Consolidated Financial Statements

ATF Bank (formerly Almaty Merchant Bank) and Subsidiaries

December 31, 2002 and 2001
with Report of Independent Auditors

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Contents

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Report of Independent Auditors

To the Board of Directors and Shareholders of
ATF Bank and Subsidiaries

We have audited the accompanying consolidated balance sheet of ATF Bank and subsidiaries (the "Group") as of December 31, 2002, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Group's financial statements for the year ended December 31, 2001, were audited by other auditors whose report dated March 15, 2002, expressed an unqualified opinion on those financial statements.

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

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

March 24, 2003

ATF Bank and Subsidiaries

Consolidated Balance Sheets

December 31, 2002 and 2001

(Thousands of Kazakh Tenge)

	Notes	2002	2001
Assets			
Cash and cash equivalents	4	**4,477,990**	4,581,655
Obligatory reserves	5	**1,230,037**	993,201
Trading securities	6	**15,300,440**	7,716,295
Commercial loans and advances, net	7	**34,761,711**	24,119,982
Premises and equipment, net	9	**1,758,371**	991,269
Tax assets	14	**2,169**	85,420
Other assets, net		**690,714**	550,730
Total assets		**58,221,432**	39,038,552
Liabilities and shareholders' equity			
Amounts owed to the Government	10	**1,351,420**	516,600
Amounts owed to other banks and financial institutions	11	**17,222,278**	12,282,998
Amounts owed to customers	12	**31,545,022**	20,066,744
Loans from financial institutions	13	**858,065**	933,679
Debt securities issued	15	**1,593,595**	–
Reserves for claims, net of reinsurance		**57,030**	50,577
Provisions	8	**109,037**	42,500
Subordinated loan	16	**–**	711,431
Other liabilities		**313,443**	183,112
Total liabilities		**53,049,890**	34,787,641
Minority interest		**28,725**	–
Shareholders' equity:			
Share capital:			
Common shares	17	**2,700,000**	2,699,100
Preferred shares	17	**400,000**	400,000
Additional paid in capital		**193,306**	193,332
Treasury shares		**465,325**	319,607
Reserves		**(26)**	–
Retained earnings		**1,384,212**	638,872
Total shareholders' equity		**5,142,817**	4,250,911
Total liabilities and shareholders' equity		**58,221,432**	39,038,552
Financial commitments and contingencies	29	**7,058,771**	3,080,511

The accompanying notes are an integral part of these consolidated financial statements.

ATF Bank and Subsidiaries

Consolidated Statements of Income

Years ended December 31, 2002 and 2001

(Thousands of Kazakh Tenge, except earnings per share)

	Notes	2002	2001
Interest income	18	**5,368,311**	3,085,639
Interest expense	18	**(2,412,692)**	(1,282,228)
Net interest income before provision for losses		**2,955,619**	1,803,411
Provision for losses	8	**(891,835)**	(913,574)
Net interest income after provision for losses		**2,063,784**	889,837
Fee and commission income	19	**1,245,280**	965,278
Dealing profits (losses), net	20	**(39,226)**	390,141
Gains less losses from trading securities	21	**78,140**	473,880
Gains less losses from foreign currencies	22	**414,228**	182,797
Underwriting income	23	**295,581**	49,332
Other operating income		**28,789**	46,028
		2,022,792	2,107,456
Payroll and other staff costs		**1,269,270**	998,667
General and administrative expenses	24	**740,470**	750,421
Occupancy and equipment	9	**162,494**	121,770
Claims incurred, net of reinsurance	25	**86,368**	57,728
Other provisions	8	**69,859**	23,797
Taxes other than income taxes		**142,066**	97,630
Fee and commission expense	26	**194,702**	168,961
		2,665,229	2,218,974
Income before income taxes		**1,421,347**	778,319
Income tax expense	14	**413,626**	16
Net income before minority interest		**1,007,721**	778,303
Minority interest share of net income		**2,035**	–
Net income		**1,005,686**	778,303
Basic earnings per share	25	**526**	398

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2002 and 2001

(Thousands of Kazakh Tenge)

	Share capital	Treasury stock	Additional paid in capital	Reserve fund	Retained earnings	Total
At January 1, 2001	1,211,100	–	–	161,283	418,893	1,791,276
Capitalization of dividends	400,000	–	–	–	(400,000)	–
Shares issued and paid	400,000	–	260	–	–	400,260
Shares issued and paid on acquisition of Kazprombank	1,088,000	–	193,072	–	–	1,281,072
Transfers	–	–	–	158,324	(158,324)	–
Net income	–	–	–	–	778,303	778,303
At December 31, 2001	**3,099,100**	**–**	**193,332**	**319,607**	**638,872**	**4,250,911**
Purchase of treasury shares	**–**	**(26)**	**(26)**	**–**	**–**	**(52)**
Capital contributed	**900**	**–**	**–**	**–**	**–**	**900**
Dividends on preferred shares	**–**	**–**	**–**	**–**	**(114,628)**	**(114,628)**
Transfers	**–**	**–**	**–**	**145,718**	**(145,718)**	**–**
Net income	**–**	**–**	**–**	**–**	**1,005,686**	**1,005,686**
At December 31, 2002	**3,100,000**	**(26)**	**193,306**	**465,325**	**1,384,212**	**5,142,817**

The accompanying notes are an integral part of these consolidated financial statements.

ATF Bank and Subsidiaries

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001

(Thousands of Kazakh Tenge)

	2002	2001
Cash flows from operating activities:		
Net income before minority interest and income taxes	**1,421,347**	778,319
Adjustments for:		
Depreciation and amortization	**162,494**	121,770
Minority interest	**(2,035)**	
Provision for losses	**961,694**	937,371
Provision for claims	**86,368**	57,728
Loss on sale of premises and equipment	**10,690**	11,738
Change in unrealized gain on securities	**17,852**	333,975
Operating income before changes in net operating assets	**2,658,411**	2,240,901
(Increase) decrease in operating assets:		
Obligatory reserves	**(236,836)**	(169,715)
Trading securities	**(7,601,997)**	(2,892,511)
Loans to other financial institutions	**–**	46,000
Commercial loans and advances	**(10,948,255)**	(14,588,016)
Other assets	**106,637**	(130,395)
Increase (decrease) in operating liabilities:		
Amounts owed to the Government	**834,820**	355,512
Due to other banks and financial institutions	**4,939,280**	8,269,816
Amounts owed to customers	**10,792,130**	8,076,245
Loans from financial institutions	**(75,614)**	563,253
Claims paid net of reinsurance	**(79,914)**	(22,535)
Other liabilities	**124,385**	96,666
Net cash provided by operating activities before income tax	**513,047**	1,845,221
Income tax paid	**(413,626)**	(78,156)
Net cash provided by operating activities	**99,421**	1,767,065
Cash flows from investing activities:		
Net cash (paid) acquired on acquisition of subsidiaries	**(122,263)**	1,319,038
Purchases of premises and equipment	**(965,849)**	(287,314)
Sale of premises and equipment	**151,184**	37,761
Purchases of intangible assets	**(34,560)**	(36,437)
Proceeds from sale of intangible assets	**18**	433
Net cash (used in) provided by investing activities	**(971,470)**	1,033,481
Cash flows from financing activities:		
Subordinated debt paid	**(711,431)**	(32,563)
Share capital paid	**900**	400,260
Purchase of treasury shares	**(52)**	–
Dividends paid	**(114,628)**	–
Debt securities issued	**1,593,595**	(695,406)
Net cash provided by (used in) financing activities	**768,384**	(327,709)
Net change in cash and cash equivalents	**(103,665)**	2,472,837
Cash and cash equivalents at the beginning of year	**4,581,655**	2,108,818
Cash and cash equivalents at the end of year (Note 4)	**4,477,990**	4,581,655
Supplemental information:		
Interest paid	**2,055,460**	1,172,858
Interest received	**4,872,840**	2,797,920

The accompanying notes are an integral part of these consolidated financial statements.

1. Description Of Business

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

The Bank accepts deposits from the public and extends credit, transfers payments in Kazakhstan and abroad, exchanges currencies and provides banking services to its commercial and retail customers. The Bank is among the five largest banks in Kazakhstan in terms of total assets calculated under the local accounting rules. Note 2 lists all of the Bank's subsidiaries whose activities include banking and insurance. The Bank's registered legal address is 100, Furmanov Avenue, Almaty, Republic of Kazakhstan.

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

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These financial statements are presented in thousands of Kazakhstani Tenge ("KZT"). The KZT is utilized as the majority of the Group's transactions are denominated, measured, or funded in KZT. Transactions in other currencies are treated as transactions in foreign currencies.

The Group maintains its records and prepares its consolidated financial statements in accordance with Kazakh accounting and tax regulations. The accompanying consolidated financial statements differ from the consolidated financial statements issued for statutory purposes in Kazakhstan in that they reflect certain adjustments, not recorded on the Group's books, which are appropriate to present the financial position, results of operations, and cash flows of the Group in accordance with IFRS. The principal adjustments are primarily related to the allowance for losses, fair value of securities and the accounting for the accrual of income from underwriting premiums:

	2002	**2001**
Statutory shareholders' equity at December 31	**5,534,789**	4,457,394
Dividends on preferred stocks	**(48,000)**	–
Allowance for losses	**(572,723)**	(343,534)
Adjustment to fair value - securities	**228,751**	333,975
Adjustment to fair value - loans	–	(129,563)
Unearned premium reserve	–	(67,361)
IFRS shareholders' equity at December 31	**5,142,817**	4,250,911

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

General (continued)

The KZT is not a fully convertible currency outside the Republic of Kazakhstan. During 2001, transactions denominated in foreign currencies are recorded using the official exchange rates quoted by the National Bank of Kazakhstan (the "NBK"), which closely approximate the market exchange rates quoted by the Kazakhstani stock exchange (KASE). The Group started to apply the market exchange rates for all of its transaction starting from January 1, 2002.

The market exchange rates at December 31, 2002 and December 31, 2001 were KZT 155.85 = US Dollar 1 and KZT 150.94 = US Dollar 1, respectively. The official exchange rates at December 31, 2002 and 2001 were KZT 155.60 = US Dollar 1 and KZT 150.20 = US Dollar 1, respectively. At March 24, 2003, the market exchange rate was KZT 152.2 = US Dollar 1.

The accompanying financial statements were authorized for issue by the Bank's Chairman and Chief Accountant on March 24, 2003.

Subsidiaries

At December 31, 2002, the principal subsidiaries of the Group were as follows:

Subsidiary	***Ownership %***	***Domicile***	***Principal Business***
ZAO Insurance Company ATF Policy	100.00	Kazakhstan	Insurance activity
OJSC Apogee Bank	94.68	Kazakhstan	Banking

ATF Policy (insurance subsidiary of the Bank) was formed as a closed joint stock company under the laws of the Republic of Kazakhstan in December 1999. The company's principal activity is insurance products and services. The company possesses a state insurance license that was issued in March 2001.

Apogee Bank (banking subsidiary of the Bank) was founded in February 1993 as a private bank and reorganized into open joint stock company in November 1999 under the laws of the Republic of Kazakhstan. Apogee Bank has a general banking license and a license to conduct foreign currency operations from NBK #167 dated June 21, 2001.

In January 2002 the Group acquired 34,188 shares (89.68% of all issued and paid shares) of Apogee Bank for KZT 504,011. Accordingly, the results of operations of this subsidiary are included in these financial statements of the Group from that date. In March 2002, the Group acquired additional shares representing 3.2% of the share capital of Apogee Bank, for KZT 18,649.

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

Subsidiaries (continued)

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

Net assets acquired	2002
Cash and due from NBK	**290,259**
Due from financial institutions	**115,422**
Loans to customers, net	**585,309**
Premises and equipment, net	**110,805**
Other assets	**100,550**
Due to customers	**(686,148)**
Other creditors	**(5,945)**
Net assets	**510,252**
Less minority interest	**(52,658)**
Net assets less minority interest	**457,594**
Purchase consideration paid in cash	**504,011**
Goodwill	**46,417**

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

On April 14, 2002, the General shareholders' meeting of Apogee Bank adopted a resolution to voluntary reorganize Apogee Bank and merge its operations with those of ATF Bank. On 6 January 2003, the Group received a permission (resolution of the NBK Board #531, dated December 29, 2002) for the merger of Apogee Bank with ATF Bank. In January 2003, the Bank publicly announced its plans to merge with Apogee Bank. Following the merger, the Bank will take over all the assets of Apogee Bank and assume all of its liabilities at their net book value.

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

(Thousands of Kazakh Tenge)

2. Basis of Preparation (continued)

Subsidiaries (continued)

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

Adoption of IAS 39
As of January 1, 2001, the Group adopted IAS 39 "Financial instruments: Recognition and Measurement". Further information is disclosed in the accounting policies and related notes.

3. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in preparing the consolidated financial statements:

Basis of Presentation
The accompanying consolidated financial statements have been prepared in accordance with IFRS, and have been prepared under the historical cost convention, modified by fair value accounting for trading securities as required by IAS 39 "Financial Instruments: Recognition and Measurement".

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Subsidiaries and Consolidation
Subsidiaries comprise those companies and other entities in which the Group, directly or indirectly, has power to exercise control over financial and operating policies.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances, and unrealized surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

3. Summary of Significant Accounting Policies (continued)

Due from Other Financial Institutions
In the normal course of business, the Group lends or deposits funds for various periods with other financial institutions. Such amounts are categorized as loans originated by the Group and are carried at amortized cost. As these placements of funds are typically unsecured extensions of credit, management provides general allowances against the risk of possible losses. The Group also provides specific allowances on a case-by-case basis as some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from financial institutions are the same as for loans to customers (see below).

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

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

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

Loans to Customers

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

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal or interest unpaid for at least thirty days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for Impairment of Financial Assets

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

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

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

3. Summary of Significant Accounting Policies (continued)

Premises and Equipment

Premises and equipment are recorded at historical cost adjusted for revaluations made until 1997 using indices provided by the State Committee of Statistics of the Republic of Kazakhstan less accumulated depreciation. Depreciation on assets under construction commences from the date the assets are ready for their intended use. Depreciation is calculated on an accelerated method for computers and straight-line basis for all other assets over the estimated useful lives of the assets as follows:

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

Intangible Assets

Intangible assets include goodwill, licenses and computer software.

Licenses

Licenses are stated at restated cost net of accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is 5 years.

Computer software

Computer software development costs recognized as assets at restated cost and are amortized using the straight-line method over their useful lives, but not exceeding a period of 5 years. Acquired computer software is accounted for under the same policies.

Intangible assets under development are not depreciated. Amortization of these assets will begin when the related assets are placed in service.

Borrowings

Borrowings are recognized initially at ‘cost’, being their issue proceeds net of transaction costs incurred. Subsequently, the borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statements of income over the period of the borrowings using the effective interest method.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability purchased and the consideration paid is included in gains less losses from securities.

3. Summary of Significant Accounting Policies (continued)

Share Capital

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

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

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

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 benefits is probable.

Income and Expense Recognition

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

Underwriting Income

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

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

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

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

3. Summary of Significant Accounting Policies (continued)

Underwriting Income (continued)

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheet within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for Insurance Losses and Loss Adjustment Expenses

The reserve for insurance losses and loss adjustment expenses is included in the accompanying consolidated balance sheets within other liabilities and is based on the estimated amount payable on claims reported prior to the balance sheet date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

Due to the absence of prior experience, the reserve for incurred but not reported claims was set up equal to the expected loss ratio for each line of business times the earned premiums, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in current income.

Reinsurance

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

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

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

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

Cash and Cash Equivalents

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

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income within gains less losses from foreign currencies.

Translation differences on debt securities measured at fair value are included in the accompanying consolidated statements of income within gains less losses from foreign currencies.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan. Deferred income taxes are calculated using the balance sheet liability method. Deferred taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.

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

4. Cash and Cash Equivalents

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

	2002	**2001**
Cash on hand	**1,373,004**	1,247,924
Correspondent accounts with other banks	**2,693,981**	1,801,203
Correspondent account with the NBK	**170,963**	684,606
Overnight deposits with other banks	**155,850**	300,400
Short term deposits with other banks	**79,969**	135,895
Short term loans to other banks	**4,223**	411,627
	4,477,990	4,581,655

(Thousands of Kazakh Tenge)

5. Obligatory Reserves

Obligatory reserves consisted of the following at December 31:

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

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

6. Trading Securities

Trading securities, at estimated fair value, consisted of the following at December 31:

	2002	2001
Sovereign bonds of the Republic of Kazakhstan	**5,166,482**	2,939,513
Treasury bills of the Ministry of Finance	**4,534,073**	4,264,635
Notes of the NBK	**3,562,487**	–
Bonds of local financial organizations	**540,142**	–
Corporate bonds	**134,018**	428,523
US Treasury bills	**665,300**	–
Equity investments	**697,938**	83,624
	15,300,440	7,716,295

Treasury bills of the Ministry of Finance at December 31, 2002 carry interest at rates ranging from 7.85% to 17.50% per annum (2001: 7.85% to 17.50%) and mature between 2003 – 2007 (2001: 2002-2007). Included in treasury bills of the Ministry of Finance are securities pledged under repurchase agreements with other financial institutions whose estimated fair value at December 31, 2002 was KZT 1,107,002 (December 31, 2001: KZT 2,466,566) *(Note 11)*.

At December 31, 2002, the notes of the NBK carry interest at rates ranging from 5.35% to 5.89% per annum and mature from January to March 2003.

US Treasury Bills carry interest at rates ranging from 4,38% to 5.38% per annum and mature in 2012 (KZT 328,855) and 2031 (KZT 336,444).

Sovereign bonds of the Republic of Kazakhstan at December 31, 2002 carry interest at 11.125 % per annum (December 31, 2001: 8.375% to 13.625%) and mature in 2007 (2001: 2002 and 2007). Included in sovereign bonds of the Republic of Kazakhstan are securities pledged under repurchase agreements with other financial institutions whose estimated fair value at December 31, 2002 amounted to KZT 1,624,741 (December 31, 2001: KZT 1,403,335) *(Note 11)*.

(Thousands of Kazakh Tenge)

6. Trading Securities (continued)

Corporate bonds at December 31, 2002 represent bonds of prime Kazakh corporations that carry interest at 8.5% per annum (December 31, 2001: from 8% to 11%) and mature in July 2006 (2001: between 2002 and 2005).

Included in bonds of local financial organizations are securities of the Development Bank of Kazakhstan that carry interest at 7.125% per annum and mature in October 2007.

At December 31, 2002 equity investments are stated at cost and include ordinary shares of a local bank of KZT 698,938 that represent 7% of the total charter capital of the investee (2001: KZT 74,750, 0.4%).

7. Commercial Loans and Advances, net

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

	2002	**2001**
Commercial loans portfolio	**36,248,642**	25,188,056
Advances	**108,945**	47,926
	36,357,587	25,235,982
Allowance for losses	**(1,595,876)**	(1,116,000)
Total commercial loans and advances, net	**34,761,711**	24,119,982

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

	2002	**%**	**2001**	**%**
Wholesale trading	**9,221,102**	**25%**	11,364,057	45%
Construction	**7,378,537**	**20%**	686,513	3%
Agriculture and food processing	**5,668,342**	**16%**	3,874,443	15%
Retail trading	**3,023,825**	**8%**	851,533	3%
Individuals	**2,284,805**	**6%**	–	–
Light industry	**1,617,736**	**4%**	–	–
Metallurgy	**940,997**	**3%**	2,734,404	11%
Mining	**895,166**	**2%**	714,743	3%
Oil	**702,383**	**2%**	665,294	3%
Communications	**545,475**	**2%**	798,879	3%
Transport	**595,208**	**2%**	311,505	1%
Hospitality	**323,672**	**1%**	26,263	0%
Entertainment	**230,414**	–	143,122	1%
Chemical	**108,578**	–	10,195	0%
Investment activities	**94,972**	–	572,988	2%
Other	**2,942,491**	**8%**	2,434,117	10%
	36,248,642		25,188,056	

(Thousands of Kazakh Tenge)

7. Commercial Loans and Advances, net (continued)

At December 31, 2002, 10 major borrowers accounted for 29% of the Group's gross commercial loans and advances (2001: 10 borrowers accounted for 32% of the portfolio).

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

8. Allowance for Losses

The movement on the allowance for losses consisted of the following:

	Commercial loans and advances	Other assets	Letters of credit and guarantees	Total
January 1, 2001	409,000	486	33,173	442,659
Net Charge-Offs:	–	–	–	–
Charge-offs	(206,574)	(11,141)	–	(217,715)
Recoveries	–	–	–	–
Net charge-offs	(206,574)	(11,141)	–	(217,715)
Provision for losses	913,574	14,470	9,327	937,371
At December 31, 2001	**1,116,000**	**3,815**	**42,500**	**1,162,315**
Net Charge-Offs:				
Charge-offs	**(772,947)**	**(2,299)**	**–**	**(775,246)**
Recoveries	**360,988**	**–**	**–**	**360,988**
Net charge-offs	**(411,959)**	**(2,299)**	**–**	**(414,258)**
Provision for losses	**891,835**	**3,322**	**66,537**	**961,694**
At December 31, 2002	**1,595,876**	**4,838**	**109,037**	**1,709,751**

(Thousands of Kazakh Tenge)

9. Premises and Equipment, net

The movements on the Group's premises and equipment during the years ended December 31 were as follows:

	Land and Buildings	Vehicles	Computers	Other assets	Total 2002	Total 2001
Cost or Valuation						
At January 1	521,372	138,527	144,013	447,928	1,251,840	1,023,716
Additions	667,983	113,437	62,814	129,085	973,319	292,223
Disposals	(12,701)	(14,684)	(11,102)	(35,949)	(74,436)	(64,099)
At December 31	**1,176,654**	**237,280**	**195,725**	**541,064**	**2,150,723**	1,251,840
Depreciation:						
At January 1	43,030	28,849	75,968	112,724	260,571	166,972
Charge for the year	30,443	26,274	34,565	56,396	147,678	108,199
Disposals	(3,854)	(3,474)	(6,844)	(1,725)	(15,897)	(14,600)
At December 31	**69,619**	**51,649**	**103,689**	**167,395**	**392,352**	260,571
Net Carrying Amount:						
At December 31, 2002	**1,107,035**	**185,631**	**92,036**	**373,669**	**1,758,371**	
At December 31, 2001	478,342	109,678	68,045	335,204		991,269

Occupancy and equipment expense in the consolidated statements of income accounts also include amortization of intangible assets of KZT 14,816 and KZT 13,571 for 2002 and 2001, respectively.

10. Amounts Owed to the Government

At December 31, amounts owed to the Government of the Republic of Kazakhstan consisted of the following:

	2002	2001
Kreditanshtalt fur Wideraufbau	**965,846**	370,658
World Bank	**212,282**	47,162
Local municipal authorities	**173,292**	98,780
	1,351,420	516,600

At 31 December 2002 and 2001 amounts due to the Government include loans obtained under a program for co-financing development of the small business within a framework agreement with Kreditanshtalt fur Wideraufbau (Germany). Balances outstanding are 5,936,000 Euro (2001: 2,746,500 Euro) mature in December 2009. The interest rate on this indebtedness is 5% per annum, payable semi-annually.

At 31 December 2002 and 2001, the Group had loans from the World Bank through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. The loan matures in December 2003 and bears interest at 2.08% per annum.

(Thousands of Kazakh Tenge)

10. Amounts Owed to the Government (continued)

In 2001, the Group began participation in small and medium size business development program conducted and funded by authorities of the Atyrau region. The total term of the loan is two years and annual interest is charged at 4.01%.

11. Amounts Owed to Other Banks and Financial Institutions

Amounts owed to other banks and financial institutions consisted of the following at December 31:

	2002	2001
Loans from foreign banks in USD	**10,066,660**	4,744,266
Time deposits from local banks	**4,435,943**	3,744,529
Loans from Kazakh banks secured by repurchase agreements	**1,107,002**	3,459,029
Loans from foreign banks in Euro	**883,462**	–
Current accounts	**379,211**	335,174
Overnight deposits	**350,000**	–
	17,222,278	12,282,998

At December 31, 2002 loans from foreign banks in USD bear interest at rates ranging between 1.8% and 3.5% per annum (2001: 3.8% - 6.04%), and mature in 2003. The loans are secured by a pledge over certain of the Group's trading securities whose fair value at December 31, 2002 amounted to KZT 1,624,741 (2001: KZT 1,403,335).

At December 31, 2002 interest-bearing deposits from local banks include US Dollar denominated deposits that amount to KZT 3,527,568 (2001: KZT 3,565,000), mature in January 2003 (2001: January 2002), and bear interest at rates ranging from 2.5% to 9% per annum (2001: from 4% to 10%) and a KZT denominated deposits amounting to KZT 850,000 (2001: KZT 169,056) that matures in January 2003 (2001: January 2002) and bears interest at rates ranging from 9% to 12.5% per annum (2001:10%).

As of December 31, 2002 the Group had liabilities relating to repurchase operations with local banks in connection with the repurchase of Treasury bills with fair value of KZT 1,107,002 (December 31, 2001: KZT 2,466,566) bearing interest at rates ranging from 4% to 7% per annum and maturing on January 6, 2003. These deals were closed on the agreed dates.

At December 31, 2002, the Group had unsecured loans from foreign banks in Euro totaling 4,163,000 Euro that bear interest at rates ranging from 3.9% to 4.1% and mature in September (KZT 131,138) and December 2003 (KZT 544,909).

(Thousands of Kazakh Tenge)

12. Amounts Owed to Customers

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

	2002	2001
Customer current accounts:		
Individuals	**862,340**	377,175
Commercial	**11,162,186**	9,614,111
Term deposits:		
Individuals	**6,856,153**	4,260,460
Commercial	**12,541,169**	5,404,243
Amounts payable under letters of credit	**113,364**	371,294
Other amounts due to customers:	**9,810**	39,461
	31,545,022	20,066,744

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

13. Loans from Financial Institutions

Loans from financial institutions at December 31, comprise USD denominated funds provided by the Small Business Development Fund of Kazakhstan as follow:

Amount		%	Date of	
2002	**2001**	**rate**	**Issue**	**Maturity**
–	146,487	8.63	28/01/99 - 21/10/99	29/04/02
128,668	123,935	10.19	22/08/00 - 23/10/00	06/03/04
206,954	197,639	7.30	30/10/2001	24/4/2005
112,016	107,905	8.53	1/6/2001	29/11/2004
239,682	231,597	8.05	27/08/2001	22/02/2005
11,159	21,457	10.80	22/10/2001	1/10/2003
119,730	29,405	7.30	24/05/2001	1/4/2004
39,856	75,254	7.30	20/12/2001	1/10/2003
858,065	933,679			

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

(Thousands of Kazakh Tenge)

14. Income Taxes

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

	2002	2001
Current – share of tax of subsidiary	**28,091**	16
Current	**385,535**	–
Income tax expense	**413,626**	16

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

	2002	2001
IFRS income before tax	**1,421,347**	778,319
Statutory income tax	**30%**	30%
Income tax computed at the statutory tax rate	**426,404**	233,495
Non deductible expenses:		
Interest on deposits	**196,420**	–
Non business expenses	**3,993**	89,999
Tax exempt income		
Government securities	**(247,846)**	(349,647)
Investment loans	**(41,576)**	–
Income of subsidiaries	**8,169**	
Loan loss provision	**68,756**	(74,560)
Other, net	**(694)**	96,846
Tax loss carryforward utilization	–	3,867
Provision for income taxes	**413,626**	–

Tax assets comprise the following:

	2002	2001
Current tax assets	**2,169**	85,420
Deferred tax assets	–	–
Tax assets	**2,169**	85,420

15. Debt Securities Issued

At December 31, 2002, debt securities issued comprised subordinated bonds amounting to US Dollar 10,000,000 (KZT 1,558,500) issued by the Group. The bonds bear interest at 9% per annum and were sold at a discount. The bonds mature in 2007. The bonds rank behind the claims against the Group depositors and other unsecured, un-subordinated creditors.

(Thousands of Kazakh Tenge)

16. Subordinated Loan

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

17. Shareholders' Equity

At December 31, 2002, the authorized, issued and paid share capital comprised 2,700,000 ordinary and 400,000 preferred shares (2001: 2,699,100 ordinary shares and 400,000 preferred shares) each having a nominal value of KZT 1. Each ordinary share is entitled to one vote and shares equally in dividends declared. Preferred shares carry a cumulative dividend of a minimum of 12 % per annum and do not have any voting rights.

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

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

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

18. Net Interest Income

Net interest income for the years ended December 31 comprises:

	2002	2001
Interest income		
Loans to customers	**4,275,206**	2,332,619
Debt securities	**862,297**	816,103
Fair value adjustment - loans	**129,563**	(137,082)
Due from financial institutions	**101,245**	73,999
	5,368,311	3,085,639
Interest expense		
Amounts owed to customers	**1,444,204**	715,245
Amounts owed to credit institutions	**617,118**	266,159
Repurchase agreements	**113,562**	98,211
Subordinated debt	**30,306**	87,561
Certificated debts	**103,801**	53,268
Loans from financial institutions	**73,195**	48,414
Due to Ministry of Finance	**30,506**	13,370
	2,412,692	1,282,228
Net interest income	**2,955,619**	1,803,411

(Thousands of Kazakh Tenge)

19. Fee and Commission Income

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

	2002	2001
Settlement operations	**290,309**	259,253
Foreign currency trading	**226,578**	237,781
Petty cash operations	**252,849**	200,761
Guarantees issued	**257,987**	114,183
Debit/credit cards	**92,790**	54,749
Custodian activity	**19,422**	20,581
Other	**105,345**	77,970
	1,245,280	965,278

20. Dealing Profits and Losses

Dealing results for the years ended December 31 comprised the following:

	2002	2001
Dealing profits		
Derivative financial instruments	**204,382**	274,845
Income from operations with precious metals	**324**	129,574
	204,706	404,419
Dealing losses		
Derivative financial instruments	**243,922**	–
Expenses from operations with precious metals	**10**	14,278
	243,932	14,278
Dealing profit (loss), net	**(39,226)**	390,141

21. Gains less Losses From Trading Securities

Gains less losses from trading securities for the years ended December 31 comprised the following:

	2002	2001
Fair value adjustment	**(17,852)**	333,975
Sale and redemption, net	**95,992**	139,905
	78,140	473,880

(Thousands of Kazakh Tenge)

22. Gains less Losses from Foreign Currencies

Gain less losses from foreign currencies for the years ended December 31 comprised the following:

	2002	2001
Net loss on revaluation of foreign currency denominated assets and liabilities	**(134,243)**	(245,359)
Net income from foreign currency trading	**548,471**	428,156
	414,228	182,797

23. Underwriting Income, net

Net underwriting income earned for the years ended December 31 comprise:

	2002	2001
Gross premiums written	**329,767**	225,721
Outward reinsurance premium	**(101,547)**	(127,950)
Change in unearned premium reserve, net	**67,361**	(48,439)
Net premiums earned	**295,581**	**49,332**

24. General and Administrative Expenses

General and administrative expenses for the years ended December 31 comprise:

	2002	2001
Customs charges – foreign currency banknote transactions	**99,865**	**191,067**
Advertising	**105,111**	87,843
Communications	**107,845**	83,870
Administrative and training	**69,087**	81,457
Maintenance and repairs	**60,361**	45,459
Business trip expenses	**68,002**	45,881
Charity	**14,741**	40,443
Entertainment	**23,827**	27,398
Leasing expenses	**38,032**	22,138
Other	**153,599**	124,865
	740,470	750,421

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

25. Claims Incurred, Net of Reinsurance

Claims incurred, net of reinsurance for the years ended December 31 comprise the following:

	2001	2001
Claims paid, gross	**93,388**	27,068
Claims paid, reinsurers' share	**(13,474)**	(4,533)
Claims paid, net	**79,914**	22,535
Change in the claims reserves, gross	**120,385**	126,622
Change in the claims reserves, reinsurers' share	**(113,931)**	(91,429)
Net change in claims reserves	**6,454**	35,193
Claims incurred, net of reinsurance	**86,368**	57,728

26. Fees and Commission Expense

Fees and commission expense for the years ended December 31 comprise:

	2002	2001
Foreign currency banknote transactions	**23,253**	46,067
Settlement operations	**30,431**	32,485
Securities	**27,886**	31,954
Insurance	**33,826**	16,688
Debit/credit cards	**44,923**	18,523
Guarantees issued	**6,775**	2,065
Other	**27,608**	21,179
Fee and commission expense	**194,702**	168,961

25. Earnings per Share

A basic earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Group does not have any options or convertible debt or equity instruments. The Group did not declare or pay any dividends during 2002 and 2001.

	2002	2001
Net income attributable to ordinary shareholders and basic earnings per shares (in KZT thousands)		
Weighted average number of ordinary shares		
Earning per share		

27. Commitments and Contingencies

The Group's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Kazakh tax and legal systems, the ultimate taxes as well as penalties and fines, if any, assessed may be in excess of the amounts paid to date and accrued at December 31, 2002. Management believes, based upon its best estimates, that the Group has paid or accrued all taxes that are applicable for the current and prior years, and complied with all essential provisions of laws and regulations of the Republic of Kazakhstan. In management's opinion, the ultimate determination of the Group's overall tax liability and potential loss contingencies, to the extent not previously provided, will not have a material effect on the financial position of the Group.

The Group's proprietary trading activities involve the execution, settlement, and financing of various securities and financial instrument transactions. The execution of these transactions includes the purchase and sale of securities, and the purchase and sale of forward purchase and sales contracts for foreign currencies. These activities may expose the Group to additional risk in the event the counterparty to the transaction is unable to fulfill its contractual obligations.

In these situations, the Group may be required to purchase or sell financial instruments at prevailing market prices, which may not fully cover the obligations of the counterparty. The Group attempts to limit this risk by identifying and monitoring its individual and aggregate exposures to counterparties and establishing and maintaining procedures for counterparty limit authorization and implementation. Settlement activities involve the Group using securities as collateral in support of various secured financing sources. In the event the counterparty does not meet its contractual obligation to return the collateral, the Group may need to reacquire the securities to satisfy its obligations. The Group controls this risk by evaluating and establishing limits for its counter parties and monitoring the market value of securities pledged on a daily basis.

The Kazakh economy displays emerging market characteristics. These characteristics include lack of liquidity in the capital markets, and the existence of currency controls which causes the national currency to be illiquid outside Kazakhstan.

In addition to the emerging market characteristics mentioned above, the banking system is in a constant state of supervisory reform and additional laws and enforcement actions may be implemented to produce a more sound banking and financial system. The success and stability of the Kazakh economy may be significantly impacted by the government's actions with regard to supervisory, legal, and economic reforms.

27. Commitments and Contingencies (continued)

Tax Liabilities

The Republic of Kazakhstan's tax code covers various taxes such as value added tax, corporate income tax, and payroll taxes, together with others. The tax code has not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and various inspectorates; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities that are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.
Generally, tax declarations remain open and subject to inspection for a period of five years.

Management believes that it has adequately provided for tax liabilities in the accompanying consolidated financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant.

Legal

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

Insurance

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

28. Financial Instruments with Off-Balance Sheet Risk

General

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk. These financial instruments include credit-related financial instruments (commitments to extend credit, financial guarantees, commercial letters of credit) and derivative foreign exchange contracts. These instruments involve elements of credit and market risk in excess of the amounts recognized in the consolidated balance sheets of the Group.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits, and monitoring procedures.

(Thousands of Kazakh Tenge)

28. Financial Instruments with Off-Balance Sheet Risk (continued)

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign exchange rates. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Credit-Related Financial Instruments

Commitments are contractual agreements to extend credit, which generally have fixed expiration dates or other termination requirements and require payment of a fee. Substantially all of the Group's commitments to extend credit are revocable as they are contingent upon the prospective borrower maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Group's exposure to loss under credit-related financial instruments is limited to the contractual amount and was as follows at December 31:

	2002	2001
Financial guarantees:		
Foreign currency denominated	**2,162,781**	2,046,872
KZT denominated	**1,519,433**	680,127
Commercial letters of credit:		
Foreign currency denominated	**3,792,788**	729,615
KZT denominated	**662,364**	37,691
	8,137,366	3,494,305
Less allowances for losses	**(109,037)**	(42,500)
Less cash collateral	**(969,558)**	(371,294)
	7,058,771	3,080,511

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

Credit-Related Financial Instruments (continued)

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

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

29. 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.

Credit risk

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

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee which is called once a week. Actual exposures against limits are monitored daily.

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

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

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

(Thousands of Kazakh Tenge)

29. Risk Management Policies (continued)

Credit risk (continued)

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

The geographical concentration of monetary assets and liabilities follows:

2002

	Kazakhstan	OECD	Other non-OECD	Total
Cash and cash equivalents	**2,399,208**	**1,634,616**	**444,166**	**4,477,990**
Obligatory reserves	**1,230,037**	**–**	**–**	**1,230,037**
Trading securities	**14,635,140**	**665,300**	**–**	**15,300,440**
Commercial loans and advances, net	**34,761,711**	**–**	**–**	**34,761,711**
Other assets	**544,208**		**–**	**544,208**
	53,570,304	**2,299,916**	**444,166**	**56,314,386**
Amounts owed to the Government	**1,351,420**	**–**	**–**	**1,351,420**
Amounts owed to other banks and financial institutions	**6,669,662**	**10,386,065**	**166,551**	**17,222,278**
Amounts owed to customers	**31,545,022**	**–**	**–**	**31,545,022**
Loans from financial institutions	**858,065**	**–**	**–**	**858,065**
Debt securities issued	**1,593,595**	**–**	**–**	**1,593,595**
Other liabilities	**313,443**	**–**	**–**	**313,443**
	42,331,207	**10,386,065**	**166,551**	**52,883,823**
	11,239,097	**(8,086,149)**	**277,615**	**3,430,563**

2001

	Kazakhstan	OECD	Other non-OECD	Total
Cash and cash equivalents	2,651,838	1,808,837	120,980	4,581,655
Obligatory reserves	993,201	–	–	993,201
Trading securities	7,716,295	–	–	7,716,295
Commercial loans and advances, net	24,119,982	–	–	24,119,982
Other assets	474,642	–	–	474,642
	35,955,958	1,808,837	120,980	37,885,775
Amounts owed to the Government	516,600	–	–	516,600
Amounts owed to other banks and financial institutions	6,421,465	5,701,775	159,758	12,282,998
Amounts owed to customers	19,973,391	–	93,353	20,066,744
Loans from financial institutions	933,679	–	–	933,679
Other liabilities	183,112	–	–	183,112
Subordinated loan	–	–	711,431	711,431
	28,028,247	5,701,775	964,542	34,694,564
	7,927,711	(3,892,938)	(843,562)	3,191,211

(Thousands of Kazakh Tenge)

29. Risk Management Policies (continued)

Currency risk

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

The Group's monetary assets and liabilities are denominated as follows:

2002	**KZT**	**Foreign currencies**	**Total**
Monetary assets:			
Cash and cash equivalents	**1,098,272**	**3,379,718**	**4,477,990**
Obligatory reserves	**1,230,037**	**–**	**1,230,037**
Trading securities	**11,194,899**	**4,105,541**	**15,300,440**
Commercial loans and advances, net	**10,547,320**	**24,214,391**	**34,761,711**
Other assets	**497,453**	**46,755**	**544,208**
	24,567,981	**31,746,405**	**56,314,386**
Monetary liabilities:			
Amounts owed to the Government	**173,292**	**1,178,128**	**1,351,420**
Amounts owed to other banks and financial institutions	**5,441,110**	**11,781,168**	**17,222,278**
Amounts owed to customers	**15,621,939**	**15,923,083**	**31,545,022**
Loans from financial institutions		**858,065**	**858,065**
Debt securities issued	**–**	**1,593,595**	**1,593,595**
Other liabilities	**313,443**	**–**	**313,443**
	21,549,784	**31,334,039**	**52,883,823**
Net position	**3,018,197**	**412,366**	**3,430,563**

2001	**KZT**	**Foreign currencies**	**Total**
Monetary assets:			
Cash and cash equivalents	3,829,755	751,900	4,581,655
Obligatory reserves	993,201	–	993,201
Trading securities	4,471,614	3,244,681	7,716,295
Commercial loans and advances, net	15,690,114	8,429,868	24,119,982
Other assets	393,493	81,149	474,642
	25,378,177	12,507,598	37,885,775
Monetary liabilities:			
Amounts owed to the Government	99,530	417,070	516,600
Amounts owed to other banks and financial institutions	188,308	12,094,690	12,282,998
Amounts owed to customers	9,854,070	10,212,674	20,066,744
Loans from financial institutions	–	933,679	933,679
Other liabilities	183,112	–	183,112
Subordinated loan	–	711,431	711,431
	10,325,020	24,369,544	34,694,564
Net position	15,053,157	(11,861,946)	3,191,211

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

(Thousands of Kazakh Tenge)

29. Risk Management Policies (continued)

Liquidity risk

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

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

2002::	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Monetary assets							
Cash and cash equivalents	**2,761,182**	**1,698,593**	**18,215**	**–**	**–**	**–**	**4,477,990**
Obligatory reserves		**–**	**–**	**–**	**–**	**1,230,037**	**1,230,037**
Trading securities	**15,300,440**	**–**	**–**	**–**	**–**	**–**	**15,300,440**
Commercial loans and advances, net	**–**	**2,930,822**	**3,397,826**	**15,503,717**	**12,927,812**	**1,534**	**34,761,711**
Other assets		**544,208**	**–**	**–**	**–**	**–**	**544,208**
	18,061,622	**5,173,623**	**3,416,041**	**15,503,717**	**12,927,812**	**1,231,571**	**56,314,386**
Monetary liabilities:							
Amounts owed to the Government	**–**	**–**	**–**	**214,042**	**173,292**	**964,086**	**1,351,420**
Amounts owed to other banks and financial institutions	**379,211**	**5,028,321**	**209,183**	**10,929,516**	**676,047**	**–**	**17,222,278**
Amounts owed to customers	**12,024,526**	**6,561,673**	**2,108,980**	**8,050,502**	**2,799,341**	**–**	**31,545,022**
Loans from financial institutions	**–**	**21,151**	**–**	**49,872**	**787,042**	**–**	**858,065**
Debt securities issued	**–**	**–**	**–**	**–**	**1,593,595**	**–**	**1,593,595**
Other liabilities	**–**	**313,443**	**–**	**–**	**–**	**–**	**313,443**
	12,403,737	**11,924,588**	**2,318,163**	**19,243,932**	**6,029,317**	**964,086**	**52,883,823**
Net position	**5,657,885**	**(6,750,965)**	**1,097,878**	**(3,740,215)**	**6,898,495**	**267,485**	**3,430,563**
Accumulated gap	**5,657,885**	**(1,093,080)**	**4,798**	**(3,735,417)**	**3,163,078**	**3,430,563**	

2001:

Monetary assets:	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	4,581,655	–	–	–	–	–	4,581,655
Obligatory reserves		–	–	–	–	993,201	993,201
Trading securities	7,116,295	–	–	–	–	–	7,116,295
Commercial loans and advances, net	–	1,168,749	3,859,004	8,159,484	10,932,745	–	24,119,982
Other assets	–	474,642	–	–	–	–	474,642
	11,697,950	1,643,391	3,859,004	8,159,484	10,932,745	993,201	37,285,775
Monetary liabilities:							
Amounts owed to the Government	–	–	–	145,304	–	371,296	516,600
Amounts owed to credit institutions	335,174	6,624,274	5,154,494	169,056	–	–	12,282,998
Amounts owed to customers	10,402,041	8,727,112	492,600	196,816	248,175	–	20,066,744
Loans from credit institutions	–	–	–	146,487	787,192	–	933,679
Other liabilities	–	183,112	–	–	–	–	183,112
Subordinated loan	–	–	–	–	711,431	–	711,431
	10,737,215	15,534,498	5,647,094	657,663	1,746,798	371,296	34,694,564
Net position	960,735	(13,891,107)	(1,788,090)	7,501,821	9,185,947	621,905	2,591,211
Accumulated gap	960,735	(12,930,372)	(14,718,462)	(7,216,641)	1,969,306	2,591,211	

(Thousands of Kazakh Tenge)

29. Risk Management Policies (continued)

Liquidity risk (continued)

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

Interest rate risk

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

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

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

30. Fair Values of Monetary Assets and Liabilities

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

	Carrying Amount		**Fair Value**	
	2002	2001	**2002**	2001
Financial assets				
Commercial loans and advances, net	**34,701,373**	24,119,982	**33,594,546**	24,174,487
Financial liabilities				
Amounts owed to the Government	**1,351,420**	516,600	**1,202,245**	493,247
Amounts owed to other banks and financial institutions	**17,222,278**	12,282,998	**16,351,822**	12,288,888
Amounts owed to customers	**31,545,022**	20,066,744	**30,299,204**	20,035,742
Loans from financial institutions	**858,065**	933,679	**755,616**	937,969
Subordinated loan	**–**	711,431	**–**	745,466

Loans and advances to customers

Loans and advances are net of specific and other allowances for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at estimated current market rates to determine fair value.

(Thousands of Kazakh Tenge)

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

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and other borrowings is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

The aggregate fair value are calculated based on quoted market prices.

31. Capital Adequacy

The NBK requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2002 and 2001, the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

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

32. Related Parties Transactions

At December 31, the Group had transactions with related parties, which comprised the following:

	2002			2001
	Related party transactions	**Percentage on normal conditions**	**Total asset or liability category**	**Related party transactions**
Loans and advances	34,993	100%	34,701,373	13,843
Amounts owed to customers	67,941	100%	31,545,022	12,456