Bank TuranAlem
Consolidated Financial Statements

Years ended December 31, 2003, 2002 and 2001
Together with Report of Independent Auditors

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank TuranAlem

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

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

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

Ernst & Young Kazakhstan

February 1, 2004

Consolidated Balance Sheets

(Millions of Kazakh Tenge)

	Notes	*December 31,* *2003*	*2002*	*2001*
Assets				
Cash and cash equivalents	4	**13,286**	20,557	17,220
Obligatory reserves	5	**3,706**	2,731	4,684
Trading securities	6	**61,591**	32,081	17,831
Amounts due from other financial institutions	7	**14,398**	10,820	150
Held-to-maturity investment securities	8	**26,288**	19,634	–
Loans to customers	9	**232,349**	124,659	108,279
Interest accrued on loans to customers	9	**7,498**	3,088	2,440
Property and equipment	12	**6,745**	6,523	5,441
Other assets		**7,203**	5,399	1,292
Total assets		**373,064**	225,492	157,337
Liabilities				
Amounts due to NBK and the Government	13	**5,177**	2,675	2,433
Amounts due to other financial institutions	14	**115,680**	55,978	41,723
Amounts due to customers	15	**139,224**	105,757	81,008
Debt securities issued	16	**73,507**	31,286	13,310
Accrued interest payable		**3,145**	1,811	1,455
Other liabilities		**4,318**	7,220	1,757
Total liabilities		**341,051**	204,727	141,686
Minority interest		**1,330**	1,010	809
Shareholders' equity	17			
Share capital:				
- common shares		**16,244**	11,931	11,931
- preferred shares		**4,735**	4,160	4,160
Treasury stock		**(628)**	(195)	(49)
Additional paid-in-capital		**1,413**	28	28
Property and equipment revaluation reserve		**1,737**	854	190
Retained earnings (accumulated deficit)		**7,182**	2,977	(1,418)
Total shareholders' equity		**30,683**	19,755	14,842
Total liabilities, shareholders' equity and minority interest		**373,064**	225,492	157,337
Financial commitments and contingencies	18			

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

Yerzhan N. Tatishev Chairman of the Board

Akmaral N. Ablyazova Chief Accountant

February 1, 2004

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statements of Income

(Millions of Kazakh Tenge, except per share amounts)

	Notes	*Years ended December 31,* 2003	2002	2001
Interest income				
Loans		**26,263**	19,178	14,004
Securities		**4,257**	2,818	1,422
Other		**298**	372	219
		30,818	22,368	15,645
Interest expense				
Deposits		**(6,177)**	(5,274)	(3,701)
Debt securities issued		**(5,711)**	(2,717)	(1,153)
Borrowings		**(3,875)**	(2,536)	(1,817)
		(15,763)	(10,527)	(6,671)
Net interest income		**15,055**	11,841	8,974
Provision for losses	10	**(10,391)**	(7,184)	(5,838)
		4,664	4,657	3,136
Fee and commission income	19	**6,358**	4,294	3,161
Fee and commission expense	19	**(137)**	(169)	(284)
Fees and commissions		**6,221**	4,125	2,877
Gains less losses from trading securities	20	**2,882**	2,745	123
Gains less losses from foreign currencies:				
- dealing		**1,980**	1,349	1,003
- translation differences		**(1,720)**	234	675
Insurance underwriting income (loss)		**(260)**	613	39
Other operating income	21	**1,100**	1,165	650
Non interest income		**3,982**	6,106	2,490
Salaries and benefits	22	**(3,432)**	(3,023)	(2,311)
Depreciation and amortization		**(926)**	(786)	(667)
Insurance		**(145)**	(1,079)	(49)
Deposit insurance		**(306)**	(262)	(267)
Administrative and operating expenses	22	**(5,212)**	(4,708)	(3,617)
Non interest expense		**(10,021)**	(9,858)	(6,911)
Income before income tax expense and minority interest		**4,846**	5,030	1,592
Income tax expense	11	**(266)**	–	–
Income before minority interest		**4,580**	5,030	1,592
Minority interest in net loss (income)		**40**	(132)	(1)
Net income		**4,620**	4,898	1,591
Basic earnings per share in Kazakh Tenge	23	**3,245**	3,450	1,217
Diluted earnings per share in Kazakh Tenge	23	**2,714**	2,883	1,215

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2003, 2002 and 2001

(Millions of Kazakh Tenge)

	Share Capital- Common Shares	*Share Capital- Preferred Shares*	*Treasury Stock*	*Additional Paid-in Capital*	*Property and Equipment Revaluation Reserve*	*Retained Earnings (Accumulated Deficit)*	*Total Shareholders' Equity*
December 31, 2000	11,931	–	(246)	28	190	(2,968)	8,935
Sale of preferred shares	–	4,160	–	–	–	–	4,160
Sale of treasury stock	–	–	197	–	–	–	197
Dividends – preferred shares	–	–	–	–	–	(41)	(41)
Net income	–	–	–	–	–	1,591	1,591
December 31, 2001	11,931	4,160	(49)	28	190	(1,418)	14,842
Purchase of treasury stock	–	–	(2,248)	–	–	–	(2,248)
Sale of treasury stock	–	–	2,102	–	–	–	2,102
Revaluation of property and equipment	–	–	–	–	669	–	669
Release of property and equipment revaluation reserve on disposal of previously revalued assets	–	–	–	–	(5)	5	–
Dividends – preferred shares	–	–	–	–	–	(508)	(508)
Net income	–	–	–	–	–	4,898	4,898
December 31, 2002	**11,931**	**4,160**	**(195)**	**28**	**854**	**2,977**	**19,755**
Sale of common shares	**4,313**	–	–	**1,222**	–	–	**5,535**
Sale of preferred shares		**575**	–	**163**	–	–	**738**
Purchase of treasury shares	–	–	**(433)**	–	–	–	**(433)**
Dividends – preferred shares	–	–	–	–	–	**(487)**	**(487)**
Revaluation of property and equipment	–	–	–	–	**955**	–	**955**
Release of property and equipment revaluation reserve on usage of previously revalued assets	–	–	–	–	**(68)**	**68**	–
Release of property and equipment revaluation reserve on disposal of previously revalued assets	–	–	–	–	**(4)**	**4**	–
Net income	–	–	–	–	–	**4,620**	**4,620**
December 31, 2003	**16,244**	**4,735**	**(628)**	**1,413**	**1,737**	**7,182**	**30,683**

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(Millions of Kazakh Tenge)

	Years ended December 31,		
	2003	***2002***	***2001***
Cash flows from operating activities			
Income before income tax expense and minority interest	**4,846**	5,030	1,592
Adjustments for:			
Depreciation and amortization	**926**	786	667
Minority interest	**40**	(132)	(1)
Provision for losses	**10,729**	7,430	6,068
Loss on sale of property and equipment	**63**	2	52
Reserve for insurance losses	**983**	733	766
Unrealized foreign exchange loss (gain)	**723**	(251)	(215)
Unrealized (gain) loss on securities	**(2,879)**	(1,193)	164
Operating cash flows before changes in net operating assets	**15,431**	12,405	9,093
(Increase) decrease in operating assets:			
Obligatory reserves	**(975)**	1,953	(2,234)
Amounts due from other banks	**(3,796)**	(10,643)	(147)
Trading securities	**(29,327)**	(12,194)	(9,686)
Loans to customers	**(133,724)**	(20,822)	(58,561)
Other assets	**(1,915)**	(3,685)	(252)
Increase (decrease) in operating liabilities:			
Amounts owed to NBK and the Government	**2,576**	181	1,634
Amounts due to other financial institutions	**66,365**	12,538	22,169
Amounts due to customers	**38,560**	22,780	32,668
Accrued interest payable	**1,459**	313	381
Other liabilities	**(3,962)**	4,019	(1,733)
Net cash flows from operating activities before income tax	**(49,308)**	6,845	(6,668)
Income tax paid	**(300)**	–	–
Net cash flows from operating activities	**(49,608)**	6,845	(6,668)
Cash flows from investing activities			
Net cash acquired (paid) on acquisition of subsidiaries	**–**	(171)	43
Purchase of held-to-maturity securities	**(8,505)**	(19,278)	–
Purchase of property and equipment	**(1,914)**	(1,402)	(1,337)
Proceeds from sale of property and equipment	**1,698**	269	241
Net cash flows from investing activities	**(8,721)**	(20,582)	(1,053)
Cash flows from financing activities			
Sale of common shares	**5,535**	–	–
Sale of preferred shares	**738**	–	4,160
Purchase of treasury stock	**(433)**	(2,248)	–
Sale of treasury stock	**–**	2,102	197
Dividends paid	**(475)**	(503)	–
Debt securities issued	**46,155**	17,168	13,185
Net cash flows from financing activities	**51,520**	16,519	17,542
Effect of exchange rate changes on cash and cash equivalents	**(462)**	555	394
Net change in cash and cash equivalents	**(7,271)**	3,337	10,215
Cash and cash equivalents, beginning	**20,557**	17,220	7,005
Cash and cash equivalents, ending	**13,286**	20,557	17,220
Supplementary information:			
Interest paid	**14,329**	9,901	6,265
Interest received	**26,854**	21,685	14,829

The accompanying notes on pages 5 to 33 are an integral part of these consolidated financial statements.

(Millions of Kazakh Tenge)

1. Principal Activities

Bank TuranAlem and subsidiaries (the "Group") provide retail and corporate banking services, insurance services, leasing and other financial and non financial services in Kazakhstan. The parent company of the Group is Bank TuranAlem (the "Bank"), which was registered as a closed joint stock company in 1997 and was reregistered as an open joint stock company in December 1998. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on September 26, 2003. The Bank is incorporated and domiciled in the Republic of Kazakhstan. Note 2 lists the Bank's subsidiaries.

The Bank accepts deposits from the public and extends credit, transfers payments within Kazakhstan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The Bank is the second largest bank in Kazakhstan in terms of total assets. Its head office is located in Almaty, Kazakhstan. At December 31, 2003, it had 22 regional branches and 188 cash settlement units (2002 – 24 regional branches and 211 cash settlement units; 2001 – 24 regional branches and 246 cash settlement units). The Bank's registered legal address is 97 Zholdasbekov Street, Samal-2, Almaty, 480099, Republic of Kazakhstan.

The Bank's common shares and certain of its debt securities are listed on the Kazakhstan Stock Exchange ("KASE"). Certain of the Group's debt securities are listed on the Luxemburg Stock Exchange with secondary listing on KASE.

As of December 31, 2003, members of the Shareholders' Members' Council and Management Board controlled 475,213 shares (21.68% of share capital) (2002 – 350,874 shares or 20.60%, 2001 – nil). The Group had 3,221, 3,642, and 3,298 employees as of December 31 2003, 2002, and 2001, 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 millions of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. 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 and 2001, the Group was required to maintain its records and prepare its financial statements for regulatory purposes in KZT in accordance with Kazakhstani accounting and banking legislation and related instructions (KAS). The consolidated financial statements for 2002 and 2001 were based on the Group's statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 and 2001 between KAS and IFRS are presented later in this note. Starting from 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 and derivative contracts as required by IAS 39 "Financial Instruments: Recognition and Measurement" and estimated market value accounting for certain buildings, included in property and equipment as allowed by IAS 16 "Property, Plant and Equipment".

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regards to those financial statements relate to the allowances for impairment of assets, reserves for insurance claims and other provisions. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

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Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

2003

Subsidiary	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Consumer Mortgage Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
Dynasty	66.00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kurmet Pension Fund	72.47%	Kazakhstan	16.09.98	Pension Fund	16.09.98
OJSC SK BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
Kazakhstan Pension Fund	65.97%	Kazakhstan	22.06.99	Pension Fund	06.07.99
KBS Garant	57.53%	Kazakhstan	12.01.99	Property and Casualty Insurance	04.04.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

On September 3, 2003, the Group increased its share from 66.00% to 72.47% in the paid-in share capital of Kurmet Pension Fund.

On November 25, 2003, the Group increased its share from 50.40% to 65.97% in the paid-in share capital of Kazakhstan Pension Fund ("KPF").

Although the Bank does not own any shares in Kazco Construction, Samal Properties, Real Estate Commerce and Force Technology, they are treated, in accordance with SIC-12 "Consolidation – Special Purpose Entities", as subsidiaries because the Bank controls and benefits directly from their operations.

2002

Subsidiary	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Ipoteka	100.00%	Kazakhstan	20.11. 00	Consumer Mortgage Lending	20.11.00
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
Altyn Orda	100.00%	Kazakhstan	28.05.01	Collateralised Retail Consumer Lending	28.05.01
TuranAlem Finance B.V.	100.00%	Netherlands	22.07.99	Securities Trading	21.05.01
Kurmet Pension Fund	66.00%	Kazakhstan	16.09.98	Pension Fund	16.09.98
OJSC SK BTA	66.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
KBS Garant	57.53%	Kazakhstan	22.06.99	Property and Casualty Insurance	04.04.01
Kazakhstan Pension Fund	50.40%	Kazakhstan	12.01.99	Pension Fund	06.07.99
Dynasty	66,00%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Real Estate Commerce	–	Kazakhstan	16.04.02	Property Management	–
Force Technology	–	Kazakhstan	09.04.02	IT Services	–

On December 2, 2002, the Group increased its share from 40.00% to 66.00% in the share capital of OJSC SK BTA. OJSC SK BTA contributed operating income of KZT 28 million to the Group from December 2, 2002 to December 31, 2002.

(Millions of Kazakh Tenge)

On July 22, 2002, the Group increased its share from 23.70% to 66.00% in the share capital of Kurmet. Kurmet contributed operating loss of KZT 35 million to the Group from July 22, 2002 to December 31, 2002.

The details of the assets and liabilities acquired in 2002 are as follows:

	SK BTA	Kurmet Pension Fund	Total
Cash and cash equivalents	68	5	73
Trading securities	352	57	409
Property and equipment	22	10	32
Other assets	270	10	280
Other liabilities	(476)	(5)	(481)
Minority interest	(51)	(18)	(69)
Cost of acquisition (paid in cash)	185	59	244
Less: Cash and cash equivalents acquired on acquisition of subsidiaries	(68)	(5)	(73)
Cash outflow on acquisition	117	54	171

2001

Subsidiary	Holding, %	Country	Date of incorporation	Industry	Date of acquisition
TuranAlem Securities	100.00%	Kazakhstan	13.12.97	Securities Trading	13.12.97
BTA Leasing	100.00%	Kazakhstan	31.08.00	Leasing	14.09.00
Altyn Orda	100.00%	Kazakhstan	28.05.01	Collateralised Retail Consumer Lending	28.05.01
TuranAlem Finance B.V.	100.00%	Netherlands	22.05.01	Securities Trading	21.05.01
KBS Garant	54.52%	Kazakhstan	12.01.99	Property and Casualty Insurance	04.04.01
Kazakhstan Pension Fund	50.40%	Kazakhstan	22.06.99	Pension Fund	06.07.99
Dinasty	41.38%	Kazakhstan	22.07.99	Life Insurance	30.03.01
Kazco Construction	–	Kazakhstan	14.01.99	Construction	–
Samal Properties	–	Kazakhstan	17.02.99	Property Management	–
Kurmet Pension Fund	23.70%	Kazakhstan	16.09.98	Pension Fund	16.09.98
OJSC SK BTA	40.00%	Kazakhstan	08.09.98	Property and Casualty Insurance	08.09.98
BTA Ipoteka	100.00%	Kazakhstan	20.11.00	Consumer Mortgage Lending	20.11.00

On March 26, 2001, the Group acquired 54.52% of the share capital of KBS Garant ("KBS"). KBS contributed operating income of KZT 3 million to the Group from March 26, 2001 to December 31, 2001.

On August 6, 2001, the Group acquired 50.40% of the share capital of KPF. KPF contributed operating income of KZT 5 million to the Group from August 6, 2001 to December 31, 2001.

The details of the assets and liabilities acquired in 2001 are as follows:

	KBS Garant	KPF	Total
Cash and cash equivalents	22	207	229
Trading securities	137	19	156
Property and equipment	23	9	32
Other assets	89	43	132
Other liabilities	(151)	(17)	(168)
Minority interest	(60)	(135)	(195)
Cost of acquisition (paid in cash)	60	126	186
Less: Cash and cash equivalents acquired on acquisition of subsidiaries	(22)	(207)	(229)
Cash outflow (inflow) on acquisition	38	(81)	(43)

(Millions of Kazakh Tenge)

Reconciliation between KAS and IFRS

Shareholders' equity and net income are reconciled between KAS and IFRS for 2002 and 2001 are as follows:

	2002		*2001*	
	Shareholders' equity	*Net income*	*Shareholders' equity*	*Net income*
Kazakhstani Accounting Requirements	19,183	3,469	15,654	1,576
Provisions for losses	251	1,068	(817)	10
Amortization of transaction costs relating to issue of bonds	321	316	5	5
Other	–	45	–	–
International Financial Reporting Standards	19,755	4,898	14,842	1,591

3. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements of the Group include Bank TuranAlem 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.

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 assumed 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 unrealised 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.

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 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.

Related Parties

Related parties include the Bank's shareholders, key management personnel, investees and affiliated companies.

Cash and Cash Equivalents

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

(Millions of Kazakh Tenge)

Obligatory Reserves

Obligatory reserves represent mandatory reserve deposits and cash which are not available to finance the Bank's day to day operations and, hence, are not considered as part of cash and cash equivalents for the purpose of the consolidated cash flow statements.

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 unrealised 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 Other Financial 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 other financial 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 other financial institutions are carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management. 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 other financial institutions or amounts due to customers. Securities purchased under agreements to resell ('reverse repos') are recorded as amounts due from other financial institutions or as loans to customers.

Securities purchased under reverse repurchase agreements are not recognized in the financial statements, unless they 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.

Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, primarily forwards in the foreign exchange markets. Such financial instruments are primarily held for trading and are initially recognized in accordance with the recognition of financial instruments policy and subsequently are measured at their fair value. Their fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives, for which offsetting is performed are carried as assets (unrealised gain) when fair value is positive and as liabilities (unrealised loss) when it is negative. Other derivative assets and liabilities are accounted for separately at their fair values. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from trading securities.

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

(Millions of Kazakh Tenge)

Held-to-Maturity Investment Securities

The Group classifies its investment securities into held-to-maturities securities as these securities are with fixed maturities and fixed or determinable payments, and Management has both the positive intent and the ability to hold them to maturity.

Held-to-maturity investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using amortized cost and the effective interest method. The allowance for impairment is estimated on a case-by-case basis.

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 financial instruments recognition 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. Loans and advances to customers are carried net of any allowance for impairment.

Leases

i. Finance – Group as Lessor

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

ii. Operating – Group as Lessee

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included in administrative and operating expenses.

iii. Operating – Group as Lessor

The Group presents assets subject to operating leases in the balance sheets according to the nature of the asset. Lease income from operating leases is recognized in the statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the statement of income in the period in which they are incurred.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and of the cities in which the Group has offices, branches or subsidiaries. TuranAlem Finance B.V., a Netherlands company, is subject to Dutch taxation.

Deferred income tax is provided, using the liability method, on all temporary differences 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 where 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 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 utilised:.

- 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

(Millions of Kazakh Tenge)

- 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.

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 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 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.

Property and Equipment

Property and equipment, except buildings, are stated at the lower of cost less accumulated depreciation, recoverable amount, and any impairment losses. Buildings are stated in the consolidated balance sheets at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation, less any accumulated depreciation and subsequent accumulated impairment losses. Revaluations of buildings are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property and equipment revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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	15-50
Furniture and fixtures	4-10
Computers and office equipment	4

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 to their recoverable amount. An impairment is recognized in the respective period and is included in other administrative and operating expenses.

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

(Millions of Kazakh Tenge)

Amounts Due to NBK, Other Financial Institutions and to Customers

Amounts due to NBK, other financial institutions and to customers are initially recorded in accordance with the financial instruments recognition 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. They are accounted for according to the same principles used for amounts owed to other financial institutions and to customers.

Provisions

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

Retirement and Other Benefit Obligations

The Group does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current withholdings by the employer calculated as a percentage from current gross salary payments; such expense is charged in the period the related salaries are earned and included in salaries and benefits in consolidated income statements. The Group has contributed social tax to the budget of the Republic of Kazakhstan for its employees. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

Share capital, additional paid-in capital and treasury stock are recognized at the fair value of consideration received or paid. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Purchases of treasury stock are 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 or accumulate. 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Trust Activities

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and, accordingly, are not included in these consolidated financial statements.

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 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.

(Millions of Kazakh Tenge)

Underwriting Income (Loss)

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

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 the consolidated income statements 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.

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 sheets 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 (“IBNR”) was established as being equal to the expected loss ratio for each line of business times the value of coverage, 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 insurance. 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.

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 the market exchange rate quoted by KASE 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.

Differences between the contractual exchange rate of a certain transaction and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at December 31, 2003, 2002 and 2001, were KZT 144.22, KZT 155.85, and KZT 150.94 to USD 1, respectively.

(Millions of Kazakh Tenge)

Reclassifications

Certain of the 2002 and 2001 amounts were reclassified to conform with the presentation of the 2003 financial statements. None of these reclassifications impacted net income or shareholders' equity. These reclassifications are summarized below:

	2002	*2001*	*2002*	*2001*
	Previously reported		*As reclassified*	
Consolidated balance sheet:				
Interest accrued on loans to customers was separated from loans to customers to a separate line item	–	–	3,088	2,440
Provisions for letters of credits and guarantees were reclassified from allowances for losses to other liabilities	–	–	353	–
Consolidated statement of income:				
Other impairment and provisions were reclassified from provisions for losses to administrative and operating expenses	477	–	–	–
Taxes other than income taxes (except social security costs) were reclassified to administrative and operating expenses	815	571	–	–
Social security costs were reclassified to salaries and benefits	489	358	–	–
Legal and professional fees were reclassified to administrative and operating expenses	392	192	–	–
Advertising were reclassified to administrative and operating expenses	453	345	–	–
Custom duties were reclassified to administrative and operating expenses	253	616	–	–
Loss on disposal of property and equipment was reclassified to administrative and operating expenses	2	52	–	–

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2003	*2002*	*2001*
Cash on hand	**9,784**	7,077	2,145
Current accounts with the NBK	**632**	674	–
Time deposits with contractual maturity of less than 90 days	–	454	566
Current accounts with other financial institutions	**2,734**	11,845	8,267
Loans to other Kazakh banks and credit institutions	**136**	507	6,242
Cash and cash equivalents	**13,286**	20,557	17,220

At December 31, 2002 time deposits with contractual maturity of less than 90 days bear interest rates from 9.8% to 16%, (2001 – 7%-12%) and mature in January 2003 (2001 – January 2002).

Loans to other Kazakhstani banks and financial institutions are secured by securities held under reverse repurchase agreements in amounts to fully collateralise the deposits. Management regularly reviews the estimated fair value of the collateral to ensure that pledged securities are sufficient to cover the outstanding loans. These loans mature in January 2004 (2002 – January 2003; 2001 – January 2002).

At December 31, 2003, 10 banks accounted for 16.37% of total cash and cash equivalents and represented 7.90% of the Group's total shareholders' equity at that date (2002 – 10 banks accounted for 58.29% of total cash and cash equivalents and represented 60.66% of the Group's total shareholders' equity; 2001 – 10 banks accounted for 47.00% of total cash and cash equivalents and represented 54.00% of the Group's total shareholders' equity).

5. Obligatory Reserves

Obligatory reserves comprise:

	2003	*2002*	*2001*
Due from NBK	**3,706**	2,731	2,222
Cash on hand allocated to obligatory reserves	–	–	2,462
	3,706	2,731	4,684

(Millions of Kazakh Tenge)

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. 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 usage restrictions.

6. Trading Securities

Trading securities owned comprise:

	2003	2002	2001
Bonds of international financial organizations	**37,473**	8,536	–
Sovereign bonds of the Republic of Kazakhstan	**9,605**	9,516	9,728
Notes of NBK	**6,683**	3,028	–
Treasury bills of the Ministry of Finance	**3,800**	9,842	6,921
Corporate bonds	**3,555**	1,114	1,182
Equity securities of Kazakhstani banks and financial institutions	**442**	–	–
Municipal bonds	**33**	45	–
Trading securities	**61,591**	32,081	17,831
Subject to repurchase agreements	**15,773**	11,186	7,609

Interest rates and maturity of these securities follow:

	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	**6.1% - 16.9%**	**2004 – 2008**	7.9% - 17.5%	2003 - 2007	7.9% - 17.5%	2002 - 2007
Sovereign bonds of the Republic of Kazakhstan	**11.1% - 13.6%**	**2004 – 2007**	11.1% - 13.7%	2004 - 2007	8.4% - 13.6%	2002 - 2007
Bonds of international financial organizations	**4.4% - 7.1%**	**2005 – 2013**	4.4% - 6.1%	2011 - 2013	4.4% - 6.1%	2011 - 2013
Corporate bonds	**7.4% - 13.0%**	**2004 – 2013**	10.5%	2005	8.0% - 11.0%	2002 - 2005
Municipal bonds	**6.3% - 8.6%**	**2004 – 2006**	8.0%	2006	–	–
Notes of NBK	**–**	**2004**	–	2003	–	–

7. Amounts Due from Other Financial Institutions

Amounts due from other financial institutions comprise:

	2003	2002	2001
Reverse repurchase agreements	**8,405**	9,445	–
Loans	**5,993**	–	150
Time deposits of more than 90 days or overdue	–	1,375	–
Amounts due from other financial institutions	**14,398**	10,820	150

The Group has entered into reverse repurchase agreements with Kazakhstani banks. The subject of these agreements were Treasury bills of the Ministry of Finance, Sovereign bonds of the Republic of Kazakhstan, bonds of international financial organizations, Corporate bonds issued by Kazakhstani companies, and Municipal bonds.

As of December 31, 2003, KZT 1,087 million (2002 – nil, 2001 –KZT 150 million) were issued as inter-bank loans to six banks based in the CIS. As of December 31, 2003, inter-bank loans include KZT 4,906 million (2002 – nil, 2001 – nil) which were placed with three Kazakh banks.

As of December 31, 2002, an inter-bank time deposit amounting to KZT 623 million was placed with a bank based in the Commonwealth of Independent States ("CIS") and KZT 752 million with two Kazakhstani banks.

(Millions of Kazakh Tenge)

Interest rates and maturities are the following:

	2003		2002		2001	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Reverse repurchase agreements	**2.0% - 8.0%**	**2004**	3.0% - 7.0%	2003	–	–
Loans	**4.0% - 12.0%**	**2004 - 2008**	–	–	14.0%	2003
Time deposits of more than 90 days or overdue	–	–	6.0% - 12%	2003	–	–

8. Held-to-Maturity Investment Securities

Held-to-maturity investment securities comprise:

	2003		2002		2001	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*	*Carrying value*	*Nominal value*
Bonds of international financial organizations	**26,288**	**24,611**	19,634	17,912	–	–

Included in bonds of international financial organisations are securities of the International Bank of Reconstruction and Development ("IBRD"), Council of Europe Development Bank ("CEDB"), Asian Development Bank ("ADB"), and, Inter-American Development Bank ("IADB"), European Association of Project Development ("EuroFIMA") that carry interest at rates ranging from 4.375% to 6.125% per annum and mature between 2011 and 2013.

As of December 31, 2002, bonds of international financial organizations amounting to KZT 5,938 million were pledged as security for borrowings under repurchase agreements with other banks. In 2003, these bonds were free from any encumbrances.

9. Loans to Customers

Loans to customers comprise:

	2003	2002	2001
Gross loans	**255,118**	137,913	117,193
Less allowances for impairment	**(15,271)**	(10,166)	(6,474)
	239,847	127,747	110,719
Less accrued interest	**(7,498)**	(3,088)	(2,440)
Loans to customers	**232,349**	124,659	108,279

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.

As of December 31, 2003, the total gross amount of impaired loans, on which interest was not accrued, was KZT 1,774 million (2002 – KZT 2,361 million, 2001 – KZT 492 million). Unrecognised interest related to such loans amounted to KZT 302 million (2002 – KZT 472 million, 2001 – KZT 118 million).

As of December 31, 2003, the Group had a concentration of loans represented by KZT 67,204 millions due from 10 borrowers that was 26.30% of total gross loan portfolio (2002 – KZT 22,871 million, 16.58%, 2001 – KZT 24,320 million, 20.75%). Allowances of KZT 2,657 million (2002 – KZT 345 million, 2001 – KZT 419 million) were made against these loans.

Gross loans have been extended to the following types of customers:

	2003	2002	2001
Private companies	**219,838**	121,186	98,405
Individuals	**27,222**	12,765	5,785
State companies	**7,506**	801	1,230
State budget or local authorities	**518**	706	815
Other	**34**	2,455	10,958
	255,118	137,913	117,193

(Millions of Kazakh Tenge)

Gross loans are made principally within Kazakhstan to the following sectors:

	2003	*2002*	*2001*
Wholesale trade	**53,538**	27,583	30,600
Agriculture	**32,506**	14,547	13,362
Food industry	**30,350**	11,661	9,997
Oil & Gas production	**29,841**	11,710	8,642
Individuals	**27,222**	12,765	5,785
Construction	**17,863**	8,495	3,177
Mining	**15,242**	6,124	1,633
Chemical industry	**9,254**	10,161	7,735
Real estate activities	**7,173**	5,602	11,262
Metallurgical industry	**7,125**	1,134	3,758
Telecommunication	**4,612**	335	1,007
Energy	**3,558**	3,061	3,522
Transport	**3,541**	10,400	9,024
Retail trade	**1,480**	6,303	2,553
Production of rubber and plastics articles	**1,243**	1,195	1,122
Light and leather industry	**688**	45	425
Other	**9,882**	6,792	3,589
	255,118	137,913	117,193

10. Allowances for Losses and Provisions

The movements in allowances for impairment of interest earning assets were as follows:

	Loans to customers
December 31, 2000	2,905
Provision	5,838
Write-offs	(3,227)
Recoveries	958
December 31, 2001	6,474
Provision	7,184
Write-offs	(3,763)
Recoveries	271
December 31, 2002	**10,166**
Provision	**10,391**
Write-offs	**(6,762)**
Recoveries	**1,476**
December 31, 2003	**15,271**

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

	Other assets	*Letters of credit and guarantees*	*Total*
December 31, 2000	–	–	–
Provision	181	49	230
Write-offs	–	–	–
Recoveries	–	–	–
December 31, 2001	181	49	230
Provision	19	227	246
Write-offs	(91)	(32)	(123)
Recoveries	–	–	–
December 31, 2002	**109**	**244**	**353**
Provision	**230**	**108**	**338**
Write-offs	–	**(33)**	**(33)**
Recoveries	–	–	–
December 31, 2003	**339**	**319**	**658**

Allowances for impairment of assets are deducted from the related assets. Provisions for letters of credit and guarantees are recorded in other liabilities.

(Millions of Kazakh Tenge)

11. Taxation

The corporate income tax expense comprises:

	2003	*2002*	*2001*
Current tax charge	**266**	–	–
Deferred tax charge	**–**	–	–
Income tax expense	**266**	–	–

The Bank and its subsidiaries, other than TuranAlem Finance B.V. ("TAF"), are subject to taxation in the Republic of Kazakhstan. TAF is subject to income tax in the Netherlands. The Bank had no current or deferred income tax liability at December 31 2003, 2002 and 2001.

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

	2003	*2002*	*2001*
Income tax computed at the statutory tax rate of 30%	**1,454**	1,509	477
Non-deductible interest expenses	**215**	198	369
Non-deductible provisions for losses	**165**	–	–
Non-deductible business expenses	**580**	67	218
Non-deductible foreign exchange losses	**–**	–	114
Losses (income) of subsidiaries taxed at different rates	**108**	(38)	–
Non taxable income on government securities	**(897)**	(778)	(556)
Non taxable income on long-term loans granted for modernization of property and equipment	**(1,230)**	(883)	(580)
Non taxable foreign exchange gain	–	–	(245)
Change in unrecognised deferred tax assets	**(129)**	(75)	203
Income tax expense	**266**	–	–

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprised the following at December 31:

	2003	*2002*	*2002*
Deferred tax assets:			
Allowance for losses	**–**	204	251
Property and equipment	**–**	4	32
Other	**101**	–	–
	101	208	283
Deferred tax liabilities:			
Property and equipment	**(22)**	–	–
Net deferred tax assets	**79**	208	283
Unrecognised deferred tax assets	**(79)**	(208)	(283)
	–	–	–

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, different 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 different positions with regard to interpretive issues.

(Millions of Kazakh Tenge)

12. Property and Equipment

The movements of property and equipment were as follows:

	Buildings	*Furniture, fixtures and equipment*	*Construction-in-progress*	*Total*
Cost or revaluation				
December 31, 2002	5,289	2,794	–	8,083
Additions	572	1,097	245	1,914
Revaluation	959	(4)	–	955
Disposals	(642)	(1,377)	(230)	(2,249)
December 31, 2003	**6,178**	**2,510**	**15**	**8,703**
Accumulated depreciation				
December 31, 2002	(586)	(974)	–	(1,560)
Charge	(409)	(477)	–	(886)
Disposals	66	422	–	488
December 31, 2003	**(929)**	**(1,029)**	**–**	**(1,958)**
Net book value:				
December 31, 2003	**5,249**	**1,481**	**15**	**6,745**
December 31, 2002	4,703	1,820	–	6,523
December 31, 2001	3,878	1,525	38	5,441

During 2002, the Group commenced the process of revaluing its buildings. The revaluation process is planned to be completed during 2004 for all buildings. Certain buildings were revalued effective May 24, 2002 and December 2003, on the basis of independent appraisals using fair market values.

As of December 31, 2003, the resulting revaluation surplus of KZT 1,737 millions (2002 – KZT 854 million, 2001 – KZT 190) is recorded in the property and equipment revaluation reserve in shareholders' equity.

13. Amounts Due to NBK and the Government

Amounts due to the NBK and Government consist of the following:

	2003	*2002*	*2001*
Amounts due to the Government:			
Non Interest bearing	**29**	5	10
Interest bearing – KZT denominated	**1,182**	1,616	1,606
Interest bearing – USD denominated	**204**	197	148
Interest bearing – EUR denominated	**504**	454	207
Amounts due to NBK:			
Deposits	**3,000**	–	–
Loan	**258**	403	462
Amounts due to NBK and the Government	**5,177**	2,675	2,433

Interest bearing KZT amounts due to the Government at December 31, 2003, carry interest at rates ranging up to 12.5% per annum (2002 – from 5.00% to 10.00%, 2001 – from 2.50% to 9.50%) and mature between 2004 and 2010 (2002 – between 2003 and 2004, 2001 – in 2004). The USD amounts due to the Government carry interest at 1.27% (2002 and 2001 – 7.16%), per annum and mature in June 2011 (2002 and 2001 – June 2011). The EUR denominated amounts due to the Government carry interest at 5.00% per annum and mature in December 2010.

As of December 31, 2003, deposits with NBK carry interest at 6.50% per annum and mature in February 2004. The loan carries interest at 2.87% per annum (2002 – 4.20%, 2001 – 8.41%) and matures in June 2004 (2002 – August 2003, 2001 – July 2002).

(Millions of Kazakh Tenge)

14. Amounts Due to Other Financial Institutions

Amounts due to other financial institutions comprise:

	2003	2002	2001
Interest-bearing placement from an OECD based bank	–	–	4,055
Interest-bearing placements from non OECD banks	**288**	78	–
Interest-bearing placements from Kazakh banks	**8,490**	856	2,028
Correspondent loro accounts	**1,583**	694	559
	10,361	1,628	6,642
Pass-through loans	**3,856**	6,846	2,973
Loans from Kazakh banks and financial institutions	**3,402**	2,302	2,103
Loans from non-Kazakh banks and finance institutions	**49,893**	33,747	19,866
Syndicated bank loans	**48,168**	11,455	10,139
Amounts due to other financial institutions	**115,680**	55,978	41,723

Interest rates and maturity of amounts due to other financial institutions follow:

	2003		2002		2001	
	%	Maturity	%	Maturity	%	Maturity
Interest-bearing placement from an OECD based bank	–	–	–	–	0.5%	2002
Interest-bearing placements from non OECD banks	**4.5%**	**2004**	4%	2003	–	–
Interest-bearing placements from Kazakh banks	**2.1% - 5.5%**	**2004**	3.5%	2003	3% - 10%	2002
Correspondent loro accounts	**0%**	–	0% - 2%	–	0% - 2%	–
Pass-through loans	**5% - 10.2%**	**2004 - 2006**	5% -10.5%	2003 - 2006	5% - 10.5%	2003 - 2006
Loans from Kazakh banks and financial institutions	**3% - 5.2%**	**2004**	5.7%-6.5%	2003	7.5% - 8.5%	2002
Loans from non-Kazakh banks and finance institutions	**1.1% - 9.7%**	**2004 - 2009**	1.5% - 7.7%	2002 - 2009	2.6% - 10.3%	2002 - 2006
Syndicated bank loans	**3.3% - 3.7%**	**2004 - 2005**	4.0%	2003	5.5%	2003

At December 31, 2003, pass-through loans represent credit lines provided to the Bank, through the Government of the Republic of Kazakhstan, by international financial organizations. At December 31, 2003, the Bank's interest spread on these loans ranged from 3.12% to 10.19% per annum (2002 – 3% to 13.4%, 2001 – 3% to 17%). Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. At December 31, 2003, 2002 and 2001 amounts received under pass-through loans had been advanced to borrowers and included within loans to customers in the accompanying consolidated balance sheets. Undrawn balances of credit lines at December 31, 2003 amounted to USD 4 million (2002 and 2001 - nil).

At December 31, 2003, amounts due to other financial institutions include EUR and USD denominated subordinated loans, that rank behind the claims from the Group's depositors and other unsecured, unsubordinated creditors. In accordance with the Convertible Subordinated Loan Agreement between Deutsche Investitions und Entwicklungsgeselschaft mbH ("DEG") and the Bank dated December 11, 2000, DEG had the right to convert any part or all of its subordinated loan into Convertible Preferred Shares ("CPS"), or preferred, or common shares. Provided that DEG exercised this right before December 31, 2002. During 2001, DEG converted a portion, KZT 735 million, its loan in exchange to CPS and waived any further conversion rights.

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

(Millions of Kazakh Tenge)

15. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and include the following:

	2003	*2002*	*2001*
Current accounts	**41,708**	39,736	27,010
Time deposits	**96,579**	64,936	52,041
Guarantee and other deposits	**937**	1,085	1,957
Amounts due to customers	**139,224**	105,757	81,008

Interest rates and maturity of amounts due to customers follow:

	2003		*2002*		*2001*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
Current accounts	**0% - 1.0%**	**–**	0% - 1.0%	–	0% - 1.0%	–
Time deposits	**1.0% - 12.3%**	**2004 - 2010**	1.0% - 13.5%	2003 - 2005	1.0% - 14.0%	2002 - 2004
Guarantee and other deposits	**0% - 10.2%**	**2004 - 2020**	0% - 9.0%	2003 - 2020	0% - 12.0%	2004 - 2021

Amounts due to customers include accounts with the following types of customers:

	2003	*2002*	*2001*
Individuals	**68,385**	52,898	36,132
Private enterprises	**55,600**	39,254	33,263
State and budgetary organisations	**9,251**	12,384	10,097
Employees	**111**	88	17
Other	**5,877**	1,133	1,499
Amounts due to customers	**139,224**	105,757	81,008

16. Debt Securities Issued

Debt securities issued consisted of the following:

	2003	*2002*	*2001*
USD notes	**61,294**	31,170	15,038
USD and KZT subordinated notes	**13,528**	6,612	2,938
	74,822	37,782	17,976
Own USD notes held by the Group	**(482)**	(6,118)	(4,428)
Own USD and KZT subordinated notes held by the Group	**(8)**	(52)	(24)
	74,332	31,612	13,524
Less unamortized cost of issuance	**(825)**	(326)	(214)
Debt securities issued	**73,507**	31,286	13,310

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

	2003		*2002*		*2001*	
	%	*Maturity*	*%*	*Maturity*	*%*	*Maturity*
USD notes	**7.875%-11.5%**	**2004 - 2010**	10.0%-11,5%	2004 - 2007	11.5%	2004
USD and KZT subordinated notes	**8.0%-12.0%**	**2009 - 2013**	9.0%-12.0%	2009 - 2010	12.0%	2009

The subordinated notes at December 31, 2003, 2002, and 2001, are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

In accordance with the terms of the USD Notes, the Bank is required to maintain certain financial ratios particularly with regard to its liquidity, capital adequacy, and lending exposures.

(Millions of Kazakh Tenge)

17. Shareholders' Equity

Authorized share capital at December 31, 2003 consisted of 1,719,148 common shares and 569,997 Convertible Preferred Shares ("CPS") (2002 – 1,287,023 common and 426,722 CPS, 2001 – 1,287,023 common and 426,722 CPS). Issued share capital at December 31, 2003 consisted of 1,677,269 common shares and 484,215 CPS (2002 – 1,276,635 common shares and 426,722 CPS, 2001 – 1,287,023 common shares and 426,722 CPS). All shares are KZT denominated and have a nominal value of KZT 10,000 each. Share capital is recorded net of transaction costs and net of adjustments made during 1997 to adjust the opening balances of Bank TuranAlem following the combination of Turan Bank and Alem Bank.

At December 31, 2003, the Group held 41,104 of the Bank's shares as treasury stock (2002 - 10,388, 2001 - nil).

During 2003, the Bank issued 57,493 CPS and 431,350 common shares at a premium of KZT 2,832.80 per share.

As of December 31, 2003, the following shareholders held the outstanding shares.

Shareholder	%
Common shares:	
Management	27.82
Bank of New York (nominee holder)	26.00
Central Securities Depository CJSC (nominee holder)	25.88
VALAXIS Asset Management SA	9.43
HAWSBROK	7.47
Others	3.40
	100.00
Preferred shares:	
Raiffeisen Zentralbank Osterreich ("RZB")	33.48
DEG	27.05
EBRD	15.18
IFC	15.18
FMO	9.11
	100.00

Convertible Preferred Shares

During 2001, the Bank issued 426,722 CPS at nominal value and recognized the issued share capital in these consolidated financial statements at the amount received, KZT 4,267 million, net of the external costs directly attributable to the share issue amounting to KZT 107 million. During 2003, the Bank issued 57,493 CPS at a premium of KZT 2,832.80.

The CPS Shareholders have the right at any time to convert all or any part of their CPS's into common shares of the Bank.

At December 31, 2003, the CPS nominal value was KZT 10,000 (USD 69.34), the quoted market price per common share was KZT 12,900 (USD 89.45), and the net assets value per share (as measured by the underlying net asset value of the Group divided by the number of shares outstanding) was KZT 13,997 (USD 97.05).

Upon the expiration of the Convertibility Period, i.e. on December 31, 2006, and only in the event the Bank fails to sell 55% of the aggregate of the Bank's issued common shares to an OECD based bank with total assets of not less than USD 60 billion and a financial strength rating of not less than D+ ("Strategic Investor"), each CPS Shareholder shall have the right to redeem all or any portion of the Convertible Preferred Shares in cash. Management believes that the likelihood of those shares being redeemed is remote.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the USD equivalent of the CPS Purchase Price at the offer date (the "Purchase Price") if any person makes a Shareholder Protection Tender Offer ("Tender Offer"), i.e. an offer to purchase 30% or more of the Bank's common share capital, and the respective Tender Offer Price for each CPS is less than the CPS Purchase Price. If the CPS Shareholders accept the redemption offer, the Bank is then obligated to redeem the shares. Management believes, that the likelihood of a Tender Offer being made is remote.

Based on the above, the likelihood of the CPS being redeemed is considered remote and the Convertible Preferred Shares are accounted for as equity.

Dividends on Convertible Preferred Shares

The Convertible Preferred Shares carry a dividend of 10.25% per annum. These dividends are cumulative.

(Millions of Kazakh Tenge)

18. 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 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.

The Group could be affected, in the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Group's assets and the ability of the Group to maintain or pay its debts as they mature.

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

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

	2003	*2002*	*2001*
Credit related commitments			
Undrawn loan commitments	**25,443**	11,155	3,317
Letters of credit	**45,141**	26,507	15,730
Promissory notes guarantees	**5,799**	4,433	5,164
Guarantees	**18,648**	17,392	7,114
	95,031	59,487	31,325
Capital expenditure commitments	**–**	–	11,000
Less: cash collateral	**(945)**	(606)	(35)
	94,086	58,881	42,290
Less: provisions	**(319)**	(244)	(49)
Financial commitments and contingencies	**93,767**	58,637	42,241

At December 31, 2003, ten guarantees accounted for 28% (2002 - 28%, 2001 – 21%) of total financial guarantees and represented 20% (2002 – 68%, 2001 – 51%) of the Group's total shareholders' equity at that date.

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

As of December 31, 2003, letters of credit of KZT 906 million (2002 – nil, 2001 –nil) were secured by clients' funds, and the Bank did not create any provisions against these commitments.

Trust Activities

The Group provides custody services to third parties which involve the Group making allocation and purchase and sales decisions in relation to securities. Those securities that are held in a fiduciary capacity are not included in these consolidated financial statements. As at December 31, 2003 such securities not reported in the balance sheet amounted to KZT 40 million (2002 – KZT 55 million, 2002 – KZT 66 million).

Deliverable Forward Contracts

Forward foreign exchange contracts are agreements to purchase or sell a specific quantity of a foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates.

(Millions of Kazakh Tenge)

At December 31, the Group was a party to the following deliverable forward contracts, all of which mature in 2004:

	2003		2002		2001	
	Notional Amount	Unrealized Gains	Notional Amount	Unrealized Gains	Notional Amount	Unrealized Gains
Deliverable forward contracts:						
USD-KZT contracts with Kazakh counteragents	**11,474**	**359**	334	–	451	–
USD-EUR contracts with Kazakh counteragents	**1,004**	**5**	–	–	403	–

19. Fees and Commissions

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

	2003	2002	2001
Letters of credit and guarantees issued	**2,519**	1,458	933
Settlement and cash operations	**1,445**	982	785
Transfer operations	**1,158**	667	541
Foreign currency trading	**606**	499	433
Custodian activity	**28**	14	45
Other	**602**	674	424
Fee and commission income	**6,358**	4,294	3,161

Fee and commission expense for the years ended December 31 was incurred from the following sources:

	2003	2002	2001
Foreign currency trading	**(59)**	(67)	(112)
Transfer operations	**(48)**	(41)	(52)
Custodian activity	**(24)**	(36)	(9)
Other	**(6)**	(25)	(111)
Fee and commission expense	**(137)**	(169)	(284)

20. Gains Less Losses From Trading Securities

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

	2003	2002	2001
Realized gains from sale of trading securities, net	**3**	1,552	287
Unrealized gains (losses) on trading securities	**2,879**	1,193	(164)
	2,882	2,745	123

21. Other Operating Income

Other operating income for the years ended December 31 comprised the following:

	2003	2002	2001
Penalties	**446**	399	128
Rent	**442**	450	240
Currency transport	**26**	99	101
Other	**186**	217	181
	1,100	1,165	650

(Millions of Kazakh Tenge)

22. Salaries and Administrative and Operating Expenses

Salaries and benefits and administrative and operating expenses comprise:

	2003	*2002*	*2001*
Salaries and bonuses	**(2,845)**	(2,505)	(1,923)
Social security costs	**(545)**	(489)	(358)
Other payments	**(42)**	(29)	(30)
Salaries and benefits	**(3,432)**	(3,023)	(2,311)
Taxes other than income taxes	**(955)**	(815)	(571)
Repair and maintenance of property and equipment	**(754)**	(646)	(760)
Marketing and advertising	**(447)**	(453)	(345)
Legal and consultancy	**(388)**	(209)	(192)
Other impairment and provisions	**(338)**	(246)	(230)
Occupancy and rent	**(312)**	(137)	(86)
Communications	**(292)**	(207)	(159)
Security	**(279)**	(183)	(91)
Business travel and related expenses	**(180)**	(194)	(102)
Transportation expenses	**(158)**	(146)	(70)
Data processing	**(157)**	(180)	(90)
Office supplies	**(75)**	(100)	(83)
Loss on property and equipment disposals	**(63)**	(2)	(52)
Charity	**(54)**	(26)	(20)
Custom duties	**(53)**	(253)	(524)
Other	**(707)**	(911)	(242)
Administrative and operating expenses	**(5,212)**	(4,708)	(3,617)

The aggregate remuneration and other benefits paid to members of the Management Board and Board of Directors for 2003 was KZT 290 million (2002 – KZT 248 million, 2001 – KZT 188 million).

23. Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Bank did not declare or pay any dividends to common shareholders during 2003, 2002 and 2001. During 2003, the Bank accrued dividends to the CPS shareholders amounting to KZT 487 million (2002 - KZT 508 million, 2001 – KZT 41 million) and paid dividends to the CPS shareholders amounting to KZT 475 million (2002 - KZT 503 million, 2001 – nil).

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had two types of dilutive shares: convertible debt and convertible preferred shares. The convertible debt is assumed to have been converted into shares and the net profit is adjusted to eliminate the applicable interest expense less the tax effect. For the convertible preferred shares, the number of shares that could have been converted at the contractual conversion price are added to the shares outstanding, but no adjustment is made to net income.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31:

	2003	*2002*	*2001*
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on CPS's (in KZT millions)	**4,133**	4,390	1,550
Net income attributable to common and potential common shareholders for diluted earnings per share (in KZT millions)	**4,620**	4,898	1,596
Weighted average number of common shares for basic earnings per share	**1,273,425**	1,272,373	1,273,236
Weighted average number of common and potential common shares for diluted earnings per share	**1,702,195**	1,699,095	1,313,696

(Millions of Kazakh Tenge)

A reconciliation of the weighted average number of common shares and the weighted average number of potential common shares at December 31, is as follows:

	2003	***2002***	***2001***
Weighted average number of common shares at December 31 for basic earnings per share	**1,273,425**	1,272,373	1,273,236
Weighted average number of common shares resulting from the potential conversion of the DEG subordinated loan into common shares	**–**	–	4,900
Weighted average number of common shares resulting from the potential conversion of the preferred shares into common shares	**428,770**	426,722	35,560
Weighted average number of common and potential common shares at December 31	**1,702,195**	1,699,095	1,313,696

24. 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 is as follows.

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party 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 groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product, by industry sector, by region are approved quarterly by the Board of Directors. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

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 established by the Credit Committee. The maximum credit risk exposure, ignoring the fair value of any collateral, in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying financial statements and the disclosed financial commitments.

The Group maintains strict control limits on net open derivative positions, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure 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, except where the Group requires margin deposits from counter parties.

(Millions of Kazakh Tenge)

Concentration

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

	2003				*2002*				*2001*			
	Kazakh-stan	*OECD*	*CIS and other foreign banks*	*Total*	*Kazakh-stan*	*OECD*	*CIS and other foreign banks*	*Total*	*Kazakh-stan*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:												
Cash and cash equivalents	**9,773**	**2,742**	**771**	**13,286**	8,951	10,492	1,114	20,557	7,639	8,374	1,207	17,220
Obligatory reserves	**3,706**	**–**	**–**	**3,706**	2,731	–	–	2,731	4,684	–	–	4,684
Trading securities	**23,486**	**38,105**	**–**	**61,591**	21,942	10,139	–	32,081	17,142	689	–	17,831
Amounts due from other financial institutions	**7,848**	**6,286**	**264**	**14,398**	10,820	–	–	10,820	150	–	–	150
Held-to-maturity investment securities	**–**	**26,288**	**–**	**26,288**	–	19,634	–	19,634	–	–	–	–
Loans to customers	**215,406**	**–**	**32,214**	**247,620**	134,825	–	–	134,825	114,753	–	–	114,753
Interest accrued on loans to customers	**7,498**	**–**	**–**	**7,498**	3,088	–	–	3,088	2,440	–	–	2,440
Other assets	**7,542**	**–**	**–**	**7,542**	5,508	–	–	5,508	1,473	–	–	1,473
	275,259	**73,421**	**33,249**	**381,929**	187,865	40,265	1,114	229,244	148,281	9,063	1,207	158,551
Liabilities:												
Amounts due to NBK and the Government	**5,177**	**–**	**–**	**5,177**	2,675	–	–	2,675	2,433	–	–	2,433
Amounts due to other financial institutions	**10,760**	**102,887**	**2,033**	**115,680**	4,353	50,293	1,332	55,978	3,622	37,559	542	41,723
Amounts due to customers	**139,224**	**–**	**–**	**139,224**	105,757	–	–	105,757	81,008	–	–	81,008
Debt securities issued	**73,507**	**–**	**–**	**73,507**	31,286	–	–	31,286	13,310	–	–	13,310
Accrued interest payable	**3,145**	**–**	**–**	**3,145**	1,811	–	–	1,811	1,455	–	–	1,455
Other liabilities	**4,318**	**–**	**–**	**4,318**	7,220	–	–	7,220	1,757	–	–	1,757
	236,131	**102,887**	**2,033**	**341,051**	153,102	50,293	1,332	204,727	103,585	37,559	542	141,686
Net balance sheet position	**39,128**	**(29,466)**	**31,216**	**40,878**	34,763	(10,028)	(218)	24,517	44,696	(28,496)	665	16,865

The above tables do not include the effect of allowances for loans losses and other assets, which total KZT 15,610 million, KZT 10,275 million and KZT 6,655 million as of December 31, 2003, 2002 and 2001 respectively.

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. 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.

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.

(Millions of Kazakh Tenge)

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows, which are monitored daily. The Board of Directors sets limits on the level of exposure by currencies, 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:

	2003				*2002*				*2001*			
	KZT	*Freely convertible*	*Non convertible*	*Total*	*KZT*	*Freely convertible*	*Non convertible*	*Total*	*KZT*	*Freely convertible*	*Non convertible*	*Total*
Assets:												
Cash and cash equivalents	**6,688**	**5,723**	**875**	**13,286**	5,053	15,309	195	20,557	475	16,573	172	17,220
Obligatory reserves	**3,706**	**–**	**–**	**3,706**	2,731	–	–	2,731	4,684	–	–	4,684
Trading securities	**11,648**	**49,943**	**–**	**61,591**	12,925	19,156	–	32,081	13,519	4,312	–	17,831
Amounts due from other financial institutions	**8,483**	**5,915**	**–**	**14,398**	9,830	990	–	10,820	–	150	–	150
Held-to-maturity investment securities	**3**	**26,285**	**–**	**26,288**	–	19,634	–	19,634	–	–	–	–
Loans to customers	**77,133**	**170,460**	**27**	**247,620**	35,131	99,664	30	134,825	24,665	89,988	100	114,753
Interest accrued on loans to customers	**1,293**	**6,205**	**–**	**7,498**	805	2,282	1	3,088	524	1,914	2	2,440
Other assets	**7,175**	**346**	**21**	**7,542**	4,981	506	21	5,508	932	525	16	1,473
	116,129	**264,877**	**923**	**381,929**	71,456	157,541	247	229,244	44,799	113,462	290	158,551
Liabilities:												
Amounts due to NBK and the Government	**4,254**	**923**	**–**	**5,177**	969	1,706	–	2,675	770	1,663	–	2,433
Amounts due to other financial institutions	**4,188**	**111,449**	**43**	**115,680**	2,165	53,813	–	55,978	814	40,909	–	41,723
Amounts due to customers	**68,241**	**70,304**	**679**	**139,224**	49,475	56,005	277	105,757	28,030	52,634	344	81,008
Debt securities issued	**7,382**	**66,125**	**–**	**73,507**	–	31,286	–	31,286	–	13,310	–	13,310
Accrued interest payable	**1,229**	**1,916**	**–**	**3,145**	625	1,186	–	1,811	116	1,339	–	1,455
Other liabilities	**3,982**	**324**	**12**	**4,318**	5,041	2,179	–	7,220	1,757	–	–	1,757
	89,276	**251,041**	**734**	**341,051**	58,275	146,175	277	204,727	31,487	109,855	344	141,686
Net balance sheet position	**26,853**	**13,836**	**189**	**40,878**	13,181	11,366	(30)	24,517	13,312	3,607	(54)	16,865

The above tables do not include the effect of allowances for loans losses and other assets, which total KZT 15,610 million, KZT 10,275 million and KZT 6,655 million as of December 31, 2003, 2002 and 2001, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. Non-freely convertible amounts relate to currencies of CIS countries, excluding Kazakhstan.

(Millions of Kazakh Tenge)

The Group's principal cash flows (revenues, operating expenses) are largely generated in KZT. As a result, future movements in the exchange rate between KZT and USD or EUR will affect the carrying value of the Group's USD denominated monetary assets and liabilities. Such changes may also affect the Group's ability to realize investments in non-monetary assets as measured in USD in these financial statements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprise in a given period. The Group manages this risk by matching the reprising of assets and liabilities through risk management strategies.

The interest rates earned and incurred by the Group on its assets and liabilities are disclosed in the relevant notes to the financial statements.

A significant portion of the Group's assets and liabilities reprise within one year. In addition, in accordance with the contractual terms with its customers, the Group is entitled to reprise a significant portion of its assets and liabilities that mature after more than one year. Accordingly there is a limited exposure to interest rate risk. As of December 31, the effective average interest rates by currencies for interest generating/ bearing monetary financial instruments were as follow:

	2003		***2002***		***2001***	
	KZT	***Foreign currency***	***KZT***	***Foreign currency***	***KZT***	***Foreign currency***
Trading securities	**6.9%**	**7.7%**	10.6%	9.9%	11.8%	9.1%
Amounts due from other financial institutions	**2.7%**	**2.4%**	4.4%	2.8%	7.3%	3.8%
Held-to-maturity investment securities	**–**	**4.4%**	–	2.3%	–	–
Loans to customers	**16.7%**	**12.5%**	18.8%	14.4%	24.7%	13.1%
Amounts due to NBK and the Government	**6.5%**	**4.4%**	9.0%	4.3%	8.7%	1.6%
Amounts due to other financial institutions	**5.1%**	**4.2%**	6.0%	4.5%	0.3%	6.1%
Amounts due to customers	**9.4%**	**5.1%**	12.5%	6.1%	16.5%	5.4%
Debt securities issued	**1.6%**	**11.6%**	–	12.2%	–	17.3%

The Group monitors its interest rate margins on a regular basis and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

(Millions of Kazakh Tenge)

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date.

	2003							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	13,162		124	–	–	–	–	13,286
Obligatory reserves	–	–	–	–	3,706	–	–	3,706
Trading securities	61,591	–	–	–	–	–	–	61,591
Amounts due from other financial institutions	50	10,281	144	1,129	1,829	965	–	14,398
Held-to-maturity investment securities	–	–	–	–	–	26,288	–	26,288
Loans to customers	–	17,417	23,206	75,310	51,795	75,056	4,836	247,620
Interest accrued on loans to customers	–	4,501	2,248	749	–	–	–	7,498
Other assets	4,539	152	294	295	2,262	–	–	7,542
	79,342	32,351	26,016	77,483	59,592	102,309	4,836	381,929
Liabilities:								
Amounts due to NBK and the Government	–	3,058	1	604	614	900	–	5,177
Amounts due to other financial institutions	1,533	21,294	10,023	46,320	22,648	13,862	–	115,680
Amounts due to customers	41,286	17,521	19,252	49,706	8,678	2,781	–	139,224
Debt securities issued	–	–	–	14,381	14,422	44,704	–	73,507
Accrued interest payable	–	315	–	2,830	–	–	–	3,145
Other liabilities	3,900	243	33	25	65	52	–	4,318
	46,719	42,431	29,309	113,866	46,427	62,299	–	341,051
Net position	32,623	(10,080)	(3,293)	(36,383)	13,165	40,010	4,836	40,878
Accumulated gap	32,623	22,543	19,250	(17,133)	(3,968)	36,042	40,878	

	2002							
	On demand	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 3 years*	*Over 3 years*	*Past due*	*Total*
Assets:								
Cash and cash equivalents	19,596	961	–	–	–	–	–	20,557
Obligatory reserves	–	–	–	–	2,731	–	–	2,731
Trading securities	32,081	–	–	–	–	–	–	32,081
Amounts due from other financial institutions	–	–	–	10,805	15	–	–	10,820
Held-to-maturity investment securities	–	–	–	–	–	19,634	–	19,634
Loans to customers	–	23,408	13,416	44,173	31,492	19,743	2,593	134,825
Interest accrued on loans to customers	–	3,088	–	–	–	–	–	3,088
Other assets	1,866	99	169	169	3,205	–	–	5,508
	53,543	27,556	13,585	55,147	37,443	39,377	2,593	229,244
Liabilities:								
Amounts due to NBK and the Government	–	165	21	1,099	1,130	260	–	2,675
Amounts due to other financial institutions	694	14,514	1,904	15,642	10,804	12,420	–	55,978
Amounts due to customers	39,725	11,668	17,040	26,195	11,129	–	–	105,757
Debt securities issued	–	–	–	–	9,141	22,145	–	31,286
Accrued interest payable	–	1,811	–	–	–	–	–	1,811
Other liabilities	2,164	4,501	434	21	100	–	–	7,220
	42,583	32,659	19,399	42,957	32,304	34,825	–	204,727
Net position	10,960	(5,103)	(5,814)	12,190	5,139	4,552	2,593	24,517
Accumulated gap	10,960	5,857	43	12,233	17,372	21,924	24,517	

(Millions of Kazakh Tenge)

	2001							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 3 years***	***Over 3 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	10,412	6,704	50	54	–	–	–	17,220
Obligatory reserves	–	–	–	–	4,684	–	–	4,684
Trading securities	17,831	–	–	–	–	–	–	17,831
Amounts due from other financial institutions	–	–	–	150	–	–	–	150
Loans to customers	–	17,565	20,716	40,475	25,748	8,451	1,798	114,753
Interest accrued on loans to customers	–	2,440	–	–	–	–	–	2,440
Other assets	–	–	110	256	1,107	–	–	1,473
	28,243	26,709	20,876	40,935	31,539	8,451	1,798	158,551
Liabilities:								
Amounts due to NBK and the Government	–	157	37	597	1,642	–	–	2,433
Amounts due to other financial institutions	559	16,084	1,018	16,248	7,814	–	–	41,723
Amounts due to customers	27,010	12,921	29,078	9,217	2,101	681	–	81,008
Debt securities issued	–	–	–	–	10,396	2,914	–	13,310
Accrued interest payable	–	1,455	–	–	–	–	–	1,455
Other liabilities	–	652	98	702	305	–	–	1,757
	27,569	31,269	30,231	26,764	22,258	3,595		141,686
Net position	674	(4,560)	(9,355)	14,171	9,281	4,856	1,798	16,865
Accumulated gap	674	(3,886)	(13,241)	930	10,211	15,067	16,865	

The above tables do not include the effect of allowances for losses from loans and other assets, which total KZT 15,610 million, KZT 10,275 million and KZT 6,655 million as of December 31, 2003, 2002 and 2001, respectively.

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. Long-term credits and overdraft facilities are generally not available in Kazakhstan except for programs set up by international financial institutions. However, in the Kazakhstani marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity gap analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. While trade and available-for-sale securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

25. Fair Values of Financial Instruments

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 in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the 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.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments.

Amounts Due from and to Other Financial 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, applicable interest rates reflect market rates and, consequently, the fair value approximates the carrying amounts.

(Millions of Kazakh Tenge)

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.

Investment Securities

Investment securities held-to-maturity include only securities with fixed interest rates which reflect market interest rates and, consequently, the fair value approximates the carrying amounts. Non-marketable available-for-sale securities are represented by corporate shares and shares of associates and subsidiaries held for disposal. The total carrying amount of these securities approximates their fair values.

Amounts Due to Customers

Interest rates charged to customers closely approximate market interest rates and accordingly, the carrying amounts approximate fair values.

Debt Securities Issued

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

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

	2003		2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets						
Loans to customers	**255,118**	**256,986**	137,913	135,140	117,193	114,708
Financial liabilities						
Amounts due to other financial institutions	**115,680**	**113,161**	55,978	55,574	41,723	38,905
Debt securities issued	**73,507**	**78,456**	31,286	32,937	13,310	13,310

26. Related Party Transactions

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counterparts 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.

(Millions of Kazakh Tenge)

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

	2003			2002		
	Related party transactions	Percent on normal conditions	Total category	Related party transactions	Percent on normal conditions	Total category
Loans to customers, gross	**276**	**99.9%**	**232,349**	143	100.0%	124,660
Amounts due to other financial institutions	**1,508**	**100.0%**	**115,680**	708	100.0%	55,978
Amounts due to customers	**128**	**99.9%**	**139,224**	129	99.9%	105,757
Commitments and guarantees issued	**748**	**100.0%**	**18,648**	919	100.0%	17,384
Interest income	**71**	**99.9%**	**30,818**	36	100.0%	22,368
Interest expense	**113**	**100.0%**	**15,663**	33	100.0%	10,527
Insurance expense	**100**	**100.0%**	**145**	1,079	100.0%	1,079

	2001		
	Related party transactions	Percent on normal conditions	Total category
Loans to customers, gross	2,344	97.8%	108,049
Amounts due to other financial institutions	588	98.6%	41,723
Amounts due to customers	2,274	97.0%	81,088
Commitments and guarantees issued	148	100.0%	22,874

27. Capital Adequacy

NBK requires banks to maintain a capital adequacy ratio of 12% of risk-weighted assets. In 2003, risk-weighted assets calculated in accordance with the NBK requirements were derived from the Bank's consolidated financial statements prepared in accordance with IFRS while in 2002 and 2001 risk weighted assets were derived from the Bank's stand-alone financial statements prepared in accordance with KAS. As of December 31, 2003, 2002 and 2001, the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio, computed in accordance with the Basle Accord guidelines, as of December 31, 2003, 2002 and 2001, exceeded the minimum ratio of 8% recommended by the Basle Accord.

	Balance Sheet Notional Amount			Risk Weighted Amount		
	2003	2002	2001	2003	2002	2001
Total assets	**482,835**	295,204	195,176	**308,124**	182,869	142,614

	Capital			BIS%		
	2003	2002	2001	2003	2002	2001
Tier 1 capital	**25,948**	15,595	10,682	**8.42%**	8.53%	7.49%
Tier 2 capital	**21,561**	13,573	9,445			
Gross available capital	**47,509**	29,168	20,127			
Less investments	**(870)**	(50)	(140)			
Tier 1 + Tier 2 capital	**46,639**	29,118	19,987	**15.14%**	15.92%	14.01%

28. Segment Information

The Group's operations are highly integrated and primarily constitute a single industry segment, banking, that accounts for more than 95% of the Group's business. Accordingly for the purposes of IAS No. 14 "Segment Reporting" the Group is treated as one business segment. The Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.