ATF Bank

Consolidated Financial Statements

December 31, 2003 and 2002

Together with Report of Independent Auditors

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of ATF Bank and Subsidiaries (together the "Group") at December 31, 2003, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. 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.

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 at December 31, 2003, and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Kazakhstan

February 6, 2004

CONSOLIDATED BALANCE SHEETS

(Thousands of Kazakh Tenge)

	Notes	December 31, 2003	2002
Assets			
Cash and cash equivalents	4	**5,835,819**	4,477,990
Obligatory reserves	5	**1,775,133**	1,230,037
Trading securities	6	**23,890,146**	15,300,440
Commercial loans and advances	7, 8	**60,487,547**	34,761,711
Premises and equipment	9	**2,279,689**	1,758,371
Tax assets	10	**262,267**	2,169
Other assets		**919,223**	690,714
Total assets		**95,449,824**	58,221,432
Liabilities			
Amounts due to the Government and NBK	11	**3,445,225**	1,351,420
Amounts due to credit institutions	12	**33,637,685**	18,080,343
Amounts due to customers	13	**44,825,775**	31,545,022
Reserves for claims, net of reinsurance		**53,882**	57,030
Debt securities issued	14	**2,848,226**	-
Subordinated debt	15	**1,497,743**	1,593,595
Provisions	8	**158,964**	109,037
Other liabilities		**640,091**	313,443
Total liabilities		**87,107,591**	53,049,890
Minority interest		–	28,725
Shareholders' equity:			
Share capital:			
Common shares	16	**4,339,523**	2,700,000
Preferred shares	16	**1,900,000**	400,000
Additional paid in capital		**201,900**	193,306
Treasury stock		–	(26)
Reserves		**465,325**	465,325
Retained earnings		**1,435,485**	1,384,212
Total shareholders' equity		**8,342,233**	5,142,817
Total liabilities, shareholders' equity and minority interest		**95,449,824**	58,221,432
Financial commitments and contingencies	17	**16,402,709**	8,258,806

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

Timur Isatayev Chairman of the Board

Aida Derevyanko Chief Accountant

February 6, 2004

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

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

	Notes	Years ended December 31, 2003	2002
Interest income			
Loans		**6,655,362**	4,404,769
Securities		**1,115,935**	862,297
Credit institutions		**112,307**	101,245
		7,883,604	5,368,311
Interest expense			
Deposits		**(2,126,092)**	(1,662,623)
Borrowings		**(957,269)**	(615,962)
Subordinated debt		**(130,020)**	(134,107)
Debt securities issued		**(12,981)**	–
		(3,226,362)	(2,412,692)
Net interest income		**4,657,242**	2,955,619
Impairment of interest earning assets	8	**(1,693,954)**	(891,835)
		2,963,288	2,063,784
Fee and commission income	18	**1,635,435**	1,245,280
Fee and commission expense		**(219,780)**	(160,876)
Fees and commissions		**1,415,655**	1,084,404
Gains less losses from trading securities		**307,734**	78,140
Dealing profits (losses)		**35,160**	(39,226)
Gains less losses from foreign currencies:			
- dealing		**527,928**	548,471
- translation differences		**(76,186)**	(134,243)
Underwriting income		**303,325**	209,213
Other income		**79,021**	28,789
Non interest income		**1,176,982**	691,144
Salaries and benefits	19	**(1,685,764)**	(1,269,270)
Administrative and operating expenses	19	**(1,056,381)**	(774,296)
Depreciation and amortization	9	**(251,008)**	(162,494)
Taxes other than income taxes		**(219,568)**	(142,066)
Other impairment and provisions	8	**(127,992)**	(69,859)
Non interest expense		**(3,340,713)**	(2,417,985)
Income before income tax expense and minority interest		**2,215,212**	1,421,347
Income tax expense	10	**(759,199)**	(413,626)
Income before minority interest		**1,456,013**	1,007,721
Minority interest in net income		**-**	(2,035)
Net income		**1,456,013**	1,005,686
Earnings per share, KZT	20	**378**	313

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2003 and 2002

(Thousands of Kazakh Tenge)

	Share capital	*Additional paid in capital*	*Treasury stock*	*Reserves*	*Retained earnings*	*Total*
At December 31, 2001	3,099,100	193,332	–	319,607	638,872	4,250,911
Capital contributions	900	–	–	–	–	900
Dividends – preferred shares	–	–	–	–	(114,628)	(114,628)
Transfers	–	–	–	145,718	(145,718)	–
Purchase of treasury stock	–	(26)	(26)	–	–	(52)
Net income	–	–	–	–	1,005,686	1,005,686
At December 31, 2002	3,100,000	193,306	(26)	465,325	1,384,212	5,142,817
Share conversion – minority interest	**20,180**	**8,545**	–	–	–	**28,725**
Dividends capitalized	**902,782**	–	–	–	**(902,782)**	–
Dividends paid	–	–	–	–	**(159,314)**	**(159,314)**
Sale of treasury stock	–	–	**26**	–	–	**26**
Dividends – preferred shares	–	–	–	–	**(342,644)**	**(342,644)**
Capital contributions	**2,216,561**	**49**	–	–	–	**2,216,610**
Net income	–	–	–	–	**1,456,013**	**1,456,013**
At December 31, 2003	**6,239,523**	**201,900**	–	**465,325**	**1,435,485**	**8,342,233**

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Kazakh Tenge)

	Years ended December 31,	
	2003	***2002***
Cash flows from operating activities:		
Net income before minority interest and income taxes	**2,215,212**	1,421,347
Adjustments for:		
Depreciation and amortization	**251,008**	162,494
Minority interest	**-**	(2,035)
Provision for losses	**1,821,946**	961,695
Provision for claims	**121,637**	86,368
Loss on sale of premises and equipment	**15,018**	10,690
Unrealised foreign exchange loss	**(383,134)**	292,630
Change in unrealized gain on securities	**(147,068)**	17,852
Operating income before changes in net operating assets	**3,894,619**	2,951,041
(Increase) decrease in operating assets:		
Obligatory reserves	**(545,096)**	(236,836)
Trading securities	**(8,769,507)**	(7,601,997)
Commercial loans and advances	**(29,275,926)**	(10,932,468)
Other assets	**(310,554)**	151,809
Increase (decrease) in operating liabilities:		
Amounts due to the Government and NBK	**2,010,056**	805,620
Amounts due to credit institutions	**16,936,237**	4,407,082
Amounts due to customers	**14,688,716**	10,997,567
Claims paid net of reinsurance	**(124,785)**	(79,914)
Other liabilities	**191,537**	130,330
Net cash flow from operating activities before income tax	**(1,304,703)**	592,234
Income tax paid	**(1,019,297)**	(413,626)
Net cash flow from operating activities	**(2,324,000)**	178,608
Cash flows from investing activities:		
Net cash paid on acquisition of subsidiaries	**–**	(116,979)
Purchases of premises and equipment	**(800,277)**	(973,319)
Proceeds from sale of premises and equipment	**42,803**	47,849
Purchases of intangible assets	**(25,890)**	(80,977)
Net cash flow from investing activities	**(783,364)**	(1,123,426)
Cash flows from financing activities:		
Subordinated debt received	**-**	1,551,328
Subordinated debt repaid	**(95,852)**	(711,431)
Debt securities issued	**2,848,226**	–
Capital contribution	**2,216,610**	900
Sale (purchase) of treasury stock	**26**	(52)
Dividends paid	**(366,846)**	(114,628)
Net cash flow from financing activities	**4,602,164**	726,117
Effects of exchange rates changes on cash and equivalents	**(136,971)**	115,036
Net change in cash and cash equivalents	**1,357,829**	(103,665)
Cash and cash equivalents at the beginning of year	**4,477,990**	4,581,655
Cash and cash equivalents at the end of year (Note 4)	**5,835,819**	4,477,990
Supplemental information:		
Interest received	**7,073,820**	4,872,840
Interest paid	**3,169,065**	2,055,460

The accompanying notes on pages 5 to 26 are an integral part of these consolidated financial statements.

(Thousands of Kazakh Tenge)

1. Principal Activities

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

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

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

2. Basis of Preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousand 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.

During 2002 the Group was required to maintain its records and prepare its financial statements for regulatory purposes in KZT in accordance with Kazakh accounting and banking legislation and related instructions ("KAL"). The consolidated financial statements for 2002 were based on the Group's statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 between KAL and IFRS is presented later in this note. Starting January 1, 2003, the Group maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS. The consolidated financial statements are prepared under the historical cost convention modified for the measurement at fair value of trading securities.

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.

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

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

2003

Subsidiary	*Holding %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*	*Total assets*	*Equity*	*Net Income*
ATF Policy	100%	Kazakhstan	December 1999	Insurance	December 1999	855,080	492,969	14,102

(Thousands of Kazakh Tenge)

2002

Subsidiary	*Holding %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*	*Total assets*	*Equity*	*Net Income*
Apogee Bank	94.68%	Kazakhstan	February 1993	Banking	February 2002	1,165,316	540,304	38,286
ATF Policy	100%	Kazakhstan	December 1999	Insurance	December 1999	691,610	273,867	28
Total						**1,856,926**	**814,171**	**38,314**

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

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

Net assets acquired	***2002***
Cash and cash equivalents	387,032
Due from financial institutions	18,649
Loans to customers	585,309
Premises and equipment	110,805
Other assets	100,550
Due to customers	(686,148)
Other creditors	(5,945)
Net assets	510,252
Less minority interest	(52,658)
Net assets less minority interest	457,594
Purchase consideration paid in cash	504,011
Goodwill	46,417

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

During 2003, the Group cancelled the registration of Apogee Bank and merged its operations with the operations of the Bank. The minority shareholders of Apogee Bank converted their ordinary shares to shares of ATF Bank in the ratio of 10 shares of ATF Bank for 1 share of Apogee Bank.

Reconciliation of KAL and IFRS Equity and Net Income

Shareholders' equity and net income are reconciled between KAL and IFRS for 2002 as follows:

	2002	
	Shareholders' equity	***Net income***
Kazakh Accounting Legislation	5,534,789	1,122,181
Provisions for losses	(572,723)	(229,189)
Fair value re-measurement of securities	228,751	(105,224)
Dividends on preferred stocks	(48,000)	–
Fair value re-measurement of loans to customers	–	129,563
Unearned premium reserve	–	88,355
International Financial Reporting Standards	**5,142,817**	**1,005,686**

(Thousands of Kazakh Tenge)

3. Summary of Significant Accounting Policies

Principles of consolidation

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

Recognition of Financial Instruments

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

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

Cash and Cash Equivalents

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

Trading Securities

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

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

Amounts Due from Credit Institutions

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

(Thousands of Kazakh Tenge)

Repurchase and Reverse Repurchase Agreements

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

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

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

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

Loans to Customers

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

Taxation

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

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

Deferred income tax liabilities are recognized for taxable temporary differences:

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

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

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

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

(Thousands of Kazakh Tenge)

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

Allowances for Impairment of Financial Assets

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

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

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

Premises and Equipment

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

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

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

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

Amounts Due to NBK, Credit Institutions and to Customers

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

Debt Securities Issued

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

(Thousands of Kazakh Tenge)

Provisions

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

Retirement and Other Benefit Obligations

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

Reinsurance

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

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

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

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

Share Capital

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

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

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

Contingencies

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

Income and Expense Recognition

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

(Thousands of Kazakh Tenge)

Foreign Currency Translation

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

Underwriting Income

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

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

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

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

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

4. Cash and Cash Equivalents

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

	2003	*2002*
Cash on hand	**2,476,142**	1,373,004
Correspondent accounts with other banks	**1,617,342**	2,693,981
Time deposits with the NBK	**1,002,167**	–
Short term deposits with other banks	**478,036**	79,969
Correspondent account with the NBK	**262,132**	170,963
Overnight deposits with other banks	**-**	155,850
Short term loans to other banks	**-**	4,223
Cash and cash equivalents	**5,835,819**	4,477,990

Interest rates and maturity of the term deposits follow:

	2003		*2002*	
	%	***Maturity***	***%***	***Maturity***
Time deposits with the NBK	4%	2004	–	–
Short term deposits with other banks	8-15.1%	2004	10%	2003
Overnight deposits with other banks	–	–	4%	2003

At December 31, 2003, ten banks accounted for 28% of total cash and cash equivalents and represented 20% of the Group's total shareholders' equity. At December 31, 2002, 10 banks accounted for 44% of total cash and cash equivalents and represented 39% of the Group's total shareholders' equity.

(Thousands of Kazakh Tenge)

5. Obligatory Reserves

Obligatory reserves consisted of the following at December 31:

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

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

6. Trading Securities

Trading securities consisted of the following at December 31:

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

Interest rates and maturity of trading securities follow:

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

7. Commercial Loans and Advances

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

	2003	*2002*
Commercial loans	**63,481,410**	36,248,642
Advances	**403,340**	108,945
	63,884,750	36,357,587
Less - Allowance for impairment	**(3,397,203)**	(1,595,876)
Commercial loans and advances	**60,487,547**	34,761,711

(Thousands of Kazakh Tenge)

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

	2003	*%*	*2002*	*%*
Wholesale trading	**14,416,121**	**23%**	9,221,102	25%
Construction	**9,600,197**	**15%**	5,410,785	15%
Food industry	**5,456,412**	**9%**	3,543,242	10%
Individuals	**7,034,254**	**11%**	2,284,805	6%
Agriculture	**6,721,801**	**11%**	3,835,295	11%
Retail trading	**6,347,996**	**10%**	3,023,825	8%
Transport	**1,135,134**	**2%**	595,208	2%
Oil and Gas	**1,134,458**	**2%**	702,383	2%
Hospitality	**1,107,370**	**2%**	323,672	1%
Chemical	**862,879**	**1%**	108,578	0%
Metallurgy	**898,297**	**1%**	940,997	3%
Communications	**517,762**	**1%**	545,475	2%
Mining	**354,624**	**1%**	895,166	2%
Entertainment	**217,078**	**0%**	230,414	1%
Light industry	**186,598**	**0%**	1,617,736	4%
Other	**7,490,429**	**12%**	2,969,959	8%
	63,481,410		36,248,642	

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

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

8. Allowance for Losses and Provisions

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

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

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

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

(Thousands of Kazakh Tenge)

9. Premises and Equipment

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

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

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

10. Income Taxes

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

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

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

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

(Thousands of Kazakh Tenge)

Tax assets comprised the following at December 31:

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

Deferred tax assets and liabilities as of December 31 comprise:

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

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

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

11. Amounts due to the Government and NBK

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

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

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

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

In 2002, the Group began participation in the small and medium size business development program conducted and funded by local authorities of the Atyrau, Almaty and Karaganda regions. The loans mature between 2004 and 2007 and bear interest at rates up to 7% per annum.

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

(Thousands of Kazakh Tenge)

12. Amounts due to Credit Institutions

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

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

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

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

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

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

Amount			***Date of***	
2003	*2002*	***Rate***	***Issue***	***Maturity***
439,723	–	5.20 %	26/06/2003	26/12/2006
433,833	–	6.10 %	15/12/2003	13/06/2007
221,796	239,682	8.05 %	23/08/2001	10/02/2005
191,788	206,954	7.31 %	24/10/2001	24/04/2005
140,342	–	7.75 %	23/01/2003	23/07/2006
119,066	128,668	10.19 %	13/10/2000	06/03/2004
110,796	119,730	7.75 %	30/05/2002	28/11/2005
103,657	112,016	8.53 %	30/05/2003	28/11/2004
-	39,856	7.30 %	19/12/2001	01/10/2003
-	11,159	7.30 %	19/10/2001	01/10/2003
1,761,001	858,065			

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

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

(Thousands of Kazakh Tenge)

13. Amounts due to Customers

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

	2003	*2002*
Customer current accounts:		
Individuals	**1,396,432**	862,340
Commercial	**15,334,203**	11,171,996
Term deposits:		
Individuals	**8,524,242**	6,856,153
Commercial	**19,238,759**	12,541,169
Held as security against letters of credit	**332,139**	113,364
Amounts due to customers	**44,825,775**	31,545,022

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

An analysis of amounts due to customers by sector follows:

	2003	*2002*
Transport and communication	**10,510,754**	9,894,370
Individuals	**9,251,041**	7,504,292
Oil and Gas	**6,718,325**	508,586
Trade	**3,984,129**	2,731,033
Non-credit financial companies	**3,857,590**	1,987,652
Energy	**2,575,966**	2,683,550
Construction	**1,600,587**	1,221,674
Agriculture	**1,520,779**	906,820
Government	**768,141**	374,203
Services provided to enterprises	**759,727**	306,246
Manufacturing	**743,176**	515,364
Metallurgy	**655,753**	991,136
Research and Development	**527,056**	379,381
Other	**1,352,751**	1,540,715
	44,825,775	31,545,022

14. Debt Securities Issued

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

15. Subordinated Debt

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

16. Shareholders' Equity

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

(Thousands of Kazakh Tenge)

In 2003, and in accordance with a general shareholders' meeting resolutions, the Group declared dividends of KZT 159,644 on preferred shares and KZT 1,062,096 on common shares. The share capital was increased by KZT 902,782 through the capitalization of dividends on common shares. Withholding tax of KZT 159,314 relating to the capitalized dividends was paid on behalf of the shareholders and disclosed as dividends paid.

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

17. Commitments and Contingencies

Operating Environment

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

Legal

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

Financial commitments and contingencies

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

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

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

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

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

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

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

(Thousands of Kazakh Tenge)

Insurance

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

18. Fee and Commission Income

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

	2003	*2002*
Settlement operations	**359,711**	290,309
Foreign currency trading	**262,339**	226,578
Guarantees issued	**248,500**	128,427
Petty cash operations	**311,468**	252,849
Debit/credit cards	**149,636**	92,790
Letters of credit provided	**151,107**	129,560
Custodian activity	**23,446**	19,422
Other	**129,228**	105,345
Fee and commission income	**1,635,435**	1,245,280

19. Salaries and Administrative and Operating Expenses

Salaries and administrative and operating expenses comprise:

	2003	*2002*
Salaries and bonuses	**(1,392,073)**	(1,070,741)
Social costs	**(266,238)**	(182,101)
Other payments	**(27,453)**	(16,428)
Salaries and benefits	**(1,685,764)**	(1,269,270)
Advertising	**(166,300)**	(105,111)
Communications	**(176,004)**	(136,092)
Stationery, publications and training	**(73,984)**	(40,840)
Business trip expenses	**(96,400)**	(68,002)
Leasing expenses	**(78,728)**	(38,032)
Insurance expenses	**(57,326)**	(33,826)
Maintenance and repairs	**(66,820)**	(60,361)
Transport expenses	**(40,741)**	(28,619)
Security systems and guards	**(27,749)**	(16,387)
Entertainment	**(27,317)**	(23,827)
Charity	**(26,066)**	(14,741)
Customs charges – foreign currency banknote transactions	**(17,132)**	(99,865)
Other	**(201,814)**	(108,593)
Other administrative and operating expenses	**(1,056,381)**	(774,296)

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.

20. Earnings per Share

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

(Thousands of Kazakh Tenge)

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

	2003	*2002*
Net income	**1,456,013**	1,005,686
Less dividends on preferred shares	**(183,000)**	(159,644)
Net income attributable to common shareholders	**1,273,013**	846,042
Weighted average number of common shares for basic earnings per share	**3,365,000**	2,699,775
Basic earnings per share (Tenge)	**378**	313

21. Risk Management Policies

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

Credit risk

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

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

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

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

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

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

(Thousands of Kazakh Tenge)

Concentration

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

2003

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

2002

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

Currency risk

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

(Thousands of Kazakh Tenge)

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

2003

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

2002

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

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

Liquidity risk

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

(Thousands of Kazakh Tenge)

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

2003

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

2002

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

(Thousands of Kazakh Tenge)

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

Interest rate risk

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

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

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

22. Fair Values of Monetary Assets and Liabilities

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

Amounts Due from and to Credit Institutions

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

Loans to Customers

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

Amounts Due to Customers

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

Debt Securities Issued

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

(Thousands of Kazakh Tenge)

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

	Carrying Amount		***Fair Value***	
	2003	*2002*	***2003***	*2002*
Financial assets				
Commercial loans and advances	**60,487,547**	34,761,711	**64,553,436**	33,594,546
Financial liabilities				
Amounts due to the Government and NBK	**3,445,225**	1,351,420	**3,431,905**	1,202,245
Amounts due to credit institutions	**33,637,685**	18,080,343	**33,856,029**	16,351,822
Amounts due to customers	**44,825,775**	31,545,022	**43,084,436**	30,299,204

23. Capital Adequacy

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

The Group's international risk based capital adequacy ratios at December 31, 2003 and 2002, were 12% and 14%, respectively, which exceeded the minimum ratio of 8 % recommended by the Basle Accord.

24. Related Parties Transactions

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

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

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

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

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

(e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. At December 31, the Group had the following balances with related parties:

	2003			***2002***
	Related party transactions	***Percentage on normal conditions***	***Total asset or liability category***	***Related party transactions***
Loans and advances	**847,495**	**100%**	**60,487,547**	238,814
Amounts due to customers	**448,197**	**100%**	**44,825,775**	221,390

The related income and expense items are not material.