portfolio and represented 35.8 per cent. of the Issuer’s shareholders’ equity. As at 31 December 2002, 10 major borrowers accounted for 95.25 per cent. of the Issuer’s gross loan portfolio and represented 34.8 per cent. of the Issuer’s shareholders’ equity.

The following table sets forth certain information as to the structure of the Issuer’s gross loan portfolio by industry sectors, as at the dates indicated:

	30 June 2003		31 December 2002	
	(KZT thousand)	(%)	(KZT thousand)	(%)
Agriculture.....	4,990,564	37	6,449,127	54
Transport .....	2,626,225	20	1,827,244	15
Paper production .....	1,474,329	11	1,383,557	11
Food industry.....	1,196,164	9	689,485	6
Machinery equipment.....	984,367	7	685,458	6
Electronic equipment .....	893,698	7	941,100	8
Textile industry .....	551,417	4	-	-
Rubber production.....	525,845	4	-	-
Construction .....	219,046	1	-	-
	<u>13,461,655</u>	<u>100</u>	<u>11,975,971</u>	<u>100</u>

In line with the Issuer's policy of limiting its exposure to currency fluctuations, the Issuer’s loan portfolio consists of non-Tenge loans, primarily in U.S. Dollars. Such policy is based on the historical trend of the devaluation of the Tenge relative to the U.S. Dollar. Accordingly, any strengthening in the value of the Tenge relative to the U.S. Dollar might result in increased costs to the Issuer. As at 31 December 2002, the Issuer had one Tenge denominated loan of KZT1,544 million. Such loan was indexed to the U.S. Dollar/Tenge exchange rate as set by the NBK.

The following table sets forth certain information as to the currency profile of the Issuer's gross loan portfolio as at the dates indicated:

	30 June 2003		31 December 2002	
	KZT million	(%)	KZT million	(%)
Tenge.....	-	-	1,544	13
U.S. Dollars.....	13,462	100	10,432	87
Total.....	<u>13,462</u>	<u>100</u>	<u>11,976</u>	<u>100</u>

## **Lending Policies and Procedures**

### **General**

The Memorandum sets forth guidelines in relation to the lending policies of the Issuer and concerning the terms, credit levels and interest rates charged for all lending. The Memorandum limits the exposure of the Issuer to any single borrower or group of borrowers to 25 per cent. of its equity. The Issuer's credit approval process is based on the Memorandum and internal procedures established by the Issuer's Board of Directors.

All credit applications must be submitted to the Issuer on its standard forms with a full package of supporting documentation attached. Depending on the type of the credit requested, the application is initially reviewed for compliance either by the Project Financing Department, in the case of an investment project, or by the Export Financing Division, in the case of an export credit. After the initial compliance review, the application is sent for review by the Legal and Project Analysis Departments. These departments undertake a thorough analysis of the application, including a feasibility study, financial, legal, credit analysis and an ecological and sociological evaluation of the proposed project. Following such analysis, each department then prepares a recommendation based on results of such analysis. In addition to the review by the Legal and Project Analysis Departments, the Issuer's Problem Loan and Sales of Non-Financial Assets Department makes an assessment of the collateral being offered including valuation, title, encumbrances and enforceability. The Issuer also carries out an investigation and appraisal of the potential borrower by obtaining references from various state agencies. All recommendations and information are then reviewed by the relevant credit manager responsible for the preparation of a credit dossier and the final recommendation to the Credit Committee.

The Issuer's Credit Committee examines the application and the credit dossier and evaluates the final recommendation of the credit manager. Depending on the type and the amount of the credit, the Credit Committee either makes the final credit decision, in the case of an export credits of up to U.S.\$5 million (or equivalent) or submits the application and the credit dossier together with its own recommendation to the Board of Directors for final credit decision.

### **Maturity Limit**

The maturity of the Issuer's loans depends on the type of loan. Maximum maturities are as follows:

<b>Nature of the Loan</b>	<b>Maturity</b>
Medium-term investment project.....	5 to 10 years
Long-term investment project.....	10 to 20 years
Export/Import loans .....	Any
Leasing .....	5 to 20 years

### **Collateralisation**

The Issuer is required by the DBK Law to request collateral from all borrowers. Acceptable collateral includes, but is not limited to, real estate, machinery and motor vehicles, industrial equipment, industrial goods and food stocks, other commercial goods, as well as cash deposits, domestic securities and bank guarantees. The Issuer estimates the net realisable value of the collateral provided and regularly monitors the quality of the collateral taken as security. In certain cases, additional collateral might be sought from the borrower. The following table sets out the loan amount as a percentage of collateral value based on the type of collateral.

Collateral Categories	Loan/Collateral Value (per cent.)
Cash or gold.....	100
Guarantees from financial institutions.....	100
Government debt securities.....	100
Guarantees from legal entities.....	80
Municipal debt securities.....	90
Real estate.....	70
Fixed assets.....	80
Equity securities and corporate debt securities.....	70
Commodities.....	50
Transport and agricultural equipment.....	40
Specialised transport.....	80

The following table sets forth the nominal amount of the Issuer's collateralised and non-collateralised loans and such percentage of total gross loans as at the dates indicated:

	30 June 2003		31 December 2002	
	KZT million	(%)	KZT million	(%)
Collateralised.....	13,462	100	11,976	100
Uncollateralised.....	0	0	0	0
Total gross loans.....	13,462	100	11,976	100

The laws of Kazakhstan allow a secured creditor to foreclose its collateral upon occurrence of a default either through judicial or 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) for such collateral after a 60-days' notice. Such practice has been upheld in the past by the courts of Kazakhstan. The Issuer's security documents provide for both non-judicial and judicial foreclosure. In Kazakhstan, security documents are registered with local specialised 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 such security over unregistered security. The Issuer requires all of its security to be so registered.

### Portfolio Supervision

Pursuant to the DBK Law, the Issuer classifies its loan portfolio in accordance with requirements established by the NBK. Using this classification, the Issuer can evaluate the quality of its loan portfolio and the provisioning requirements in relation to it.

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

Criteria	Grade	Criteria	Grade
<b>Financial Performance</b>		<b>Timeliness of Repayment on Other Loans</b>	
Stable	0	On time payments	0
Satisfactory	+1	Payments overdue	+1
Unstable	+2		
Critical	+4		
<b>Timeliness of Repayment of the Loan</b>		<b>Unauthorised Use of the Loan</b>	
On time payments	0	Up to 25%	0
Overdue by 1-30 days	+1.5	25 to 50% (non-inclusive)	1
Overdue by 31-60 days	+2.5	50 to 75% (non-inclusive)	2
Overdue by 61-90 days	+3.5	75 to 100% (non-inclusive)	3
Overdue by more than 90 days	+4.5	100% and more	4

<b>Quality of Collateral</b>		<b>Write-offs</b>	
Reliable	-3	None	0
Good	-2	Some	+2
Satisfactory	0		
Unsatisfactory	+1		
No collateral	+2		
<b>Extensions</b>		<b>International Rating</b>	
None	0	“A” and above	-3
Some	+ (number of extensions)	Above Kazakhstan sovereign to “A”	-2
		Kazakhstan sovereign	-1
		Below Kazakhstan sovereign	0

In relation to the Financial Performance criteria:

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

“*Satisfactory*” means that there are some indications of temporary deterioration in the financial performance of the customer such as a decrease in revenues, deterioration in cash position or market share or there are some external and/or internal factors that might affect the financial performance of the customer; although there is some probability of default, there is also an expectation that the customer can overcome such temporary problems.

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

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

In relation to the Quality of Collateral criteria:

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

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

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

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

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

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

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

Total classified loans under the NBK's classification comprise doubtful loans and loss loans. Total classified loans under IRFS comprise unsatisfactory loans, doubtful loans and loss loans.

The Issuer pays strict attention to the timeliness of debt repayments. Although it has no previous record of repayment problems, according to its internal policies the Issuer's determination as to whether a repayment problem has arisen is based on a number of objective and subjective criteria including: the loan classification as described above; applications to change credit terms; failure of the borrower or its counterparty to fulfil terms under a contract relating to the loan; refusal of a borrower to co-operate in supplying documentation; and evasion of the Issuer's officers by the borrower.

### **Provisioning Policy**

The Issuer carries out calculation of provisions on a monthly basis. The Issuer applies the classification matrix described above to determine the provisioning rate. The Issuer also creates a general provision of 2 per cent. of the value of each unclassified loan. The Issuer may also make specific provisions for possible loan losses on a case-by-case basis and actual provisions established take into account the Issuer's own experience and management's judgement as to the level of losses that will most likely be recognised. For this reason the actual provision levels may differ from the stated provisioning rates.

The Bank considers a loan to be non-performing when either interest or principal payments are past their due date by 30 days. At such time, the accrual of interest is suspended. The Issuer's internal policies require the Issuer to fully provision a loan if interest and principal have not been paid for more than 90 days or if management is of the opinion that the loan is uncollectable because the Issuer has been unable to collect the loan or to enforce its security.

As at 30 June 2003, all of the Issuer's loans were classified as standard and none of the Issuer's loans were non-performing.

### **Investment Portfolio and Management of Share Capital**

Although the Memorandum does not provide specific rules for investment of share capital, other than a prohibition against using such capital for investment project financing, the Issuer invests its share capital in highly liquid financial instruments according to criteria established by the Investment Committee.

The criteria established by the Investment Committee and approved by the Board of Directors of the Issuer dictates that approximately 30 per cent. of the overall investment portfolio should consist of short-term investments with the balance being longer term. In addition, the DBK Law as amended, provides that the Issuer may deal in the Government securities and other securities as allowed by the banking laws of Kazakhstan and the Memorandum. The above criteria and the requirements set forth in the DBK Law permit the Issuer's share capital to be invested in the following types of instruments: securities issued by the Government: the Ministry of Finance; the NBK or local authorities; securities issued by other sovereigns with credit ratings of not lower than A/A2; debt securities issued by multilateral financial institutions, such as the World Bank or EBRD; debt securities issued by domestic and foreign entities listed on the "A" board of the Kazakhstan Stock Exchange; reverse

repurchase and repurchase transactions with the NBK; and derivative transactions with local commercial banks or foreign counterparties with appropriate credit ratings. The Issuer intends to diversify its investments by expanding the criteria as set forth in the Memorandum to permit investments in debt securities issued by foreign entities and sovereigns with credit ratings not less than BBB/Baa3. Additionally, customarily with other financial institutions in Kazakhstan, the Issuer intends to acquire minority equity stakes in the Kazakhstan Stock Exchange and the Central Depository of Kazakhstan with a view to being represented on the boards of such entities.

As at 30 June 2003 the Issuer's securities portfolio totalled KZT13,327 million. A significant portion of the Issuer's securities portfolio consists of the securities issued by the Government, the Ministry of Finance, the NBK and local authorities, which, as at 30 June 2002, comprised 66.5 per cent. of the Issuer's securities portfolio. The remaining portfolio comprises of debt securities issued by Kazakhstan issuers. The Kazakhstan issuers include companies in oil transportation, food processing, telecommunications and banking sectors. The companies are believed by the Issuer to be of an acceptable credit risk. The Issuer does not currently hold securities issued by non-Kazakhstan entities or securities issued by foreign governments.

The following table shows the composition of securities held by the Issuer as at the dates indicated:

	<u>30 June 2003</u>	<u>31 December 2002</u>
	<u>KZT million</u>	
<b>Available for sale securities</b>		
Government notes .....	2,505	-
Corporate notes .....	3,232	3,067
<b>Held to maturity securities</b>		
Government notes .....	6,361	5,999
Corporate notes .....	1,229	1,292
<b>Total</b> .....	<u>13,327</u>	<u>10,358</u>

As at 30 June 2003, the Issuer has callable reverse repurchase agreements with the NBK, three long-term and one short-term. All four transactions are collateralised by debt securities issued by the Ministry of Finance. The principal financial terms of long-term agreements are as follows:

<u>Amount (KZT thousands)</u>	<u>Opening Date</u>	<u>Closing Date</u>	<u>Tenor (days)</u>	<u>Rate (per cent.)</u>
10,000	5 June 2001	30 November 2006	2004	11.5
1,110	20 July 2001	19 July 2007	2190	11.5
4,025	26 December 2001	28 November 2005	1433	9.0

The Issuer believes that such revocable reverse repurchase transactions are liquid, low risk instruments.

## MANAGEMENT

### General

The Issuer's charter adopted in 2003 provides for the following corporate governing bodies: (i) the General Shareholders' Meeting, which represents the highest corporate governing authority of the Issuer and is vested with the power of final approval of certain major corporate decisions; (ii) the Board of Directors, which oversees the President and is responsible for general management of the Issuer and approval of strategic and operational plans of the Issuer; (iii) the President, who is responsible for day to day management and administration of the Issuer; and (iv) the Internal Audit Service, which oversees the Issuer's accounting and internal control processes and reports to the shareholders.

### Board of Directors

The Issuer's Board of Directors consisting of seven members is generally responsible for setting the strategic policy of the Issuer in accordance with the Memorandum, determining and overseeing the remuneration of the Issuer's President, approving the Issuer's annual budget, making a decision on convocation of annual and extraordinary General Shareholders' Meeting and dealing with all other matters not reserved to the General Shareholders' Meeting. In accordance with the DBK Law and the Issuer's charter, three members of the Board of Directors are elected at the General Shareholders' Meeting upon recommendation of the President of Kazakhstan and the other four members upon the recommendation of the Government. The Issuer's Board of Directors comprises of Government officials, representatives of the President of the Republic and representatives of the regional authorities.

The current members of the Issuer's Board of Directors are:

<b>Name</b>	<b>Other Positions</b>
Yerzhan A. Utembayev	Deputy Head of the Presidential Administration of Kazakhstan (Chairman of the Board of Directors)
Gani N. Uzbekov	Vice-Minister of Finance of Kazakhstan
Askar U. Mamin	First Vice Minister of Industry and Commerce of Kazakhstan
Talgatbek Zh. Abaidildin	Governor of East Kazakhstan Region
Shalbai R. Kulmakhanov	Governor of Almaty Region
Kambar B. Shalgimbayev	President of the Issuer

### President

According to the Issuer's charter, the President is elected at a General Shareholders' Meeting upon recommendation of the Government. The President must be a member of the Board of Directors of the Issuer. The President is responsible for implementing the decisions taken by the Board of Directors and at General Shareholders' Meetings, day to day business decisions, appointing heads of the representative offices of the Issuer, preparing quarterly budget reports and dealing with all other matters not reserved to the Board of Directors or the General Shareholders' Meeting. The President has three Vice-Presidents. The Vice-Presidents are appointed by the Board of Directors upon recommendation of the President.

The name, age and certain other information about the President and Vice-Presidents of the Issuer is set out below:

Kambar B. Shalgimbayev (40), President, graduated from the Leningrad Finance and Economic Institute in 1984. After graduation he worked for the Ministry of Finance as Deputy Head of the Republican Budget Analysis Department until 1992 when he joined Alem Bank, initially as Head of



the Investment and Project Expertise Department. In 1995, he was appointed Deputy Chairman of KazCredSocBank, in which position he served until 1997 when he became Deputy Chairman of Bank CenterCredit. In 1999, he was appointed Deputy Governor of the Mangistau Region and since then he has also held senior positions with the mining company ABC Balhash and KazMunaiGas. He was elected to his current position with the Issuer in June 2002.

Askar B. Sembin (31), First Vice President, graduated from the Kazakh State National University named after Al Farabi in 1994 with a degree in law, the Market Institute under Kazakh State Academy of Management in 1996 with the degree in economics and KIMEP in 1997 with the master's degree in governmental management. From 1999 until 2000 he worked at the Ministry of Finance of Kazakhstan as Deputy Director of the Department of State Debt and Crediting. From 2000 until June 2002 he worked at OJSC Halyk Savings Bank of Kazakhstan as Counsel to the Chairman, then as Managing Director. He joined the Issuer in 2002 as Managing Director and was appointed to his current position with the Issuer in August 2003.

Kuanyshebek S. Sazanov (31), Vice President, graduated from the faculty of philosophy and economy of Kazakh State University, Almaty and then in 1993 with a degree in economics and John Hopkins University, Washington, D.C. in • with master's degree in economics. From 1997 until 1999 he worked as Head of the Department of Treasury and Capital Markets of the Representative Office of Banque Société Generale. He served as Counsel to the Chairman of the NBK until 2001 and from 2001 until 2003 as Assistant-Counsel to the Executive Director of the International Monetary Fund, Washington, DC. He was appointed to his current position with the Issuer in August 2003.

Alexander I. Andrushenko (55), Vice President, graduated from Almaty Power Communications College in 1967 and from Kazakh Polytechnic Institute, Almaty in 1978. Between November 1999 and January 2001, he worked as the Vice Minister of Economy of Kazakhstan, between January 2001 and September 2002 as Vice Minister of Industry and Commerce of Kazakhstan, between September 2002 and June 2003 as the First Vice Minister of Industry and Commerce, between June 2003 and August 2003 as the Vice Minister of Industry and Commerce of Kazakhstan. He was appointed to his current position with the Issuer in September 2003.

### **Internal Audit Service**

The Internal Audit Service, which consists of three members, oversees the Issuer's financial activities. Members of the Internal Audit Service Committee are appointed and dismissed by the Board of Directors upon recommendation of the Issuer's President. The Internal Audit Service has the right to convene an extraordinary General Shareholders' Meeting of the Issuer. The current members of the Internal Audit Service are Mr. Askar Y. Alimzhanov and Akmaral K. Irubaeva. All of them were elected to the Internal Audit Service in July 2003.

### **Management Remuneration**

In accordance with the Issuer's charter, the remuneration of the President and the members of the Revision Committee is determined by the Board of Directors. Currently, remuneration is set at levels equivalent to that of officials of comparable seniority at the NBK. As of 30 June 2003, there were no outstanding loans or guarantees granted by the Issuer to any member of the Board of Directors or the President or to any parties related to them.

## **THE BANKING SECTOR IN KAZAKHSTAN**

### **Introduction**

Since mid-1994 Kazakhstan has adhered to a strict macro-economic stabilisation programme, combining tight budgetary discipline, stringent monetary policy and structural economic reforms, which has sharply reduced inflation and lowered interest rates. See “Annex A — The Republic of Kazakhstan”.

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

### **The National Bank of Kazakhstan**

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

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

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

## **BANKING**

### **Structure of the Banking System of Kazakhstan**

Kazakhstan has a two-tier banking system, with the NBK comprising the first tier and all other commercial banks the second tier. All credit institutions (other than the Issuer) in Kazakhstan are required to be licensed and regulated by the NBK. DBK is regulated by the NBK only with respect to settlement rules, and as such, does not fall within either tier of the banking system.

### **Banking Reform and Supervision**

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

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

The NBK’s Banking Supervision Department focuses on ensuring financial solvency, protecting

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

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

In December 1999, a self-funded domestic deposit insurance scheme was established and as at 30 June 2003, 21 banks, including six subsidiaries of foreign banks, were covered by the scheme. The insurance cover is presently limited to Tenge, U.S. Dollar and Euro personal time deposits up to a total of KZT400,000 plus statutory interest for Tenge accounts and KZT360,000 for U.S. Dollar and Euro accounts. As from 1 January 2004, banks that are not covered by the scheme will not be authorised to accept deposits in Kazakhstan.

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

In June 2002, the NBK issued new prudential regulations to further enhance the credit risk policies of commercial banks.

### **Commercial Banks**

As at 30 June 2003, there were 35 banks in Kazakhstan, down from 184 in mid-1994. This decrease was largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium sized banks. However, in October 1996, Kramds Bank, the fifth largest bank in Kazakhstan in terms of assets, was liquidated by a decision of the NBK due to violation of prudential regulations, liabilities in excess of assets and an inability to meet its obligations.

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

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

As at 31 December 2002, one commercial bank failed to comply with all prudential regulatory requirements, compared with one as at 31 December 2002. This bank did not meet the ratio of loan and off-balance sheet exposure to any one non-affiliated party (K3.1). The amount of paid provisioning for bad debts as at 1 June 2003 equaled KZT● billion.

As at 31 December 2002, ● of Kazakhstan's banks did not meet the capital adequacy ratio (K1) and ●

bank[s] did not meet the ratio of loan and off-balance sheet exposure to any one non-affiliated party (K3.1).

The financial standing of Kazakhstan's banks varies. As at 31 December 2002, 28 of the then 38 commercial banks had registered capital of over KZT1 billion, 6 banks had registered capital of KZT500 million to KZT1 billion and four banks had registered capital of KZT100 million to KZT500 million. Banks with registered capital of less than KZT500 million are required to submit to the NBK an application for a permit for voluntary reorganisation into an organisation performing only certain bank operations.

In mid-2001, a one-time amnesty of previously un-taxed capital was declared by the Government with the intention of injecting private sector capital into the banking system. The amnesty lasted for 30 days and resulted in the equivalent of approximately U.S.\$480 million being transferred to accounts with Kazakhstani banks. To further encourage the use of such accounts and to avoid any potential tax claims against the owners of such accounts, all tax declarations for the preceding ten years were destroyed.

### **Foreign Capital in the Banking Sector**

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

Under relevant legislation, "a bank with foreign participation" is defined as a bank with more than one-third foreign ownership. Banks with less than one-third foreign ownership are considered domestic banks. As at 30 June 2003 there were 16 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC.

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

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

## **TAXATION**

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

### **KAZAKHSTAN TAXATION**

Under Kazakhstan's laws as presently in effect, payments of principal and interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management ) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will not be subject to taxation in Kazakhstan and no withholding tax will be required on any such payment. The Issuer has agreed, however, to pay additional amounts in respect of such withholding, if subsequently required. See "Terms and Conditions of the Notes—Condition 12 Taxation".

Gains realised by Non-Kazakhstan Holders or residents of Kazakhstan, or non-residents who maintain a permanent establishment in Kazakhstan (together, "Kazakhstan Holders") derived from the disposal, sale, exchange or transfer of the Notes in Kazakhstan will not be subject to Kazakhstan withholding tax only if the Notes are included in the A or B lists of the Kazakhstan Stock Exchange. Otherwise, such gains realised by Non-Kazakhstan Holders will be subject to Kazakhstan withholding tax at a rate of 20 per cent., unless reduced or exempt by an applicable double taxation treaty. Such gains realised by Kazakhstan Holders will be subject to Kazakhstan income tax at a rate of 30 per cent.

### **EUROPEAN UNION DIRECTIVE ON THE TAXATION OF SAVINGS INCOME**

The European Union has formally adopted a new Directive regarding the taxation of savings income (European Union Directive 2003/48/EC). Subject to a number of important conditions being met, Member States will generally be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Member States (Belgium, Luxembourg, and Austria) to opt instead for a withholding system for a transitional period in relation to such payments. The Directive will, subject to certain conditions being met, apply from 1 January 2005.

## **SUBSCRIPTION AND SALE**

Notes may be sold from time to time by the Issuer to any one or more of UBS Limited and any other dealer appointed under the terms of the Programme Agreement (as defined below) (together, the “Dealers”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Programme Agreement dated 27 September 2002 (as amended from time to time, the “Programme Agreement”) and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

## **UNITED STATES OF AMERICA**

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 under the Securities Act.

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 or 1986 and regulations thereunder.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree, that it will not offer, sell or deliver any Notes, (a) as part of their distribution at any time, or (b) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any 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.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

## **UNITED KINGDOM**

Each Dealer has represented warranted and agreed that:

- (a) in relation to Notes which have a maturity of one year or more, it has not offered or sold and, prior to the expiry of a period of six months from the Issue Date of such Notes, will not offer to sell any such 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 Regulations;
- (b) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than 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 who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (c) 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 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
- (d) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

## **REPUBLIC OF KAZAKHSTAN**

Each Dealer 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.

## **JAPAN**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "Japanese Person" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **SWITZERLAND**

Each Dealer has agreed that any issue of Notes denominated in Swiss Francs will be in compliance with the guidelines of the Swiss National Bank regarding issues of Swiss Franc denominated debt securities.

## **REPUBLIC OF FRANCE**

In France, neither this Offering Circular nor any other offering material relating to the Notes has been submitted to the clearance procedures of the *Commission des opérations de bourse*. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this Offering Circular nor any other offering material relating to the Notes has been distributed or caused to be distributed and will be distributed or caused to be distributed to the public in France, and such offers, sales and distributions will be made in France only to qualified investors (*investisseurs qualifiés*) as defined in and in accordance with articles L.411-1 and L.411-2 of the French Code *monétaire et financier* and French Decree No. 98-880 dated 1 October 1998 relating to offers to qualified investors.

## **REPUBLIC OF ITALY**

The public in Italy may not be solicited in connection with the offering of any Notes and Notes may not be offered, sold or delivered in Italy nor may copies of this prospectus or any Pricing Supplement or other offering materials relating to the Notes be distributed in Italy unless such activities (i) are carried out by or through intermediaries authorized to perform investment services in Italy, (ii) either do not qualify as solicitation of investment or qualify as a solicitation exempted from the requirement of a prospectus approved by the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) and (iii) are carried out in compliance with applicable CONSOB and banking regulations, including any relevant limitations which the Bank of Italy may impose upon the offer or sale of the Notes in Italy. Pursuant to Section 129 of the Legislative Decree No. 385 of September 1, 1993, the offer, sale or transfer of Notes to Italian investors is conditioned upon obtaining authorization from the Bank of Italy. Any investor purchasing Notes is solely responsible for ensuring that any offer or resale of the Notes it has purchased occurs in compliance with applicable laws and regulations.

## **GENERAL**

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the Pricing Supplement, no action has been or will be taken in any country or jurisdiction by the Issuer or the Dealers that would permit a public offering of Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands the Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or have in their possession or distribute such offering material, in all cases at their own expense.

The Programme Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or (in any other case) in a supplement to this document.



## **GENERAL INFORMATION**

### **LISTING**

Application has been made to list Notes issued under the Programme on the Luxembourg Stock Exchange and, in connection therewith, the Luxembourg Stock Exchange has assigned registration number 12766 to the Programme. Prior to the listing of any Notes, the constitutional documents of the Issuer and the legal notice relating to the issue will be registered with the Registre de Commerce et des Sociétés in Luxembourg, where copies of these documents may be obtained upon request.

However, Notes may be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree.

### **AUTHORISATIONS**

The establishment of the Programme was authorised by a duly convened meeting of the General Shareholders' of the Issuer held on 2 September 2002. The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

### **CLEARING OF THE NOTES**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the Pricing Supplement relating thereto. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

### **USE OF PROCEEDS**

The net proceeds of the issue of each Tranche of Notes will be applied by the Issuer for the funding of various investment projects and trade finance in Kazakhstan.

### **LITIGATION**

Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer or any of its 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 Programme or the issue of the Notes thereunder.

### **NO SIGNIFICANT CHANGE**

Save as disclosed in this Offering Circular and since the last day of the financial period in respect of which the most recent audited financial statements of the Issuer have been prepared, 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 that is material in the context of the Programme or the issue of the Notes thereunder;

### **DOCUMENTS AVAILABLE FOR INSPECTION**

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent and the Paying Agent having its specified office in Luxembourg, namely:

- (a) the Agency Agreement;
- (b) the Trust Deed (which contains the forms of the Notes in global and definitive form);
- (c) the Procedures Memorandum;
- (d) any Pricing Supplement relating to Notes which are listed on any stock exchange (in the case of any Notes which are not listed on any stock exchange, copies of the relevant Pricing Supplement will only be available for inspection by the relevant Noteholders); and
- (e) the Law on Development Bank of Kazakhstan dated 25 April 2001, as amended.

#### **FINANCIAL STATEMENTS AVAILABLE**

For so long as the Programme remains in effect or any Notes shall be outstanding, copies and, where appropriate, English translations of the following documents may be obtained during normal business hours at the specified office of the Principal Paying Agent, namely:

- (a) the most recent publicly available annual report of the Issuer beginning with the annual report containing the financial statements for the year ended 31 December 2001;
- (b) the audited interim financial statements of the Issuer for the period from 1 January to 30 June 2003; and
- (c) the most recent publicly available unaudited financial statements (if any) of the Issuer.

The Issuer does not publish interim financial statements, although solely for the purpose of the establishment of the Programme, the Issuer published the interim financial statements referred to in paragraph (b) above. The Issuer does not intend to publish interim financial statements in the future.

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**[FINANCIAL STATEMENTS TO FOLLOW]**

**[REPUBLIC OF KAZAKHSTAN TO FOLLOW]**

ANNEX B

**MINISTRY OF ECONOMY AND BUDGET PLANNING COMFORT LETTER**

**LETTER OF COMFORT**

**[TEXT OF LETTER TO FOLLOW]**

**Principal Office of the Issuer**  
CJSC Development Bank of Kazakhstan  
Samal 12  
Astana Tower 16-18th Floors  
473000 Astana  
Kazakhstan

**Arranger and Dealer**  
UBS Limited  
100 Liverpool Street  
London EC2M 2RH  
England

**Principal Paying Agent**  
Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
England

**Trustee**  
Deutsche Trustee Company Limited  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
England

**Paying Agent**  
Deutsche Bank Luxembourg S.A.  
2, Boulevard Konrad Adenauer  
L-1115 Luxembourg  
Luxembourg

**Legal Advisers**  
*To the Issuer as to English and Kazakhstan law:*  
Bracewell & Patterson LLP  
57 Amangeldy Street  
Almaty 480012  
Kazakhstan

*To the Dealers as to English law:*  
White & Case  
7-11 Moorgate  
London EC2R 6HH  
England

*To the Dealers as to Kazakhstan law:*  
White & Case LLP  
64 Amangeldy Street  
480012 Almaty  
Kazakhstan

*To the Trustee as to English law:*  
White & Case  
7-11 Moorgate  
London EC2R 6HH  
England

**Auditors to the Issuer**  
KPMG Janat  
Abylai Khan Avenue 105  
480091 Almaty  
Kazakhstan

**Listing Agent**  
Dexia Banque International à Luxembourg  
69 route d'Esch  
L-1470 Luxembourg  
Luxembourg