



JSC Development Bank of Kazakhstan

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

U.S.\$1,000,000,000

EURO MEDIUM TERM NOTE PROGRAMME

Under this U.S.\$1,000,000,000 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.\$1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement referred to herein), subject to increase as described herein. This Base Prospectus supersedes all previous offering circulars relating to the Programme, including the Offering Circular dated 20 May 2005. Any Notes issued after the date hereof are issued subject to the provisions hereof. This Base Prospectus does not affect any Notes issued on or prior to the date hereof, which were issued subject to the provisions of the relevant offering circular in effect at the time of issuance.

This Base Prospectus has been approved by the *Commission de Surveillance du Secteur Financier* (the “CSSF”) in its capacity as competent authority for the purpose of Directive 2003/71/EC (the “Prospectus Directive”) and the Luxembourg law on prospectuses for securities of 10 July 2005 as a base prospectus issued in compliance with the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months from the date of its publication. Application has been made for Notes issued under the Programme to be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange for the purposes of the Prospectus Directive during the period of twelve months after the date hereof. In this Base Prospectus, references to “regulated market” shall mean a regulated market for the purposes of European Parliament and Council Directive 2004/39/EC. 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; however the Issuer shall apply for Notes issued under the Programme to be listed on the Kazakhstan Stock Exchange.

See “Risk Factors” 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 “General Description 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 Base Prospectus 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

Dealer

HSBC

The date of this Base Prospectus is 1 March 2006.

This Base Prospectus should be read and construed together with any supplements hereto and, in relation to any Tranche (as defined herein) of Notes, should be read and construed together with the relevant Final Terms.

No Notes may be issued under the Programme which have a minimum denomination of less than €50,000 (or its equivalent in another currency). Subject thereto and in compliance with all applicable legal, regulatory and/or central bank requirements, Notes will be issued in such denominations as may be specified in the relevant Final Terms.

References in this Base Prospectus to Notes being “listed” (and all related references) shall mean that such Notes have been admitted to trading on the regulated market of the Luxembourg Stock Exchange.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus 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 none of 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 Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus 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 Base Prospectus 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 Base Prospectus and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Base Prospectus or any Final Terms 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 Base Prospectus or any Final Terms 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.

This Base Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

Neither this Base Prospectus nor any Final Terms 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 Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to “€” or “euro” 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 “£” and “Sterling” are to the lawful currency of the United Kingdom, references to “U.S.\$” and “U.S. Dollars” are to the lawful currency of the United States of America, references to “¥”, “Japanese yen” and “Yen” are to the lawful currency of Japan 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.

Solely for the convenience of the reader, this Base Prospectus presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates, in each case being the official exchange rate used by the Issuer. Any balance sheet data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of such balance sheet (or, if no such rate was quoted on such date, the immediately preceding date), which was

KZT 133.98 per U.S. \$ 1.00 on 30 December 2005 (the last business day in Astana immediately preceding 31 December 2005) and KZT 130.00 per U.S.\$1.00 on 31 December 2004 and any income statement data in U.S. dollars is translated from Tenge into U.S. Dollars at the applicable average exchange rate for the period to which such income statement data relates, which was KZT 132.88 per U.S.1.00 for the year ended 31 December 2005 and KZT 136.04 per U.S.\$1.00 for the year ended 31 December 2004. No representation is made that the Tenge amounts in this Base Prospectus could have been converted into U.S. Dollars at such rates or at all.

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

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes provided that, in the case of any Tranche of Notes to be listed on the Luxembourg Stock Exchange or other recognised stock exchange or regulated market, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant Tranche or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes.

Responsibility Statement

This Base Prospectus comprises a base prospectus for the purposes of the Prospectus Directive and for the purpose of giving information with regard to the Issuer which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer. The Issuer accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Base Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The information in this Base Prospectus contained under the headings “The Banking Sector in Kazakhstan” and Annex A “The Republic of Kazakhstan” and other macroeconomic data which appears in this Base Prospectus have been extracted from documents and other publications released by the National Statistics Agency of Kazakhstan (the “NSA”), the National Bank of Kazakhstan (the “NBK”) and the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organisations (the “FMSA”). The Issuer accepts responsibility for accurately reproducing such extracts, and as far as it is aware and is able to ascertain from information published by such sources, no facts have been omitted which would render such information inaccurate or misleading.

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Supplement to the Base Prospectus

The Issuer has undertaken, in connection with the listing and admission to trading of the Notes on the regulated market of the Luxembourg Stock Exchange, that if there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes whose inclusion would reasonably be required by investors and their professional advisers, and would reasonably be expected by them to be found in this Base Prospectus, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, and the rights attaching to the Notes, the Issuer will prepare or procure the preparation of a supplement to this Base Prospectus or, as the case may be, publish a new Base Prospectus, 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 Base Prospectus 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") and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in Kazakhstan provided the conditions to enforcement set out in the Convention are met.

General Description of the Programme

The following general description does not purport to be complete and is qualified in its entirety by the remainder of this Base Prospectus. 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, HSBC Bank plc and any other Dealer appointed in accordance with the Programme Agreement.
Trustee:	Deutsche Trustee Company Limited.
Principal Paying Agent:	Deutsche Bank AG, London Branch.
Luxembourg Listing Agent:	Dexia Banque Internationale à Luxembourg
Programme Size:	U.S.\$1,000,000,000 (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 and Admission to Trading:	Each Series may be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange and/or admitted to Listing, trading and/or quotation by any other stock exchange and/or quotation system outside of Kazakhstan as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Final Terms or may be unlisted outside of Kazakhstan. The Issuer shall apply for Notes issued under the Programme to be listed on the KASE.
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 Final Terms which, for the purposes of that Tranche only, supplements the Conditions of the Notes and this Base Prospectus and must be read in conjunction with this Base Prospectus. 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 Final Terms.</p>
Forms of Notes:	The Notes will be issued in bearer form as described in this Base Prospectus. 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.
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 unsubordinated obligations of the Issuer, save only for such obligations as may be preferred by

mandatory provisions of applicable law. See “Terms and Conditions of the Notes—Status”.

Issue Price: Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms.

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 Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms. 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 Final Terms.

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 Final Terms (the “Specified Denomination”), provided that (i) the Specified Denomination(s) shall not be less than €50,000 or its equivalent in other currencies, and (ii) with respect to Notes which are not admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, a lower Specified Denomination may apply as more fully set out in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. However for so long as the Notes are represented by a Global Note, and Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, *société anonyme* so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of the Tradeable Amount specified in the relevant Final Terms.

If definitive Notes are required to be issued they will only be printed in denominations of €50,000 (or its equivalent in any other currency as at the date of issue of the Notes). Consequently a Noteholder who holds Notes in the relevant clearing system in amounts that are not integral multiples of the minimum denomination may need to purchase or sell, prior to the issue of definitive Notes, a principal amount of Notes such that its holding is an integral multiple of the minimum denomination. Under no circumstances will definitive Notes be printed in respect of an amount of Notes which is less than the minimum denomination and any Noteholder which on the date of issue of definitive Notes holds Notes having a nominal amount

which cannot be represented by a definitive Note in the minimum denomination will not be entitled to receive a definitive Note in respect of such Notes or to receive payments of interest or principal in respect of such Notes.

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 clause 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 Final Terms may provide that Notes may be redenominated in euro in accordance with Condition 22.

Governing Law:

English law.

Listing:

This Base Prospectus has been approved by the CSSF in its capacity as competent authority for the purpose of the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 as a base prospectus issued in compliance with the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months from the date of its publication. Application has been made for Notes issued under the Programme to be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange for the purposes of the Prospectus Directive during the period of twelve months after the date hereof. The Programme also permits Notes to be issued on an unlisted basis outside of Kazakhstan or to be listed on such other or further listing authorities, stock exchanges or quotation systems outside of Kazakhstan as may be agreed with the Issuer. In addition, the Issuer shall 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, Switzerland and the European Economic Area, see “Subscription and Sale.”

Risk Factors

Prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Base Prospectus, the following risk factors 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 Base Prospectus 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.

RISK FACTORS RELATING TO THE REPUBLIC OF KAZAKHSTAN

Political and Regional Risk Factors

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

Since 1992, Kazakhstan has actively pursued a programme of economic reform designed to establish a free market economy through privatisation of state enterprises and deregulation and is more advanced in this respect than most other countries of the CIS; however, privatisation has been substantially completed. As with any transition economy, there can be no assurance that such deregulation and other reforms described elsewhere in this Base Prospectus 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.

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

There has been recent public unrest and political tension in neighbouring Uzbekistan. The Issuer does not have any immediate plans to expand into Uzbekistan at present and at the date of this Base Prospectus there are no existing or prospective projects to do business in Uzbekistan funded by or under consideration by the Issuer. However, there can be no assurance that the Issuer's business in Kazakhstan will not be adversely affected by illegal immigration from Uzbekistan resulting from the military action presently undertaken by the Government of Uzbekistan in connection with the public unrest.

In addition, following the public unrest in Kyrgyzstan, Georgia and Ukraine, there have been changes in the respective governments. Whilst such developments are considered positive, the stability and the future of those countries in particular and the region in general remains uncertain and major developments may continue to occur which ultimately may have an adverse effect on regional economies.

Macroeconomic Risk Factors 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. As Kazakhstan is negatively affected by low commodity prices and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. Notwithstanding these efforts, however, low commodity prices and weak demand in its export markets may adversely affect Kazakhstan's economy in the future.

The Government 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, gross domestic product ("GDP") has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, increasing by 13.5 per cent. in 2001, 9.5 per cent. in 2002, 9.2 per cent. in 2003 and 9.4 per cent. in 2004. According to the preliminary estimates of the NSA, there was a 9.4 per cent. increase in real GDP in 2005. However, there can be no assurance that GDP will continue to grow and any fall in GDP in subsequent years could adversely affect Kazakhstan's development.

The Tenge is convertible for current account transactions, although it is not a convertible currency outside of 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. The Tenge fell by 64.6 per cent., against the U.S. Dollar in the year ended 31 December 1999, compared to a depreciation of 10.7 per cent. in the year ended 31 December 1998. Following the adoption of a floating exchange rate policy in 1999, the Tenge continued to depreciate in value against the U.S. Dollar, although at a much slower rate, depreciating by 3.8 per cent. in 2001 and 3.3 per cent. in 2002. However, the Tenge appreciated in value by 7.3 per cent. against the U.S. Dollar during 2003 to KZT 144.22 per U.S.\$1.00 as at 31 December 2003 compared to KZT 155.60 per U.S.\$1.00 as at 31 December 2002. As at 31 December 2004, the exchange rate was KZT 130.00 per U.S.\$1.00, an appreciation of 9.9 per cent. compared to 31 December 2003. As at 31 December 2005 the exchange rate was KZT 133.77 per U.S.\$1.00, a depreciation of 2.9 per cent. since 31 December 2004.

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 establishing a one-time property amnesty aimed at reducing the size of the black market and increasing the size of the country's tax base. Implementation of these measures, however, may not happen in the short-term and any positive results of such actions may not materialise until the medium term, if at all.

Underdevelopment and Evolution of Legislative and Regulatory Framework

Although a large volume of legislation has come into force since early 1995, including a revised tax code, laws relating to investment and 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 still less developed as 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. In addition, judicial and Government officials may not be fully independent of outside social, economic and political forces and there may have been instances of improper payments being made. Court decisions can be difficult to predict and administrative decisions have on occasion been inconsistent.

Further, due to the presence of numerous ambiguities in Kazakhstan's commercial legislation, in particular its tax legislation, the tax authorities may make arbitrary assessments of tax liabilities and challenge previous tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, as well as a less established system of precedent or coherence in legal interpretation, the tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed tax system.

The Government of Kazakhstan has stated that it believes in continued reform of the corporate governance processes and will ensure discipline and transparency in the corporate sector to promote growth and stability. However, the Government of Kazakhstan may not continue with such a policy in the future or such a policy, if continued, may not ultimately prove to be successful. It is expected that the tax legislation in Kazakhstan will become more sophisticated and that there will be additional revenue raising measures which may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Issuer's business and financial condition and on the results of operations of companies operating in Kazakhstan.

Less Developed Securities Market

An organised securities market was established in Kazakhstan in 1997 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.

RISK FACTORS RELATING TO THE ISSUER**Loan Portfolio Growth**

The Bank's gross loan portfolio has increased in recent years, growing 61.1 per cent. to KZT 47,906 million as at 31 December 2005 from KZT 29,728 million as at 31 December 2004. In 2004, the gross loan portfolio increased 50.9 per cent. from KZT 19,697 million as at 31 December 2003. The growth in the gross loan portfolio is attributable to an overall increase in the growth rate of lending activity. The significant increase in loan portfolio size has increased the Issuer's credit exposure and will require continued and improved

monitoring of credit quality and the adequacy of its provisioning levels by the Issuer's management, as well as continued and anticipated improvement in the Issuer's credit risk management programme.

Continued growth of the Issuer's loan portfolio is contingent upon (i) the Issuer finding suitable projects to finance; (ii) the ability of the Issuer to identify suitable corporate guarantors for such development projects; and (iii) the ability of the Issuer to attract and retain qualified personnel and to train new personnel to monitor asset quality. Failure by the Issuer to find additional development projects that meet its credit policies and criteria, and limited ability to obtain guarantees for such development projects and attracting qualified personnel, could affect the Issuer's ability to increase and maintain the quality of its loan portfolio and result in a material adverse effect on the Issuer's results of operations and financial condition.

Lack of Information and Risk Assessments

Kazakhstan's system for gathering and publishing statistical information relating to the 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 collateral in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. The Issuer finances long term development projects about which there may be little prior information or history to rely upon. Accordingly, the Issuer is subject to greater risks than a commercial bank funding development projects.

Credit Risks

The Issuer has implemented specific credit risk policies. See "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 will be sufficient to mitigate risks involved in making loans with such tenors in an emerging market such as Kazakhstan. As the Kazakh economy is driven by commodity prices, customers operating in industries which are susceptible to commodity price fluctuations find their financial conditions affected by this and, consequently, the ability of such customers to repay the loans extended by the Issuer timely and fully may be adversely affected. Additionally, in line with the Issuer's policy of limiting its exposure to currency fluctuations, the Issuer's loan portfolio consists of non-Tenge loans, being primarily loans denominated in U.S. Dollars. Accordingly, any rise in the value of the Tenge relative to the U.S. Dollar might result in increased costs to the Issuer and could adversely affect the Issuer's financial condition and results.

Interest Rate Risk

The Issuer is exposed to risk resulting from mismatches between the interest rates on its interest bearing liabilities and interest-earning assets. Although the Issuer believes that it has policies and procedures in place to measure and monitor liquidity, market risk and maturity mismatches, volatility in interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of the Issuer.

Foreign Currency Risk

The Issuer is also exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Issuer sets limits on the level of exposure to currencies (primarily the U.S. Dollar) and enters into forward and swap transactions to hedge its foreign currency risk. As the Issuer's principal cash flows are largely generated in U.S. Dollars, any future movements in the exchange rate between Tenge and U.S. Dollar may adversely affect the carrying value of the Issuer's Tenge denominated monetary assets and liabilities and the Issuer's ability to realise investments in non-monetary assets measured in Tenge.

In addition, many of the Issuer's borrowers have revenues principally generated in Tenge and any decrease in the Tenge exchange rate to the U.S. Dollar may adversely affect their financial condition and, consequently, the ability of such borrowers timely and fully to repay the U.S. Dollar denominated loans extended by the Issuer.

Regulation

The Issuer's operations are regulated by the Law on the Development Bank of Kazakhstan dated 25 April 2001, the Memorandum and its Charter, as amended, its license from the NBK and other relevant laws and 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 but now is part of an overall industrial development programme. Although the Government has stated that it maintains an arm's length relationship with the Issuer and does not influence its funding or lending policies, through its majority ownership 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 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.

RISK FACTORS RELATING TO THE NOTES**Emerging Market Risks**

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

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 will be made for listing the Notes on the Kazakhstan Stock Exchange. There can be no assurance that such a listing will be obtained or, if such listing 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. Furthermore, 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.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors.

Set out below is a description of the most common such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "Relevant Factor"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (i) the market price of such Notes may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified;
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield;
- (viii) a direct investment in the shares, commodities or other assets underlying an index or in a fund that invests in those assets, or in the currencies comprised in a Dual Currency Note, might give rise to

different, and potentially higher returns, than an investment in the Index Linked Notes or Dual Currency Notes; and

- (ix) no statutory, judicial, or administrative authority directly addresses the characterisation of Index Linked Notes or securities similar to Index Linked Notes for United States federal income tax purposes. As a result, significant United States federal income tax consequences of an investment in such Notes are not certain. The Issuer has not requested a ruling from the United States Internal Revenue Service for any such Notes and gives no assurance that the Internal Revenue Service will agree with the statements made in this document or the applicable Final Terms relating to those Notes.

Partly-paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related feature, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate, such as a LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rate on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Noteholders may be bound by the decision of other holders notwithstanding that they were not present at the meeting

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined percentages of Noteholders to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a contrary manner.

Payments of interest to individuals within a Member State of the EU could be subject to taxation under EC Council Directive 2003/48/EC

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “Savings Directive”), Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-

EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Further Issues

The Issuer may offer further Notes with original issue discount for United States federal income tax purposes (“OID”) as part of a further issue of Notes to be consolidated with and form a single Series therewith. Purchasers of Notes after the date of consolidation of any further issue of Notes will not be able to differentiate between the Notes sold as part of the further issue and previously issued Notes. If the Issuer were to issue further Notes with OID, purchasers of Notes after such a further issue of Notes may be required to accrue OID (or greater amounts of OID than they would otherwise have accrued) with respect to their Notes. These OID consequences may affect the price of outstanding Notes following a further issue. Prospective purchasers of Notes should consult their own tax advisers with respect to the implications of any future decision by the Issuer to undertake a further issue of Notes with OID.

Trading in the clearing systems

The terms and conditions of the Notes provide that Notes will be issued with a minimum denomination of €50,000 (or its equivalent in other currencies) and integral multiples of an amount in excess thereof in the relevant Specified Currency. Where Notes are traded in a clearing system, it is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations specified in the relevant Final Terms related to an issue of Notes. If definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the terms of the relevant Global Notes, a holder who does not have an integral multiple of the minimum denomination in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Notes unless and until such time as his holding becomes an integral multiple of the minimum denomination.

The trading price of the Notes may be volatile

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

In particular, the markets for securities bearing emerging market risks, such as risks relating to Kazakhstan, may be volatile. Markets for such securities 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 Southeast 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 events may occur which would cause volatility of the sort which occurred in world-wide financial markets in 1997 and 1998. Any such volatility may adversely affect the liquidity of the market for, or price of, the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “Investor’s Currency”) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency

relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell, or hold securities and may be revised or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors may be subject to law or review or regulation by certain authorities. Each potential investor should determine for itself, on the basis of professional advice where appropriate, whether and to what extent (1) Notes are lawful investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Enforceability of judgments

Kazakhstan's courts will not enforce any judgment in a court established in a country other than Kazakhstan unless there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty. There is no such treaty in effect between Kazakhstan and the United Kingdom. Each of Kazakhstan and the United Kingdom are parties to the 1958 New York convention on Recognition and Enforcement of Arbitral Awards (the "Convention") and, accordingly, an arbitration award should be recognised and enforceable in Kazakhstan provided the conditions of enforcement set out in the Convention are met. See "Enforcement of Foreign Judgments".

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 Final Terms. 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 depositary or a common depositary 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 Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “TEFRA C Rules”) or United States Treasury Regulation §1.163-5(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 Final Terms specifies the form of Notes as being a “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 Final Terms; or
- (b) at any time, if so specified in the relevant Final Terms; or
- (c) if the relevant Final Terms 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 Final Terms), 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 Final Terms 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 Final Terms 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 Final Terms), 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 Final Terms 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 Final Terms; or (b) at any time, if so specified in the relevant Final Terms; or (c) if the relevant Final Terms 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 Final Terms), 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 Final Terms 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 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.

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 denominations in excess of euro 50,000 as determined by the Principal Paying Agent 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.

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.

Form of Final Terms

Final Terms dated []

JSC DEVELOPMENT BANK OF KAZAKHSTAN

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.\$1,000,000,000 Euro Medium Term Note Programme

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 1 March which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus is available for viewing at Dexia Bank International à Luxembourg, 69 route d’Esch, L-1470 Luxembourg and www.bourse.lu and copies may be obtained from Dexia Bank International à Luxembourg, 69 route d’Esch, L-1470 Luxembourg.

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the “Conditions”) set forth in the Base Prospectus dated 1 March 2006. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “Prospectus Directive”) and must be read in conjunction with the Base Prospectus dated 1 March 2006 [and the supplement to the Base Prospectus dated []], which [together] constitute[s] a Base Prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated 1 March 2006 [and the supplement to the Base Prospectus dated []] and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectuses dated 1 March 2006 and [current date] [and the supplement to the Base Prospectuses dated [] and []]. [The Base Prospectuses [and the supplement to the Base Prospectuses] are available for viewing at Dexia Bank International à Luxembourg, 69 route d’Esch, L-1470 Luxembourg and www.bourse.lu and copies may be obtained from Dexia Bank International à Luxembourg, 69 route d’Esch, L-1470 Luxembourg.]

[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 paragraphs or subparagraphs. Italics denote guidance for completing the Final Terms.]

[When completing final terms or adding any other final terms or information consideration should be given as to whether such terms or information constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.]

- | | | |
|----|-----------------------------------|---|
| 1. | Issuer: | JSC Development Bank of Kazakhstan |
| 2. | [(i)] Series Number: | [] |
| | [(ii)] Tranche Number: | [] |
| | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]</i> |
| 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 (if applicable)]] |

6. Specified Denomination(s): *[] (Subject as provided below in respect of Notes of which the issue proceeds are to be accepted in the United Kingdom the Specified Denomination must be a minimum denomination of €50,000 (or its equivalent in other currencies). For so long as the Notes are represented by a Global Note, and Euroclear Bank S.A./N.V. as operator of the Euroclear System and Clearstream Banking, société anonyme so permit, the Notes shall be tradeable in minimum nominal amounts of €50,000 and integral multiples of the Tradeable Amount specified in the relevant Final Terms. Notes 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 s 19 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).*
- [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 s.19 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).]*
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]*
- [Index-Linked Interest]*
- [Other (specify)]*
- (further particulars specified below)*
10. Redemption/Payment Basis¹: *[Redemption at par]*
- [Index-Linked Redemption]*
- [Dual Currency Redemption]*
- [Partly Paid]*
- [Instalment]*
- [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. (i) Status of the Notes: *[Senior/[Dated/Perpetual]/Subordinated]*

¹ If the Final Redemption Amount is less than 100 per cent. of the nominal value of the Notes the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

- (ii) Date [Board] approval for issuance of Notes obtained: ☐ (N.B. *Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee*)
14. Method of distribution: ☐ Syndicated/Non-syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. 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 (ICMA/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. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)).*
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: ☐ [Not Applicable/*give details*]
16. 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) 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: ☐
 - Interest Determination Date(s): ☐
 - Relevant Screen Page: ☐
- (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: ☐ ☐
17. Zero Coupon Note Provisions: ☐ ☐ [Applicable/Not Applicable]
(If not applicable, delete the remaining sub- paragraphs of this paragraph)
- (i) [Amortisation/Accrual] Yield: ☐ per cent. per annum
- (ii) Reference Price: ☐ ☐
- (iii) Any other formula/basis of determining amount payable: ☐ ☐
18. Index-Linked Interest Note Provisions: ☐ ☐ [Applicable/Not Applicable]
(if not applicable delete the remaining sub- paragraphs 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) Determination Date(s): ☐ ☐
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable: ☐ ☐
- (vi) Interest or calculation period(s): ☐ ☐
- (vii) Specified Interest Payment Dates: ☐ ☐
- (viii) Business Day Convention: ☐ ☐ [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other *(give details)*]
- (ix) Business Centre(s): ☐ ☐
- (x) Minimum Rate/Amount of Interest: ☐ per cent. per annum
- (xi) Maximum Rate/Amount of Interest: ☐ per cent. per annum
- (xii) Day Count Fraction: ☐ ☐
19. 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

20. Call Option: [Applicable/Not Applicable]
(if not applicable, delete the remaining sub- paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [] per Note of [] specified denomination
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: []
- (b) Maximum Redemption Amount: []
- (iv) Notice period:² []
21. Put Option: [Applicable/Not Applicable]
(If not applicable, delete the remaining sub- paragraphs of this paragraph)
- (i) Optional Redemption Date(s): []
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [] per Note of [] specified denomination
- (iii) Notice period²: []
22. Final Redemption Amount of each Note³: [[] per Note of [] specified denomination/other/see Appendix []]
23. Early Redemption Amount:
Early Redemption Amount(s) of each Note 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

24. 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 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].

² 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 the Trustee.

³ If the Final Redemption Amount is less than 100 per cent. of the nominal value the Notes will be derivatives securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.

25. 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 15(ii), 16(iv) and 18(ix) relate]
(Note that this item relates to the place of payment, and not Interest Period end dates, to which item 17(iii) relates)
26. Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. If yes, give details]
27. 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).
28. Details relating to Instalment Notes:
– Instalment Amount(s): [Not Applicable/give details]
– Instalment Date(s): [Not Applicable/give details]
29. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition 22 apply]
30. Consolidation provisions: [Not Applicable/The provisions annexed to this Final Terms apply]
31. Other terms: [Not Applicable/give details]
[When adding any other final terms consideration should be given as to whether such terms constitute a “significant new factor” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/give names]
(ii) Stabilising Manager(s) (if any): [Not Applicable/give name]
33. If non-syndicated, name of Dealer: [Not Applicable/give name]
34. Additional selling restrictions: [Not Applicable/give details]

LISTING AND ADMISSION TO TRADING APPLICATION

This Final Terms comprises the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$1,000,000,000 Euro Medium Term Note Programme of JSC Development Bank of Kazakhstan.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Final Terms.

Signed on behalf of the Issuer:

By: Duly authorised

PART B — OTHER INFORMATION

1. LISTING

- (i) Listing: [Luxembourg/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [] with effect from [].] [Not Applicable.]
- (iii) Estimate of total expenses related to admission to trading: []

2. RATINGS

Ratings: The Notes to be issued have been rated:
[S & P: []]
[Moody's: []]
[[Other]: []]
(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the Issue has been specifically rated, that rating.)

[3. NOTIFICATION

The CSSF [has been requested to provide/has provided — include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [*include names of competent authorities of host Member States*] with a certificate of approval attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive.]

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

Include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- [(i) Reasons for the offer: []
(See [“Use of Proceeds”] wording in Base Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)]
- [(ii)] Estimated net proceeds: []
(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)
- [(iii)] Estimated total expenses: [] [Include breakdown of expenses.]

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)]

[6. Fixed Rate Notes only — YIELD

Indication of yield: []
[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]]

[7. Index-Linked or other variable-linked Notes only — PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING

Include details of where past and future performance and volatility of the index/formula/other variable can be obtained. Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information.]

[8. Dual Currency Notes only — PERFORMANCE OF RATE(S) OF EXCHANGE]

9. OPERATIONAL INFORMATION

ISIN Code: []

Common Code: []

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Societe Anonyme and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): []

10. GENERAL

Tradeable Amount: []

Applicable TEFRA exemption: [C Rules/D Rules/Not applicable]

Terms and Conditions of the Notes

The following are the Terms and Conditions of the Notes which, save for the wording in italics, as supplemented, amended and/or replaced by the relevant Final Terms, will be endorsed on each Definitive Note and attached to or incorporated by reference into each Global Note. The relevant Final Terms (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.\$1,000,000,000 in aggregate principal amount of notes (the “Notes”) outstanding. 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 Branch as Principal Paying Agent (the “Principal Paying Agent”, which expression includes any successor Principal Paying Agent appointed from time to time in connection with the Notes) 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 Final Terms (the “Final Terms”) 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 Part A of the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms 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 Final Terms;

“Additional Business Centre(s)” means the city or cities specified as such in the relevant Final Terms;

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

“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 Business Centre(s) specified in the relevant Final Terms, 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 Final Terms and, if so specified in the relevant Final Terms, 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 Final Terms 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 Final Terms 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 Final Terms;

“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 Final Terms, 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 Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) if “Actual/360” is specified in the relevant Final Terms, 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 Final Terms, 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 Final Terms, 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 Final Terms;

“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 Final Terms;

“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 Final Terms;

“Fixed Coupon Amount” has the meaning given in the relevant Final Terms;

“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 Final Terms;

“Interest Determination Date” has the meaning given in the relevant Final Terms;

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

- (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 Final Terms 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 Final Terms)) 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 Final Terms;

“Maximum Redemption Amount” has the meaning given in the relevant Final Terms;

“Margin” has the meaning given in the relevant Final Terms;

“Material Subsidiary” means, at any given time, any Subsidiary of the Issuer whose gross assets or gross revenues represent at least 5.0 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 Final Terms;

“Minimum Redemption Amount” has the meaning given in the relevant Final Terms;

“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 Final Terms;

“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 Final Terms;

“Optional Redemption Date (Call)” has the meaning given in the relevant Final Terms;

“Optional Redemption Date (Put)” has the meaning given in the relevant Final Terms;

“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 Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

“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 Final Terms;

“Reference Banks” has the meaning given in the relevant Final Terms 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 Final Terms;

“Reference Rate” has the meaning given in the relevant Final Terms;

“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 Final Terms;

“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 Telerate) specified as the Relevant Screen Page in the relevant Final Terms, 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 Final Terms;

“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 supranational, 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 Final Terms;

“Specified Denomination(s)” has the meaning given in the relevant Final Terms;

“Specified Interest Payment Date” has the meaning given in the relevant Final Terms;

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

“Specified Period” has the meaning given in the relevant Final Terms;

“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 50.0 per cent. of the capital, voting stock or other right of ownership and “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 Final Terms.

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 Final Terms 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 Final Terms 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 Final Terms, but the relevant Final Terms 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 Final Terms, 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.

So long as the Notes are represented by the Temporary Global Note or the Permanent Global Note and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of €50,000 and integral multiples of the Tradeable Amount specified in the relevant Final Terms in excess thereof.

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 *pari passu* in right of payment with all other present and future 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 Final Terms 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 Final Terms, 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 Final Terms, 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 subunit 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 Final Terms:
 - (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 Final Terms) 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:
 - (A) 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 Final Terms) that would occur in one calendar year; and
 - (B) 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 Final Terms, 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 Final Terms 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 Final Terms; or
 - (b) if no Specified Interest Payment Date(s) is/are specified in the relevant Final Terms, 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 Final Terms 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 Final Terms.

(a) Where Screen Rate Determination is specified in the relevant Final Terms 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 Final Terms) 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 Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(b) Where ISDA Determination is specified in the relevant Final Terms 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 Final Terms;
- (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; 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 Final Terms.

- 7.4 If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms 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 Final Terms.
- 7.5 If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, 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 Final Terms specify 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 Final Terms.
- 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 than 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 Final Terms 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 Final Terms 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 Final Terms.

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 Final Terms 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 Final Terms 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 Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, 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 Final Terms, 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 Final Terms 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 Final Terms, 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 Final Terms 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 Final Terms 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 Final Terms 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, 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 license 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 and 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 100.0 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 51.0 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 Final Terms. 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 Final Terms, 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 *d'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 Final Terms), (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 Final Terms 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 Final Terms as being applicable and Screen Rate Determination is specified in the relevant Final Terms 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 & Guillian 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 31 December 2005.

	As at 31 December 2005	
	(U.S.\$ thousands) ⁽¹⁾	(KZT thousands)
	(unaudited)	(unaudited)
<i>Long-term debt:</i>		
U.S.\$100, million 6.5 percent notes due 2020	100,488	13,463,315
U.S.\$100 million 7.125 percent notes due 2007	101,583	13,610,134
U.S.\$100 million 7.375 percent notes due 2013	100,984	13,529,746
KZT 4.5 billion 8.5 percent notes due 2007 ⁽²⁾	30,073	4,029,223
U.S.\$2.8 million loan due 2010 ⁽³⁾	2,405	322,269
U.S.\$40 million syndicated loan due 2006 ⁽⁴⁾	40,107	5,373,511
U.S.\$5 million loan due 2006 ⁽⁵⁾	5,102	683,589
U.S. \$15 million loan due 2008 ⁽⁶⁾	15,163	2,031,580
EUR1.9 million loan due 2010 ⁽⁷⁾	2,357	315,841
EUR 11.2 million loan due 2013 ⁽⁷⁾	9,280	1,243,293
KZT 4.3 billion budget loan due 2018	32,098	4,300,418
KZT 4.599 billion budget loan due 2019	34,340	4,600,916
Total long-term debt	473,980	63,503,835
<i>Shareholders' equity:</i>		
Share capital ⁽⁸⁾	446,525	59,825,446
Reserve capital.	49,081	6,575,875
General banking risk reserve	1,364	182,777
Revaluation reserve	16,630	2,228,017
Retained earnings.	20,698	2,773,174
Total shareholders' equity	534,298	71,585,289
Total capitalisation	1,008,278	135,089,124

Notes:

- (1) As at 31 December 2005 the KZT/U.S. \$ exchange rate was KZT 133.98 per U.S.\$1.00.
- (2) The Issuer repurchased through secondary market transactions KZT 2,306 million of the issued notes.
- (3) This loan bears an interest rate of LIBOR plus 0.55 per cent.
- (4) This loan bears an interest rate of LIBOR plus 1.0 per cent.
- (5) This loan bears an interest rate of LIBOR plus 2.0 per cent.
- (6) This loan bears an interest rate of 5.85 per cent.
- (7) As at 31 December 2005 the EUR/U.S. \$ exchange rate was \$1.1867 per EURO 1.00.
- (8) On 20 June 2005, the Astana City Akimat paid KZT 312.5 million for 6,250 common shares. However, these shares have not been issued or entered into the share register.

Since 31 December 2005 there has been no material change in the Issuer's capitalisation.

JSC Development Bank of Kazakhstan

GENERAL

The Issuer was incorporated on 31 May 2001 for an unlimited duration as Closed Joint Stock Company Development Bank of the Republic of Kazakhstan. Its governing legislation comprises a Presidential Decree dated 28 December 2000, the Law on Development Bank of Kazakhstan No. 178-II dated 25 April 2001, as amended at the date of this Base Prospectus (the “DBK Law”), the Resolution of the Government No. 289 On Memorandum of Credit Policy of Joint Stock Company Development Bank of Kazakhstan dated 9 March 2004 (the “Memorandum”), its Charter and other legislation 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 Law on Joint Stock Companies 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 registered office is Republic Avenue 32, Astana, 010000, Republic of Kazakhstan and its telephone number is +7 3172 580272.

PURPOSE AND AUTHORITY

The Issuer’s statutory purposes as stated in the DBK Law are to:

- enhance the effectiveness of industrial investment activity by the Government;
- stimulate the development of industrial infrastructure and processing industries not related to oil and gas extraction; and
- attract foreign and domestic investment into Kazakhstan’s economy.

Specifically 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) to companies operating in various priority sectors of economy, as set out in the Memorandum. See “—Lending”. The Issuer may not lend to sectors of the economy which have received significant foreign and domestic investment, such as oil and gas production or exploration.

The Issuer’s lending activities are funded through the issuance and placement of bonds both domestically and internationally, through borrowings from financial institutions and loans financed from the state budget. Furthermore the NBK’s designation of the Issuer as a Financial Agency provides that any interest paid on the Issuer’s debt securities is exempt from Kazakhstan income taxes.

In addition to financing investment projects and export-related transactions, the Issuer acts as service agent for national and regional investment projects financed from the state budget on a pay-back basis and projects financed by Government guaranteed borrowing. The Issuer also opens and maintains accounts for servicing its loans and loans funded from the state and local budgets.

In accordance with the DBK Law and subject to certain restrictions provided in this law, the Issuer is authorised to engage in the following operations in Tenge and foreign currencies without licence:

- lending and issuing guarantees;
- issuing and confirming letters of credit;
- opening and maintaining correspondent accounts with and to banks and other financial institutions that perform certain types of banking activities;
- opening and maintaining special conditional deposit and reserve accounts in connection with Government guaranteed loans;
- opening and maintaining bank accounts for servicing loans of the Issuer and the loans financed from state and local budgets;
- settlement operations for its customers;

- money transfers for its customers;
- deposit taking from banks;
- issuing debt securities;
- leasing; and
- dealing in Government securities as well as other securities as permitted under the banking laws of Kazakhstan.

The Issuer may also offer other banking products and services not specifically authorised by the DBK Law, upon obtaining the relevant licence from an authorised agency.

The Issuer may not:

- provide perpetual or non-repayable loans in cash;
- lend to, or issue guarantees to secure obligations of, individuals, commercial banks, credit unions, private pension funds, investment funds, private pension fund asset management companies, insurance companies, leasing companies and other financial institutions;
- take deposits and open or maintain accounts for individuals and companies except for the purposes stated in the DBK Law;
- grant uncollateralised loans;
- provide cash settlement services and participate in the share capital of legal entities except for certain cases specified by DBK Law; or
- enter into additional external and internal borrowing if it has overdue liabilities (of more than one year) under earlier obligations.

GOVERNMENT CONTROL AND SUPERVISION

As at 6 February 2006, the Issuer was the largest bank in Kazakhstan in terms of paid-in share capital of KZT 59,513 million, consisting of 1,190,258 common shares with a nominal value of KZT 50,000 per share, of which 85.4 per cent. was held by the Government and the remaining 14.6 per cent. by regional authorities of 14 regions in the Republic and the cities of Almaty and Astana. On 20 June 2005, the Astana regional authority paid KZT 312.5 million for 6,250 shares but this purchase has not been reflected in the share register. Once these 6,250 shares are entered into the share register, the paid-in share capital of the Issuer would amount to KZT 59,825 million. Under the DBK Law such entities are the only permitted shareholders of the Issuer. The DBK Law requires that the Government shall be the majority shareholder of 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".

Before December 2002, the authority to manage the Government's shareholding in the Issuer, including the voting rights, was vested with the Ministry of Finance. In December 2002, the Ministry of Finance was replaced by the Ministry of Economy and Budget planning as primary supervisor and voting shareholder. Pursuant to Government Resolution No. 68 dated 22 January 2004, the Ministry of Industry and Trade then replaced the Ministry of Economy and Budget Planning as the holder of that authority. The motive for this transfer was that it is now the responsibility of the Ministry of Industry and Trade to support and implement the Industrial Development Programme of Kazakhstan and promote the growth of processing industries.

On 17 May 2003, an Industrial Innovation Development Strategy of Kazakhstan for the years 2003 to 2015 was issued pursuant to a Presidential Decree, No. 1096 (the "Industrial Strategy"). The Industrial Strategy sets out the Government policy of industrial economic development in Kazakhstan promoting diversification of industrial growth of the country and incorporation of industrial cluster concepts. Pursuant to the Industrial Strategy, the Government established several financial institutions to stimulate the development of the service sectors of Kazakhstan's economy. Specifically, the Government established the Kazakhstan Investment Fund, with KZT 23,000 million in charter capital as at 31 December 2005. The mandate of the Kazakhstan Investment Fund is to make equity investments in a number of the non-extractive sectors in Kazakhstan.

The Government also established the Innovation Fund, with KZT 20,616.8 million in charter capital as at 31 December 2005 to make equity investments in the high technology sector in Kazakhstan. The Export Insurance Corporation, with KZT 7,700 million in charter capital as at 31 December 2005, was also established to provide insurance against political and regulatory risks for export related loans. The Government with the intention to further implement the Industrial Strategy also established the Centre for Marketing and Analytical Research and the Centre for Transfer of Technologies, to conduct marketing and analytical research into various segments of the Kazakh economy and to evaluate the level of competitiveness of such industrial sectors both domestically and internationally. Pursuant to the Industrial Strategy, the Issuer's principal role is to support Government initiatives through low-cost medium to long-term lending and issuance of guarantees to secure loans extended by other financial institutions.

The DBK Law requires the Issuer to submit its annual audited financial statements to the Government and the Parliament. The FMSA and the NBK are responsible for the supervision of the Issuer's foreign exchange transactions, operations on money transfers, financial agency activities and other banking operations covered by its banking license, but not its lending activity.

COMPETITION

The Issuer is the largest bank in Kazakhstan in terms of paid-in share capital. See "The Banking Sector in Kazakhstan". However, pursuant to the DBK Law, the Issuer's primary lending objectives are medium (from five to ten years) and long-term (from 10 to 20 years) financings. Local commercial banks generally provide short to medium-term financing for up to three years. The Issuer does not consider itself to be a competitor with 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 such as issuing guarantees to other commercial banks for specific medium and long-term projects.

STRATEGY

The Issuer's principal objective 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) continued expansion of its role as Kazakhstan's development bank, (ii) lowering the cost of its funding base; (iii) offering a wider range of credit instruments; and (iv) effectively managing risks associated with its activities.

Development Bank

As part of its medium-term strategy, the Issuer intends to increase its approved loan portfolio up to U.S.\$950 million in the priority sectors of the Kazakhstan economy by the end of 2006. As at 31 December 2005, the total since its establishment amount of investment projects and export-related credits approved for financing by the Issuer was U.S.\$1,757 million of which approximately U.S.\$748 million was the Issuer's participating share in the financing. The Issuer's management believes that additional lending opportunities will appear as a result of implementation of various Government programmes intended to stimulate economic growth in Kazakhstan, in particular, the Industrial Strategy and the following specific new development programmes:

- Programme for the development of construction material production from 2005 to 2007, to promote development of the construction materials industry;
- A programme approved by the Government on 17 February 2005 allowing the Issuer to expand into neighbouring markets, in relation to business opportunities in countries bordering with Kazakhstan, to facilitate the expansion of Kazakh producers into neighbouring markets by financing: (i) projects that are technologically linked to processing facilities located in Kazakhstan; (ii) infrastructure projects which enhance the transit potential of Kazakhstan exports as set forth in the Development programme for transportation from 2004 to 2006; and (iii) projects by non-residents recommended by the Government and guaranteed by foreign governments;
- State Agro-Food Programme for 2003-2005, to increase the volume of agricultural products sold domestically and exported internationally;
- Programme on the development of the petrochemical industry for 2004-2010, to introduce new technologies to produce petrochemicals;
- Programme on the development of the Kazakhstan sector of the Caspian Sea, approved by the Government on 16 May 2003, to facilitate the construction of infrastructure units;

- Programme on the development of mortgage construction in the Republic of Kazakhstan for 2005-2007, approved by the Government on 11 June 2004, to increase production of construction materials;
- Plan for the creation of pilot clusters (experimental projects organised by industry) in priority sectors of Kazakhstan's economy, approved by the Government on 25 June 2005; and
- Plan for the implementation of the financial sector development strategy of the Republic of Kazakhstan, approved by the Government on 9 March 2004.

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

The Issuer intends to develop expertise in the leasing sector, which its management believes will be complementary to its development lending activities. On 24 December 2003 the Issuer acquired a minority equity stake in the Kazakhstan Stock Exchange which allowed it to reduce transaction costs in connection with buying and selling securities.

By investing in human resources and increasing the use of, and upgrading its information technology, the Issuer's management intends to improve its operating efficiencies. 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

As permitted by the DBK Law, the Issuer funds its operations by issuing debt securities on the domestic and international capital markets and borrowing from international commercial banks. In order to promote investment opportunities in Kazakhstan, the Issuer interacts with various multinational financial development organisations through project co-financing. The Issuer believes that through these types of funding it will be able to provide lower cost loans to stimulate economic growth, establish margin yield benchmarks based upon its debt securities for domestic and international corporate debt security issuers whilst contributing to further development of Kazakhstan's securities market. See "Funding and Liquidity Management".

Managing Investment Portfolio

Pursuant to the Memorandum, the Issuer is prohibited from utilising its share capital to fund investment projects. Therefore the Issuer invests its share capital in highly liquid financial instruments. A significant portion of the Issuer's investment portfolio consists of securities issued by the Government, the NBK or local authorities. As a part of its medium-term strategy the Issuer intends to diversify its investment portfolio to include debt securities issued by international financial institutions, foreign sovereigns and legal entities.

Managing Risks

The Issuer has established three key committees to manage its assets and the risks associated with its activities: the Asset and Liability Committee (the "ALCO"), the Investment Committee and the Credit Committee. The main guidelines for the Issuer's risk management policies are set out in the Memorandum.

The ALCO makes strategic decisions with regards to the attraction and placement of the Issuer's capital resources and determines the overall asset and liabilities structure and limits of the Issuer. The Credit Committee is responsible for the implementation of the lending policy of the Issuer within the limits set by the Memorandum and the ALCO. The Investment Committee is responsible for managing the Issuer's investment portfolio in compliance with the general guidelines defined in the Issuer's Strategy for Investment Portfolio Management, approved by the Board of Directors on 14 April 2004. The Issuer believes that the interaction of these three committees allows it to effectively manage its assets and risks. See "Asset and Liability Management". The Issuer has also adopted its own standards, internal rules and provisioning procedures based on those required of commercial banks by the FMSA and NBK. The Issuer intends to continue to maintain its conservative lending policies, including strict compliance with its various internal lending limits, credit and risk management policies.

STRUCTURE OF THE ISSUER

The Issuer's head office is in Astana. As at 31 December 2005, the Issuer had three representative offices in Almaty, Tashkent (Uzbekistan) and Moscow (Russia) for liaison with the various financial and credit institutions located there.

The following are the principal operating departments and divisions of the Issuer:

- Treasury Operations;
- Project Financing;
- Project Analysis;
- Control of Financial Risks;
- Export Financing;
- Collateral Appraisal;
- Project Monitoring and Agency Services;
- Problem Credits and Sales of Non-Financial Assets;
- Borrowings and Structural Financing, and Agency Finance; and
- Strategic Planning.

The operating units are supported by the following central administrative departments and divisions: Finance, Operations, Information Technologies, Budget Planning, Procurement, Internal Audit, Legal, Claims and Liabilities Monitoring, International Relations and Administrative Department. Management believes that its efficient organisational structure and the centralisation of its administrative activities in its head office will help to control operating expenses.

LENDING

The Issuer is a development financial institution that provides medium and long-term financing for investment projects and trade financing for export operations in the priority sectors of the economy of Kazakhstan as set out in its Memorandum.

Such priority sectors are:

- value added manufacture of agricultural products (excluding alcohol and tobacco);
- production (fragmentation, decomposition, separation, enrichment etc) of construction material from raw material from the mining industry, excluding extraction and transportation of raw material to the place of processing;
- yarn and finished textiles production;
- production of leather, leather goods and shoe production;
- forestry and wood production;
- pulp and paper industry (excluding publishing);
- coke, refined petroleum and nuclear fuel production;
- chemical production (excluding explosives);
- production of rubber and plastic goods;
- production of other non-metal mineral products;
- metallurgy and manufacture of finished metal products;

- machinery and equipment manufacturing (excluding weapon and ammunition manufacturing);
- manufacture of electric, electronic and optical equipment;
- distribution of electric power, gas, steam and hot water;
- construction (except for house-building, education, hotels, sport, sanitation and entertainment complexes and exploration drilling); and
- transport and communications.

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

As at 31 December 2005 the outstanding amount of investment project loans approved by the Issuer to finance projects was U.S.\$517.4 million of which loans provided by the Issuer amounted to U.S.\$279.5 million. As at 31 December 2005 the principal investment projects financed by the Issuer are:

JSC KEGOC. The total cost of the investment project is U.S.\$336.2 million. The project involves the construction of the second 500 kW power transmission line running from the North to the South of Kazakhstan. The project will help to transmit low cost electric power from sparsely populated North Kazakhstan to populated centres in Southern Kazakhstan. The project involves three stages of financing. The first stage, which amounts to U.S.\$90.5 million, is co-financed by the EBRD. In the first stage of financing, the Issuer extended a credit facility of U.S.\$21 million to JSC KEGOC. The second and third stages will be co-financed by EBRD and IBRD and the total cost of these two stages is U.S.\$245.7 million. In November 2005 the Issuer concluded an agreement with JSC KEGOC to grant a loan of approximately U.S.\$52 million to the company. The tenor of the credit facility is 15 years. The Issuer commenced disbursement of the credit facility in November 2004 and anticipates full draw down of this facility by May 2006.

JSC Biohim. The total cost of the investment project is U.S.\$84.7 million. The purpose of this investment project is construction of a plant for grain processing and production of natural additives in North Kazakhstan. Biohim will produce gasoline additives from grain for exports to Europe to be used as an octane additive. The Issuer extended a credit facility in the amount of U.S.\$60.9 million to JSC Biohim. The tenor of the credit facility is eight years. The Issuer commenced disbursement of its credit facility to JSC Biohim in February 2005 and anticipates that the borrower shall draw down the full amount of the credit facility by April 2006.

JSC Melanzh. The total cost of the investment project is U.S.\$40.5 million. The purpose of the project is the modernisation of weaving facilities of a textile plant located in Shymkent. The tenor of the credit facility is ten years. The Issuer commenced disbursement of the U.S.\$34.4 million credit facility in November 2004 and anticipates that it shall be fully drawn down by November 2005.

JSC Agromash Holding. The total cost of the investment project is U.S.\$40 million. The project is for the reconstruction and modernisation of a plant located in Kostanai for the production of diesel engines for agricultural machinery and the establishment of a service center network for the servicing of agricultural machinery. The tenor of the credit facility is 15 years. The Issuer commenced disbursement of the U.S.\$20.2 million credit facility in May 2004 and anticipates that it shall be fully drawn down in the first quarter of 2006.

OJSC "Transtelecom". The total amount of the investment project is U.S.\$28.2 million. The purpose of this investment project is the construction and laying of a fibre optic communication line between Almaty and Astana. The tenor of this facility is nine years. The Issuer commenced disbursement of the U.S.\$18.9 million credit facility in June 2004. The facility was fully drawn down in September 2005.

LLP Khobas Pipes Kazakhstan. The total cost of the investment project is U.S.\$21.9 million. The purpose of the project is the construction of a plant for the production of pipes and fittings made from reinforced glass and fibre polyester in Aktobe city under the license of Hobas Engineering (Austria). The tenor of the credit facility extended by the Issuer is eight years. The Issuer commenced disbursement of the U.S.\$18.2 million credit facility in December 2003. The loan was fully drawn down by May 2005.

JSC “Utex”. The total amount of the investment project is U.S.\$19.3 million. The purpose of the project is the manufacture of cotton yarn and knitting cotton in Shymkent. Modern equipment produced by a Swiss supplier has been installed to produce high quality cotton yarn. The tenor of the credit facility extended by the Issuer is ten years. The borrower fully drew down the U.S.\$13.1 million credit facility in December 2004.

The total cost of the second investment project for Utex is U.S.\$5.1 million. The project is for the reconstruction and modernisation of the textile manufacturing facilities in Southern Kazakhstan Oblast. The tenor of the credit facility is six years. The Issuer commenced the disbursement of a U.S.\$5.1 million credit facility in November 2005 and anticipates the completion and utilisation of this facility in the end of 2006.

CJSC “Kazakhstan Kagazy”. The total cost of the investment project is U.S.\$18.3 million. The purpose of the project is the manufacturing of paper, corrugated cardboard and paper-cardboard products for the food industry. The tenor of the credit facility is five years. The borrower fully drew down the U.S.\$10.0 million credit facility in October 2003.

“Altyn Nan” L.L.P. The total cost of the investment project is U.S.\$15.4 million. The purpose of this investment project is the construction of a plant for the processing of corn and production of corn starch syrup in Shemlogan, Almaty oblast. The tenor of the credit facility is 11 years. The Issuer commenced the disbursement of the U.S.\$13.9 million credit facility to “Altyn Nan” L.L.P. in March 2002 and the borrower fully drew down the facility in March 2005.

JSC “Ekoton+”. The total cost of the investment project is U.S.\$17.7 million. The purpose of this investment project is the construction of a manufacturing facility for concrete building materials in Astana. The tenor of the credit facility is nine years. The borrower fully drew down the U.S.\$6.0 million credit facility in May 2004.

JSC “VITA”. The total amount of the investment project is U.S.\$12.6 million, which was fully financed by the Issuer. The tenor of the credit facility is seven years. The second stage of the Vitasoy Project is the construction of a vegetable oil and animal feed production unit. The Issuer commenced disbursement of the U.S.\$12.6 million credit facility in August 2003 and anticipates final draw down of this facility by February 2006.

LLP *Tengizkaya Transportnaya Kompaniya*. The total amount of the investment project is U.S.\$11.7 million which is fully financed by the Issuer. The purpose of the project is the purchase of tankers for transportation of LPG for export. The tenor of the credit facility extended by the Issuer is 11 years. The U.S.\$11.7 million credit facility was fully drawn down by the borrower in September 2002.

LLP “Amitex Karasai Pipe”. The total cost of the investment project is U.S.\$11 million. The purpose of this project is purchase of equipment for production of glass-reinforced plastic pipes in Astana. The tenor of the credit facility extended by the Issuer is five years. The borrower fully drew down the U.S.\$10.3 million credit facility in June 2004.

CJSC “PK Uzhpoly metal”. The total cost of the investment project is U.S.\$10.1 million, which was fully financed by the Issuer. The tenor of the credit facility is 5 years. The project stipulates upgrading of existing facilities of the borrower located in South Kazakhstan to manufacture manual switch and lock movements. The borrower fully drew down the credit facility in March 2005.

JSC “NMSK KazMor TransFlot”. The total cost of the investment project is U.S.\$10 million, which is fully financed by the Issuer. The project stipulates the building of a seaport on the Caspian sea coast in Mangistau oblast. The tenor of the credit facility is 5.6 years. The borrower fully drew down the U.S.\$10 million credit facility in October 2003.

JSC *KazEnergoCabel*. The total cost of the investment project is U.S.\$10 million. The purpose of this project is the modernisation of existing facilities at its Pavlodar cable plant. The tenor of the credit facility is seven years. The Issuer commenced disbursement of the U.S.\$5.3 million credit facility in November 2004 and it was fully drawn down in February 2006.

JSC *Susyndar*. The total cost of the investment project is U.S.\$7.8 million. The purpose of the project is the modernisation of a non-alcoholic beverages production facility in Almaty with up-to-date technological equipment from Germany. The tenor of the credit facility is 8.5 years. The Issuer commenced disbursement

of the U.S.\$7.1 million credit facility in March 2004. The borrower fully drew down the facility in March 2005.

OJSC “VITA”. The total amount of the investment project is U.S.\$7.5 million, which was fully financed by the Issuer. The purpose of this investment project is the construction of a soy bean processing plant in Almaty. The tenor of the credit facility is seven years. The borrower fully drew down the U.S.\$7.5 million credit facility in January 2003.

LLP “Nov Apack”. The total amount of the investment project is U.S.\$15.2 million. The purpose of this project is the modernisation of a paper treatment plant in Boraldai, Almaty region. The tenor of the credit facility extended by the Issuer is seven years. The Issuer commenced the disbursement of the U.S.\$8.1 million credit facility in February 2005 and it was fully drawn down in February 2006.

“Nimex Textile” L.L.P. The total cost of the investment project is EUR22.1 million. The project is for the reconstruction and modernisation of the textile manufacturing facilities in Ust-Kamenogorsk. The tenor of the credit is eight years. The Issuer commenced the disbursement of the EUR 13.1 million credit facility in August 2005 and anticipates this facility to be fully drawn down by the third quarter of 2006.

JSC “KazMorTransFlot”. The total cost of the investment project is U.S.\$10.6 million, which was fully financed by Issuer. The purpose of this investment project is the construction of a base for the construction of artificial islands in the Kazakhstan sector of the Caspian Sea. The tenor of the credit facility is ten years. The Issuer commenced disbursement of this credit facility in October 2003 and anticipates full disbursement of this facility by the third quarter of 2006.

LLP “Synergiya”. The total cost of the investment project is U.S.\$10.2 million. The project is for the construction and operation of a plant producing ceramic bricks, energy-efficient wall blocks and polymer sand-tile. The tenor of the credit facility is nine years. The Issuer commenced the disbursement of a U.S.\$8.9 million credit facility in December 2005 and anticipates full disbursement of this facility in May 2008.

As at 31 December 2005, the Issuer has approved credit applications to finance investment projects of an aggregate total cost of approximately U.S.\$854.8 million of which the Issuer plans to finance U.S.\$177.2 million. These prospective projects have already fulfilled the Issuer’s various requirements concerning collateralisation. Details of the investment projects approved but not yet funded by the Issuer are:

JSC “KEGOC”. The total cost of the investment project is U.S.\$245.7 million. The purpose of this investment project is the second and third stages of the construction of a 500 kilowatt power transmission line running from the North to the South of Kazakhstan. This project is co-financed by the EBRD and IBRD. In connection with this project the Issuer entered into an agreement to provide a U.S.\$52 million loan. The tenor of the credit facility is 15 years. The Issuer is planning to commence disbursement of the credit facility in the first quarter of 2006 and anticipates this facility to be fully drawn down by the second quarter of 2008.

JSC “Moynakskaya HES”. The total cost of the investment project is approximately U.S.\$252 million. The purpose of the investment is the production and delivery of power to meet the high demand in southern Kazakhstan. The Issuer plans to finance the project in two tranches and to commence disbursement of U.S.\$25 million in the first quarter of 2006. The tenor of the first tranche of the credit facility is 20 years.

RGE “Aktau International Merchant Port”. The total cost of the investment project is US\$242.3 million of which the Issuer’s portion is US\$25 million. The purpose of this project is the expansion of Aktau port. The tenor of the credit facility is 17 years. The Issuer plans to start disbursement of the credit facility in the first quarter of 2006 and anticipates that it will be fully drawn down by 2009.

“Tengizservice” L.L.P. The total cost of the investment project is U.S.\$32.6 million, of which the Issuer plans to finance U.S.\$25.2 million. The project is for construction of a marine fuelling station. The tenor of the credit facility is ten years. The Issuer is planning to commence disbursement of the credit facility in the first quarter of 2006 and anticipates this facility to be fully drawn down after 18 months.

JSC “Condensate”. The total cost of the investment project is U.S.\$35.2 million, of which the Issuer’s portion is U.S.\$20.3 million. This investment project is for the construction of the second stage of a gas condensation production at Karachaganak oil and gas fields. It will increase the production capacity of the existing

manufacturing process and improve its quality. The tenor of the credit facility is six years. The Issuer plans to disburse the U.S.\$20.3 million credit facility in the second quarter of 2006 and anticipates that it will be fully drawn down in the first quarter of 2008.

JSC “Agromash Holding”. The total cost of the investment project is U.S.\$20 million. The purpose of this investment project is a second stage of reconstruction of a production plant for diesel engines and of a maintenance centre for agricultural transportation. The tenor of the credit facility is 15 years. The Issuer plans to commence disbursement of its U.S.\$10.4 million credit facility in 2006 and anticipates completion of the draw down of this facility by the first quarter of 2008.

JSC “BurlinGasStroy”. The total cost of the investment project is U.S.\$8.1 million. The purpose of this investment project is the expansion of a plant in Astana producing crushed gravel and bitumen. The tenor of the credit facility is six years. The Issuer is planning to commence disbursement of its U.S.\$6.4 million credit facility in the first quarter of 2006 and anticipates completion of draw down of this facility by the second quarter of 2007.

JSC “AktobeStroyIndustria”. The total cost of the investment project is U.S.\$19.2 million of which the Issuer’s portion is U.S.\$12.8 million. The purpose of the investment is the construction of a plant producing cellular concrete goods in Aktobe. The tenor of this credit facility is ten years. The Issuer plans to commence disbursement of this credit facility in the first quarter of 2006 and anticipates completion of draw down of this facility by the third quarter of 2007.

As at 31 December 2005, the total outstanding amount of export related credits financed by the Issuer was U.S.\$72.7 million. Details of the principal export related projects financed by the Issuer are as follows:

Amount of the facility	Term	Borrower	Export Project Description
U.S.\$4.96 million	1 year	JSC Vita	Soya products export
U.S.\$4.98 million	4 years	LLP Bompitex	Purchase of cotton fiber and yarn production
U.S.\$5.0 million	12 months	JSC PK Uzhpolimetall	Lead and associated products production for export
U.S.\$4.75 million	3.1 years	JSC Agromashholding	Manufacturing of hardware products
U.S.\$4.5 million	2 years	LLP Bogvi	Purchase of grain wheat for export
U.S.\$5.0 million	5 years	JSC AtyrauBalyk	Export of caviar and sturgeons
U.S.\$4.96 million	1 year	JSC Vita	Export of products of grain processing
U.S.\$10.035 million	18 months	JSC Kazexporttastyk Holding	Grain export
U.S.\$3.0 million	2 years	LegPromKontrakt /Zher Ana LLP	Export of prime quality flour to the Tajikistan
U.S.\$10.05 million	3 years	JSC “Utex”	Purchase of cotton fibers and yarn production for further export
U.S.\$4.98 million	4 years	JSC “Melanzh”	Export of textile
U.S.\$1.0 million	1 year	JSC “Kustanay Minerals”	Export of crysolite -asbestos
U.S.\$4.0 million	1 year	LLP “KazDiselAstykl”	Grain export
U.S.\$4.0 million	1 year	LLP “Viktorovskoe”	Export of grain
U.S.\$3.0 million	2 years	LLP “Zher Arna”	Export of flour

As at the date of this Base Prospectus, the Issuer is currently reviewing credit applications for the financing of investment projects amounting to an aggregate total cost of approximately U.S.\$549.4 million, of which the Issuer plans to finance U.S.\$242.1 million. Details of the investment projects under review by the Issuer are:

LLP “ABK “Maksat”. The total amount of the investment project is U.S.\$15.7 million. The purpose of this investment project is the construction of a plant for concrete products manufacturing in Astana. The tenor of this credit facility is nine years. The Issuer plans to commence disbursement of its U.S.\$10.6 million credit facility in the fourth quarter of 2006 and anticipates full drawdown of this facility by the second quarter of 2008.

JSC “Ilyyskiy Kartonno Bumazhny Combinat”. The total amount of the investment project is U.S.\$57.1 million. The purpose of this investment project is the expansion of a manufacturing base which manufactures and processes cardboard and various paper products in Almaty oblast. The tenor of this credit facility is 12 years.

JSC “G-Media”. The total amount of the investment project is U.S.\$7.6 million. The purpose of this investment project is the construction of a data transmission network in major cities of Kazakhstan using “ETHERNET” technology. The tenor of this credit facility is five years. The Issuer plans to commence

disbursement of its U.S.\$6.7 million credit facility in the second quarter of 2006 and anticipates full drawdown of this facility by the second quarter of 2009.

JSC “AktyubRentgen”. The total amount of the investment project U.S.\$6.9 million. The purpose of this investment project is the replacement and modernisation of X-ray equipment. The tenor of this facility is eight years. The Issuer plans to commence disbursement of a U.S.\$5.5 million credit facility in the first quarter of 2006 and anticipates full drawdown of this facility by the first quarter of 2007.

CJSC “AEGas-Terminal”. The total amount of the investment project is U.S.\$23.5 million, of which U.S.\$12 million is financed by the Issuer. The purpose of this investment project is the construction of a gas terminal in Kerch, Ukraine. The tenor of the credit facility is seven years.

JSC “YuzhPolyMetal”. The total amount of the investment project is U.S.\$66 million of which U.S.\$20.0 million is financed by the Issuer. The purpose of this investment project is the construction of a cement manufacturing facility. The tenor of this facility is 10 years.

JSC “Kaustik”. The total amount of the investment project is U.S. \$32 million, which will be fully financed by the Issuer. The purpose of this investment is the organisation of chlorine and caustic soda production. The tenor of the credit facility is ten years.

LLP “KazKhimVolokno”. The total amount of the investment project is U.S. \$24.9 million. The purpose of this investment project is the launch of “ARNIX” meta-aramid thread production. The tenor of this credit facility is 10 years. The Issuer anticipates providing financing of U.S.\$9.5 million credit facility in 2006.

JSC “Moinakskaya HES”. The total cost of the investment project is approximately U.S.\$252 million. The purpose of the investment is the production and delivery of power to meet the high demand in Southern Kazakhstan. The Issuer is considering granting the second tranche of loan in the amount of U.S.\$25 million. The tenor of the second tranche of the credit facility is 20 years.

LLP “Sat & Co.” The total amount of the investment project is U.S.\$40 million which will be fully financed by the Issuer. The purpose of this investment project is the construction of a bitumen plant. The tenor of the credit facility is five years.

LLP “Kamaz-Semei”. The total amount of the investment project is EUR \$20 million which will be fully financed by the Issuer. The purpose of this investment project is the establishment of the production of automobile units and assemblies. The tenor of the credit facility is five years.

AGENCY SERVICES

Pursuant to the DBK Law, the Issuer acts as a payment agent for various national and regional investment projects (programmes) financed from the state or local government budget or supported by Government guarantees. Acting solely as payment agent, the Issuer receives fees but assumes no risk. Agency services include project monitoring, servicing of payments and collections, including opening and maintaining special conditional deposit and reserve accounts, and collection of loans on behalf of the Government. The scope of the Issuer’s agency services and the fees for such services are defined by the agency agreements between the parties who have received loans funded from the state or local government budgets or Government guarantees and the Issuer.

Performance by the Issuer of its agency functions while servicing projects, does not involve the Issuer in liability for clients’ obligations to the state budget or creditors’ obligations under the loans guaranteed by the Government.

As at 31 December 2005, the Issuer was acting as payment agent for 13 investment projects including three Government loans and ten Government guaranteed loans in the aggregate amount of approximately U.S.\$722 million. The Issuer’s total fees were approximately KZT 2.5 million.

FINANCIAL ADVISORY SERVICES

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

As at 31 December 2005 the Issuer had collected an aggregate KZT 33,135 million in fees for financial advisory services.

INTERNATIONAL BANKING

The Issuer closely cooperates with international development organisations and financial institutions such as the International Monetary Fund, the World Bank, the Islamic Development Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, the Development Bank of Turkey, the Development Bank of China and other international financial institutions. Due to such continuous exchanges of information and experience with such entities, the Issuer believes that it will continue to efficiently implement its statutory objectives. The Issuer has also been appointed a national co-ordinator and operator for the Islamic Corporation for Private Sector Development and in September 2003 the Issuer became a member of the Association for Development of Financial Institutions of Asia and the Pacific.

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

EMPLOYEES

As at 31 December 2005, the Issuer had 184 full-time employees as compared to 144 and 122 as at 31 December 2004 and 2003, respectively. The Issuer has not entered into any collective labour agreements nor are any of its employees members of a labour union nor has the Issuer 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, twenty two employees hold MBA degrees.

From 2003 through to February 2005, employees from key departments and divisions of the Issuer attended the following specialised training seminars organised by multinational financial institutions:

- Trade and Export Finance seminar arranged by the World Bank in Almaty in March 2003;
- Procurement seminar conducted by the World Bank in Tashkent, Uzbekistan, in October 2003;
- Overview of Basel Accord on Capital Adequacy seminar held by EBRD in Almaty in October 2003;
- Seminar on Planning, Development and Evaluation of Projects arranged by ADFIAP in Manila and Bahrain, in April 2004;
- Risks Evaluation and Problem Assets Management seminar held by EBRD in London in April 2004;
- Principles and practice of Islamic Economy and Banking seminar organised by IDB in Astana in October 2004;
- Developing Skills in Project Finance seminar held by JBIC in Japan from January to February 2005;
- 11th Annual Investment Seminar, organised by UBS Global Asset Management in Chicago in September 2005;
- Emerging markets seminar arranged by the Development Bank of Korea in Seoul city in October 2005;
- Seminar on financing of priority sectors of the economy (agriculture) for Central Asian countries and the Caucasus, held in Japan, in October 2005, and arranged by Ministry of Finance of Japan; and
- International seminar, "Compliance Officeship Program (COP)", arranged by the Association of Development Financial Institutions in Asia and the Pacific (ADFIAP) in December of 2005, held in Manila, the Philippines.

The Issuer is committed to continuing to upgrade the level of the professional skills and knowledge of its personnel to ensure availability of sufficient trained personnel to implement its strategic objectives set forth in the DBK Law and the Memorandum. For this purpose the Issuer budgeted KZT 11 million for training expenses in 2006. As at 31 December 2005, 90 employees of the Issuer had received training at various seminars and courses.

TECHNOLOGY

The Issuer has developed its own internal documentation and information network protection system to assist efficient communication and a high level of data management and protection. The Issuer's banking information system is based on Sisco 1721, Sisco 2610 and Firewall Sisco PIX 515E-UR-FE BUNDLE applications. The Issuer also uses DocFlow, a system for the electronic circulation of documents. In 2002, the Issuer successfully installed the Colvir Information System utilising Oracle database management

software. The Issuer is in compliance with IFRS relating to automation and has installed a Monitoring and Analysis automated information system. In 2005, the Issuer increased its number of computers to 70. The use of these communications systems enables the Issuer to have protected interactive access to SWIFT, the Kazakh Centre of Interbank Settlements for KZT payments and the Reuters information service. The Issuer is committed to further upgrading and maintaining its information and technology systems and it has budgeted KZT 62 million for the year 2006.

LEGAL PROCEEDINGS

The Issuer is not a party to any legal proceedings which could have a material impact on the Issuer's results of operations, financial condition and prospects and there are no legal proceedings pending or, to the best knowledge of the Issuer, threatened, which could have a material impact on the Issuer's results of operations, financial condition and prospects with respect to its properties or assets.

Selected Financial and Other Information

The selected financial and other information set out below has been extracted from, and should be read in conjunction with, and is qualified in its entirety by, the Issuer's financial statements, including the notes thereto, contained elsewhere in this Base Prospectus. See "Index to Financial Statements" and "Financial Review".

The Issuer's financial statements contained in this Base Prospectus, including the notes thereto, as at and for the years ended 31 December 2005 and 2004, were prepared in accordance with IFRS. The Issuer's financial statements contained in this Base Prospectus, including the notes thereto, as at and for the years ended December 2005 and 2004 were audited by Deloitte & Touche, whose audit report is included elsewhere in this Base Prospectus. The Issuer's interim condensed financial statements in this Base Prospectus.

Prospective investors should read the selected financial information in conjunction with the information contained in "Risk Factors", "Capitalisation", "Financial Review", "JSC Development Bank of Kazakhstan" and the Issuer's audited financial statements, including the notes thereto, and the other financial data contained elsewhere in this Base Prospectus.

INCOME STATEMENT DATA

	As at 31 December		As at 31 December	
	2005		2004	
	(U.S.\$ millions) ⁽¹⁾	(KZT millions)	(U.S.\$ millions) ⁽²⁾	(KZT millions)
Interest income	64	8,657	48	6,561
Interest expense	(23)	(3,235)	(18)	(2,435)
Net interest income before impairment	41	5,422	30	4,126
Impairment charge	(9)	(1,176)	(5)	(768)
Net interest income	32	4,246	25	3,358
Net fee and commission income	—	56	—	(4)
Non interest income	1	121	1	80
Non interest expense	(11)	(1,545)	(7)	(844)
Operating profit	22	2,878	19	2,590
Recovery of provision/(provision) for impairment losses on other transactions	—	45	—	(42)
Income before income tax expense and interest	22	2,923	19	2,548
Income tax expense	—	33	—	(20)
Net income	22	2,956	19	2,528

(1) Calculated using the average U.S. Dollar/Tenge exchange rate for 2005 which equalled KZT 132.88 per U.S.\$1.00

(2) Calculated using the average U.S. Dollar/Tenge exchange rate for 2004 which equalled KZT 136.04 per U.S.\$1.00

BALANCE SHEET DATA

	As at 31 December		As at 31 December	
	2005		2004	
	(U.S.\$ millions) ⁽¹⁾	(KZT millions)	(U.S.\$ millions) ⁽²⁾	(KZT millions)
Assets				
Cash and cash equivalents	123	16,520	16	2,057
Amounts due from other financial institutions	62	8,253	35	4,582
Derivative financial assets	1	90	—	9
Investment securities:				
— available-for-sale	504	67,403	466	60,634
— held-to-maturity	12	1,602	27	3,470
Loans to customers less allowance for impairment losses	340	45,576	220	28,574
Fixed and intangible assets, less accumulated depreciation and amortisation	1	186	1	161
Other assets	1	144	1	135
Total assets	1,044	139,774	766	99,622
Liabilities				
Amounts due to the Government and the NBK	115	15,448	69	8,901
Amounts due to other financial institutions	74	9,913	52	6,795
Amounts due to customers	5	633	3	364
Debt securities issued	311	41,678	214	27,789
Tax liabilities	—	9	—	50
Derivative financial liabilities	1	92	—	32
Provisions	—	72	1	118
Other liabilities	3	343	1	156
Total liabilities	509	68,188	340	44,205
Shareholders' equity				
Share capital	447	59,825	372	48,351
Reserve capital	49	6,576	31	4,048
General banking risk reserve	1	183	—	—
Revaluation reserve	17	2,228	4	490
Retained earnings	21	2,773	19	2,528
Total shareholders' equity	535	71,585	426	55,417
Total liabilities and shareholder's equity	1,044	139,774	766	99,622

(1) Calculated using the period-end U.S. Dollar/Tenge exchange rate on 31 December which equalled KZT 133.98 per U.S.\$1.00

(2) Calculated using the period end U.S. Dollar/Tenge exchange rate on 31 December 2004 which equalled KZT 130.00 per U.S.\$1.00

SELECTED FINANCIAL RATIOS

	As at 31 December	
	2005	2004
Profitability Ratios (per cent.)		
Return on shareholders' equity	4.1	4.6
Return on average shareholders' equity ⁽¹⁾	4.7	5.2
Return on average assets ⁽¹⁾	2.5	2.8
Net interest margin before impairment charge ⁽²⁾	4.5	4.5
Non-interest expense excluding impairment charge and income tax/net interest income before impairment charge plus non-interest income ⁽³⁾	28.1	21.2
Non-interest expense as a percentage of average total assets ⁽³⁾⁽¹⁾	1.3	1.0
Balance Sheet Ratios and Capital Adequacy (per cent.)		
Total net loans as a percentage of shareholders' equity	63.7	51.6
Total shareholders' equity as a percentage of total assets	51.2	55.6
Liquid assets as a percentage of total assets ⁽⁴⁾	67.1	71.0
Contingent liabilities as a percentage of shareholders' equity ⁽⁵⁾	39.0	30.4
Direct liabilities as a percentage of shareholders' equity ⁽⁶⁾	94.7	79.2
Economic Data⁽⁷⁾		
Period end exchange rate (KZT/U.S.\$)	133.98	130.00
Average exchange rate for period (KZT/U.S.\$)	132.88	136.04
Inflation rate	7.6	6.9
Growth of real GDP	9.4	9.3

(1) Averages are calculated based on opening and closing balances for the period.

(2) Calculated as net interest income to interest bearing assets.

(3) Non-interest expense comprises payroll and related payments, depreciation and amortisation, taxes other than income tax, administrative expenses and fees and commissions expense.

(4) Liquid assets comprise cash and cash equivalents, loans and advances to banks and investments.

(5) Contingent liabilities include guarantees issued by the Issuer, commitments to extend credits, foreign currency contracts and commercial letters of credit less provision on contingent liabilities.

(6) Direct liabilities include loans due to the Government, financial institutions, customers, debt securities issued and derivative financial liabilities.

(7) Data published by the NBK and the NSA.

Financial Review

The following discussion should be read in conjunction with the Issuer's reviewed audited annual IFRS financial statements for the years ended 31 December 2005 and 2004. This discussion includes forward-looking statements based on assumptions about the Issuer's future business. The Issuer's actual results could differ materially from those contained in such forward-looking statements.

INTRODUCTION

The Issuer's annual financial statements, including the notes thereto, as at and for the years ended 31 December 2005 and 2004, which are included on pages F-2 to F-36 of this Base Prospectus, were audited by Deloitte & Touche, whose audit report thereon is also included on page F-2 of this Base Prospectus. All of the Issuer's financial statements included in this Base Prospectus were prepared in accordance with IFRS.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

For the year ended 31 December 2005, the net profit of the Bank increased by KZT 428 million or 17 per cent. to KZT 2,956 million as compared to KZT 2,528 million for the year ended 31 December 2004. This was primarily due to an increase of interest income.

The total assets of the Issuer increased by 40.3 per cent to KZT 139,774 million as at 31 December 2005 as compared to KZT 99,622 million as at 31 December 2004. The increase was due to a 703.0 per cent. increase in the Issuer's cash and cash equivalents, 7.6 per cent. increase in investment securities and a 61.1 per cent. increase in the gross loan portfolio. The Issuer's total liabilities increased by 54.3 per cent. or to KZT 68,188 million as at 31 December 2005 as compared to KZT 44,205 at 31 December 2004. The increase was due to an increase in amounts of debt securities issued and amounts due to other financial institutions. Shareholders' equity as at 31 December 2005 increased by 29.2 per cent. or KZT 16,168 million due to the issuance of additional shares to the Government.

Net Interest Income

The following table sets out the principal components of the Issuer's net interest income for each of the years ended 31 December 2005 and 2004:

	Year ended 31 December	
	2005	2004
	(KZT thousands)	
Interest income	8,657,177	6,560,777
Interest expense.	(3,234,889)	(2,435,003)
Net interest income before impairment charge	5,422,288	4,125,774
Allowance for loan impairment	(1,176,687)	(767,302)
Net interest income after impairment charge	4,245,601	3,358,472

Net interest income after impairment charge increased by KZT 887 million or 26.4 per cent. to KZT 4,246 million in the year ended 31 December 2005 as compared to KZT 3,358 million for the year ended 31 December 2004.

Interest Income

The following table sets out the principal components of the Issuer's interest income for the years ended 31 December 2005 and 2004:

	Year ended 31 December	
	2005	2004
	(KZT thousands)	
Interest on loans	3,746,998	2,176,313
Interest on securities	4,229,418	3,759,674
Interest on deposits with other Banks	669,605	621,472
Interest on reverse repurchase agreements	11,156	3,318
Total interest income.	8,657,177	6,560,777

Interest income increased by 32.0 per cent. or by KZT 2,096 million, to KZT 8,657 million for the year ended 31 December 2005, as compared to KZT 6,561 million as at 31 December 2004. The increase in 2005 was primarily due to an increase in the size of the securities portfolio and the volume of loans to customers.

Interest Expense

The following table sets out the principal components of the Issuer's consolidated interest expense for the years ended 31 December 2005 and 2004:

	Year ended 31 December	
	2005	2004
	(KZT thousands)	
Interest on debt securities issued	(2,706,008)	(2,337,466)
Interest on deposits and loans from credit institutions	(512,809)	(87,669)
Interest on amounts due to Government	(8,899)	(6,216)
Interest on repurchase agreements	(902)	(3,433)
Interest on customer accounts	(6,271)	(219)
Total interest expense	(3,234,889)	(2,435,003)

For the year ended 31 December 2005, interest expense increased by 32.8 per cent. or KZT 800 million to KZT 3,235 million for the year ended 31 December 2005, as compared to KZT 2,435 million for the year ended 31 December 2004.

The increase in interest expense in 2005 is a reflection of the increase of the issuance of debt securities by the Issuer and interest on deposits and loans from credit institutions.

Average Interest Rates

The Issuer's overall average interest rates on interest bearing assets decreased to 7.3 per cent. for the year ended 31 December 2005 from 7.4 per cent. for the year ended 31 December 2004 due to a decrease in the interest margins earned on the Issuer's securities portfolio resulting from a decrease in average interest rates in the domestic securities market and a decrease in the interest margins on the Issuer's deposits placed with other commercial banks in Kazakhstan.

The following tables set out the effective average interest income and expense rates by size of the principal interest-bearing assets and liabilities of the Issuer as at 31 December 2005 and 2004. The analysis has been prepared using period-end effective contractual rates.

	As at 31 December					
	2005			2004		
	Amount of asset (KZT million)	Interest on asset (KZT million)	Average Interest Rate (per cent.)	Amount of asset (KZT million)	Interest on asset (KZT million)	Average Interest Rate (per cent.)
Interest bearing assets⁽¹⁾						
Securities	66,555	4,229	6.4	56,699	3,760	6.6
Loans to customers	37,075	3,747	10.1	23,943	2,176	9.1
Amounts due from financial institutions	15,707	670	4.3	8,306	621	7.5
Reverse repurchase agreements	0	11	—	64	3	4.7
Total	119,336	8,657	7.3	89,011	6,560	7.4

	As at 31 December					
	2005			2004		
	Amount of asset (KZT million)	Interest on asset (KZT million)	Average Interest Rate (per cent.)	Amount of asset (KZT million)	Interest on asset (KZT million)	Average Interest Rate (per cent.)
Interest bearing liabilities⁽²⁾						
Debt securities issued	34,734	2,706	7.8	30,300	2,337	7.7
Amounts due to financial institutions	8,427	513	6.1	5,824	88	1.5
Amounts due to the Government	12,175	9	0.1	6,601	6	0.1
Total	55,335	3,228	5.8	42,724	2,431	5.7

- (1) Calculated as an average amount of the opening and closing balance of each respective asset for an annual period.
- (2) Calculated as an average amount of the opening and closing balance of each respective liability for an annual period.

Average interest rate for the average loan portfolio for 2005 increased to 10.1 per cent. as compared to average interest rate of 2004 which was 9.1 per cent.

Allowance for Loan Impairment

The charge for loan impairment increased to KZT 2,330 million for the year ended 31 December 2005 from KZT 1,153 million for the year ended 31 December 2004. The higher charge for 2005 as compared to 2004 was the result of the increase in the Issuer's loan portfolio. As a percentage of total loans to customers, allowance for loan impairment was 4.86 and 3.88 per cent. as at 31 December 2005 and 2004, respectively. The increase in 2005 was mainly due to a larger loan portfolio growth as compared to 2004, as well as changes in provisioning policy discussed under "Lending Policies and Procedures — Provisioning Policy". As a result, the allowances increased by 102 per cent. compared to a 61.1 per cent. increase in the amount of total loans.

Non-Interest Income

The following table sets out the principal components of the Issuer's consolidated non-interest income for the years ended 31 December 2005 and 2004:

	Year ended 31 December	
	2005	2004
	(KZT thousands)	
Net gain/(losses) from derivative financial instruments	(42,503)	(27,565)
Net gain/(losses) from available for sale securities	(901)	(56,947)
Net gain/(losses) from foreign currencies		
–dealing.	80,865	32,424
–translation differences	36,107	82,544
Fee and commission income.	92,763	56,968
Fee and commission expense	(37,221)	(61,293)
Other income/(expenses)	48,626	49,933
Total non-interest income	177,736	76,064

Total non-interest income increased in 2005 to a gain of KZT 178 million from KZT 76 million for the year ended 31 December 2004. This increase in 2005 primarily reflects the net available-for-sale securities and the increase in dealing gains off-set by the decrease in foreign currency translation gain and as set off by a gain in net fees and commissions. The decrease in the net loss from available-for-sale securities was mainly due to the increase in the realised gain from the sale and redemption of such securities to a more accurate fair market value.

The decrease in fee and commission expense to KZT 37 million for the year ended 31 December 2005 from KZT 61 million for the year ended 31 December 2004 was primarily due to a decrease in fee expense for custody services due to the transfer by the Issuer of all its securities from its custody account with the NBK to a newly opened deposit account with the Central Depository of Kazakhstan.

The following table sets out a breakdown of certain components of the Issuer's fees and commission expense for the years ended 31 December 2005 and 2004:

	Year ended 31 December	
	2005	2004
	(KZT thousands)	
Fee expense for funds transfer operations	(1,302)	(671)
Commission expense on securities sale and purchase transactions	(15,612)	(14,014)
Commission expense on foreign exchange transactions.	—	(2,825)
Fee expense for custody services.	(5,869)	(31,269)
Other fee and commission expense	(14,438)	(12,514)
Total commission expense	(37,221)	(61,293)

Non Interest Expense

The following table sets out the principal components of the Issuer's non-interest expense for the years ended 31 December 2005 and 2004:

	Year ended 31 December	
	2005	2004
	(KZT thousands)	
Operating expenses		
Payroll and related payments	(1,142,649)	(578,732)
Depreciation and amortisation	(59,491)	(56,201)
Communication expenses	(54,177)	(39,073)
Taxes, other than income tax	(51,945)	(22,871)
Advertisement expenses	(52,805)	(4,627)
Business trip expenses	(33,525)	(25,935)
Professional services fees	(25,310)	(31,109)
Rent expenses	(10,518)	(4,923)
Representative expense	(4,295)	(10,894)
Other	(110,257)	(69,935)
	<u>(1,544,972)</u>	<u>(844,300)</u>

Non interest expense increased by 83.0 per cent. in 2005 as compared to 2004. Non interest expense represented 34.9 and 24.6 per cent. of operating income before income tax expenses at 31 December 2005 and 2004, respectively. The overall increase in operating expenses in 2005, as compared to 2004, was due primarily to: (i) increases in salary and bonuses as a result of an increase in the number of employees from 144 in 2004 to 184 during 2005; (ii) the introduction of a new employee retention system which increases salaries and payment of bonuses to employees of key revenue generating departments of the Issuer; (iii) an increase in advertisement expenses; and (iv) an increase in taxes other than income tax as a result of increased payments of social tax and withholding tax on payments of interest to non-residents.

Payroll and related payments increased by 97.4 per cent. to KZT 1,143 million in 2005 from KZT 579 million in 2004. This was because of a 27.8 per cent. increase in the number of employees as well as a 40 per cent. increase in average salary levels. The increase in salary levels is due to the Issuer's need to attract highly qualified personnel and the competition among banks for such professionals in Astana.

Advertisement expenses increased from KZT 4.6 million in 2004 to KZT 52.8 million in 2005 as a result of the Issuer's efforts to increase public awareness of its role in the development of Kazakhstan's economy. The Issuer started actively to broadcast TV commercials and print promotional material describing projects financed by the Issuer.

Higher communication and business trip expenses also contributed to the increase in 2005 compared to 2004, although these were significantly offset by reductions in professional services fees and representative expenses.

Communication expenses increased by 38.7 per cent. to KZT 54 million for the year ended 31 December 2005 compared to KZT 39 million for the year ended 31 December 2004 as a result of increased expenses for the establishment of new communication channels to Reuters, the KASE and government communication channels.

Business trip expenses rose by 29.3 per cent. to KZT 34 million for the year ended 31 December 2005, compared to KZT 26 million for the year ended 31 December 2004, as a result of the Issuer's increased marketing activity both in the domestic and foreign markets as well as credit monitoring on-site visits to various regions in Kazakhstan to monitor projects where some of the Issuer's borrowers are located.

Rent expenses increased by 113.7 per cent. to KZT 11 million for 2005, compared to KZT 5 million for 2004, largely due to the relocation of several departments.

Taxation

The Issuer had an income tax benefit of KZT 33 million for the year ended 31 December 2005, as compared to tax expense of KZT 20 million for the year ended 31 December 2004. The Issuer's effective tax rates were (1.1) and 0.8 per cent. for 2005 and 2004, respectively. The tax benefit in 2005 resulted from differences between IFRS and tax accounting principles. In particular, there was an increase in the amount of deferred

tax assets due to an increase in accrued expenses for the Issuer's vacation reserve and payroll fund in 2005. Consequently, there was an increase in the effective tax rate as compared to the previous period.

FINANCIAL CONDITION AS AT 31 DECEMBER 2005 AND 2004

Total assets

As at 31 December 2005, the Issuer's total assets were KZT 139,774 million, an increase of 40.3 per cent. as compared to 31 December 2004. The growth in 2005 as compared to 2004 was primarily attributable to a 703.0 per cent. increase in the Issuer's cash and cash equivalents, a 7.6 per cent. increase in investment securities and a 61.1 per cent. increase in the gross loan portfolio.

As at 31 December 2005, the Issuer's cash and cash equivalents balances have increased to KZT 16,520 million from KZT 2,057 million as at 31 December 2004. The increase in 2005 was primarily due to the increase in short term deposits with other banks and an increase of KZT 6.5 billion in correspondent account with the NBK. The KZT 6.5 billion is a loan from the Government for which the Issuer is only a collection and paying agent. This amount will be disbursed after the receipt of corresponding instructions from the Government.

As at 31 December 2005, amounts receivable under derivative financial assets increased 923.7 per cent to KZT 90 million from KZT 8.8 million as at 31 December 2004. The increase in 2005 was due to increased derivative transactions such as currency forward contracts.

There has been a positive carry on interest rate swap positions of the Issuer in 2005. As at 31 December 2005 the net fair value of interest rate swaps reflected KZT 4 million of assets, as compared to the net fair value of KZT 32 million of liabilities as at 31 December 2004.

The Issuer concluded several short-term currency forward transactions with local banks in 2005 to cover its foreign currency exposure. In 2005, the Issuer ceased to classify as option contracts several agreements in its investment portfolio. This is because these agreements take effect on the condition that certain material changes in the performance of those issuers occur and the Issuer believes that no such changes will occur.

The Issuer did not have any open reverse repurchase positions as at the end of 2005 as the returns on such transactions in Kazakhstan was too low and also because the NBK did not participate in the repurchases market in 2005.

As at 31 December 2005 the total amount of outstanding loans to customers was KZT 45,576 million, an increase of 59.5 per cent., as compared to KZT 28,574 million as at 31 December 2004. The increase in the 2005 loan portfolio was mainly due to an increase in the volume of loans extended by the Issuer which was in line with the Issuer's strategic objectives and Memorandum.

As at 31 December 2005, fixed and intangible assets, less accumulated depreciation and amortisation increased from KZT 161 million to KZT 187 million. In 2005 property and equipment increased mainly due to acquisitions of one vehicle and new computer hardware for the Issuer's staff, but the overall increase in fixed assets was off-set by depreciation and amortisation. Intangible assets increased due to an acquisition of a new software programme for the monitoring and analysis of assets and liabilities of the Issuer.

Total liabilities

As at 31 December 2005, the Issuer's total liabilities were KZT 68,188 million, an increase of 54.3 per cent. as compared to KZT 44,205 million at 31 December 2004. The increase in 2005 was primarily due to increases in amounts of debt securities issued and amounts due to the government and other financial institutions but was slightly off-set by a decrease in provisions from KZT 117.6 million as at 31 December 2004 to KZT 72.1 million as at 31 December 2005 due to the recovery of provisions in the amount of KZT 45.5 million relating to guarantees and other commitments.

As at 31 December 2005, debt securities issued increased by 50 per cent. to KZT 41,678 million, as compared to KZT 27,789 million as at 31 December 2004. As at 31 December 2005, amounts due to financial institutions increased by 45.9 per cent. as compared to 31 December 2004. The increase in 2005 was due to new ECA covered bilateral loans to the Issuer. The amount due to the Government increased by 73.5 per cent., to KZT 15,448 million as at 31 December 2005 as compared to KZT 8,901 million as at 31 December 2004.

Deferred tax liabilities of KZT 10 million occurred as at 31 December 2005 as compared to 50 million as at 31 December 2004. This decrease was due to an increase in deferred tax assets in the form of accrued expenses for the Issuer's vacation reserve and payroll fund.

Equity and Capital Adequacy Ratios

As at 31 December 2005, the Issuer's total shareholders' equity had increased by 29.2 per cent., to KZT 71,585 million, as compared to KZT 55,417 million as at 31 December 2004. The increase in total shareholder equity in 2005 was due to an increase in share capital which in turn was the result of additional issuance by the Issuer of ordinary shares, increases of 9.7 per cent. in retained earnings and 62.5 per cent. in reserve capital.

Pursuant to the DBK Law the Issuer is not subject to the prudential requirements of the NBK applicable to second tier banks in Kazakhstan. Therefore, the Issuer does not calculate Tier 1 capital ratio as a part of its liquidity management policy. In July 2003, following the assignment by the NBK to the Issuer of financial agency status, the Issuer became subject to the requirements of the NBK applicable to financial agents and was required to maintain a risk weighed capital adequacy ratio of not less than 8.0 per cent. As at 31 December 2005, the Issuer had a risk weighted capital adequacy ratio of 32 per cent.

The following table gives certain information regarding the Issuer's risk weighted capital adequacy ratio calculated in accordance with the requirements of the NBK set for financial agencies as at 31 December 2005 and 31 December 2004:

	31 December	
	2005	2004
	(KZT thousands)	
Share capital	59,825,446	48,351,300
Reserve capital.	6,575,875	4,047,737
Retained earnings of past periods	0	0
Investments into equities of other legal entities	(3,252,200)	(2,200)
Total.	63,149,121	52,396,837
Assets	139,763,626	99,938,379
Contingent liabilities.	62,843,764	42,389,976
Capital adequacy ratio (not less than 0.08).	0.32	0.37

Note: The above balance sheet items such as assets and contingent liabilities are calculated on the basis of the Issuer's unconsolidated balance sheet.

According to the Memorandum, contingent liabilities to shareholders equity ratio should not exceed a 2 to 1 limit and direct liabilities to shareholder equity ratio should not exceed a 4 to 1 limit. The following table gives certain information regarding the Issuer' contingent liability ratio and direct liability ratio for the indicated periods.

	As at 31 December	
	2005	2004
Guarantees Ratio ⁽¹⁾ (per cent.)	0	1.5
Direct Liability Ratio ⁽²⁾ (per cent.)	93.6	78.5

(1) Contingent liabilities include guarantees, issued by the Issuer.

(2) Direct liabilities include amounts due to Government, financial institutions, debt securities issued.

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, variations of 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 liquidity, 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 6 members and reports to the President. All members of the ALCO are appointed by the President for a term of one year. The ALCO is headed by the Chairman of the ALCO and is comprised of the representatives of Treasury Department, Borrowings and Structured Finance Department, Strategic Planning Department, Legal Department and the Collateral Appraisal Department. The ALCO meets at least once a month. The ALCO regularly monitors the Issuer's liquidity position, maturity gaps, interest income and expense on interest bearing liabilities as well as operational expense, liabilities and conditions of domestic and international financial markets. The ALCO reviews the Issuer's compliance with the operational ratios established by the Memorandum. The ALCO is responsible for setting average borrowing interest rates and interest rate limits on the Issuer's borrowed resources, placed assets, establishes the range of interest margins payable by borrowers on new loans on a monthly basis, and determines various limits and other criteria including individual lending limits and ratios for funding. The ALCO also establishes lending rate limits on an individual basis if the amount of a loan exceeds U.S.\$5 million.

CREDIT COMMITTEE

The Credit Committee implements the Issuer's credit policies set out in the Memorandum and its additional internal controls. All members of the Credit Committee are appointed by the President and the term of their membership is decided by the President. The Credit Committee is a permanent collective body that consists of 14 members and reports to the President. The Credit Committee is headed by the Chairman of the Credit Committee. Principal responsibilities of the Credit Committee include implementation of the internal lending policy of the Issuer, ensuring compliance by the Issuer with the requirements established in the Memorandum, other limitations set by the ALCO and, minimising credit risk and maximising growth of net income from lending operations. The Credit Committee also establishes interest rates and fees in relation to export credits. 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 5 members and reports to the President. The Investment Committee is responsible for the development of the Issuer's internal policy on investment portfolio management. In April 2004 the Board of Directors of the Issuer approved the Investment Portfolio Management Strategy. That strategy seeks to effectively improve the management of the Issuer's investment portfolio by defining the types of instruments in which the Issuer invests, investment limitations, the structure of the portfolio and investment risk evaluation methods.

MATURITIES

The following tables set out a breakdown of the Issuer's assets and liabilities by maturity as at 31 December 2005 and 31 December 2004 and contain certain information regarding the liquidity risk faced by the Issuer. Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they fall due.

As at 31 December 2005							
	On demand	Below 1 month	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
(KZT thousands)							
Assets							
Cash and cash equivalents.	7,182,168	2,278	9,335,144	—	—	—	16,519,590
Loans and advances to banks	—	—	—	8,253,336	201	—	8,253,537
Derivatives	—	—	3,982	86,000	—	—	89,982
Investments available for sale. . . .	67,402,756	—	—	—	—	—	67,402,756
Investments held to maturity	—	22,238	—	399,046	1,180,468	—	1,601,752
Loans to customers, less allowance for impairment losses	—	—	566,603	4,744,826	8,509,826	31,754,593	45,575,848
Other assets, less allowance for impairment losses	7,005	11,403	12,748	103,318	—	2,200	136,674
Total assets.	74,591,929	35,919	9,918,477	13,586,526	9,690,495	31,756,793	139,580,139
Liabilities							
Loans from Government of the Republic of Kazakhstan	—	2,334	—	—	—	15,445,212	15,447,546
Loans and advances from banks and other financial institutions . .	—	60,518	—	6,005,280	2,605,675	1,241,792	9,913,265
Customer accounts.	542,829	877	—	—	28,470	61,408	633,584
Debt securities issued	—	—	—	—	15,447,210	26,230,440	41,677,650
Deferred tax liabilities	—	—	—	—	—	9,525	9,525
Derivatives	—	118	—	91,500	—	—	91,618
Other liabilities	21,611	287,410	—	34,104	—	—	343,125
Total liabilities	564,440	351,257	—	6,130,884	18,081,355	42,988,377	68,116,313
Net position	74,027,489	(315,338)	9,918,477	7,455,642	(8,390,860)	(11,231,584)	71,463,826
Cumulative difference.	74,027,489	73,712,151	83,630,628	91,086,270	82,695,410	71,463,826	

As at 31 December 2004							
	On demand	Below 1 month	1 month to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
(KZT thousands)							
Assets							
Cash and cash equivalents.	284,832	254,309	1,518,219	—	—	—	2,057,360
Loans and advances to banks	—	945,967	2,365,670	1,270,056	390	—	4,582,083
Derivatives	8,790	—	—	—	—	—	8,790
Investments available for sale. . . .	60,633,580	—	—	—	—	—	60,633,580
Investments held to maturity	—	12,008	—	1,890,318	1,567,655	—	3,469,981
Loans to customers, less allowance for impairment losses	—	146,234	879,208	7,927,664	14,596,376	5,024,742	28,574,224
Other assets, less allowance for impairment losses	—	18,207	24,229	9,022	2,200	77,647	131,305
Total assets.	60,927,202	1,376,725	4,787,326	11,097,060	16,166,621	5,102,389	99,457,323
Liabilities							
Loans from Government of the Republic of Kazakhstan	—	1,916	—	418	—	8,899,000	8,901,334
Loans and advances from banks and other financial institutions . .	—	—	—	644,727	5,817,737	332,438	6,794,902
Customer accounts.	336,161	—	—	—	27,625	—	363,786
Debt securities issued	—	—	—	—	15,032,841	12,755,672	27,788,513
Deferred tax liability	—	—	—	50,240	—	—	50,240
Derivatives	31,888	—	—	—	—	—	31,888
Other liabilities	—	13,475	47,244	96,373	—	—	157,092
Total liabilities	368,049	15,391	47,244	791,758	20,878,203	21,987,110	44,087,755
Net position	60,559,153	1,361,334	4,740,082	10,305,302	(4,711,582)	(16,884,721)	55,369,568
Accumulated difference.	60,559,153	61,920,487	66,660,569	76,965,871	72,254,289	55,369,568	

The Issuer maintains its liquidity management processes with the objective of ensuring that funds will be available at all times to fund all cash flow obligations as they become due.

The issuance of Notes under the Programme is one of the steps being taken by the management in an effort to diversify and extend the maturity of the Bank's funding sources.

INTEREST RATE MANAGEMENT

The following table sets out the average interest rates on the Issuer's interest rates bearing assets and liabilities broken down by currencies for the indicated periods.

	As at 31 December					
	2005			2004		
	KZT	USD	EUR	KZT	USD	EUR
Loans to banks.	7.69%	2.55-4.97%	0.82%	7.66%	0.3%	0.15%
Investments available for sale.	6.17%	11.59%	—	6.12%	11.59%	—
Investments held to maturity	8.43%	—	—	8.37%	—	—
Loans to customers, less allowance for impairment losses	—	8.82%	7%	—	9.36%	—
Loans for Government of the Republic of Kazakhstan	0.10%	—	—	0.1%	—	—
Loans from banks.	5.4%	—	—	—	3.84%	—
Customer accounts	0.02%	2.62%	1.62%	—	1%	—
Debt securities issued	7.07%	—	—	—	7.34%	—

The principal objective of the Issuer's interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements on interest income by managing interest rate exposure. The Issuer monitors its interest rate sensitivity by estimating: (i) its gap position, which is based on analysing the composition of its assets and liabilities and off-balance sheet financial instruments susceptible to interest rate fluctuations and evaluations of asset and liabilities differentials in selected time periods; (ii) mismatches between average maturities of its assets and liabilities base; (iii) duration; and (iv) VAR, which is based on evaluating potential loss of the Issuer as a result of adverse market fluctuations. Pursuant to the Memorandum and its strategic objectives, the Issuer intends to continue to provide low cost medium- and long-term funding to its customers, and its management believes that the Issuer does not have any significant interest rate exposure.

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.

In accordance with the criteria established by the Investment Committee and approved by the Board of Directors of the Issuer all financial instruments in the investment portfolio are classified into liquid and savings instruments. Liquid instruments consist of unutilised borrowed funds which are used to maintain the required liquidity level. Savings instruments are funded through the Issuer's equity and serve to maintain the Issuer's capital at adequate levels.

The DBK Law as amended, provides that the Issuer may deal in 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 BBB/Baa3;
- debt securities issued by international financial institutions, such as the World Bank or the European Bank for Reconstruction and Development;
- debt securities issued by domestic and foreign entities listed on the "A" board of the Kazakhstan Stock Exchange;
- debt securities issued by foreign entities with credit ratings of not lower than BBB/Baa3;

- derivative transactions with local commercial banks or foreign counterparties with appropriate credit ratings;
- deposits with the NBK, domestic second-tier banks and foreign banks; and
- securities issued by local entities in compliance with the legislation of foreign countries and with credit ratings not lower than sovereign rating of the Republic of Kazakhstan.

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, in accordance with other financial institutions in Kazakhstan, the Issuer acquired a seat on (through equity purchase) the KASE in order to reduce the costs of securities transactions on the KASE.

As at 31 December 2005 the Issuer's securities portfolio totalled KZT 69,004 compared to KZT 64,104 million as at 31 December 2004. A significant portion of the Issuer's securities portfolio consists of the securities issued by the Ministry of Finance, the NBK and local authorities, which, as at 31 December 2005, comprised 75 per cent. of the Issuer's securities portfolio compared to 82.8 per cent. as at 31 December 2004. The remaining portfolio is comprised of debt securities issued by Kazakhstan issuers. The Kazakhstan issuers include companies in the food processing, agriculture 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.

To diversify the Issuer's investment portfolio assets, the Board of Directors decided to transfer an investment portfolio in the amount of US\$110 million to external management outside of Kazakhstan on 3 December 2003. The Issuer is currently preparing documents to regulate this transfer.

The following table shows the composition of the Issuer's investment portfolio as at the dates indicated:

	As at 31 December					
	2005			2004		
	Amount	Interest rate (per cent.)	Maturity	Amount	Interest rate (per cent.)	Maturity
	(KZT thousands)			(KZT thousands)		
Available-for-sale securities						
Bonds of the Ministry of Finance . . .	48,189,206	3.5-6.4	2006-2013	34,488,800	4.9-6.4	2005-2013
Notes of the NBK	—	—		13,404,331	2.9-5.1	2005
Corporate bonds	16,942,080	5-11	2006-2015	10,597,926	7.5-12.0	2005-2011
Atyrau city municipal bonds.	2,272,470	8.5	2008	2,142,523	8.5	2008
Total available-for-sale securities . . .	67,402,756			60,633,580		
Held-to-maturity securities						
Astana city municipal bonds.	773,188	8.5	2006	2,139,856	8.3-8.5	2005-2006
Bonds of the Ministry of Finance . . .	409,597	8-8.2	2006-2007	927,745	6.0-8.3	2005-2007
Corporate bonds	418,967	8	2007	402,380	9.2	2007
Total held-to-maturity securities	1,601,752	—	—	3,469,981	—	—
Total	69,004,508			64,103,561		

Funding And Liquidity Management

INTRODUCTION

The Issuer's funding and liquidity management policies, which are implemented by the ALCO, 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 and the Issuer's liquidity:

	ALCO Requirement	31 December 2005
	(Per cent.)	
Net loans/ total assets	Not to exceed 100.0	32.6
Net loans/equity	Not to exceed 70.0	63.7
Liquid assets ⁽¹⁾ /total assets	Not less than 30.0	67.1

Note:

(1) Liquid assets comprise securities plus and cash equivalents, and amounts due from other financial institutions.

The Issuer's activities are funded through the issuance and placement of bonds, both domestically and internationally, through borrowings from financial institutions and loans financed from the state budget. The Issuer is not permitted to take deposits from customers that are not borrowers of the Issuer or customers of the Issuer under the agency agreement.

The Issuer may take inter-bank deposits and open and maintain correspondent accounts for the purpose of managing its liquidity. The Issuer also acts as a collection and payment agent for projects financed from the state and local budgets and Government guaranteed loans. Acting in its agency capacity, the Issuer opens interest free current and interest bearing deposit accounts. The customers accumulate in such accounts funds 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:

	As at 31 December			
	2005		2004	
	(KZT thousands)	(per cent.)	(KZT thousands)	(per cent.)
Amounts due to the Government of Kazakhstan	15,447,546	22.7	8,901,334	20.1
Amounts due to other financial institutions	9,913,265	14.5	6,794,902	15.4
Amounts due to customers.	633,584	0.9	363,786	0.8
Debt securities issued	41,677,650	61.1	27,788,513	62.9
Other liabilities.	516,399	0.8	356,857	0.8
Total liabilities..	68,188,444	100.0	44,205,392	100.0

To diversify its funding base and to enable it to manage the maturities of its debt, the Issuer (i) has entered into various debt facilities described under "Borrowings" below; (ii) has entered into the Programme and has issued various debt securities as described in "Debt Securities" below and; (iii) has commenced negotiations on entering Framework Agreements with Japan Bank for International Cooperation, Dresdner Bank A.G., Sanpaolo IMI Bank, ABN AMRO Bank, ING Bank N.V., AKA Bank, Commerzbank A.G., Banca Popolare Di Vicenza and UBS A.G. and ISDA Master Agreements with a number of international banks; and (iv) entered into a Cooperation Agreement with Development Bank of China ("DBC") and commenced negotiations for opening a credit line with the DBC to finance large-scale infrastructure projects.

As at 31 December 2005, the Issuer's authorised and paid-in share capital equalled KZT 59,513 million. On 20 June 2005, the Astana regional authority purchased 6,250 common shares but as at the date of this Base Prospectus, the purchase has not been entered in the share register. The 2006 State Budget allocated KZT 13.7 million more to be paid into the share capital of the Issuer by the end of 2006. Although, 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 if the amount does not exceed 20 per cent. of share capital, 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.

BORROWINGS

Set out below are summary descriptions of the terms of the debt facilities under which the Issuer is a borrower as at the date of this Base Prospectus:

The HSBC Facility

On 7 December 2004, the Issuer entered into a two year U.S.\$40 million, unsecured loan agreement with a syndicate of foreign banks led by HSBC Bank plc. (the “HSBC Facility”). The HSBC Facility was fully drawn down in December 2004.

The loan under the HSBC Facility bears an interest rate of LIBOR plus 1.0 per cent. The Issuer is entitled to prepay the HSBC Facility at any time in full or part without penalty. The HSBC Facility loan matures on 7 May 2006, however, the Bank has an option to extend it for another two years.

As at 31 December 2005, the outstanding principal balance of the HSBC Facility was U.S.\$40.0 million.

Under the HSBC Facility the Issuer is obliged to maintain certain financial ratios, particularly with regard to its capital adequacy and tangible net worth. As at 31 December 2005, the Bank was in compliance with all financial ratios and other covenants imposed on it under the HSBC Facility.

The Standard Bank Facility

On 15 March 2004, the Issuer entered into a U.S.\$10 million unsecured loan agreement for the purpose of financing export related projects. Interest on the principal balance is at the annual rate of LIBOR plus a margin quoted on a case by case basis depending on the underlying transactions, with Standard Bank London Limited (the “Standard Bank Facility”). The Standard Bank Facility was utilised by the Issuer to fund two export related projects: (i) in the total amount of U.S.\$5 million, bearing an interest of LIBOR plus 2.0 per cent., and maturing on 1 September 2006; and (ii) in the total amount of U.S.\$4.95 million, bearing interest at LIBOR plus 1.5 per cent. The second loan in the amount of U.S.\$4.95 million was repaid in full on 9 August 2005.

As at 31 December 2005, the aggregate outstanding principal amount under the Standard Bank Facility was U.S.\$5.0 million.

The Deutsche Bank Facility

On 9 July 2003 the Issuer entered into a basic agreement with Deutsche Bank Aktiengesellschaft, Frankfurt am Main, pursuant to which the Issuer is permitted to draw various amounts in foreign currency for the purpose of on-lending funds in connection with specific export related transactions that are eligible for national export credit agency insurance, with a view to financing 85.0 per cent. of value of such transactions (the “Basic Agreement”). Pursuant to the Basic Agreement, on 29 December 2003 the Issuer entered into a U.S.\$2.8 million individual loan agreement, bearing interest at LIBOR plus 0.6 per cent., with Deutsche Bank AG, London (the “Deutsche Bank Facility”). The loan matures on 30 July 2010.

As at 31 December 2005, the total outstanding principal amount under the Deutsche Bank Facility was U.S.\$2.3 million.

JP Morgan Facility

In April 2005, the Issuer entered into a three year U.S.\$15 million facility agreement with JP Morgan chase Bank (“JP Morgan Facility”). The purpose of the JP Morgan Facility is the crediting of export operations. The facility was fully drawn down in April 2005.

The loan under the JP Morgan Facility bears interest at a rate of 5.8 per cent. The JP Morgan Facility loan matures on 25 April 2008.

As of 31 December 2005, the total outstanding amount under the JP Morgan Facility was U.S.\$15 million.

JBIC Facility

On 28 December 2005, the Issuer entered into a two-step loan agreement with the Japan Bank for International Cooperation, pursuant to which the Issuer was permitted to draw up to U.S.\$50 million (the “JBIC Facility”). The purpose of the loan is the financing of projects, approved by JBIC, by issuing sub-

loans to sub borrowers for a minimum amount not less than U.S.\$1,000,000. As at 31 December 2005, the Issuer has not drawn down any amount under the JBIC Facility.

The JBIC Facility bears interest on its outstanding principal balance under the floating rate defined by the facility. The Issuer is entitled to prepay the JBIC Facility at any time in full or in part upon 30 days prior written notice. The JBIC Facility loan matures on 25 July 2024

Under the JBIC Facility the Issuer is obliged to maintain certain financial ratios with regard to the amount of its total loan portfolio and its tangible net worth. As at the date of the Prospectus, the Issuer was in compliance with all financial ratios and other covenants imposed on it under the JBIC Facility.

The Government Loans

Pursuant to the DBK Law and the Budget Code of the Republic of Kazakhstan dated 24 April 2004, the Issuer may, from time to time, borrow certain funds from the Government for the purpose of further on-lending funds to its corporate customers subject to the requirements and objectives set in the Memorandum and the DBK Law.

On 26 November 2003, the Issuer entered into a fifteen year credit agreement with the Government for the total principal amount of KZT 4,300 million, bearing an interest on the principal balance at the annual rate of 0.1 per cent. (the “First Government Loan”). As at 31 March 2005, the total outstanding principal amount under the First Government Loan was KZT 4,300 million.

On 27 July 2004, the Issuer entered into a second fifteen year credit agreement with the Government for the total principal amount of KZT 4,599 million, bearing an interest on the principal balance at the annual rate of 0.1 per cent. (the “Second Government Loan”). As at 31 March 2005, the total outstanding principal amount under the Second Government Loan was KZT 4,599 million.

The Issuer is entitled to prepay the First Government Loan and the Second Government Loan at any time in full or part without penalty subject to prior consent of the Government.

DEBT SECURITIES

In 2002, the Issuer issued KZT 4,500 million 8.5 per cent. domestic bonds due 2007 indexed to U.S. Dollars. Since then the Issuer repurchased these 2007 domestic bonds for a principal amount of KZT 2,168 million. In December 2002, the Issuer registered an issue of KZT 6,300 million domestic bonds, maturing in December 2009 with the NBK. As at 31 March 2005, none of the bonds of this issue had been placed. The Issuer intends to place those bonds over the course of the next several years.

In October 2002 the Issuer issued U.S.\$100 million 7.125 per cent. Notes due 2007 under the Programme. In November 2003 the Issuer issued U.S.\$100 million 7.375 per cent. Notes due in November 2013 under the Programme. In May 2005, the Issuer issued U.S.\$100,000,000 6.5 per cent. Notes due 2020 under the Programme.

COUNTERPARTY RISK MANAGEMENT

The Issuer’s total exposure to a single borrower or a group of affiliated borrowers may not exceed 20.0 per cent. of the Issuer’s equity. In addition, the ALCO sets exposure limits to direct and contingent liabilities of any counterparty commercial bank which varies from 80.0 to 100.0 per cent. of the equity of a counterparty commercial bank. The majority of projects to date which have been financed 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 60.0 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. 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 borrowers’ businesses will replace commercial bank guarantees as the value or collateral increases. Accordingly, the Issuer believes that its loan portfolio growth will not be constrained due to the growth of the commercial banking sector and the equity base thereof.

FOREIGN CURRENCY MANAGEMENT

The following table sets out the Tenge equivalent amount of the Issuer's monetary assets and liabilities denominated in Tenge and foreign currencies as at 31 December 2005 and 2004.

	As at 31 December 2005				
	KZT	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	15,976,597	148,231	3,109	391,653	16,519,590
Loans to banks	1,731,152	6,522,385	—	—	8,253,537
Derivatives	86,000	3,982	—	—	89,982
Investments available for sale	66,549,394	853,362	—	—	67,402,756
Investments held to maturity	1,601,752	—	—	—	1,601,752
Loans to customers, less allowance for impairment losses	93,739	43,936,984	1,545,125	—	45,575,848
Other assets, less allowance for impairment losses	125,637	9,653	1,384	—	136,674
Total assets	<u>86,164,271</u>	<u>51,474,597</u>	<u>1,549,618</u>	<u>391,653</u>	<u>139,580,139</u>
Liabilities					
Loans for Government of the Republic of					
Kazakhstan	15,447,546	—	—	—	15,447,546
Loans from banks	—	8,354,131	1,559,134	—	9,913,265
Customer loans	64,947	178,085	—	390,552	633,584
Debt securities issued	1,983,776	39,693,874	—	—	41,677,650
Deferred tax liability	9,525	—	—	—	9,525
Derivatives	91,500	118	—	—	91,618
Other liabilities	331,161	11,964	—	—	343,125
Total liabilities	<u>17,928,455</u>	<u>48,238,172</u>	<u>1,559,134</u>	<u>390,552</u>	<u>68,116,313</u>
Balance position, net	<u>68,235,816</u>	<u>3,236,425</u>	<u>(9,516)</u>	<u>1,101</u>	<u>71,463,826</u>
As at 31 December 2004					
	KZT	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	1,834,269	8,407	23,695	190,989	2,057,360
Loans to banks	4,581,693	390	—	—	4,582,083
Derivatives	—	8,790	—	—	8,790
Investments available for sale	59,983,561	650,019	—	—	60,633,580
Investments held to maturity	3,469,981	—	—	—	3,469,981
Loans to customers, less allowance for impairment losses	84,064	28,490,160	—	—	28,574,224
Other assets, less allowance for impairment losses	122,325	8,980	—	—	131,305
Total assets	<u>70,075,893</u>	<u>29,166,746</u>	<u>23,695</u>	<u>190,989</u>	<u>99,457,323</u>
Liabilities					
Loans for Government of the Republic of					
Kazakhstan	8,901,334	—	—	—	8,901,334
Loans from banks	—	6,794,902	—	—	6,794,902
Customer loans	956	149,832	22,447	190,551	363,786
Debt securities issued	2,035,876	25,752,637	—	—	27,788,513
Deferred tax liability	50,240	—	—	—	50,240
Derivatives	—	31,888	—	—	31,888
Other liabilities	121,800	35,233	59	—	157,092
Total liabilities	<u>11,110,206</u>	<u>32,764,492</u>	<u>22,506</u>	<u>190,551</u>	<u>44,087,755</u>
Balance position, net	<u>58,965,687</u>	<u>(3,597,746)</u>	<u>1,189</u>	<u>438</u>	<u>55,369,568</u>

Following the floating of the Tenge in 1999, the Tenge generally continued to depreciate in value against the U.S. Dollar, although at a much slower rate but in 2003 it began to appreciate in value against the U.S. Dollar and has continued to do so through to 31 December 2005.

The Issuer is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Financial Risk Control Department monitors the Bank's net currency position and advises on the Issuer's strategy accordingly. The ALCO sets the Issuer's limits on the level of exposure to foreign currencies, ranging from -2.0 per cent. to +2.0 per cent. of the Issuer's equity.

During 2005 the Issuer's net currency position did not exceed the established limits. Since a significant portion of the Issuer's assets is denominated in US Dollars, the Issuer maintains its currency position at almost zero to mitigate the risk of any US Dollar depreciation in the future.

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

	As at 31 December	
	2005	2004
Net long (short) position (KZT thousands)	130,878	298,200
Net position as a percentage of shareholders' equity (per cent.)	0.2	0.5
Net position as a percentage of foreign currency liabilities (per cent.)	0.3	0.9

GEOGRAPHIC CONCENTRATION

The following table sets out certain information relating to the Issuer's financial assets and liabilities by reference to the geographic concentration of the Issuer's counterparties.

	As at 31 December 2005		
	Kazakhstan	OECD Countries	Total
	(KZT thousands)		
Assets			
Cash and cash equivalents	16,353,427	166,163	16,519,590
Loans to banks	8,253,537	—	8,253,537
Derivatives	86,000	3,982	89,982
Investments available for sale	67,402,756	—	67,402,756
Investments held to maturity	1,601,752	—	1,601,752
Loans to customers, less allowance for impairment losses	45,575,848	—	45,575,848
Other assets	136,674	—	136,674
Total assets	<u>139,409,994</u>	<u>170,145</u>	<u>139,580,139</u>
Liabilities			
Loans from Government of the Republic of Kazakhstan	15,447,546	—	15,447,546
Loans from banks	—	9,913,265	9,913,265
Customer accounts	633,584	—	633,584
Debt securities issued	1,983,776	39,693,874	41,677,650
Deferred tax liability	9,525	—	9,525
Derivatives	91,500	118	91,618
Other liabilities	343,125	—	343,125
Total liabilities	<u>18,509,056</u>	<u>49,607,257</u>	<u>68,116,313</u>
Net Balance Sheet Position	<u>120,900,938</u>	<u>(49,437,112)</u>	<u>71,463,826</u>

	As at 31 December 2004		
	Kazakhstan	OECD Countries	Total
	(KZT thousands)		
Assets			
Cash and cash equivalents	2,025,296	32,064	2,057,360
Loans to banks	4,582,083	—	4,582,083
Derivatives	—	8,790	8,790
Investments available for sale	60,633,580	—	60,633,580
Investments held to maturity	3,469,981	—	3,469,981
Loans to customers, less allowance for impairment losses	28,574,224	—	28,574,224
Other assets, less allowance for impairment losses	131,305	—	131,305
Total assets	99,416,469	40,854	99,457,323
Liabilities			
Loans from Government of the Republic of Kazakhstan	8,901,334	—	8,901,334
Loans from banks	—	6,794,902	6,794,902
Loans from customers	341,339	22,447	363,786
Debt securities issued	2,035,876	25,752,637	27,788,513
Deferred tax liability	50,240	—	50,240
Derivatives	—	31,888	31,888
Other liabilities	157,033	59	157,092
Total liabilities	11,485,822	32,601,933	44,087,755
Net position	87,930,647	(32,561,079)	55,369,56

LOAN PORTFOLIO

The Issuer provides medium-term financing, from five to ten years, and long-term financing, from ten to twenty years, for investment projects (of not less than U.S.\$5 million) and export transactions (of not less than U.S.\$1 million) of businesses operating in various priority commercial sectors of Kazakhstan, as set out in the Memorandum. See “JSC Development Bank of Kazakhstan—Lending”. Within the classification of the priority commercial 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. The following table sets out the Issuer’s exposure limits broken down by industry sector:

	Percentage of the Issuer’s equity (per cent.)
Agriculture, forestry and hunting	40.0
Fishing industry	20.0
Oil and gas industry except services and exploration	40.0
Processing agricultural products	40.0
Paper production	20.0
Textile and clothing industry	30.0
Non-metal mineral products	40.0
Machinery and equipment	30.0
Rubber and plastic items	40.0
Metal industry	20.0
Electronic equipment	40.0
Transportation and communication	40.0
Production and distribution of energy	40.0

As at 31 December 2005, the Issuer’s gross loan portfolio equalled KZT 45,576 million as compared to KZT 29,728 million as at 31 December 2004.

Ten major borrowers accounted for 58.68 per cent. and 63.8 per cent. of the Issuer’s gross loan portfolio as at 31 December 2005 and 31 December 2004, respectively. Ten major borrowers represented 39.27 per cent. and 32.9 per cent. of the Issuer’s shareholders’ equity as at 31 December 2005 and 31 December 2004, respectively.

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.

The following table shows a breakdown of the Issuer's loan portfolio, before allowances for impairment losses, by industry sector as at the dates indicated:

	As at 31 December			
	2005		2004	
	(KZT thousands)	(per cent.)	(KZT thousands)	(per cent.)
Textile industry	10,476,418	21.9	3,167,041	10.7
Chemical industry	6,991,459	14.6	—	—
Agriculture	5,441,342	11.4	5,755,068	19.4
Food industry	5,171,814	10.8	4,209,184	14.2
Machinery	4,838,246	10.1	4,313,484	14.5
Construction	3,224,724	6.7	3,073,768	10.3
Energy	2,857,274	6.0	1,551,568	5.2
Telecommunications and transport services	2,648,307	5.5	2,246,494	7.6
Electronic Equipment	2,524,308	5.3	2,369,338	8.0
Pulp and paper industry	1,602,222	3.3	1,313,415	4.4
Fishery	669,900	1.4	650,000	2.1
Non-metallic mineral products	134,248	0.3	—	—
Mortgage lending	93,739	0.2	84,064	0.3
Other	290,070	0.5	162,335	0.5
Accrued interest income on loans to customers	941,955	2.0	831,936	2.8
Total	47,906,026	100	29,727,715	100.0

The largest increases in the Issuer's loan portfolio were in the textile and chemical industries. Loans to the textile industry increased from KZT 3,167 million as at 31 December 2004 to KZT 10,476 million as at 31 December 2005, thereby increasing the textile industry's share in the total loan portfolio from 10.7 per cent. in 2004 to 21.9 per cent. in 2005. Loans to the chemical industry increased from nil in 2004 to KZT 6,991 million as at 31 December 2005 as a result of disbursements of U.S.\$52.2 million and U.S.\$30.6 million to the Biohim and Melanzh investment projects respectively. The chemical industry was not part of the Issuer's loan portfolio in 2004 but it increased its share to 14.6 per cent. of the loan portfolio in 2005.

Lending Policies and Procedures

GENERAL

The DBK Law and the Memorandum set forth the principal 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 25.0 per cent. of its equity. However, the Board of Directors has set a lower limit of 20 per cent. The Issuer's credit approval process is based on the Memorandum, Regulation on Internal Lending Policy and other internal procedures approved by the Issuer's Board of Directors. Pursuant to the DBK Law, the Issuer calculates its margin, which may not exceed 4.0 per cent., on the basis of the cost of interest bearing liabilities and operational expenses.

All credit applications must be submitted to the Issuer on its standard forms with a full package of supporting documentation attached. The application is initially reviewed for compliance by the Project Examination Department. As at the date of this Base Prospectus, the Project Examination Department consists of four Divisions with five employees in each Division, and is responsible for investment projects assigned to these divisions. After the initial compliance review, the application is sent for review by the Legal, Collateral Appraisal Procurement and Project Analysis Departments. These departments undertake a thorough analysis of the application, including a feasibility study, a financial, legal, credit analysis and an ecological and sociological evaluation of the proposed project. Following such analysis, each department then prepares a recommendation to the applicant based on the results of such analysis. The Project Monitoring Division, consisting of four employees, registers a credit application and issues a registration certificate. The Project Monitoring Division monitors compliance by the relevant departments and divisions involved in the review of a credit application to the established timing for such review. Upon approval of a credit application, the Project Monitoring Division administers the utilisation of the loan by the borrower through documentary examinations and on-site visits. In addition the Issuer's Collateral Appraisal Division 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 Problem Loan and Sale of Non-Financial Assets Division, consisting of two employees, is responsible for taking specific actions on the recovery of loans and foreclosure of collateral in the event of continuous delays in the payment of principal and interest by a borrower due to significant deterioration in the financial condition of such a borrower.

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 credit 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 a final credit decision.

The Project Finance Department monitors projects after they have been approved by the Board of Directors. The financing of export transactions is controlled by the Export Project Financing Division which consists of five employees. Upon the completion or reconstruction of a project, the Project Finance Department takes security interests in the project's assets, provided that this right to take security is set out in the loan agreement. The newly created Credit Administration Department then monitors the projects.

Since the beginning of its operations, the Issuer received an aggregate of 384 credit applications to finance investment and export projects. As at 31 December 2005 only 75 credit applications for investment and export projects had been approved for the aggregate amount of U.S.\$1,757.2 million, of which the Issuer's participation share amounts to U.S.\$748.2 million. The Issuer had issued two guarantees for the total amount of U.S.\$16.5 million.

On 4 June 2004 the Issuer and EBRD entered into a Memorandum on Principles of Co-operation (the "Cooperation Memorandum"). Pursuant to the Cooperation Memorandum the Issuer and EBRD intend to co-operate further in financing of the second construction phase of the KEGOC North-South power transmission line as a result of successful completion of their joint financing of the first construction phase of this project. For the first time in the history of the Kazakhstani power distribution sector, a company operating in this sector succeeded in obtaining significant long-term funding from an international

development bank without the benefit of a Government guarantee. Co-operation with EBRD during this project allowed the Issuer's credit extending and monitoring personnel to familiarise themselves with international standards for credit assessment, portfolio performance and management of informational systems.

MATURITY LIMIT

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

Nature of the Loan	Maturity
Medium-term investment project	5 to 10 years
Long-term investment project	10 to 20 years
Export loans	Depends on the terms of an export transaction

COLLATERALISATION

Pursuant to the DBK Law and the Memorandum the Issuer is required to request collateral from all borrowers. Acceptable collateral includes highly liquid assets, such as government securities, cash or bank guarantees, as well as real estate, machinery and motor vehicles, industrial equipment, industrial goods, other commercial goods, grain, oil products and receivables. The Collateral Appraisal Department of 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 percentage of the various categories of collateral to the Issuer's loan portfolio as at 31 December 2005:

Collateral Categories	Loan/ Collateral Value (per cent.)
Cash collateral or refined gold	100.0
Bank guarantees	100.0
Government securities	100.0
Guarantees from legal entities.	80.0
Municipal debt securities	Up to 90.0
Machinery and equipment	80.0
Specialised transport equipment (railway, marine, air and pipeline transport)	80.0
Buildings and constructions	70.0
Equity securities and corporate debt securities	70.0
Inventory	50.0
Vehicle and agricultural equipment.	40.0

As at 31 December 2005 and 2004, all of the Issuer's loans were collateralised.

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 hold an auction for such collateral after a 60-day notice. No such specified time limit exists for judicial foreclosure. Non-judicial foreclosure has been upheld in the past by the courts of Kazakhstan. The Issuer's collateral documents provide for both non-judicial and judicial foreclosure. In Kazakhstan, collateral documents may be required to be registered with local specialised departments of the Ministry of Justice. No such registration is required for collateral over certain types of movable property. However, registration of collateral over either immovable or movable property establishes priority of such collateral over unregistered collateral. The Issuer requires all of its collateral to be so registered.

PORTFOLIO SUPERVISION

The Issuer's Financial Risks Control Division is responsible for evaluation of the Issuer's loan portfolio and establishing allowances and provisions in relation thereto.

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

the provisioning requirements in relation to it. The Financial Risks Control Division also conducts regular monitoring and evaluations of other assets and off-balance sheet contingent liabilities.

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
Financial Performance		Timeliness of Repayment on Other Loans	
Stable	0	On time payments.	0
Satisfactory.	+1	Payments overdue	+1
Unstable.	+2		
Critical.	+4		
Timeliness of Repayment of the Loan		Unauthorised Use of the Loan	
On time payments.	0	Up to 25.0 per cent.	0
Overdue by 1-30 days.	+1.5	25.0 to 50.0 per cent. (non-inclusive)	+1
Overdue by 31-60 days.	+2.5	50.0 to 75.0 per cent. (non-inclusive).	+2
Overdue by 61-90 days.	+3.5	75.0 to 100.0 per cent. (non-inclusive).	+3
Overdue by more than 90 days	+4.5	100.0 per cent. and more.	+4
Quality of Collateral		Write-offs	
Reliable	-3	None	0
Good	-2	Some	+2
Satisfactory.	0		
Unsatisfactory.	+1		
No collateral	+2		
Extensions		International Rating	
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 borrower 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; no substantial maturity gap between assets and liabilities of the borrower.

"*Satisfactory*" means that there are some indications of temporary deterioration in the financial performance of the borrower 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 borrower; although there is some probability of default, there is also an expectation that the borrower can overcome such temporary problems.

"*Unstable*" means that there are significant indications of constant and significant deterioration in the financial performance of the borrower such as losses, diminished liquidity, continuous deterioration of the market share; no assurance can be made that the borrower's financial performance will improve; or available information is not sufficient to assess the borrower's financial position; bankruptcy treatment was applied for the period less than one year.

"*Critical*" means that the continuous deterioration of the financial performance of the borrower has reached a critical stage and is characterised by significant losses, imminent insolvency, significant loss of market share, negative equity capital; borrower was declared bankrupt and/or rehabilitation was requested for a period of more than one year; the *force majeure* events materially affected the borrower or its activities; financial information about the borrower is completely unavailable.

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 precious metals, in each case securing all of the credit.

“*Good*” means highly liquid collateral as in Reliable Collateral securing not less than 90.0 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 70.0 per cent. of the credit.

“*Unsatisfactory*” means any collateral securing less than 50.0 per cent. of the credit.

“*No Collateral*” means that the loan is not secured or the collateral secures less than 50.0 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):

Total Grades	NBK Classification	Timeliness of Repayment	IFRS Classification
Less than 1	Standard	Current	Standard
1-2	Doubtful first category	Current	Sub-standard
	Doubtful second category	Overdue	Sub-standard
2-3	Doubtful third category	Current	Unsatisfactory
	Doubtful fourth category	Overdue	Unsatisfactory
3-4	Doubtful fifth 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 IFRS comprise unsatisfactory loans, doubtful loans and loss loans.

The Issuer pays strict attention to the timeliness of debt repayments. Although it has no prior 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. Applying those classification criteria, the Issuer would categorise a loan which has unsatisfactory collateral as a doubtful first category loan. Such collateral as a future receivable under an export related project or a fixed asset still under construction related to an investment project would be deemed unsatisfactory according to the Issuer’s internal policies. However, upon receipt of such receivables by the borrower or completion of construction of such fixed asset, the Issuer shall reclassify the loan as a standard loan.

PROVISIONING POLICY

According to the latest amendments made to the DBK Law in December 2005, the net profit of the Issuer is used exclusively to form reserves including reserve capital while retained earnings of the Issuer are used to create general provisions on its assets.

The Issuer calculates 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 2.0 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 recognition 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 uncollectible because the Issuer has been unable to collect the loan or to enforce its security. The Bank currently has no loans in the loss category.

Lending Policies and Procedures

The following table sets out certain information relating to the Issuer's gross loans and allowances for impairment in relation to them in accordance with the NBK and FSMA regulations as at the dates indicated:

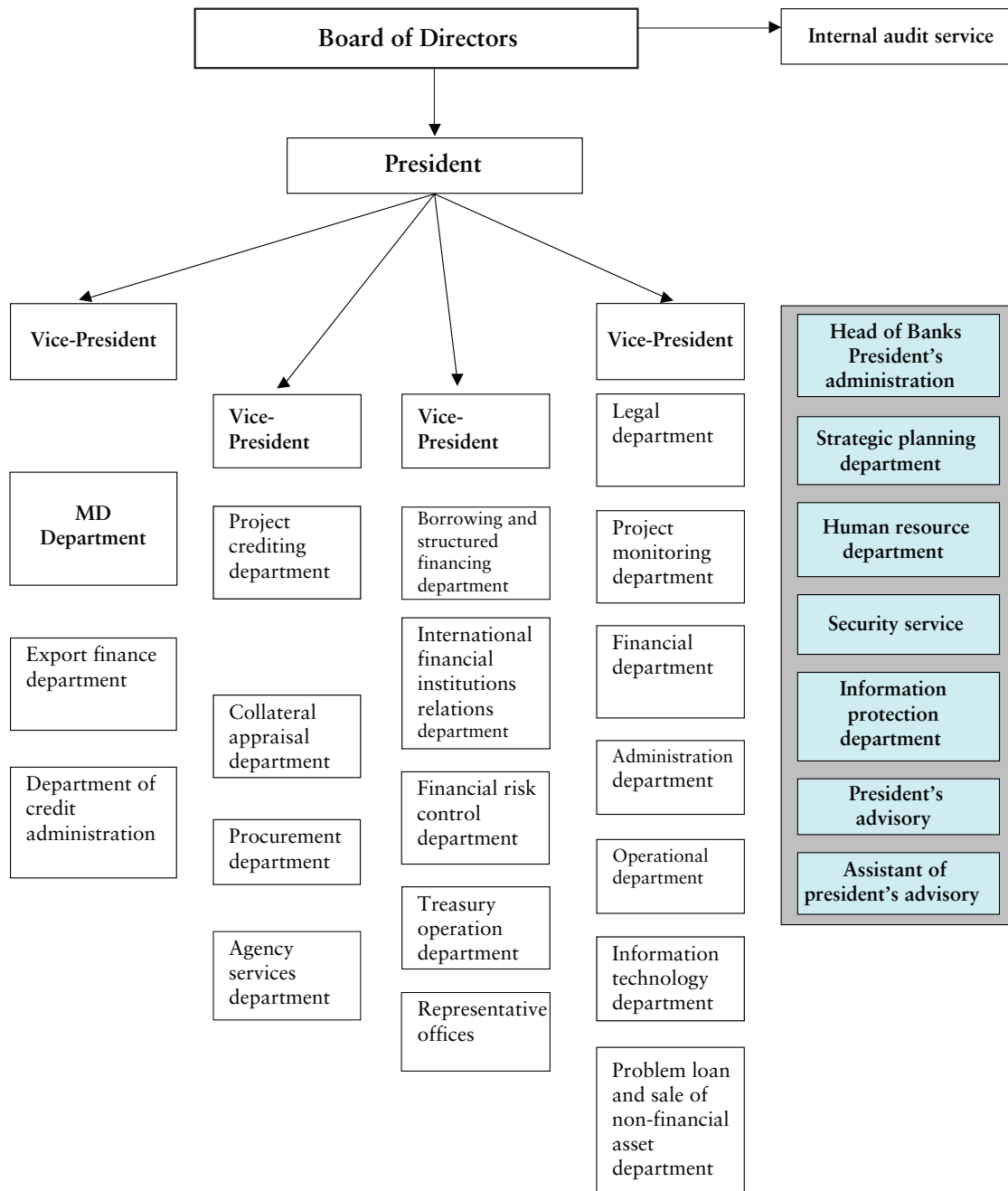
Classification categories and provisioning levels	As at 31 December					
	2005			2004		
	Amount of debt	Amount of Provisions	Provision to classification category	Amount of debt	Amount of Provisions	Provision to classification category
	(KZT thousands)	(KZT thousands)	(per cent.)	(KZT thousands)	(KZT thousands)	(per cent.)
Standard	18,307,199	169,722	0.0–2.0	20,829,397	416,588	2.0
Doubtful first category (5.0 per cent.)	22,616,049	1,130,802	5.0	1,681,875	84,094	5.0
Doubtful second category (10.0 per cent.)	2,437,372	243,737	10.0	6,528,088	652,809	10.
Doubtful third category (20.0 per cent.)	0.0	0.0	—	—	—	—
Doubtful fourth category (25.0 per cent.)	3,822,552	955,638	25.0	0	0	0.0
Doubtful fifth category (50.0 per cent.)	—	—	—	0	0	0.0
Loss (100.0 per cent.)	—	—	—	0	0	0.0
Total:	47,183,172	2,499,900	5.3	29,039,360	1,153,491	4.0

In 2005 the amount of credits classified in the doubtful first category increased by 1,244.7 per cent. compared to 2004. The increase in the doubtful first category was due to the Issuer's new provisioning and risk estimation policy which leads to the classification of loans in the standard category only if loans are 100 per cent. secured by bank guarantees and have been in place for three or more years. All other loans are classified in the doubtful first category. The amount of credit classified in the doubtful second category decreased by 62.7 per cent. in 2005 compared to 2004. This decrease is mainly attributable to repayments of some loans that had previously been classified in the doubtful second category. These loans were reclassified in the doubtful first category following their repayments.

As at 31 December 2005, the Issuer had two loans with a total amount of KZT 3,823 million classified in the doubtful fourth category. The first loan of KZT 1,380 million had been classified in the doubtful second category as at 31 December 2004. The loan was granted to a borrower in the construction materials sector who subsequently experienced problems in starting the project due to the fault of third parties. This loan is secured by highly liquid collateral. The second loan of KZT 2,443 million was granted to a borrower in the construction materials sector. The Issuer has agreed a debt restructuring plan with the borrower to reschedule payments on this loan.

Management

The following organisation chart sets out the Management reporting lines and principal business units of the Issuer



GENERAL

The Issuer's charter 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 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 is responsible for 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, convening the annual and extraordinary General Shareholders' Meetings 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 the recommendation of the President of Kazakhstan and the other four members are elected upon the recommendation of the Government. The Issuer's Board of Directors is comprised of Government officials, representatives of the President of the Republic and representatives of the regional authorities.

The business address of the members of the Board of Directors is the registered office of the Issuer.

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

Name	Other Positions
Erzhan A. Utembayev	Head of the Senate under the Parliament of Kazakhstan (Chairman of the Board of Directors)
Karim K. Masimov	Vice-Prime Minister of Kazakhstan
Gani N. Uzbekov	Former Deputy Chairman of the FMSA
Aset O. Isekeshiev	First Vice-Minister of Industry and Trade of Kazakhstan
Kairat M. Aitekenov	Former Vice-Minister of Economy and Budget Planning of Kazakhstan
Sergei V. Kulagin	Governor of the Kostanai 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 the 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 the 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 four Vice-Presidents. The Vice-Presidents are appointed by the Board of Directors upon the 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 (42), 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 JSC KazMunaiGas. He was elected to his current position with the Issuer in June 2002.

Alexander I. Andrushenko (56), 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 August 2003 as the

First Vice Minister of Industry and Commerce. He was appointed to his current position with the Issuer in September 2003.

Seytkali S. Rakhimov (40), Vice-President, graduated from Karaganda State University in 1991 with a degree in law. Between 1998 and 2002 he worked as a Head of the Legal Department at CJSC “KazTransOil”. In April 2002 Mr. Rakhimov joined LLP KazMunaiGas Trading House as a Director of the Legal Department. Between August 2003 and December 2004 he worked as a Managing Director of the Issuer. He was appointed to his current position with the Issuer in December 2004.

Yerzhan B. Tajiyakov (30), Vice President, graduated from the Kazakh State Academy of Management in 1996 with a degree in Finance. In 2000, Mr. Tajiyakov graduated from Fairleigh Dickinson University (USA) with a Master’s degree in financial economics. Between 1995 and 1997 he worked as a dealer at OJSC Halyk Savings Bank of Kazakhstan, and between March and June 2001 as a Senior Manager of the Financial Institutions Division of OJSC Nauryz Bank. He joined the Issuer in 2001 as a Senior Manager in the Borrowings and Structured Finance Department and soon became a head of that Department, which was followed by his appointment as a Managing Director. Mr. Tajiyakov was appointed to his current position with the Issuer in September 2004.

Niyetbayev Nurlan (36), Vice-president. In 1994, graduated from State academy of management in Almaty with specialisation in finance and credit. From 1994 to 2001 he worked at CJSC Eximbank Kazakhstan in different positions starting from senior specialist to Director of crediting department. In June 2001, he was appointed with the Issuer as an Director of Project Crediting Department, and in July 2003 he was appointed as Managing director of the Issuer. He was appointed in his current position in December 2005.

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE (ALCO)

As at the date of this Base Prospectus the members of ALCO are as follows:

Members	Positions
Yerzhan B. Tajiyakov	Chairman of ALCO Committee, Vice President
Nurlan K. Niyetbayev	Vice-President
Dinar V. Ahkmetbekov	Deputy Head of President’s Administration
Almas Ye. Alibayev	Director of Financial Department, Chief Accountant
Altai R. Berdikulov	Head of Financial Risk Control Department
Aigul R. Aytbekova	Head of Legal Support Division at the Legal Department

ALCO determines the Issuer’s general policy on assets and liabilities management with the objective of increasing interest and non-interest income, maintaining adequate liquidity, complying with prudential standards and regulations, and minimising the impact of financial market risks.

CREDIT COMMITTEE

As at the date of this Base Prospectus the members of the Credit Committee are as follows:

Members	Positions
Seytkali S. Rakhimov	Chairman of the Credit Committee, Vice-President
Alexander I. Andrushenko	Deputy Chairman of the Credit Committee, Vice-President
Yuriy K. Kozlov	Head of the President’s administration
Almas E. Alibayev	Director of Financial Department, Chief Accountant
Bektepov M.H.	Director of Project Analysis Department
Erken B. Akenev	Director of Legal Department
Davlet B. Bakbergen	Director of Projects Financing Department
Altai R. Berdikulov	Head of Financial Risk Control Division
Aibek Nurlybekuly	Secretary of the Credit Committee, attorney, Legal Support Division at the Legal Department
Zhanat Sh. Zhakanov	Managing Director
Yerden A. Kunanbayev	Managing Director
Yerkhat S. Iskalyev	Managing Director
Yerken Sh. Shardarbekov	Managing Director
Talmira Ye. Auezbayeva	Managing Director

The principal responsibilities of the Credit Committee include implementation of the internal lending policy of the Issuer, ensuring compliance of the Issuer with the requirements established in the Memorandum and in

the internal lending policy of the Issuer and limitations set by the ALCO, minimising credit risk and maximising growth of net income from lending operations. The Credit Committee also establishes interest rates and fees in relation to export credits.

INVESTMENT COMMITTEE

As at the date of this Base Prospectus the members of the Investment Committee are as follows:

Members	Positions
Askar S. Aspandiarov	Vice-President
Arman Zh. Lepisbayev	Head fo Treasury Operations Division
Aliya K. Zhetenova	Head of International Financial Institutions Division
Altai R. Berdikulov	Head of Financial Risks Control Department
Almas K. Agibayev	Deputy Head of Borrowing and Structural Financial Division

The Investment Committee is responsible for the development of the Issuer's internal policy on investment portfolio management. The Investment Committee is also responsible for managing the Issuer's investment portfolio in compliance with the general guidelines of the Issuer's Strategy for Investment Portfolio Management approved by the Board of Directors on 14 April 2004.

INTERNAL AUDIT SERVICE

The Internal Audit Service, which as at the date of this Base Prospectus consists of two members, oversees the Issuer's financial and business activities. Members of the Internal Audit Service are appointed and dismissed by the Board of Directors upon recommendation of the Issuer's President for a term determined by the Board of Directors which presently stands at three years. The Internal Audit Service has the right to convene an extraordinary meeting of the Board of Directors of the Issuer. The current members of the Internal Audit Service are Mr. Marat S. Bisenov, elected in February 2005 and Akmaral K. Irubaeva, elected in July 2003.

MANAGEMENT REMUNERATION

In accordance with the Issuer's charter, the remuneration of the Board of Directors is determined by the General Shareholders' Meeting of the Issuer. The remuneration of the President and the members of the Internal Audit Service 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 at 31 December 2005, 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.

CONFLICTS OF INTEREST

There are no potential conflicts of interest between any duties of the members of the administrative, management or supervisory bodies of the Issuer towards the Issuer and their private interests and/or other duties.

Share Capital and Principal Shareholders

As at 31 December 2005, the Issuer had issued 1,167,026 common shares with a nominal value of KZT 50,000 per share, of which 87.14 per cent. was held by the Government and the remaining 12.86 per cent. by regional authorities of 14 regions in the Republic, and the cities of Almaty and Astana. In March 2005, the Issuer registered an additional 300,000 common shares and by 6 February 2006 200,000 of these shares had been subscribed by the Government and 23,232 shares had been subscribed by the regional authorities. The Issuer anticipates that the remaining 76,768 common shares will be placed among the regional authorities by the end of 2006. Each common share is entitled to one vote. In accordance with the DBK Law the Issuer does not pay dividends on its common shares. The Issuer's net income is used to form its reserve capital.

The Shareholder structure of the Bank was as follows at 31 December 2005:

	Number of Common Shares	Percentage of Common Shares (per cent.)
Issuer's Shareholders		
Government	1,017,026	87.2
Akmola regional administration	9,375	0.8
Aktobe regional administration	9,375	0.8
Almaty regional administration	9,375	0.8
Atyrau regional administration	9,375	0.8
East Kazakhstan regional administration	9,375	0.8
Almaty city administration	9,375	0.8
Astana city administration	9,375	0.8
Zhambyl regional administration	9,375	0.8
West Kazakhstan regional administration	9,375	0.8
Karagandy regional administration	9,375	0.8
Kostanay regional administration	9,375	0.8
Kyzylorda regional administration	9,375	0.8
Mangystau regional administration	9,375	0.8
Pavlodar regional administration	9,375	0.8
South Kazakhstan regional administration	9,375	0.8
North Kazakhstan regional administration	9,375	0.8
Total	1,167,026	100.0

The Banking Sector in Kazakhstan

INTRODUCTION

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

THE NBK AND THE FMSA

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

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

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

The FMSA is an independent institution reporting directly to the President. The President has appointed Arman Dunayev, former Minister of Finance of the Republic of Kazakhstan, as the Chairman of the FMSA. The principal task of the FMSA is to regulate and supervise Kazakhstan's financial markets and financial institutions, including banks, insurance companies, pension funds and pension asset management companies, as well as professional participants of the securities market. The FMSA is empowered, among other things, to license financial institutions, to approve prudential standards for them, to approve, jointly with the NBK, the scope of financial reporting for financial institutions, and to monitor the activities of, to apply sanctions where necessary to, and to participate in the liquidation of, financial institutions.

BANKING

Structure of the Banking System of Kazakhstan

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

Banking Reform and Supervision

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

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

The FMSA monitors compliance with capital adequacy standards (in compliance with international standards set by the Basel Accord), current liquidity ratios, maximum credit exposures to single borrowers and related

parties, maximum investments in fixed and other non-financial assets and limits on contingent obligations and foreign exchange positions. Additionally, the FMSA applies regulations on problem asset classification and contingent obligations (similar to the World Bank's Guidelines for Asset Classifications) and loan loss reserves.

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

The NBK also works closely with the FMSA and the banks to enhance the overall viability and solvency of the banking system. In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 31 December 2005, 33 banks, including subsidiaries of foreign banks, were covered by the scheme. The insurance coverage is presently limited to personal deposits of up to KZT 7 million in any currency and current accounts with a coverage amount up to KZT 400,000 in total at any given bank and operates on a sliding scale of coverage up to a maximum amount per customer at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals.

Current legislation requires the FMSA to approve any acquisition of a shareholding of 10.0 per cent. or more (whether held independently or jointly with another legal entity) in a Kazakh bank. Furthermore, a foreign entity holding 10.0 per cent. or more of a Kazakh bank must have a minimum required credit rating from one of the rating agencies on the list set by the authorised government body.

On 22 November 2005, new regulations regarding regulatory capital and risk management came into effect in Kazakhstan. These regulations represent a substantial step towards the implementation of the Basel II accord. In particular, the new regulations introduce the concepts of hybrid capital eligible to be included in Tier I and Tier II capital, Tier III capital (qualified subordinated debt) and operational and market risks, and include rules for calculating risk with respect to derivatives. Further, the new regulations establish reduced capital adequacy ratios for banks one of whose shareholders is a bank holding company. Such reduced rates are 5 per cent. for the K1 ratio (compared to a generally applicable ratio of 6 per cent.) and 10 per cent. for the K2 ratio (compared to a generally applicable ratio of 12 per cent.). A bank holding company is an entity, whether domestic or foreign, that owns more than 25 per cent. of the voting shares of a Kazakh bank and has received the FMSA's permission to be a bank holding company. Separately, the FMSA introduced more stringent requirements for internal risk management and supervision on a consolidated basis (for banks and bank holding companies).

Commercial Banks

According to the NBK, as at 31 December 2005, there were 34 banks in Kazakhstan, excluding the NBK and the DBK compared to 44 as at the end of 2001 and 184 in mid-1994. This decrease is largely a result of the NBK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks. In November 2001, the Government divested its remaining 33.0 per cent. stake in Halyk Savings Bank, by means of privatisation through a public auction. In February 2004, the entire share capital of EximBank Kazakhstan, formerly a state-owned bank, was sold by tender to a consortium of 11 members for KZT 2.1 billion.

As at 31 December 2004, two commercial banks licensed in Kazakhstan failed to comply with prudential regulatory requirements, compared to one as at 31 December 2003, and one such bank as at 31 December 2002. In each case, the non-compliant banks did not meet the current liquidity and capital requirements, single borrower exposure, the open currency position and the maximum asset investment ratios imposed by the FMSA. As at 31 December 2004, Kazakhstan commercial banks had aggregate provisions for bad debts of KZT 56.3 billion.

As at 30 June 2005, all of the commercial banks licensed in Kazakhstan were in compliance with prudential regulatory requirements as to capital adequacy, single borrower limits, liquidity ratios, foreign currency limits and reserve requirements. In June 2005, the banking licence granted to JSC Nauryz Bank was terminated by the FMSA. On 16 November 2005, the court ruled to liquidate Nauryz Bank and Nauryz Bank is currently in the process of liquidation. On 24 December 2005 the FMSA suspended the licence of the Industrial Bank of

Kazakhstan for six months. As at 31 December 2005 the aggregate provisions of Kazakh banks on bad debts were KZT 71.5 billion.

The financial standing of Kazakhstan's banks varies. As at 31 December 2005, 21 of the 34 commercial banks had registered capital of over KZT 2 billion, 12 banks had registered capital of KZT 1 billion to KZT 2 billion and one bank had registered capital of KZT 500 million to KZT 1 billion. As at the same date, there were no banks with a registered capital of less than KZT 500 million; any bank whose capital falls below that level is required to apply to the FMSA for voluntary reorganisation into an organisation performing only limited banking operations.

Foreign Capital in the Banking Sector

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

As at 31 December 2005, there were 14 banks with foreign participation operating in Kazakhstan, including ABN AMRO Bank Kazakhstan, Citibank Kazakhstan and HSBC Kazakhstan. Under relevant legislation, "a bank with foreign participation" is defined as a bank with more than one-third foreign ownership and control. Banks with less than one-third foreign ownership are considered domestic banks.

A number of foreign banks have opened representative offices in Kazakhstan, including Dresdner Bank A.G., Deutsche Bank A.G., Commerzbank, Natexis Banques Populaires, Société Générale and ING Bank N.V..

EXCHANGE CONTROLS

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

New licensing rules adopted at the beginning of 2002 liberalised the treatment of the outflow of capital. The NBK intends to further liberalise licensing rules over the next few years. One of the purposes of liberalisation is to avoid the pressure caused by the influx of U.S. Dollars into Kazakhstan due to high market prices for Kazakhstan export goods by directing export revenues abroad. In May 2003, a new law was passed which provides for step-by-step liberalisation, which is intended to result in, among other things, full internal convertibility of the Tenge, the ability of banks to invest abroad and the removal of restrictions on investments in foreign investment-grade securities and the opening of accounts in OECD banks by 2007.

Kazakhstan recently significantly liberalised its foreign exchange regulations with new currency control laws that came into effect at the end of 2005. Currently, an NBK licence is not required (i) for a Kazakhstan financial organisation to open accounts in foreign banks in connection with transactions with financial instruments on international securities markets or for a Kazakhstan legal entity to open accounts in foreign banks to secure its obligations towards non-resident lenders; (ii) for certain Kazakhstan financial organisations or other residents acting through a licensed professional securities market participant to acquire foreign securities or to enter into derivative transactions with non-residents; (iii) for an acquisition by residents of more than 10 per cent. of the voting shares of a non-resident company. Kazakhstan banks only need to notify the NBK in respect of most of their off-shore operations. The NBK further intends to liberalise licensing rules over the next few years. However, there can be no assurance that there will be no transfer restrictions for foreign currencies in the future and that the liberalisation of Kazakhstan's foreign exchange regulations will result in the international convertibility of the Tenge.

Taxation

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

KAZAKHSTAN TAXATION

Under Kazakhstan's laws as presently in effect, payments of interest on the Notes to an individual who is a non-resident of Kazakhstan or to a legal entity that is neither established in accordance with the legislation of Kazakhstan, nor has its actual governing body (place of actual management) in, nor maintains a permanent establishment in, Kazakhstan or otherwise has no taxable presence in Kazakhstan (together, "Non-Kazakhstan Holders") will be subject to Kazakhstan withholding tax at a rate of 15.0 per cent., unless reduced or exempt by an applicable double taxation treaty. Noteholders entitled to the benefits of the double taxation treaties with certain countries, including, without limitation, Germany, Sweden or the United Kingdom would be entitled to a reduced rate of withholding tax on interest of 10.0 per cent. However payments of interest on the Notes to residents of Kazakhstan or non-residents are not subject to withholding tax.

Gains realised by Non-Kazakhstan Holders or Kazakhstan Holders derived from the disposal, sale, exchange or transfer of the Notes in Kazakhstan will be subject to Kazakhstan income tax at a rate of 30.0 per cent., unless the Notes are included in the "A" or "B" lists of the KASE or for so long as the Issuer maintains its status as a financial agency. In case of Non-Kazakhstan Holders holding individual Note Certificates, such income tax will be reduced or exempt by an applicable double tax treaty.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under the Savings Directive from 1 July 2005 Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg instead impose a withholding system for a transitional period (unless during such period they elect otherwise).

LUXEMBOURG TAXATION

Luxembourg non-residents

Under Luxembourg tax law currently in effect and subject to the application of Luxembourg laws (the "Laws") implementing the Savings Directive and several agreements concluded between Luxembourg and certain dependent territories of the European Union, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to Luxembourg non-resident Noteholders. There is also no Luxembourg withholding tax, subject to the application of the Laws, upon repayment of principal or upon redemption, repurchase or exchange of the Notes.

Under the Savings Directive, a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State, unless the beneficiary of the interest payments elects for an exchange of information. The same regime applies to payments to individuals resident in certain dependent territories.

The withholding tax rate is initially 15 per cent., increasing to 20 per cent. and to 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

Luxembourg residents

A 10 per cent. withholding tax has been introduced, as from 1 January, 2006 on interest payments made by Luxembourg paying agents (within the meaning of the Savings Directive) to Luxembourg individual residents. Only interest accrued after 1 July, 2005 falls within the scope of this withholding tax. Income (other than interest) from investment funds and from current accounts provided that the interest rate is not higher than

0.75 per cent. are exempt from the withholding tax. Furthermore, interest which is accrued once a year on savings accounts (short and long term) and which does not exceed €250 per person and per paying agent is exempted from the withholding tax.

Subscription and Sale

Notes may be sold from time to time by the Issuer to any one or more of UBS Limited, HSBC Bank plc 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 supplemented by a supplemental programme agreement dated 20 May 2005 (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 Base Prospectus 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 Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus 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 Manager has represented, warranted and agreed that:

- (a) in relation to any Notes which have a maturity of less than a 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 the 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;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

REPUBLIC OF KAZAKHSTAN

Each 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 (the “Securities and Exchange Law”) 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 resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption from the registration requirements and otherwise in compliance with the Securities and Exchange Law and any other applicable laws and regulations of Japan. For purposes of this paragraph, “resident of Japan” shall have the meaning as defined under the Foreign Exchange and Foreign Trade Law 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.

FRANCE

Each of the Dealers and the Issuer represents and agrees that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Base Prospectus or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*) or to a limited number of investors, all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 of the French *Code monétaire et financier* and with the provisions of the Decree 98-880 of October 1, 1998, all acting for their own account.

EUROPEAN ECONOMIC AREA

In relation to each member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression a “Prospectus Directive” means directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

GENERAL

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Base Prospectus or any other offering material or any set of Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it will, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Base Prospectus, any other offering material or any set of Final Terms and neither the Issuer nor any other Dealer shall have responsibility therefor.

General Information

LISTING

This Base Prospectus has been approved by the CSSF in its capacity as competent authority for the purpose of the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 as base prospectuses issued in compliance with the Prospectus Directive and the Luxembourg law on prospectuses for securities of 10 July 2005 for the purpose of giving information with regard to the issue of Notes under the Programme during the period of twelve months from the date of its publication. Application has been made for Notes issued under the Programme to be listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange for the purposes of the Prospectus Directive during the period of twelve months after the date hereof. The Luxembourg Stock Exchange has allocated to the Programme the number 12766.

However, Notes may be issued pursuant to the Programme which will not be listed on the Luxembourg Stock Exchange or any other stock exchange outside of Kazakhstan or which will be listed on such stock exchange as the Issuer and the relevant Dealer(s) may agree. The Issuer shall apply for Notes issued under the Programme to be listed on the KASE.

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 Final Terms relating thereto. The relevant Final Terms 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

Neither the Issuer nor any of its respective subsidiaries is involved in any governmental, litigation or arbitration proceedings (including any such proceedings which are pending or threatened) which may have, or have had during the 12 months preceding the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer.

NO SIGNIFICANT CHANGE

There has been no material adverse change in the prospects of the Issuer since 31 December 2005, nor has there been any significant change in the financial or trading position of the Issuer and its subsidiaries, taken as a whole, since 31 December 2005.

NO MATERIAL CONTRACTS

The Issuer has not entered into any material contracts outside the ordinary course of its business which could result in it being under an obligation or entitlement that is material to their ability to make payments under the Notes.

INDEPENDENT AUDITORS

The auditors of the Issuer are Deloitte & Touche LLP of Furmanov Street 240-V, Almaty 050059, Kazakhstan, a member of the Chamber of Auditors of Kazakhstan, who have audited the Issuer's accounts, without qualification, in accordance with IFRS for each of the two financial years ending on 31 December 2005 and 2004.

The report of the auditors of the Issuer is included or incorporated in the form and context in which it is included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus. The auditors of the Issuer have no material interest in the Issuer.

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 constitutional documents of the Issuer;
- (b) the annual report and accounts of the Issuer for the financial years ended 31 December 2005, 2004 and 2003 including, in each case, the audit report relating to such accounts;
- (c) the Agency Agreement;
- (d) the Trust Deed (which contains the forms of the Notes in global and definitive form);
- (e) the Procedures Memorandum;
- (f) The Programme Agreement
- (g) any Final Terms relating to Notes which are listed on any stock exchange (in the case of any Notes which are not listed on any stock exchange outside of Kazakhstan, copies of the relevant Final Terms will only be available for inspection by the relevant Noteholders or otherwise in accordance with the rules of the KASE); and
- (h) the Law on Development Bank of Kazakhstan dated 25 April 2001, as amended.

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2005 AND 31 DECEMBER 2004**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's report set out on page 3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of JSC Development Bank of Kazakhstan (the "Bank").

Management is responsible for the preparation of the consolidated financial statements of the Bank and its subsidiary JSC BRK Leasing (the "Group"), that present fairly the consolidated financial position of the Group as of 31 December 2005 and 31 December 2004, the results of its operations, cash flows and changes in shareholders' equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:


- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

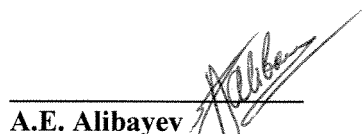
- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan (the "RK");
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the years ended 31 December 2005 and 31 December 2004 were authorized for issue on 20 January 2006 by the President of the Bank.

On behalf of the Group:


K.B. Shalgimbayev.
President

20 January 2006
Astana


A.E. Alibayev
Director of Finance
Department – Chief Accountant

20 January 2006
Astana

INDEPENDENT AUDITORS' REPORT

To the Shareholders and President of JSC Development Bank of Kazakhstan:

We have audited the accompanying consolidated balance sheets of JSC Development Bank of Kazakhstan (the "Bank") and its subsidiary (the "Group") as of 31 December 2005 and 31 December 2004, the related consolidated profit and loss accounts, consolidated statements of cash flows and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2005 and 31 December 2004, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche


20 January 2006
Almaty

JSC DEVELOPMENT BANK OF KAZAKHSTAN


CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2005 and 31 DECEMBER 2004

	Notes	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Interest income	4	8,657,177	6,560,777
Interest expense	4	(3,234,889)	(2,435,003)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		5,422,288	4,125,774
Provision for impairment losses on interest bearing assets	5	(1,176,687)	(767,302)
NET INTEREST INCOME		4,245,601	3,358,472
Fees and commissions income		92,763	56,968
Fees and commissions expense		(37,221)	(61,293)
Net loss on derivative financial instruments		(42,503)	(27,565)
Net loss on investments available-for-sale		(901)	(56,947)
Net gain on foreign exchange operations	6	116,972	114,968
Other income		48,626	49,933
OPERATING INCOME		4,423,337	3,434,536
OPERATING EXPENSES	7	(1,544,972)	(844,300)
OPERATING PROFIT		2,878,365	2,590,236
Recovery of provision/(provision) for impairment losses on other transactions	5	45,042	(41,858)
PROFIT BEFORE TAXATION		2,923,407	2,548,378
Income tax benefit/(expense)	8	32,544	(20,240)
NET PROFIT		2,955,951	2,528,138

On behalf of the Group:


K.B. Shalgimbayev.
President

20 January 2006
Astana


A.E. Alibayev
Director of Finance
Department – Chief Accountant

20 January 2006
Astana

The notes on pages F-9 to F-36 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-3.


JSC DEVELOPMENT BANK OF KAZAKHSTAN

CONSOLIDATED BALANCE SHEETS

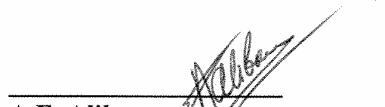
AS AT 31 DECEMBER 2005 and 31 DECEMBER 2004

	Notes	31 December 2005 KZT'000	31 December 2004 KZT'000
ASSETS:			
Cash and cash equivalents	9	16,519,590	2,057,360
Loans and advances to banks	10	8,253,537	4,582,083
Derivative financial instruments	11	89,982	8,790
Investments available-for-sale	12	67,402,756	60,633,580
Investments held-to-maturity	13	1,601,752	3,469,981
Loans to customers, less allowance for impairment losses	14	45,575,848	28,574,224
Fixed and intangible assets, less accumulated depreciation and amortization	15	186,505	161,346
Other assets less allowance for impairment losses	16	143,763	134,841
TOTAL ASSETS		139,773,733	99,622,205
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Loans from Government of the Republic of Kazakhstan	17	15,447,546	8,901,334
Loans and advances from banks, less unamortized portion of borrowing costs	18	9,913,265	6,794,902
Customer accounts	19	633,584	363,786
Debt securities issued	20	41,677,650	27,788,513
Deferred tax liabilities	8	9,525	50,240
Derivative financial instruments	11	91,618	31,888
Provision	5	72,131	117,637
Other liabilities	21	343,125	157,092
Total liabilities		68,188,444	44,205,392
SHAREHOLDERS' EQUITY:			
Share capital	22	59,825,446	48,351,300
Reserve capital	23	6,575,875	4,047,737
General banking risk reserve		182,777	-
Investments available-for-sale fair value reserve		2,228,017	489,638
Retained earnings		2,773,174	2,528,138
Total shareholders' equity		71,585,289	55,416,813
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		139,773,733	99,622,205

On behalf of the Group:


K.B. Shalgimbayev.
President

20 January 2006
Astana


A.E. Alibayev
Director of Finance
Department – Chief Accountant

20 January 2006
Astana


The notes on pages F-9 to F-36 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-3.

JSC DEVELOPMENT BANK OF KAZAKHSTAN

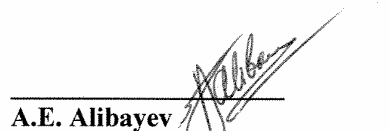
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 and 31 DECEMBER 2004

	Share Capital	Reserve capital	General banking risk reserve	Investments available-for- sale fair value reserve	Retained earnings	Total Shareholders' Equity
31 December 2003 (before restatement)	37,700,000	2,657,933	-	-	1,363,139	41,721,072
Provision on revaluation of available for sale investments	-	-	-	(26,665)	26,665	-
31 December 2003 (restated)	<u>37,700,000</u>	<u>2,657,933</u>	<u>-</u>	<u>(26,665)</u>	<u>1,389,804</u>	<u>41,721,072</u>
Reserve capital increase	-	1,389,804	-	-	(1,389,804)	-
Share capital increase	10,651,300	-	-	-	-	10,651,300
Net profit	-	-	-	-	2,528,138	2,528,138
Gains on revaluation of available-for-sale investments	-	-	-	516,303	-	516,303
31 December 2004	<u>48,351,300</u>	<u>4,047,737</u>	<u>-</u>	<u>489,638</u>	<u>2,528,138</u>	<u>55,416,813</u>
Share capital increase	11,474,146	-	-	-	-	11,474,146
Reserve capital increase	-	2,528,138	-	-	(2,528,138)	-
Net profit	-	-	-	-	2,955,951	2,955,951
Increase of general provision	-	-	182,777	-	(182,777)	-
Gains on revaluation of available-for-sale investments	-	-	-	1,738,379	-	1,738,379
31 December 2005	<u>59,825,446</u>	<u>6,575,875</u>	<u>182,777</u>	<u>2,228,017</u>	<u>2,773,174</u>	<u>71,585,289</u>

On behalf of the Group:


K.B. Shalgimbayev.
President

20 January 2006
Astana


A.E. Alibayev
Director of Finance
Department – Chief Accountant

20 January 2006
Astana

The notes on pages F-9 to F-36 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-3.

JSC DEVELOPMENT BANK OF KAZAKHSTAN

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 31 DECEMBER 2004

	Year ended December 31 2005 KZT'000	Year ended December 31 2004 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	2,923,407	2,548,378
Adjustments for:		
Provision for impairment losses on interest bearing assets	1,176,687	767,302
Provision for guarantees and other off-balance sheet contingencies	(45,042)	41,858
Amortization of discount on purchased securities	(489,240)	(793,663)
Amortization of discount on debt securities issued	101,473	166,622
Depreciation and amortisation of fixed and intangible assets	59,491	56,201
Change in interest accruals, net	(137,126)	(566,919)
Net change in recovery value of derivative financial instruments	(21,462)	27,565
Cash flow from operating activities before changes in operating assets and liabilities, net of accruals	3,568,188	2,247,344
Changes in operating assets and liabilities		
(Increase)/decrease in operating assets:		
Loans and advances to banks	(3,668,058)	5,357,501
Loans and advances to customers	(18,068,292)	(9,667,543)
Securities purchased under repurchase agreements	-	128,006
Other assets	(17,557)	132,442
Increase/(decrease) in operating liabilities:		
Loans and advances from banks and other financial institutions	3,079,595	2,056,895
Customer accounts	268,929	10,498
Other liabilities	186,033	45,471
Cash (outflow)/ inflow from operating activities before taxation	(14,651,162)	310,614
Income tax reimbursed	-	30,000
Net cash (outflows)/ inflows from operating activities	(14,651,162)	340,614

JSC DEVELOPMENT BANK OF KAZAKHSTAN


CONSOLIDATED STATEMENTS OF CASH FLOWS (continued) FOR THE YEARS ENDED 31 DECEMBER 2005 and 31 DECEMBER 2004

	Year ended December 31 2005 KZT'000	Year ended December 31 2004 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of securities	(2,536,384)	(13,352,603)
Purchase of fixed and intangible assets	(84,650)	(248,863)
Proceeds on sale of fixed assets	-	137,139
Net cash outflows from investing activities	(2,621,034)	(13,464,327)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans from Government of RK	6,546,212	4,599,000
Issue of debt securities	13,714,068	-
Repayment of debt securities issued	-	(5,080,568)
Increase of share capital	11,474,146	10,651,300
Net cash inflows from financing activities	31,734,426	10,169,732
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	14,462,230	(2,953,981)
CASH AND CASH EQUIVALENTS, beginning of the period	2,057,360	5,011,341
CASH AND CASH EQUIVALENTS, end of the period	16,519,590	2,057,360

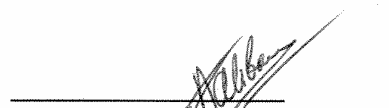
Interest paid and received by the Group in cash during the year ended 31 December 2005 amounted to KZT 2,548,236 thousand and KZT 8,406,818 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2004 amounted to KZT 2,524,651 thousand and KZT 6,083,506 thousand, respectively.

On behalf of the Group:


K.B. Shalgimbayev.
President

20 January 2006
Astana


A.E. Alibayev
Director of Finance
Department – Chief Accountant

20 January 2006
Astana

The notes on pages F-9 to F-36 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page F-3.

JSC DEVELOPMENT BANK OF KAZAKHSTAN

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 31 DECEMBER 2004

1. ORGANIZATION

Joint Stock Company “Development Bank of Kazakhstan” (the “Bank”) was registered with the Ministry of Justice of the Republic of Kazakhstan in the form of a closed joint stock company on 31 May 2001 (certificate of registration of a legal entity №4686-1900-AO). The Bank operates according to the Law of the Republic of Kazakhstan “On the Bank of Development of Kazakhstan” №178-II dated 25 April 2001 as amended as of the date of preparation of these financial statements (the “Law”), the Statutes of the Bank and the Memorandum on the crediting policy of the bank approved by Resolution of the Government of the Republic of Kazakhstan №289 dated 9 March 2004 (the “Memorandum”). The Bank operates according to Article 7 of the Law.

The legally registered office of the Bank is located at: 32, Republic Ave., Astana, 010000, Republic of Kazakhstan.

The Bank is a parent company of the Joint Stock Company BRK Leasing, which is consolidated in the financial statements as of 31 December 2005. JSC BRK Leasing was established on 6 September 2005 in accordance with legislation of the Republic of Kazakhstan with certificate of state registration # 20246-1901-AO. The main activity of JSC BRK Leasing is leasing operations. The Bank is a 100% owner of JSC BRK Leasing.

The Bank’s primary business consists of improvement and increase in efficiency of the state investment activity, development of production infrastructure and processing industry, and assistance in attraction of external and internal investments into the country’s economy. The Bank finance mid-term (5 to 10 years) and long-term (10 to 20 years) investment projects and export operations.

Internal bonds issued by the Bank are listed at the Kazakh Stock Exchange (KASE), and Eurobonds issued by the Bank are listed at the Luxemburg Stock Exchange and at KASE.

The Bank is a member of the Board of Directors of the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

The rating agencies, Standard & Poor’s, Moody’s Investors Services and Fitch Ratings, assigned the Bank with credit ratings equaling the rating of the Republic of Kazakhstan BBB-, Baa3 and BBB, accordingly.

As of 31 December 2005, the Bank’s shares were owned by the following shareholders:

Shareholder	%
Committee of state property and privatization of the Ministry of Finance of the Republic of Kazakhstan	85
Local executive authorities (Akimats) of 14 regions of Kazakhstan and Almaty and Astana cities	15
Total	100

The average number of employees of the Group during the year ended 31 December 2005 and 2004 was 178 and 144, respectively.

The consolidated financial statements were authorized for issue by the President of the Group on 20 January 2006.

2. BASIS OF PRESENTATION

Accounting basis

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

The Group maintains its accounting records in accordance with the Accounting policy authorized by the Resolution of the Board of Directors of the Bank. The Group maintains its records and prepares its consolidated financial statements in accordance with IFRS.

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

Functional currency

The functional currency of these financial statements is Tenge.

Adoption of amended IAS 39

According to IAS 39 “Financial Instruments: Recognition and Measurement” (applied for annual periods beginning on or after 1 January 2005) unrealized gains or losses on investments available - for - sale are recognized directly in shareholders’ equity except for impairment losses and foreign exchange gains and losses. Furthermore, this Standard is applied retrospectively. Therefore the opening balances of shareholders’ equity as of 31 December 2003 and the respective comparative information presented in these consolidated financial statements were restated by the Group as if this Standard had always been in use. The effect of the adoption of amended IAS 39 is disclosed in the statements of changes in shareholders’ equity.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiary. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using effective interest rate method. Interest income also includes income earned on investments in securities. Other income is credited to profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission incomes/expenses are recognized on an accrual basis.

Cash and cash equivalents

Cash and balances with NBRK include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Kazakhstan with original maturity within 90 days, and advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD").

Loans and advances to banks

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

Derivative financial instrument

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Group include forwards, swaps and foreign currency options.

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given. Fair values are obtained from the interest rates model. Most of the derivatives the Group enters into are of a short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Investments available-for-sale

Investments available-for-sale represent debt equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in shareholders' equity, plus accrued coupon income. The Group uses quoted market prices to determine the fair value for the Group's investments available-for-sale. If such quotes do not exist, Bank's management estimation is used. Interest earned on investments available-for-sale is reflected in the consolidated profit and loss account as interest income on investment securities. Dividends received are included in dividend income in the consolidated profit and loss account.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in shareholders' equity is removed from shareholders' equity and recognized in profit and loss for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in profit and loss for the period. Reversals of such impairment losses on equity instruments are not recognized in profit and loss.

Investments held-to-maturity

Investments held-to-maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment.

Repurchase and reverse repurchase agreements

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

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

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

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense and cash received in accordance with such agreements are treated as collateralised deposit received.

Loans to customers

Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in syndicated loans

Loans granted by the Group with fixed maturities are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within the profit and loss account using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

Allowance for impairment losses

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the consolidated balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

Non-accrual loans

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Write off of loans and advances

Loans and advances are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The decision on writing off bad debt to loan loss allowance for all major, preferential, insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

General banking risk reserve

General banking risk reserve is created in shareholders' equity as appropriations of retained earnings. Reclasses resulting from reduction of those risks result in an increase in retained earnings and are not included in the consolidated profit and loss account for the period.

Fixed and intangible assets

Fixed and intangible assets are carried at historical cost less accumulated depreciation or amortization and any accumulated impairment loss. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Computers	33%
Transportation	14-17%
Other	10-25%
Intangible assets	20%

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

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

Amount due to Government, credit institutions and to customers

Amounts due to Government, credit institutions and to customers are initially recorded in accordance with recognition of financial instrument policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowing using effective interest method.

Debt securities issued

Debt securities issued represent debentures issued by the Group. They are accounted for according to the same principles used for customer and bank deposits.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated profit and loss account, except when it relates to items charged or credited directly to shareholders' equity, in which case the deferred tax is also dealt with in shareholders' equity.

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

Provisions

Provisions are recognized when the Group has a contingent or possible liabilities (Determined by norms of rights or constructive) as a result of future or past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital

Share capital is recognized at the fair value of the compensation received by the Group less additional costs directly relating to the issue of shares, which would not have been incurred in case of a different nature of the operation.

The Group cannot declare or pay dividends. According to the Law, net income of the Group for the year is used exclusively for the Reserve Capital of the Group or for the formation of the general banking risks reserve.

Retirement and other benefit obligations

The Group does not incur any expenses in relation to provision of pensions to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into non-state pension funds. Current contributions by the employer are calculated as a percentage of current gross salary payments with the expense charged in the period in which the related salaries are earned. Upon retirement of employees, all pension payments are administered by the above pension funds. The Group does not have any other pension arrangements schemes.

Rates of exchange

The exchange rates at year-end used by the Bank in the preparation of the consolidated financial statements are as follows:

	31 December 2005	31 December 2004
KZT/USD	133.98	130.00
KZT/EUR	158.99	177.10

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. For regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date is accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out above.

Offset of financial assets and liabilities

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

Finance leases

Leases that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as a finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and,
- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Group as lessor

The Group presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

Contingencies

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

4. NET INTEREST INCOME

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Interest income		
Loans and advances to customers	3,746,998	2,176,313
Debt securities	4,229,418	3,759,674
Loans and advances to banks	669,605	621,472
Reverse repurchase transactions	11,156	3,318
Total interest income	8,657,177	6,560,777
Interest expense		
Debt securities issued	(2,706,008)	(2,337,466)
Loans and advances from banks	(512,809)	(87,669)
Loans and advances from Government of Republic of Kazakhstan	(8,899)	(6,216)
Repurchase transactions	(902)	(3,433)
Customer accounts	(6,271)	(219)
Total interest expense	(3,234,889)	(2,435,003)
Net interest income before provision for impairment losses on interest bearing asset	5,422,288	4,125,774

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT, AND OTHER PROVISIONS

The movements in allowance for impairment losses on assets, which bring interest income, were as follows:

	Loans to customers
31 December 2003	386,189
Provision	767,302
31 December 2004	1,153,491
Provision	1,176,687
31 December 2005	2,330,178

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

	Guarantees and other commitments	Other Receivables	Total
31 December 2003	75,779	-	75,779
Provision	41,858	-	41,858
31 December 2004	117,637	-	117,637
(Recovery of provision)/provision	(45,506)	464	(45,042)
31 December 2005	72,131	464	72,595

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Dealing, net	80,865	32,424
Translation differences, net	<u>36,107</u>	<u>82,544</u>
Total net gain on foreign exchange operations	<u><u>116,972</u></u>	<u><u>114,968</u></u>

7. OPERATING EXPENSES

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Payroll and related payments	1,142,649	578,732
Depreciation and amortization	59,491	56,201
Taxes, other than income tax	51,945	22,871
Communication expenses	54,177	39,073
Advertisement expenses	52,805	4,627
Business trip expenses	33,525	25,935
Professional services fees	25,310	31,109
Representative expense	4,295	10,894
Rent expenses	10,518	4,923
Other	<u>110,257</u>	<u>69,935</u>
	<u><u>1,544,972</u></u>	<u><u>844,300</u></u>

8. INCOME TAXES

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Kazakhstan statutory tax regulations which may differ from International Financial Reporting Standards.

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

Deferred tax reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005 and 2004 relate mostly to different methods of tax and accounting treatment as well as to recorded values of certain assets.

Tax assets/liabilities consist of the following as of 31 December 2005 and 2004:

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Deferred assets:		
Fixed Assets	5,393	4,621
Intangible Assets	804	3,927
Accrued expenses for vacation reserve and payroll fund	63,896	-
Losses on swaps	-	9,219
Discount on interest free loans	14,997	15,522
 Total deferred assets	 <u>85,090</u>	 <u>33,289</u>
Deferred liabilities:		
Borrowing costs on eurobonds	(88,263)	(71,530)
Borrowing costs on syndicated loan	(6,352)	(11,999)
Total deferred tax liabilities	<u>(94,615)</u>	<u>(83,529)</u>
 Deferred tax liabilities	 <u>(9,525)</u>	 <u>(50,240)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

	Year ended 31 December 2005 KZT'000	Year ended 31 December 2004 KZT'000
Profit before income tax	<u>2,923,407</u>	<u>2,548,378</u>
Tax at the statutory tax rate	(877,022)	(764,513)
Tax effect of permanent differences	1,373,498	1,301,960
Income recognized for taxation	(529,020)	(447,406)
Change in valuation allowance	<u>-</u>	<u>(69,801)</u>
 Income tax (benefit)/ expense	 <u>(32,544)</u>	 <u>20,240</u>
 Current income tax expense	 8,171	 -
Provision for deferred tax liabilities	(40,715)	50,240
Income tax of previous years	<u>-</u>	<u>(30,000)</u>
 Income tax (benefit)/ expense	 <u>(32,544)</u>	 <u>20,240</u>

9. CASH AND CASH EQUIVALENTS

	31 December 2005 KZT'000	31 December 2004 KZT'000
Deposits to other banks	9,337,421	1,772,528
Correspondent account in NBRK	6,632,615	61,612
Nostro accounts	549,464	223,165
Petty cash	90	55
	<u> </u>	<u> </u>
Total cash and cash equivalents	<u>16,519,590</u>	<u>2,057,360</u>

Correspondent account in NBRK included cash equivalents received from Ministry of Finance of the Republic of Kazakhstan for financing the project of Joint Stock Company “Joint Kazakhstani Russian Entity “Baiterek” at amount KZT 6,585,000 thousand (Note 17).

10. LOANS AND ADVANCES TO BANKS

	Interest Rate %	31 December 2005	Interest Rate %	31 December 2004
Loans to Kazakhstani banks in KZT	7.7 - 9.0	8,106,878	6.50-9.20	4,438,820
Accrued interest income		<u>146,659</u>		<u>143,263</u>
		<u> </u>		<u> </u>
Total loans and advances to banks		<u>8,253,537</u>		<u>4,582,083</u>

As of 31 December 2005 loans and advances to two Kazakhstani banks amounted to 67% of total loans to banks (as of 31 December 2004 – 59.75 %) and 7.56% of total shareholders’ equity (as of 31 December 2004 – 4.94%).

11. DERIVATIVE FINANCIAL INSTRUMENTS

	Nominal amount	31 December 2005		Nominal amount	31 December 2004	
		Net fair value Asset	Liability		Net fair value Asset	Liability
Currency forward	6,693,500	86,000	91,500	-	-	-
Interest rate						
swaps	6,345,311	3,982	118	5,850,000	-	31,888
Options	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,181,064</u>	<u>8,790</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>13,038,811</u>	<u>89,982</u>	<u>91,618</u>	<u>12,031,064</u>	<u>8,790</u>	<u>31,888</u>

12. INVESTMENTS AVAILABLE – FOR - SALE

	Interest to nominal %	31 December 2005	Interest to nominal %	31 December 2004
Ministry of Finance RK bonds	3.5 – 6.4	48,188,206	4.92 - 6.40	34,488,800
Corporate bonds	5 - 11	16,942,080	7.5 – 12	10,597,926
Municipal bonds of Atyrau	8.5	2,272,470	8.5	2,142,523
NBRK notes	-	-	2.92 - 5.08	13,404,331
Total investments available-for-sale		<u>67,402,756</u>		<u>60,633,580</u>

13. INVESTMENTS - HELD - TO - MATURITY

	Interest to nominal %	31 December 2005	Interest to nominal %	31 December 2004
Municipal bonds of Astana	8.5	773,188	8.31 - 8.50	2,139,856
Ministry of Finance RK bonds	8 – 8.2	409,597	6.00 - 8.30	927,745
Corporate bonds of JSC Halyk Bank	8	418,967	9.2	402,380
Total investments held-to-maturity		<u>1,601,752</u>		<u>3,469,981</u>

14. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	31 December 2005 KZT'000	31 December 2004 KZT'000
Originated loans	46,964,071	28,895,779
Accrued interest income on loans to customers	941,955	831,936
	<u>47,906,026</u>	<u>29,727,715</u>
Less allowance for impairment losses	(2,330,178)	(1,153,491)
Total loans to customers, less allowance for impairment losses	<u>45,575,848</u>	<u>28,574,224</u>
	31 December 2005 KZT'000	31 December 2004 KZT'000
Loans collateralized by combined collateral	41,461,855	26,254,179
Loans collateralized by guarantees of financial institutions	5,502,216	2,641,600
Accrued interest income on loans to customers	941,955	831,936
	<u>47,906,026</u>	<u>29,727,715</u>
Less allowance for impairment losses	(2,330,178)	(1,153,491)
Total loans and advances to customers, less allowance for impairment losses	<u>45,575,848</u>	<u>28,574,224</u>

	31 December 2005	31 December 2004
Analysis by sector:		
Textile industry	10,476,418	3,167,041
Chemical industry	6,991,459	-
Agriculture	5,441,342	5,755,068
Food industry	5,171,814	4,209,184
Machinery	4,838,246	4,313,484
Construction	3,224,724	3,073,768
Energy	2,857,274	1,551,568
Telecommunications and transport services	2,648,307	2,246,494
Electronic Equipment	2,524,308	2,369,338
Pulp and paper industry	1,602,222	1,313,415
Fishery	669,900	650,000
Minerals exploration	134,248	-
Mortgage lending	93,739	84,064
Other	290,070	162,355
Accrued interest income on loans to customers	941,955	831,936
	<u>47,906,026</u>	<u>29,727,715</u>
Less allowance for impairment losses	<u>(2,330,178)</u>	<u>(1,153,491)</u>
Total loans to customers, less allowance for impairment losses	<u><u>45,575,848</u></u>	<u><u>28,574,224</u></u>

Movements in allowances for loan losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As of 31 December 2005 top ten borrowers comprised 58.68 % of total loan portfolio and presented 39.27 % of total shareholders' equity. As of 31 December 2004 top ten borrowers comprised 60.28 % of total loan portfolio and presented 32.34 % of total shareholders' equity. Total value of these loans as of 31 December 2005 and 2004 totaled to KZT 28,109,627 thousand and KZT 17,920,879 thousand, respectively.

15. FIXED AND INTANGIBLE ASSETS, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION

	Vehicles	Computers	Other fixed assets	Intangible assets	Total
At cost					
31 December 2004	25,056	63,915	77,071	130,725	296,767
Additions	4,263	19,113	21,637	39,637	84,650
Disposals	-	(434)	-	-	(434)
31 December 2005	<u>29,319</u>	<u>82,594</u>	<u>98,708</u>	<u>170,362</u>	<u>380,983</u>
Accumulated depreciation and amortization					
31 December 2004	(12,768)	(40,275)	(24,473)	(57,905)	(135,421)
Charge for the year	(4,131)	(13,153)	(11,624)	(30,583)	(59,491)
Disposals	-	434	-	-	434
31 December 2005	<u>(16,899)</u>	<u>(52,994)</u>	<u>(36,097)</u>	<u>(88,488)</u>	<u>(194,478)</u>
Net book value					
31 December 2005	<u>12,420</u>	<u>29,600</u>	<u>62,611</u>	<u>81,874</u>	<u>186,505</u>
31 December 2004	<u>12,288</u>	<u>23,640</u>	<u>52,598</u>	<u>72,820</u>	<u>161,346</u>

16. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	2005	2004
Advances paid to suppliers	99,917	23,322
Taxes receivable	6,959	8,291
Inventory	7,089	3,536
Receivables from employees	1,053	1,264
Advances paid for employees apartments	-	77,647
Other debtors	<u>29,209</u>	<u>20,781</u>
	144,227	134,841
Allowance for impairment losses	<u>(464)</u>	-
Total other assets, less allowance for impairment losses	<u>143,763</u>	<u>134,841</u>

Movements in allowances for impairment losses on other assets for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

17. LOANS FROM GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

	31 December 2005	31 December 2004
Loans from Government of RK	8,899,000	8,899,000
Loan from state budget	6,546,212	-
Accrued interest expense	<u>2,334</u>	<u>2,334</u>
	<u>15,447,546</u>	<u>8,901,334</u>

As of 31 December 2005 the funds of the Government of the Republic of Kazakhstan consisted of long-term loans granted to the Bank by the Government of Kazakhstan from the state budget in November 2003 and in July 2004. The interest rate on loans amounts to 0.1% per annum and payable by semi-annual payments – on the first loan starting from 25 May 2004, and on the second loan starting from 30 January 2005. The principal on the loans in the amount of KZT 4,300,000 thousand and KZT 4,599,000 thousand is payable upon maturity on 25 November 2018 and 30 July 2019, respectively.

These loans were granted to the Bank to decrease interest rate applied for investment projects in priority industries specified in the Memorandum.

Loan from the budget represents the loan granted by the Ministry of Finance of RK to the JSC “Joint Kazakhstani Russian Entity “Baiterek” intended to build an air space complex by 2009. The loan will be repaid by equal parts starting from 2010 till 2023. The Group acts as an Agent and is not liable for any misuse of the loan by the borrower or any other risks related to the loan. The loan carries annual interest rate of 0.5%.

18. LOANS AND ADVANCES FROM BANKS LESS UNAMORTIZED PORTION OF BORROWING COSTS

	31 December 2005	31 December 2004
Syndicated loan from banks of OECD countries	5,359,200	5,200,000
Loans from banks of OECD countries	4,550,367	1,661,681
Accrued interest expenses	60,518	21,750
	<u>9,970,085</u>	<u>6,883,431</u>
Less: unamortized portion of borrowing costs except interest expense	<u>(56,820)</u>	<u>(88,529)</u>
Total loans and funds from banks	<u>9,913,265</u>	<u>6,794,902</u>

Interest rate on loans and maturity dates are presented as follows:

	2005		2004	
	%	Maturity date	%	Maturity date
Syndicated loan from banks of OSCE countries	LIBOR+1	2006-2008 2004-2010	LIBOR+1	2006-2008
	LIBOR+0.55 -	2006		
	LIBOR+2	2005-2008	LIBOR+0.55 -	2004-2010
	5.85%	2005-2010	LIBOR+2	2006
Loans from banks of OSCE countries	EUROIBOR+2.8%		LIBOR+1.5	2005
	3.57%	2005-2013		

19. CUSTOMER FUNDS

Customer accounts comprise:

	31 December 2005	31 December 2004
Customer accounts and deposits repayable on demand	542,829	336,153
Guarantee deposits	89,878	27,625
Accrued interest expense on customer accounts	877	8
	<u>633,584</u>	<u>363,786</u>
Total customer accounts	<u>633,584</u>	<u>363,786</u>

The Bank carries out functions of an agent of authorized government body on servicing state and municipal budget investment projects (programs), financed on repayable basis, also projects, financed on behalf of loans, which are guaranteed by government and included in the List of priority investment projects, approved by Government of Republic of Kazakhstan.

The Bank to carry out its agent's functions opens and maintains the special (current) accounts of contingent deposit, accounts without interest accrual and reserve (saving) accounts with interest accrual. On saving accounts customers accumulate funds to repay loans, guaranteed by Government of Republic of Kazakhstan.

The carrying out the functions of an agent on servicing projects and loans by Bank does not obligate the Bank to carry out customers' liabilities to state budget. However, in case of overdue payments due to Bank's fault the Bank must pay a penalty, which amount is determined in bank accounts agreements.

20. DEBT SECURITIES ISSUED

	Maturity date month/ year	Annual coupon rate %	31 December 2005	31 December 2004
Eurobonds issued at price of				
96.8161%	06/03/2020	6.500	13,398,000	-
96.9588%	11/12/2013	7.375	13,398,000	13,000,000
97.3596%	10/10/2007	7.125	13,398,000	13,000,000
			<u>40,194,000</u>	<u>26,000,000</u>
Including/(less):				
Discount on debt securities issued			(909,323)	(581,029)
Amounts of accrued interest expense on debt securities issued			<u>409,197</u>	<u>333,667</u>
Total issued Eurobonds			39,693,874	25,752,638
Indiced internal bonds	15/02/2007	8.5	<u>1,983,776</u>	<u>2,035,875</u>
Total debt securities issued			<u>41,677,650</u>	<u>27,788,513</u>

21. OTHER LIABILITIES

	31 December 2005	31 December 2004
Accrued salary fund and vacation reserve	304,980	90,387
Future revenue	13,493	44,714
Taxes payable (other than income tax)	4,496	1,138
Other creditors	20,156	20,853
	<u>343,125</u>	<u>157,092</u>
Total other liabilities	<u>343,125</u>	<u>157,092</u>

22. SHARE CAPITAL

2005	Quantity of Shares Issued and Paid	Total KZT '000
Government of RK (85%)	1,017,026	50,851,300
Local executive entities of 14 regions, Almaty and Astana (amounting 15%)	179,482	8,974,146
Share capital	<u>1,196,508</u>	<u>59,825,446</u>

As of December 31, 2005 number of shares authorized was 1,267,026.

2004	Quantity of Shares Authorized	Issued and Paid	Total KZT '000
Government of RK(84.49%)	817,026	817,026	40,851,300
Local executive entities of 14 regions, Almaty and Astana (amounting 15.51%)	150,000	150,000	7,500,000
Share capital	<u>967,026</u>	<u>967,026</u>	<u>48,351,300</u>

23. RESERVE CAPITAL

According to the Law the net profit cannot be distributed and is transferred to reserve capital or General banking risk reserve annually following the reporting of financial statements at the shareholders' general meeting. The reserve capital is not subject to distribution. In 2005 the net profit for the year ended 31 December 2004 of 2,528,138 KZT thousand (in 2004 the net profit for the year ended 31 December 2003 of 1,389,804 KZT thousand) has been transferred to reserve capital.

24. FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

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

As of 31 December 2005 and 2004, the nominal amounts of instruments with off-balance sheet risks were:

	2005	2004
	KZT'000	KZT'000
	Nominal	Nominal
	amount	amount
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	18,603,633	10,081,175
Currency forward contracts	6,693,500	-
Letters of credit and other transaction related contingent liabilities	2,685,097	6,051,499
Guarantees issued and other similar commitments	-	843,699
	<u>27,982,230</u>	<u>16,976,373</u>
Less provision on contingent liabilities	(72,131)	(117,637)
Total contingent liabilities and credit commitments	<u><u>27,910,099</u></u>	<u><u>16,858,736</u></u>

Legal proceedings

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

Taxes

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

Pensions and retirement plans

Employees receive pension benefits in accordance with the laws and regulations of the Republic of Kazakhstan. As of 31 December 2005 and 2004, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment

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

25. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24 (Related party disclosures), are those counter parties that represent:

- (a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- (c) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals; and
- (d) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Related parties are the Bank's subsidiary and the Companies, which are under joint control by the Government of the Republic of Kazakhstan. The Group had the following transactions outstanding with related parties as of 31 December 2005 and 31 December 2004:

	2005 KZT'000		2004 KZT'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers, gross	3,749,492	47,906,026	1,569,161	29,727,715
Allowance for impairment losses on loans to customers	(122,847)	(2,330,178)	(45,809)	(1,153,491)

During the years ended 31 December 2005 and 2004 the Group originated loans to customers – related parties amounting to KZT 2,379,756 thousand and KZT 500,175 thousand, respectively, and received loans repaid of KZT 266,340 thousand and KZT 3,084,160 thousand, respectively.

As at 31 December 2005 and 31 December 2004, accrued interest income amounted to 223,150 thousand tenge and 150,342 thousand tenge, respectively. For the years ended 31 December 2005 and 31 December 2004, the Group has received 201,768 thousand tenge and 247,837 thousand tenge, respectively Unrealized foreign exchange gain (loss) for the years ended 31 December 2005 and 31 December 2004 amounted to 45,533 and (231,284), respectively.

Included in the consolidated profit and loss account for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	2005		2004	
	KZT'000		KZT'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income				
- related companies	223,150	8,657,177	150,342	6,560,777
Salary for key management personnel	263,520	1,135,886	158,309	578,715

Transactions with related parties entered by the Group during the years ended 31 December 2005 and 2004 and outstanding as of 31 December 2005 and 2004 were made in the normal course of business and under arm-length conditions.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Group is presented below:

	31 December 2005		31 December 2004	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	16,519,590	16,519,590	2,057,360	2,057,360
Loans and advances to banks	8,253,537	8,253,537	4,582,083	4,582,083
Derivative financial instruments	89,982	89,982	8,790	8,790
Investments available-for-sale	67,402,756	67,402,756	60,633,580	60,633,580
Investments held-to-maturity	1,601,752	1,793,287	3,469,981	3,392,249
Loans to customers, less allowance for impairment losses	45,575,848	45,575,848	28,574,224	28,574,224
Fixed and intangible assets, less accumulated depreciation and amortization	186,505	186,505	161,346	161,346
Other assets, less allowance for impairment losses	143,763	143,763	134,841	134,841
Loans from Government of the Republic of Kazakhstan	15,447,546	15,447,546	8,901,334	8,901,334
Loans and advances from banks, less unamortized portion of borrowing costs	9,913,265	9,913,265	6,794,902	6,794,902
Customer accounts	633,584	633,584	363,786	363,786
Debt securities issued	41,677,650	45,436,908	27,788,513	29,613,455
Deferred tax liabilities	9,525	9,525	50,240	50,240
Derivative financial instruments	91,618	91,618	31,888	31,888
Provision	72,131	72,131	117,637	117,637
Other liabilities	343,125	343,125	157,092	157,092

27. RISK MANAGEMENT POLICIES

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

The Group manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Treasury Department performs management of these risks through analysis of asset and liability maturity and performance of money market transactions for current liquidity support and cash flow optimization. The Bank performs determination of the optimum structure of balance, limits on liquidity ratios and gap-positions approved by the Assets and Liabilities Management Committee and performs monitoring of liquidity ratios.

Cash flow interest rate risk

Cash flow interest rate risk - the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The Treasury Department performs management of interest rate and market risks through determination of the transferring rates and general rates of borrowed and allocated resources, which enables the Group to avoid negative interest margin. The Bank develops limits for interest gaps and performs monitoring of spread level and net interest margin. Assets and Liabilities Management Committee approves limits on interest gaps, transferring rates and general interest rates for borrowed and allocated resources.

The following table presents an analysis of interest rate risk and thus the potential of the Group for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Group.

	2005			2004		
	KZT	USD	EUR	KZT	USD	EUR
Loans to banks	7.69%	2.55-4.97%	0.82	7.66%	0.3%	0.15%
Investments available for sale	6.17%	11.59%	-	6.12%	11.59%	-
Investments held to maturity	8.43%	-	-	8.37%	-	-
Loans to customers, less allowance for impairment losses	-	8.82%	7%	-	9.36%	-
Loans for Government of RK	0.10%	-	-	0.1%	-	-
Loans from banks	5.4%	-	-	-	3.84%	-
Customer accounts	0.02%	2.62%	1.62%	-	1%	-
Debt securities issued	7.07%	-	-	-	7.34%	-

	2005						
	On demand KZT'000	Below 1 month KZT'000	1 month to 3 months KZT'000	3 months to 1 year KZT'000	1-5 years KZT'000	Over 5 years KZT'000	Total KZT'000
ASSETS							
Cash and cash equivalents	7,182,168	2,278	9,335,144	-	-	-	16,519,590
Loans and advances to banks	-	-		8,253,336	201	-	8,253,537
Derivatives	-	-	3,982	86,000	-	-	89,982
Investments available for sale	67,402,756	-	-	-	-	-	67,402,756
Investments held to maturity	-	22,238	-	399,046	1,180,468	-	1,601,752
Loans to customers, less allowance for impairment losses	-	-	566,603	4,744,826	8,509,826	31,754,593	45,575,848
Other assets, less allowance for impairment losses	7,005	11,403	12,748	103,318	-	2,200	136,674
TOTAL ASSETS	74,591,929	35,919	9,918,477	13,586,526	9,690,495	31,756,793	139,580,139
LIABILITIES							
Loans from Government of RK	-	2,334	-	-	-	15,445,212	15,447,546
Loans and advances from banks and other financial institutions	-	60,518	-	6,005,280	2,605,675	1,241,792	9,913,265
Customer accounts	542,829	877	-	-	28,470	61,408	633,584
Debt securities issued	-	-	-	-	15,447,210	26,230,440	41,677,650
Deferred tax liabilities	-	-	-	-	-	9,525	9,525
Derivatives	-	118	-	91,500	-	-	91,618
Other liabilities	21,611	287,410	-	34,104	-	-	343,125
TOTAL LIABILITIES	564,440	351,257	-	6,130,884	18,081,355	42,988,377	68,116,313
Net Position	74,027,489	(315,338)	9,918,477	7,455,642	(8,390,860)	(11,231,584)	71,463,826
Cumulative difference	74,027,489	73,712,151	83,630,628	91,086,270	82,695,410	71,463,826	

	2004						
	On demand KZT'000	Below 1 month KZT'000	1 month to 3 months KZT'000	3 months to 1 year KZT'000	1-5 years KZT'000	Over 5 years KZT'000	Total KZT'000
ASSETS							
Cash and cash equivalents	284,832	254,309	1,518,219	-	-	-	2,057,360
Loans and advances to banks	-	945,967	2,365,670	1,270,056	390	-	4,582,083
Derivatives	8,790	-	-	-	-	-	8,790
Investments available for sale	60,633,580	-	-	-	-	-	60,633,580
Investments held to maturity	-	12,008	-	1,890,318	1,567,655	-	3,469,981
Loans to customers, less allowance for impairment losses	-	146,234	879,208	7,927,664	14,596,376	5,024,742	28,574,224
Other assets, less allowance for impairment losses	-	18,207	24,229	9,022	2,200	77,647	131,305
TOTAL ASSETS	60,927,202	1,376,725	4,787,326	11,097,060	16,166,621	5,102,389	99,457,323
LIABILITIES							
Loans from Government of RK	-	1,916	-	418	-	8,899,000	8,901,334
Loans and advances from banks and other financial institutions	-	-	-	644,727	5,817,737	332,438	6,794,902
Customer accounts	336,161	-	-	-	27,625	-	363,786
Debt securities issued	-	-	-	-	15,032,841	12,755,672	27,788,513
Deferred tax liability	-	-	-	50,240	-	-	50,240
Derivatives	31,888	-	-	-	-	-	31,888
Other liabilities	-	13,475	47,244	96,373	-	-	157,092
TOTAL LIABILITIES	368,049	15,391	47,244	791,758	20,878,203	21,987,110	44,087,755
Net position	60,559,153	1,361,334	4,740,082	10,305,302	(4,711,582)	(16,884,721)	55,369,568
Accumulated difference	60,559,153	61,920,487	66,660,569	76,965,871	72,254,289	55,369,568	

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Treasury Department performs currency risk management through management of open currency position, which enables the Group to minimize losses from significant fluctuations of exchange rates of national and foreign currencies. The Bank determines limits on open currency positions, arbitrary positions and stop-loss. All limits and restrictions are approved by the Assets and Liabilities Management Committee. Risk Analysis and Management Department performs monitoring.

The Group's exposure to foreign currency exchange rate risk is presented in the table below:

2005	KZT	USD	EUR	Other	Total
ASSETS					
Cash and cash equivalents	15,976,597	148,231	3,109	391,653	16,519,590
Loans to banks	1,731,152	6,522,385	-	-	8,253,537
Derivatives	86,000	3,982	-	-	89,982
Investments available for sale	66,549,394	853,362	-	-	67,402,756
Investments held to maturity	1,601,752	-	-	-	1,601,752
Loans to customers, less allowance for impairment losses	93,739	43,936,984	1,545,125	-	45,575,848
Other assets, less allowance for impairment losses	125,637	9,653	1,384	-	136,674
TOTAL ASSETS	86,164,271	51,474,597	1,549,618	391,653	139,580,139
LIABILITIES					
Loans for Government of RK	15,447,546	-	-	-	15,447,546
Loans from banks	-	8,354,131	1,559,134	-	9,913,265
Customer loans	64,947	178,085	-	390,552	633,584
Debt securities issued	1,983,776	39,693,874	-	-	41,677,650
Deferred tax liability	9,525	-	-	-	9,525
Derivatives	91,500	118	-	-	91,618
Other liabilities	331,161	11,964	-	-	343,125
TOTAL LIABILITIES	17,928,455	48,238,172	1,559,134	390,552	68,116,313
BALANCE POSITION, net	68,235,816	3,236,425	(9,516)	1,101	71,463,826
2004	KZT	USD	EUR	Other	Total
ASSETS					
Cash and cash equivalents	1,834,269	8,407	23,695	190,989	2,057,360
Loans to banks	4,581,693	390	-	-	4,582,083
Derivatives	-	8,790	-	-	8,790
Investments available for sale	59,983,561	650,019	-	-	60,633,580
Investments held to maturity	3,469,981	-	-	-	3,469,981
Loans to customers, less allowance for impairment losses	84,064	28,490,160	-	-	28,574,224
Other assets, less allowance for impairment losses	122,325	8,980	-	-	131,305
TOTAL ASSETS	70,075,893	29,166,746	23,695	190,989	99,457,323
LIABILITIES					
Loans for Government of RK	8,901,334	-	-	-	8,901,334
Loans from banks	-	6,794,902	-	-	6,794,902
Customer loans	956	149,832	22,447	190,551	363,786
Debt securities issued	2,035,876	25,752,637	-	-	27,788,513
Deferred tax liability	50,240	-	-	-	50,240
Derivatives	-	31,888	-	-	31,888
Other liabilities	121,800	35,233	59	-	157,092
TOTAL LIABILITIES	11,110,206	32,764,492	22,506	190,551	44,087,755
BALANCE POSITION, net	58,965,687	(3,597,746)	1,189	438	55,369,568

The risk of fair value of the interest rate

The risk of the fair value of the interest rate is the risk in the change of the value of the financial instruments in connection with the changes of market interest rates.

For the management of the risk of fair value of the interest rate Group uses a periodic estimation of the losses which can be suffered as a result of negative changes of market condition. The department of the financial control traces current results of financial activity of the Group, estimates vulnerability of the Bank concerning changes of the interest rates and influence on the profits of the Group.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Assets and Liabilities Management Committee sets limits on size and structure of risk assets. The Credit Committee considers each new loan and lease, and any changes and amendments to such agreements. The Credit Department performs current monitoring.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by borrower and product (by industry sector, by region) are approved quarterly by the Board of Directors. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Board of Directors. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate guaranties. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to inability of the counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter-term commitments.

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

	Kazakhstan KZT'000	2005 OECD Countries KZT'000	Total KZT'000
ASSETS:			
Cash and cash equivalents	16,353,427	166,163	16,519,590
Loans to banks	8,253,537	-	8,253,537
Derivatives	86,000	3,982	89,982
Investments available for sale	67,402,756	-	67,402,756
Investments held to maturity	1,601,752	-	1,601,752
Loans to customers, less allowance for impairment losses	45,575,848	-	45,575,848
Other assets	136,674	-	136,674
TOTAL ASSETS	139,409,994	170,145	139,580,139
LIABILITIES:			
Loans from Government RK	15,447,546	-	15,447,546
Loans from banks	-	9,913,265	9,913,265
Customer accounts	633,584	-	633,584
Debt securities issued	1,983,776	39,693,874	41,677,650
Deferred tax liability	9,525	-	9,525
Derivatives	91,500	118	91,618
Other liabilities	343,125	-	343,125
TOTAL LIABILITIES	18,509,056	49,607,257	68,116,313
NET BALANCE SHEET POSITION	120,900,938	(49,437,112)	71,463,826

2004

	Kazakhstan KZT'000	OECD Countries KZT'000	Total KZT'000
ASSETS			
Cash and cash equivalents	2,025,296	32,064	2,057,360
Loans to banks	4,582,083	-	4,582,083
Derivatives	-	8,790	8,790
Investments available for sale	60,633,580	-	60,633,580
Investments held to maturity	3,469,981	-	3,469,981
Loans to customers, less allowance for impairment losses	28,574,224	-	28,574,224
Other assets, less allowance for impairment losses	131,305	-	131,305
TOTAL ASSETS	99,416,469	40,854	99,457,323
LIABILITIES			
Loans from Government of RK	8,901,334	-	8,901,334
Loans from banks	-	6,794,902	6,794,902
Loans from customers	341,339	22,447	363,786
Debt securities issued	2,035,876	25,752,637	27,788,513
Deferred tax liability	50,240	-	50,240
Derivatives	-	31,888	31,888
Other liabilities	157,033	59	157,092
TOTAL LIABILITIES	11,485,822	32,601,933	44,087,755
NET POSITION	87,930,647	(32,561,079)	55,369,568

Annex A: The Republic of Kazakhstan

The information contained in this section of the Base Prospectus has been extracted from publicly available documents and other publications. There is not necessarily any uniformity of views among such sources as to the information provided therein. Accordingly, the Issuer only accepts responsibility for accurately reproducing such extracts as they appear in this section of the Base Prospectus.

INTRODUCTION

The Republic of Kazakhstan is a sovereign republic and is the second largest nation after Russia, in terms of landmass, of the nations formed upon the dissolution of the Soviet Union in 1991. The country's natural resources include oil, gas and minerals. The Republic of Kazakhstan is a producer/supplier of chrome, ferro-alloys, aluminum, iron-ore, steel, copper, zinc, manganese, coal, uranium, lead and, to a lesser extent, gold and silver. The country also exports oil, grain, wool and meat.

The Government of Kazakhstan began implementing market-based economic reforms in 1992. Reforms included 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 of Kazakhstan 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, GDP began to rebound in 1999 following the flotation of the Tenge in April of that year and increased by 2.7 per cent. in real terms over the course of the full year. According to the NSA, GDP has continued to grow in real terms, increasing 13.5 per cent. in 2001, by 9.5 per cent. in 2002 and by 9.2 per cent. in 2003. There was a 9.4 per cent. increase in real GDP between 2003 and 2004. According to the preliminary estimates of the NSA, there was a 9.4 per cent. increase in real GDP in 2005. Kazakhstan has been recognised by both the European Union and the United States as having a market economy.

AREA AND POPULATION

The Republic of Kazakhstan is located in Central Asia and is bordered by Russia to the north and west, China's Xinjiang-Uigur Autonomous Region to the east, the Kyrgyz Republic, Uzbekistan and Turkmenistan to the south and the Caspian Sea to the west. The capital, Astana, is located in central Kazakhstan, while Almaty, in the south east of the country, is the principal financial centre and is by far its largest city. The country covers an area of approximately 2,725,000 square kilometres, approximately the same size as western Europe, and spans two time zones from the Caspian Sea in the west to the Altai Mountains in the east.

As of 31 December 2005, the population of the Republic of Kazakhstan was more than 15.2 million. The population of the Republic of Kazakhstan is ethnically diverse. Kazakhs are the largest among the country's approximately 126 different ethnic groups, accounting for approximately 59.0 per cent. of the population, followed by Russians (26.0 per cent.), Ukrainians (0.9 per cent.), Uzbeks, Tatars, Germans, Uigurs and others.

Historically, the Republic of Kazakhstan belongs to the Turkic-speaking world. Kazakh, the official language, is spoken by approximately 50.0 per cent. of the population. Russian is spoken by more than three-quarters of the population and is also officially recognised for use in State matters and local government.

CONSTITUTION, GOVERNMENT AND POLITICAL PARTIES

Constitution

The country's current constitution (the "Constitution"), adopted in August 1995, provides for a tripartite structure of government in which power is divided between the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President, the Parliament, the Government, the Constitutional Council, local governments and local administrations and establishes an independent judicial system. Under current President Nazarbayev, the Presidency has dominated the other branches of government.

Executive Branch

Under the Constitution, the President is the Head of State and its highest official, with primary responsibility for domestic and foreign policy and the function of representing the Republic of Kazakhstan in international relations, including the power to negotiate and sign international treaties. The President is also Commander-in-Chief of the armed forces. The President has the power to issue decrees and orders having the force of law (provided they are consistent with the Constitution), to determine the priority of legislation before Parliament and to call a national referendum on matters of special importance. The President also has the power, in certain circumstances, to dissolve Parliament.

Under the Constitution, the President also enjoys significant powers of appointment, including the power to appoint the Prime Minister subject to the approval of the Parliament. The President may also dismiss the Prime Minister and members of the Government without Parliamentary approval. In addition, the President has the power to appoint and remove the Governor of the Republic of Kazakhstan's central bank, the NBK whose appointment is subject to the approval of Parliament.

The Constitution provides that the President is elected to office by popular vote for a term of seven years. The Constitution also provides for early termination of the President's term of office in the event of his or her death, resignation or impeachment.

The Government comprises the Prime Minister, as its executive head, deputy prime ministers and ministers as members of the Government. The Government is formed by the President, based on recommendations of the Prime Minister, for a term of five years, and is automatically dissolved after each presidential election, to allow for the formation of a new administration by the incoming President. Neither the Prime Minister nor the members of the Cabinet are members of Parliament. The Government is responsible for implementing laws, decrees and international agreements, preparing and implementing the budget, establishing fiscal policy and carrying out social policy.

Mr. Nazarbayev, then the First Secretary of the Communist Party of the Republic of Kazakhstan, became President upon the formation of the newly independent State in December 1991 and has held the position of head of the executive branch of the State since that time. His presidency was confirmed in a referendum in April 1995. President Nazarbayev was re-elected in elections held on 1 January 1999 and further re-elected in elections held on 4 December 2005. President Nazarbayev has had and continues to have a dominant influence on economic and political life in the country and, during two Parliamentary dissolutions, from December 1993 until April 1994 and from March 1995 until 1 January 1996, legislative functions were vested solely in the President.

In January 2006, the President re-appointed the current Prime Minister, Daniyal Akhmetov.

Legislative Branch

The legislative branch of the State is the Parliament, which consists of an upper chamber (the "Senate") of 39 deputies and a lower chamber (the "*Majilis*") of 77 deputies. The President appoints seven of the deputies in the Senate and the remainder are appointed by representative bodies of the regional and city authorities. The deputies in the *Majilis* are elected by direct popular vote.

Judicial Branch

Judicial authority is vested in the Supreme Court, regional courts and district courts. The Supreme Court is the highest judicial body for all civil and criminal matters. The Chairman of the Supreme Court, the chairpersons of the Supreme Court benches and judges of the Supreme Court are elected by the Senate from candidates submitted by the President based on the recommendations of the Supreme Judicial Council.

Constitutional Council

The Constitution provides for a seven-member Constitutional Council, which is vested with the responsibility for resolving disputes over presidential and parliamentary elections and public referenda, providing official interpretation of the provisions of the Constitution, ensuring the constitutionality of legislation and international agreements, implementing procedures under the constitution for the removal of the President from office and investigating claims brought under the Constitution in relation to the exercise of presidential power. Each of the President, the Chairman of the Senate and the Chairman of the *Majilis* appoints two members of the Constitutional Council. In addition, the President appoints the Council's Chairman.

Local Government

Local government is effected through representative bodies (“*maslikhats*”) and executive bodies (“*akimats*”) for each of the country’s 14 regions (“*oblasts*”) and the cities of Astana and Almaty, which together represent the first tier of territorial administration. Approximately 160 rural districts (“*rayons*”) and a further 86 cities together make up the second tier of territorial administration. The maslikhats and akimats are responsible for the collection of local taxes and provision of certain social services, including health care, education and emergency services, preparation and adoption of social plans and local budgets.

Political Parties

Although the principle of political plurality is enshrined in the Constitution, political parties have not played a significant role to date. This is due in part to the fact that deputies in Parliament have been elected not on the basis of political parties, but rather as individuals representing specific constituencies, and is also due to the changing requirements of the laws relating to the registration of political parties. These factors have made it increasingly difficult to register a party for participation in the constitutional political process. Such changes have generally strengthened the President’s position. Under current legislation, only 11 parties meet the applicable requirements for registration compared with nineteen parties that existed prior to these changes.

INTERNATIONAL ORGANISATIONS AND INTERNATIONAL RELATIONS**The Republic of Kazakhstan’s Position in the International Community**

The Republic of Kazakhstan has established diplomatic relations with over 120 countries. The Republic of Kazakhstan is a full member of the United Nations, the International Monetary Fund (the “IMF”), the World Bank, the United Nations Educational, Scientific and Cultural Organisation, the International Atomic Energy Agency, EBRD, the Arab Development Bank, the International Development Association, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Organisation of Securities Commissions and the Islamic Development Bank, although its voting rights in some of these organisations or agencies have been suspended pending payment of overdue contributions. Currently, the Republic of Kazakhstan has observer status with the World Trade Organisation.

The Republic of Kazakhstan agreed to an economic stabilisation programme with the IMF and has in the past been granted both standby and extended fund facilities.

The Republic of Kazakhstan is party to a Partnership and Co-operation Agreement with the European Union (“EU”), which came into force in 1999 and co-operates with the EU in various scientific and environmental programmes. In 1994, the Republic of Kazakhstan joined the North Atlantic Treaty Organisation’s Partnership for Peace programme under which various exercises have taken place involving troops from the United States, Russia, the Republic of Kazakhstan, Uzbekistan, the Kyrgyz Republic, Turkey, Georgia, Ukraine and Latvia. As of 31 December 2005, the Republic of Kazakhstan had signed double taxation treaties with 38 countries, including treaties with the United States, Russia, The Netherlands and the United Kingdom.

The Republic of Kazakhstan and CIS Cooperation

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

In September 2003, the Republic of Kazakhstan, Ukraine, Russia and Belarus signed an agreement for the creation of a single economic zone, which is expected to result in common economic policies, harmonisation of legislation implementing such policies and the creation of a single commission on trade and tariffs. The member states also intend to co-ordinate their fiscal, credit and currency policies.

The Republic of Kazakhstan has maintained significant political and economic relations with Russia since gaining independence from the Soviet Union. After the dissolution of the Soviet Union, the Republic of Kazakhstan agreed with Russia that in return for Russia’s acceptance of responsibility for virtually all external debt liabilities contracted on behalf of the former Soviet Union, the Republic of Kazakhstan waived

all claims on former Soviet Union assets located outside its own territory. The Republic of Kazakhstan and Russia have also reached an agreement regarding Russia's use of the Baikonur Space Centre and on the settlement of mutual financial obligations.

THE KAZAKHSTAN ECONOMY

Gross Domestic Product

The NSA adjusts GDP data in accordance with approved IMF practices in order to reflect the informal, or "black" sector, which is believed to constitute a significant portion of the Republic of Kazakhstan's economy. The NSA estimates that the informal economy (including the household sector) accounts for approximately 23.0 per cent. of GDP in 2003. Others, however, estimate the contribution of the informal economy to total GDP to be even higher.

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

	Year ended 31 December							
	2005 ⁽¹⁾	2004	2003	2002	2001	2000	1999	1998
Nominal GDP (KZT millions)	7,362,211	5,542,500	4,612,000	3,747,200	3,250,593	2,599,902	2,016,456	1,733,264
Real GDP (percentage change during the twelve months then ended). . .	9.4	9.4	9.2	9.5	13.5	9.8	2.7	(1.9)
Nominal GDP per capita (KZT)	484,356	367,783	297,844	252,263	219,170	174,854	135,088	114,991
Population (millions average annual)	15.2	15.1	14.9	14.9	14.9	14.9	14.9	15.0

Source: NSA, NBK

⁽¹⁾ Preliminary data

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

	Year ended 31 December							
	2005 ⁽³⁾	2004	2003	2002	2001	2000	1999	1998
	(per cent. share of GDP)							
Industry	14.0	31.1	29.5	29.3	30.7	31.9	28.2	24.4
Construction	27.1	5.9	6.2	6.1	5.5	5.3	4.8	4.9
Agriculture	4.6	7.9	7.3	7.9	8.7	8.7	9.9	8.6
Transport and Telecommunications . . .	13.8	12.2	12.1	11.5	11.2	12.0	12.0	13.9
Trade	11.9	11.4	12.1	12.0	12.1	12.6	13.6	15.2
Other ⁽¹⁾	28.6	31.5	32.8	33.2	31.8	29.5	31.5	33.0
Total ⁽²⁾	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSA

Notes:

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

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

(3) Preliminary data.

Inflation

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

	As of 31 December							
	2005	2004	2003	2002	2001	2000	1999	1998
	(per cent.)							
Consumer Prices.	7.6	6.7	6.8	6.6	6.4	9.8	17.8	1.9
Producer Prices.	20.3	23.8	5.9	11.9	(14.1)	19.4	57.2	(5.5)

Source: NSA

Employment and Wages

According to the NSA, in 2004, on average 7.8 million people were employed in the Republic of Kazakhstan, an increase of 2.2 per cent. compared to 2003. They represented approximately 98.5 per cent. of the eligible work force (compared to 91 per cent. in 2003 and 90.7 per cent. in 2002). According to NSA preliminary data on average of 7.2 million people were employed in Kazakhstan in 2005, representing approximately 92.5 per cent. of the eligible work force.

In 2002, the NSA began using International Labour Organisation methods of calculating unemployment figures. At the end of 2003, the unemployment figure was approximately 669.4 thousand or 8.8 per cent. of those eligible to work. In 2004 the unemployment figure decreased by 2.5 per cent. compared to 2003 figures or 8.4 per cent. In 2005, the unemployment figure was approximately 650.8 thousand or 8.2 per cent. of the eligible work force.

The following table sets out the dynamics of monthly wage growth as of the years indicated.

Year	Average monthly wage	Increase in nominal terms ⁽¹⁾	Increase in real terms ⁽¹⁾
		(per cent.)	
2005	33,807	19.3	10.9
2004	28,270	21.7	13.9
2003	28,192	15.6	8.3
2002	20,305	16.6	10.1

Source: NSA

(1) Compared to the figures of the previous year

Social Security System

Pension reforms in 1997 established a legal framework for the transformation of the pension system from a State “pay-as-you-go” system to a “fully-funded” accumulative pension system. The principle of the reforms was that private individual retirement accounts should be the main source of pension provision, although individuals can still contribute towards a State-run accumulative pension scheme. Individual retirement accounts are maintained with pension funds managed by pension asset management companies licensed and supervised by FMSA. The pension reforms increased the pensionable age from 55 to 58 for women and from 60 to 63 for men. The changeover to a “fully funded” system is expected to take many years to complete and until then the legacy of the old system will remain a burden on the State’s resources.

In 2002, Parliament adopted amendments to the pension laws, which, among other things, abolished the privileged position of the State accumulative pension fund as a default fund and allowed pension funds to manage pension assets directly. Pension asset management companies are subject to regulations, including various financial ratios (such as capital adequacy requirements) similar to those imposed on banks and various investment requirements. As of 31 December 2005, pension fund assets amounted to KZT 648.6 billion compared to KZT 484.0 billion as at 31 December 2004, KZT 368.3 billion as at 31 December 2003 and KZT 269.8 billion as at 31 December 2002 and KZT 182.4 billion as at 31 December 2001. According to the NBK, the assets of the State-run accumulative pension scheme amounted to 19.46 per cent. of total accumulated pension fund assets as of 31 December 2005 and 21.84 per cent. as of 31 December 2004 (compared to 25 per cent. as of 31 December 2003, 28.1 per cent. at 31 December 2002 and 32.3 per cent. at 31 December 2001).

Pensions are funded through a social tax charged at regressive rates from 20.0 per cent. to 5.0 per cent. of total wages paid by employers and a compulsory contribution of 10.0 per cent. of each employee’s salary is paid by the employer, on behalf of the employee and deducted from the employee’s salary, into the employee’s individual pension fund. Starting in 2003, the pension fund deduction was capped at the level of 7.5 times the monthly minimum wage. Additional contributions may also be made into private pension funds.

In December 2004, a new social security tax was introduced. It is assessed on all salaries higher than ten times the minimum monthly salary. The rates of this tax are as follows: from January 2005 -1.5 per cent., from January 2006 2 per cent. and from January 2007 3 per cent. Revenues from social security tax are not directed to the state budget but collected in the State Centre on Pension Payments. The introduction of new social security deductions has changed the procedure of calculating social tax. Now the social tax rates will be calculated less deductions for the social security tax.

Environment

The Republic of Kazakhstan faces significant environmental problems, which, to a large extent, stem from the period when it was part of the former Soviet Union. Outdated technology and capital equipment in the metallurgical sector produced heavy pollution, mostly in the north and east of the country. For example, Semipalatinsk, a city in north eastern Kazakhstan, has a military facility, which until 1990 was used for nuclear testing and many locations in the vicinity are heavily contaminated by radioactive waste. Other locations in the Republic of Kazakhstan were used by the Soviet Union for the testing of biological weapons and as a result are contaminated with various pathogens.

The former Soviet Union's "Virgin Lands" policy of the 1950s and 1960s, whereby large areas of the Republic of Kazakhstan's steppe land were ploughed to increase the Soviet Union's grain production, has led to soil erosion on a wide scale and up to 66.0 per cent. of the Republic of Kazakhstan's agricultural land is under threat of desertification. Excess irrigation has halved the surface area of the Aral Sea in southern Kazakhstan exposing land, which is unsuitable for agriculture. Furthermore, the Caspian Sea suffers from serious pollution due to industrial dumping.

NATURAL RESOURCES**Introduction**

The extraction and production of hydrocarbons (i.e., oil, natural gas and gas condensates) and the extraction and processing of minerals are significant industries in the Kazakhstan economy. According to the NSA, the exports of hydrocarbons and minerals accounted for 68.0 per cent. of total exports in 2004, compared to 65.0 per cent. in 2003, 61.0 per cent. in 2002 and 58.0 per cent. in 2001.

Oil and Gas

The actual proved level of the Republic of Kazakhstan's oil and natural gas reserves has not yet been established. The Statistical Review of World Energy completed by British Petroleum in June 2005 (the "BP Statistical Review of World Energy") estimated the Republic of Kazakhstan's total oil reserves in 2004 at 5.4 billion tonnes or 3.3 per cent. of world reserves, with a reserves/production ratio of 83.6 per cent.

The largest deposits of explored oil reserves are located in the Tengiz, Zhetybai, Kalamkas and Uzenfields in the Caspian region, the Karachaganak and Zhanazhol fields in north-western Kazakhstan and the Kumkol field in central Kazakhstan. 12.75 million tonnes of oil were produced at the Tengiz field in 2003, as compared with 13 million tonnes in 2002. In 2003, the Karachaganak field produced 5.73 million tonnes of gas condensate and 5.51 billion cubic metres of gas, as compared with 5.16 million tonnes of gas condensate and 4.8 billion cubic metres of gas in 2002.

According to the NSA, the Republic of Kazakhstan produced 61.9 million tonnes of oil and gas condensate in 2005, 1.5 per cent. more than in 2003 in which 51.4 million tonnes were produced.

The BP Statistical Review of World Energy estimated the Republic of Kazakhstan's total reserves of natural gas in 2004 at approximately 3.0 trillion cubic metres, or 1.7 per cent. of world reserves. In 2005, the Republic of Kazakhstan produced 25.1 billion cubic metres of gas, compared to 20.5 billion cubic metres in 2004 and 16.6 billion cubic metres in 2003.

Exports of Oil and Gas

The production and export of hydrocarbons has been constrained by the Republic of Kazakhstan's landlocked position and its significant dependence on Russia's transportation infrastructure for export routes. Until recently, there was only one pipeline connected to the Russian export network. Russia retains the right to suspend and impose restrictions on the flow of Kazakhstan oil from this pipeline into Russia's transportation network and Russian enterprises have priority access to Russian export terminals. In the past, Russia has imposed an annual quota on the Republic of Kazakhstan's exports through Russia. However, an agreement between Russia and the Republic of Kazakhstan on oil transportation is expected to improve the Republic of Kazakhstan's export position. Starting in 2002, the agreement provides for an automatically renewable quota for the following 15 years for passage of not less than 15 million tonnes through the Atyrau-Samara pipeline and 2.5 million tonnes through the Makhachkala-Tikhoretsk-Novorossiysk pipeline.

Nevertheless, other export outlets will be needed in order for the Republic of Kazakhstan to realise the full economic potential of its oil and natural gas reserves.

Projects to diversify export routes include the CPC, which was established for the purpose of developing a 1,500 kilometre export pipeline from the Tengiz oil field to the Russian seaport of Novorossiysk on the Black Sea, together with oil pumping stations and oil storage and loading facilities. The CPC was formed in July 1992 and is currently owned by the Russian, Kazakhstan and Oman Governments and a number of Russian and international oil companies.

The first stage of construction, a pipeline with a capacity of 28 million tonnes (204 million barrels) per year, was completed in September 2001 at a cost of U.S.\$2.6 billion. The CPC started commercial operations in November 2001. The second stage comprising reconstruction of existing systems and construction of new facilities has not started. Upon completion of the second stage, the capacity of the pipeline is expected to be 67 million tonnes (490 million barrels) per year.

The Kenkiyak-Atyrau pipeline provides oil producing companies in the Aktobe region with access to the existing export pipelines and will also be used as the first part of the pipeline from western Kazakhstan to China. The Kenkiyak-Atyrau pipeline was started in May 2002 and it became operational in March 2003.

Foreign Investment in Oil and Gas

In 2004, foreign investors invested approximately U.S.\$2.6 billion in the Republic of Kazakhstan's oil and gas sector as compared to approximately U.S.\$2.1 billion in 2003 and 2002 and U.S.\$3.1 billion in 2001. The most significant foreign investment thus far has been in the Tengiz oil field where, under the terms of a 40 year joint-venture agreement, Tengizchevroil is expected to invest a total of approximately U.S.\$20 billion in the field. In 2004 U.S.\$780 million was invested in Tengiz.

In addition to direct investment in transportation, exploration and production projects, there have also been significant purchases by foreign investors of State-owned oil and gas enterprises. In 1997, the Government sold 60.0 per cent. of JSC Mangistaumunaigas to Indonesia's Central Asian Petroleum (part of the Medco group) in a transaction valued at U.S.\$4.35 billion (which amount includes a planned investment programme) and 84.0 per cent. of JSC Aktobemunaigas to China National Petroleum. China National Petroleum, as controlling shareholder in JSC Aktobemunaigas, has agreed to invest up to U.S.\$4 billion over a period of 20 years in developing the Aktyubinsk field.

An international consortium of oil companies are party to a development agreement relating to the Karachaganak oil and natural gas fields. The agreement has a term of 40 years and provides for investments of U.S. \$16 billion. It is anticipated that the Republic of Kazakhstan will be paid approximately 80.0 per cent. of the shared income over the 40-year concession period. The consortium members plan to construct an oil pipeline connecting the Karachaganak fields to the CPC's pipeline. Another international consortium of oil companies has a production sharing agreement relating to the north Caspian Sea. This agreement also has a term of 40 years and provides that the Republic of Kazakhstan will be paid approximately 80.0 per cent. of the shared income, including taxes and other payments to the budget, over the concession period and provides for certain investments. Investments in Karachaganak in 2004 amounted to U.S.\$712 million. 8 million tonnes of oil and 8 billion cubic metres of gas were produced in 2004 at Karachaganak fields.

Currently there is negotiation underway concerning Kazakhstan's participation in transportation of oil on Baku-Tbilisi-Ceihan pipeline. If accomplished this project could facilitate export of oil by 2007 at the level of 400,000 barrels per day.

Mineral Resources

According to the NSA, the Republic of Kazakhstan produced 43.2 million tonnes of coal in 2003, approximately 1.7 per cent. of total coal extracted globally in 2003. In 2005, the Republic of Kazakhstan produced 86.3 million tonnes of coal.

The Republic of Kazakhstan also produces precious metals. According to the Republic of Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tonnes and produced approximately 18.1 tonnes in 2005, 18.9 tonnes in 2004, 19 tonnes in 2003 and 22.4 tonnes in 2002. The Republic of Kazakhstan also produced approximately 832 tonnes of silver in 2005, as compared to 733 tonnes in 2004, 827 tonnes in 2003 and 892 tonnes in 2002 (10.0 per cent. less than in 2001).

The Republic of Kazakhstan has significant non-ferrous mineral reserves, including chrome, iron-ore, aluminium, lead, zinc, copper and manganese. In 2005, the Republic of Kazakhstan produced 356,907 tonnes of zinc (compared to 316,515 tonnes in 2004, 294,965 tonnes in 2003 and 286,300 tonnes in

2002), 117,351 tonnes of lead in 2005 (compared to 157,000 tonnes in 2004, 140,721 tonnes in 2003 and 161,800 tonnes in 2002) and 418,833 tonnes of refined copper (compared to 44,230 tonnes in 2004, 432,401 tonnes in 2003 and 453,000 tonnes in 2002).

THE ECONOMY

Balance of Payments and Foreign Trade Current Account

Based on NBK data, Kazakhstan's current account deficit in 2002 was U.S.\$843.4 million and U.S.\$1,209.3 million in 2001 compared with a surplus of U.S.\$563.1 million in 2000. The current account deficit in 2003 was U.S.\$39.0 million. The current account surplus in September 2004 was U.S.\$136.4 million.

Capital and Financial Account

The capital and financial account surplus in 2000 was U.S.\$1,016.5 million, resulting in a balance of payment surplus of U.S.\$585.1 million. In 2001, foreign direct investment in the amount of U.S.\$4,556.6 million resulted in a capital and financial account surplus of U.S.\$2,428.7 million. In 2002, foreign direct investment for the year amounted to U.S.\$4,106 million, which resulted in a capital and financial account surplus of U.S.\$1,239.2 million. In 2003, foreign direct investment was U.S.\$4,607.6 million and the capital and financial account surplus was U.S.\$2,756.1 million. In 2004 foreign direct investment was U.S. \$8,423.7 million resulting in a capital and financial account surplus of U.S.\$4,592.5 million.

Foreign Trade

The following table sets out the Republic of Kazakhstan's foreign trade for the periods indicated:

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(U.S.\$ millions)						
Exports(f.o.b).	20,603	13,232.6	10,026.9	8,927.8	9,288.1	5,988.5	5,870.6
Imports (f.o.b)	(13,818)	(9,144.5)	(7,726.3)	(7,607.3)	(6,848.2)	(5,848.2)	(6,671.5)
Trade balance	6,786	4,088.1	2,300.6	1,320.5	2,439.9	340.3	(800.9)

Source: NBK

General merchandise trade data are based on external trade statistics compiled by the NSA from customs declarations. The data are adjusted by the NBK in respect of coverage classification and valuation for balance of payments purposes. The main adjustments are to exclude the cost of freight and insurance from imports, to include "shuttle" and undeclared trade and to adjust for barter operations.

Official International Reserves

The Republic of Kazakhstan's international reserves are administered and controlled by the NBK, which is a separate legal entity. Kazakhstan law provides that such international reserves may not be pledged nor may the NBK be required to make international reserves available to support the Government's borrowings. As of the end of 2005, due to high oil prices and a number of other factors, Kazakhstan's gross international reserves amounted to U.S.\$7,077 million, compared to gross international reserves of U.S.\$9,277 million as at the end of 2004, U.S.\$4,962 million at the end of 2003 and U.S.\$3,141 million at the end of 2002.

Similar to the Norwegian model, the Government established the National Fund of the Republic of Kazakhstan (the "National Fund") in August 2000 to accumulate State revenue earned from the sale of the Republic of Kazakhstan's hydrocarbons and mineral resources. As of the end of 2005 the National Fund had U.S. \$8,027 million in assets, compared to U.S.\$5,131 million in 2004, U.S.\$3,663 million in 2003 and U.S.\$1,915 million as of the end of 2002.

The following table sets out certain information regarding the Republic of Kazakhstan's international reserves as of the dates indicated:

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(U.S.\$ millions) ⁽¹⁾						
Exports(f.o.b).	20,096.2	13,232.6	10,026.9	8,927.8	9,288.1	5,988.5	5,870.6
Imports (f.o.b)	12,781.3	9,144.5	(7,726.3)	(7,607.3)	(6,848.2)	(5,848.2)	(6,671.5)
Foreign exchange reserves.	8,473.0	4,233.0	2,548.3	1,990	1,594.0	1,479.9	1,460.2
Gold ⁽¹⁾	803.6	725.9	585.6	510.7	501.8	522.8	503.6
Gross international reserves.	9,277	4,958.9	3,14.6	2,507.7	2,095.8	2,002.7	1,963.8

Source: NBK

Note:

(1) Gold is valued at the market price prevailing at the beginning of the relevant period.

STATE BUDGET

The following table sets out information on certain trends in the Republic of Kazakhstan's actual State revenue and expenditures (excluding quasi-fiscal operations) for the periods indicated:

	Year ended 31 December						
	2004	2003	2002	2001	2000	1999	1998
	(U.S.\$ millions) ⁽¹⁾						
Revenues	10,039.2	1,022,256	821,153	746,612	598,746	430,900	379,623
Expenditures.	10,183.1	1,062,611	820,162	759,610	602,024	498,978	451,594
Budget surplus (deficit).	143.8	(40,355)	991	(12,998)	(3,278)	(68,078)	(72,074)
Surplus (deficit) as a percentage of GDP	0.3	(0.9)	0	(0.2)	0.1	(3.7)	(4.2)

Source: Ministry of Finance

Note:

(1) Includes extra-budgetary funds.

Taxation

The principal taxes in the Republic of Kazakhstan are now corporate income tax ("CIT"), social tax, personal income tax ("PIT"), a value added tax on goods and services ("VAT") and various property taxes. The Government adopted a new tax code to simplify further the tax structure and facilitate tax collection, which came into effect on 1 January 2002. On 1 January 2004, the Government implemented changes to the tax code reducing the rates of PIT, social tax and VAT. In December 2004 amendments were made to the tax code introducing a new mandatory social security tax that has affected the procedure of rates calculation for the regular social tax. (See: *Social Security System*).

The CIT rate is currently 30.0 per cent. and is reduced to 10 per cent. for farming corporations. Dividends are subject to a 15 per cent. withholding of CIT. PIT is levied at progressive rates, ranging from 5 per cent. to a maximum of 20 per cent. (reduced from 30 per cent. in 2003).

In general, all business activity in the Republic of Kazakhstan is subject to a flat rate VAT of 15 per cent. (reduced from 16 per cent. in 2003). Corporations are subject to property tax at the rate of 1 per cent. of the value of basic productive and non-productive assets and individuals are charged a property tax which ranges from 0.1 per cent. to 1 per cent. of the property's value. Royalties payable to the Government relating to the extraction of oil, gas and other natural resources are established by individual agreements with the Government or its agencies.

In 1997, the Government amended the tax code to provide tax-free periods to foreign investors investing in designated priority sectors of the economy, which do not include the oil and natural gas sector. Eligible investors received exemptions on income, property and land taxes on an individual basis.

The generally applicable corporate tax regime applies to entities involved in the exploration and production of hydrocarbons. In addition, different taxation levels relating to signature bonuses (initial payments made for the right to carry out activities under a hydrocarbons contract), commercial discovery bonuses, excess profits tax, rent on exported crude oil and royalties exist for taxpayers in the oil and natural gas industry. Hydrocarbon contracts in the Republic of Kazakhstan take the form of tax/royalty contracts and

production sharing agreements. Many of the terms and conditions to the levies, bonuses and royalties are subject to negotiation under the specific hydrocarbon contracts.

Inter-Enterprise Arrears

Although the level of inter-enterprise arrears (debts which are due but unpaid) is significant and has been so since the Republic of Kazakhstan became independent, overdue inter-enterprise net debt (overdue debts payable minus overdue debts receivable) decreased from KZT 241 billion (or 19.8 per cent. of GDP) as of the end of 1997 to KZT 105.7 billion (or 4.2 per cent. of GDP) as of the end of 2002 and to KZT 93 billion (or 2.1 per cent. of GDP) as of the end of 2003.

As of February 1, 2005 the overdue net debt was KZT 150.5 billion or 3.4 per cent. of GDP.

MONETARY AND FINANCIAL SYSTEM

Money Supply

The following table presents the main monetary aggregates in Kazakhstan as of the dates indicated:

	As of 31 December					
	2005	2004	2003	2002	2001	2000
	(KZT million)					
Monetary base	662,971	577,871	316,962	208,171	174,959	134,416
M0 (cash in circulation)	411,813	379,273	238,545	161,701	131,175	106,422
M1	799,401	677,468	412,139	287,293	224,230	195,442
M2	1,515,962	1,164,463	693,381	498,071	337,980	344,643
M3 (money supply)	2,065,340	1,634,710	971,749	764,954	576,023	397,015

Source: NBK

Interest Rates

The following table sets out the annual refinancing rates and average yields of treasury bills and the NBK's own short-term notes as of the dates indicated:

	As of 31 December				
	2004	2003	2002	2001	2000
Refinancing	7.0	7.0	7.5	9.0	14.0
Treasury Bill Yields ⁽¹⁾	3.3	6.0	6.7	5.4	6.8
NBK Note Yields ⁽²⁾	3.2	5.1	5.9	5.8	7.9

Source: NBK

Notes:

(1) Effective annual yield of three-month Treasury bills.

(2) Effective annual yield of short-term NBK Notes.

Exchange Rates

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

As a result of the economic crises in Asia and Russia in 1998 and the resulting currency depreciations, primarily in Russia and other former Soviet Republics, the Republic of Kazakhstan's exports became less competitive on international markets while imports from such countries increased. In addition, the decline in world commodity prices, particularly of oil, base and precious metals and grain, reduced the Republic of Kazakhstan's foreign currency revenue. These factors contributed to the weakening of the Tenge. The NBK supported the Tenge by intervening in the foreign exchange markets.

In April 1999, the NBK and the Government publicly announced that they would cease to intervene in the foreign exchange markets to support the Tenge, allowing the exchange rate to float freely. As a result, the Tenge depreciated from a pre-announcement rate of KZT 88 per U.S. Dollar to a rate of about KZT 130 per U.S. Dollar by May 1999. Thereafter, the Tenge continued to depreciate in nominal terms against the U.S. Dollar until 2003. During 2003 and, the Tenge appreciated in value by 7.3 per cent. against the U.S. Dollar to KZT 144.22 per U.S. Dollar as at 31 December 2003 compared to KZT 155.60 per U.S. Dollar

as at 31 December 2002, but depreciated against the Euro. As at 31 December 2004, the official exchange rate on the KASE as reported by the NBK was 130.0 KZT per U.S.\$1.00, an appreciation of 9.9 per cent. compared to 31 December 2003. As at 31 December 2005 the exchange rate was KZT 133.77 per U.S.\$1.00, a depreciation of 2.9 per cent. since 31 December 2004.

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

Year ended 31 December	Period-end	High	Average(1)	Low
1999	138.25	142.21	120.09	84.20
2000	145.40	145.40	142.26	138.59
2001	150.94	150.94	146.92	145.05
2002	155.60	156.29	153.28	151.31
2003	144.22	155.89	149.58	143.66
2004	130.00	143.33	136.04	130.00
2005	133.88	135.66	132.88	130.11

Source: NBK

(1) The weighted average rate reported by the NBK for each month during the relevant period.

Foreign Exchange Regulations

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

New licensing rules were adopted at the beginning of 2002 for the treatment of the outflow of capital. The NBK intends to liberalize licensing rules in the next few years. In May 2003, a new law was passed which provides for step-by-step liberalisation resulting, among other things, in full internal convertibility of the Tenge by 2007, permission for banks to invest abroad and the removal of restrictions on investments in foreign investment-grade securities and the openings of accounts in OECD banks.

Kazakhstan recently significantly liberalized its foreign exchange regulations with new currency control laws that came into effect at the end of 2005. Currently, an NBK licence is not required (i) for a Kazakhstan financial organisation to open accounts in foreign banks in connection with transactions with financial instruments on international securities markets or for a Kazakhstan legal entity to open accounts in foreign banks to secure its obligations towards non-resident lenders; (ii) for certain Kazakhstan financial organisations or other residents acting through a licensed professional securities market participant to acquire foreign securities or to enter into derivative transactions with non-residents; (iii) for an acquisition by residents of more than 10 per cent. of the voting shares of a non-resident company. Kazakhstan banks only need to notify the NBK in respect of most of their off-shore operations. The NBK further intends to liberalise licensing rules over the next few years. However, there can be no assurance that there will be no transfer restrictions for foreign currencies in the future and that the liberalisation of Kazakhstan's foreign exchange regulations will result in the international convertibility of the Tenge.

Public Debt

According to the NBK, as a percentage of GDP, total public debt decreased from 17.5 per cent. of GDP as of 31 December 2001 to 15.5 per cent. of GDP as of 31 December 2002, to 13.7 per cent. of GDP as of the end of 2003 and to 12.0 per cent. of GDP as of 31 December 2004 and 9.6 per cent. of GDP as of 31 December 2005 (according to preliminary date for 2005). In nominal terms, the Republic of Kazakhstan's total public debt has grown from KZT 139.6 billion as of 31 December 1994 to KZT 609.6 billion as of 31 December 2003 and KZT 705.1 billion as of 31 December 2005. In 2004 total public debt has decreased from KZT 443.2 billion to approximately KZT 355.6 billion. Until 2001, the growth in public debt had been funded primarily by increases in external borrowing and was used to finance budget deficits. However, since 2002, the Government has decreased external borrowing and increased internal borrowing.

The following table sets out data regarding the Republic of Kazakhstan's nominal public debt (i.e., excluding private sector debt and State-guaranteed debt) as of the dates indicated:

	As of 31 December					
	2005	2004	2003	2002	2001	2000
Internal public debt (KZT millions)	297,872	153,114	166,369	121,802	83,977	87,418
As a percentage of GDP	4.0 ⁽²⁾	2.8	3.7	3.3	2.6	3.4
External public debt ⁽¹⁾ (KZT millions)	237,659	355,251	443,223	458,094	489,983	472,799
As a percentage of GDP	3.2 ⁽²⁾	6.4	10.0	12.2	14.9	18.2
Total public debt (KZT million)	705,071	668,964	609,592	579,896	573,959.2	560,217
As a percentage of GDP	9.6 ⁽²⁾	12.0	13.7	15.5	17.5	21.6

Source: NBK

Notes:

(1) External public debt comprises only debt of the Government and the NBK.

(2) Preliminary data.

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