Halyk Bank
Consolidated Financial Statements

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

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of JSC Halyk Bank

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

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

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

February 9, 2004

CONSOLIDATED BALANCE SHEETS

(Thousands of Kazakhstani Tenge)

	Notes	*December 31,* 2003	2002
Assets			
Cash and cash equivalents	4	**13,415,347**	17,687,828
Obligatory reserves	5	**5,212,050**	4,525,381
Trading securities	6	**39,914,328**	23,506,982
Amounts due from credit institutions	7	**7,290,929**	–
Investment securities:	8		
- available-for-sale		**3,231,735**	5,783,439
- held-to-maturity		**6,443,297**	2,982,832
Loans to customers	9	**163,888,497**	125,816,039
Property and equipment	12	**7,322,490**	7,045,844
Tax assets	10	**199,373**	–
Other assets		**2,605,196**	1,933,832
Total assets		**249,523,242**	189,282,177
Liabilities			
Amounts due to the Government	13	**528,514**	449,025
Amounts due to credit institutions	14	**61,876,550**	32,106,910
Amounts due to customers	15	**154,845,698**	136,918,002
Subordinated debt securities issued	16	**8,582,604**	4,468,713
Dividends payable		**366,253**	394,459
Tax liabilities	10	**182,686**	–
Provisions	11	**920,576**	59,563
Other liabilities		**778,847**	698,386
Total liabilities		**228,081,728**	175,095,058
Minority interest	2	**203,256**	–
Shareholders' equity	17		
Share capital		**9,896,800**	9,683,750
Additional paid-in capital		**2,191,872**	2,085,600
Treasury stock		**(15,739)**	(14,043)
Reserves		**148,279**	544,152
Retained earnings		**9,017,046**	1,887,660
Total shareholders' equity		**21,238,258**	14,187,119
Total liabilities, shareholders' equity and minority interest		**249,523,242**	189,282,177
Financial commitments and contingencies	18		

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

Syrgabekova A. N. Chairwoman of the Board

Fedchenko A.G. Chief Accountant

February 9, 2004

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

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

	Notes	*Years ended December 31,* 2003	2002
Interest income			
Loans		**21,593,736**	13,008,226
Securities		**2,614,729**	1,860,556
Deposits with other banks		**248,360**	454,887
		24,456,825	15,323,669
Interest expense			
Deposits from customers		**(6,629,319)**	(6,189,032)
Deposits and loans from credit institutions		**(1,895,535)**	(920,938)
Debt securities		**(658,616)**	(406,961)
		(9,183,470)	(7,516,931)
Net interest income before impairment		**15,273,355**	7,806,738
Impairment charge	11	**(4,136,538)**	(6,649,796)
Net interest income		**11,136,817**	1,156,942
Fee and commission income	19	**7,558,880**	5,316,807
Fee and commission expense	19	**(995,099)**	(1,132,756)
Fees and commissions		**6,563,781**	4,184,051
Gains less losses from trading securities		**566,287**	659,832
Gains less losses from available-for-sale securities		**441,674**	17,110
Gains less losses from foreign currencies:			
- dealing		**1,323,636**	1,176,115
- translation differences		**(212,275)**	62,106
Dealing profits less losses		**8,415**	(389,910)
Write-back of dormant accounts	20	**–**	3,698,298
Other income		**430,510**	608,092
Non interest income		**2,558,247**	5,831,643
Salaries and benefits	21	**(5,285,192)**	(3,726,007)
Depreciation and amortisation	12	**(1,007,296)**	(1,207,001)
Taxes other than income tax		**(735,339)**	(875,218)
Administrative and operating expenses	21	**(4,098,356)**	(3,229,505)
Other (provisions) reversal	11	**(861,013)**	38,503
Non interest expense		**(11,987,196)**	(8,999,228)
Income before income tax expense and minority interest		**8,271,649**	2,173,408
Income tax expense	10	**(773,465)**	(302,245)
Net income after income tax		**7,498,184**	1,871,163
Minority interest in net income		**(37,906)**	–
Net income		**7,460,278**	1,871,163
Basic earnings per share (in Kazakhstani Tenge)	22	**96**	27

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Kazakhstani Tenge)

	Share Capital	*Additional paid-in capital*	*Treasury stock*	*Securities revaluation reserve*	*Property and equipment revaluation reserve*	*Retained earnings*	*Total shareholders' equity*
December 31, 2001	5,422,600	956,415	–	–	146,443	377,565	6,903,023
Capital contributions	4,261,150	1,130,464	–	–	–	–	5,391,614
Treasury stock purchase	–	(1,488)	(14,876)	–	–	–	(16,364)
Treasury stock sale	–	209	833	–	–	–	1,042
Dividends - preferred shares	–	–	–	–	–	(394,459)	(394,459)
Fair value change of available-for-sale securities	–	–	–	431,100	–	–	431,100
Transfers	–	–	–	–	(33,391)	33,391	–
Net income	–	–	–	–	–	1,871,163	1,871,163
December 31, 2002	9,683,750	2,085,600	(14,043)	431,100	113,052	1,887,660	14,187,119
Capital contributions	**213,050**	**106,272**	–	–	–	–	**319,322**
Treasury stock purchase	–	–	**(1,696)**	–	–	–	**(1,696)**
Dividends - preferred shares	–	–	–	–	–	**(354,936)**	**(354,936)**
Fair value change of available-for-sale securities	–	–	–	**(371,012)**	–	–	**(371,012)**
Transfers	–	–	–	–	**(24,861**	**24,861**	–
Translation difference	–	–	–	–		**(817)**	**(817)**
Net income	–	–	–	–	–	**7,460,278**	**7,460,278**
December 31, 2003	**9,896,800**	**2,191,872**	**(15,739)**	**60,088**	**88,19**	**9,017,04**	**21,238,25**

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Kazakhstani Tenge)

	Years ended December 31,	
	2003	*2002*
Cash flows from operating activities:		
Net income before minority interest and income taxes	**8,271,649**	2,173,408
Adjustments for:		
Depreciation and amortization	**1,007,296**	1,207,001
Provision for losses	**4,997,551**	6,611,293
Unrealized foreign exchange loss	**549,182**	113,188
Loss on sale of property and equipment	**(70,806)**	(199,415)
Operating income before changes in net operating assets	**14,754,873**	9,905,475
(Increase) decrease in operating assets:		
Obligatory reserves	**(686,669)**	137,580
Trading securities	**(16,407,346)**	(23,469,530)
Amounts due from credit institutions	**(7,306,693)**	5,036,488
Loans to customers	**(50,402,439)**	(49,407,081)
Other assets	**(220,104)**	481,318
Increase (decrease) in operating liabilities:		
Amounts due to the Government	**86,661**	346,843
Amounts due to credit institutions	**32,381,613**	15,377,408
Amounts due to customers	**22,785,590**	34,002,780
Other liabilities	**65,722**	(113,358)
Net cash outflow from operating activities before income taxes	**(4,948,792)**	(7,702,077)
Income tax paid	**(790,152)**	(250,058)
Net cash outflow from operating activities	**(5,738,944)**	(7,952,135)
Cash flows from investing activities		
Net cash paid on acquisition of subsidiaries	**(241,803)**	–
Purchase of available-for-sale securities	**(18,427,697)**	(317,353)
Sale of available-for-sale securities	**20,569,557**	9,525,815
Purchase of held-to-maturity securities	**(7,231,442)**	(2,982,832)
Proceeds from liquidation of held-to-maturity securities	**3,770,977**	–
Purchase of property and equipment	**(1,289,834)**	(1,466,688)
Proceeds from sale of property and equipment	**223,390**	388,055
Net cash outflow from investing activities	**(2,626,852)**	5,146,997
Cash flow from financing activities:		
Proceeds from issue of share capital	**319,322**	5,391,614
Purchase of treasury shares	**(1,696)**	(16,364)
Sale of treasury shares	–	1,042
Dividends paid	**(383,142)**	–
Subordinated debt securities issued	**4,445,405**	2,112,459
Change in minority interest	–	(216)
Net cash flow from financing activities	**4,379,889**	7,488,535
Effects of exchange rate changes on cash and cash equivalents	**(286,575)**	450,035
Net change in cash and cash equivalents	**(4,272,481)**	5,133,432
Cash and cash equivalents at the beginning of the year	**17,687,828**	12,554,396
Cash and cash equivalents at the end of the year	**13,415,347**	17,687,828
Supplementary information:		
Interest received	**19,831,665**	15,259,140
Interest paid	**5,555,199**	6,702,526

The accompanying notes on pages 5 to 29 are an integral part of these consolidated financial statements.

(Thousands of Kazakhstani Tenge)

1. Principal Activities

Halyk Bank and subsidiaries (the "Bank") provide retail and corporate banking, pension and asset management services in Kazakhstan. The parent company of the Bank, Joint Stock Company Halyk Bank (formerly "OJSC Halyk Bank of Kazakhstan") (the "Bank"), was registered in 1995, and is domiciled in the Republic of Kazakhstan.

The Bank's primary business consists of originating loans and guarantees, attracting deposits from legal entities and individuals, trading with securities, foreign currency and derivative instruments, execution and arrangement of precious metals transactions, conducting credit card operations and sale of state saving bonds. In addition, the Bank is authorized to accept pension fund deposits, acts as agent for the Government of the Republic of Kazakhstan and provide other banking services to its customers.

The address of the Bank's registered office is: 97 Rozybakiyev Street, Almaty, 480046, Republic of Kazakhstan. The Bank has a primary listing in the Kazakhstani Stock Exchange. The Bank's head office is in Almaty. As of December 31, 2003, the Bank had 20 regional branches, 129 sub-regional offices and 379 cash settlement units (December 31, 2002: 20 regional branches, 147 sub-regional offices and 457 cash settlements units) located throughout Kazakhstan.

The Bank had 8,424 and 8,663 employees as of December 31, 2003 and 2002, respectively.

As of December 31, 2003, the following shareholders owned more than 5% of the outstanding common shares.

Shareholder	**%**
ALMEX LLP	43.71
Asia Invest Corporation	9.72
Delta LLP	9.66
Agys Ltd	6.95
Karat 24 LLP	5.06
Dakot LLP	5.06
Other	19.84
Total	**100.00**

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 thousands of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the majority of the Bank's transactions are denominated, measured, or funded in KZT. Transactions in other currencies are treated as transactions in foreign currencies.

During 2002, the Bank 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 were based on the Bank's statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 between KAS and IFRS are presented later in this note. Starting January 1, 2003, the Bank 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 for trading and available for sale securities as required by IFRS 39 "Financial Instruments: Recognition and Measurement" and estimated market value accounting for certain buildings, included in property and equipment as allowed by IFRS 16 "Property, Plant and Equipment".

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

(Thousands of Kazakhstani Tenge)

Consolidated Subsidiaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	*Holding, %*	*Country*	*Activities*	*Total assets*	*Equity*	*Net income (loss)*
2003						
"Khalyk Leasing" CJSC	100	Kazakhstan	Leasing	2,217,183	196,993	76,864
"Accumulated Pension fund of Halyk Bank" JSC	85.012	Kazakhstan	Pension assets accumulation and management	1,454,857	1,356,126	261,930
"Kazteleport" CJSC	100	Kazakhstan	Telecommunication	33,025	32,670	6,952
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of Eurobonds	76	(8,740)	(1,026)
Total subsidiaries				**3,705,141**	**1,577,049**	**344,720**
2002						
CJSC "Khalyk Leasing"	100	Kazakhstan	Leasing	1,985,603	(14,872)	(29,872)
CJSC "Kazteleport"	100	Kazakhstan	Telecommunication services	1,900,318	25,718	14,729
CJSC "Pension Assets Management Company of Halyk Bank of Kazakhstan"	100	Kazakhstan	Asset management	552,822	552,776	169,299
HSBK (Europe) B.V.	100	Netherlands	Issue and placement of Eurobonds	140	(6,897)	(2,519)
Total subsidiaries				**4,438,883**	**556,725**	**151,637**

At December 31, 2002 the Bank held 20.77% of the issued and paid shares of OJSC "Accumulating Pension Fund of Halyk Bank" ("the Fund"). During 2003, the Bank acquired an additional 266,768 shares of the Fund (59.3% of all issued and paid shares) for KZT 302,419. The control was obtained on May 1, 2003, and, accordingly, the assets, liabilities and results of operations of the Fund are consolidated from that date.

At the date of acquisition (May 1, 2003), the net assets of the Fund comprised:

Net assets acquired	2003
Cash	**101**
Due from financial institutions	**60,515**
Investment securities available-for-sale	**364,293**
Premises and equipment	**82,290**
Other assets	**52,948**
Other creditors	**(18,726)**
Net assets	**541,421**
Less minority interest	**(165,350)**
Net assets less minority interest	**376,071**
Purchase consideration paid	**363,245**
Negative goodwill	**12,826**

The negative goodwill was presented as a deduction from assets. In September 2003, the Fund and CJSC "Pension Assets Management Company of Halyk Bank of Kazakhstan " merged their operations.

(Thousands of Kazakhstani Tenge)

Associates accounted for under the equity method

The following accociates are accounted for under the equity method:

Associates	Holding, %	Country	Activities	Share in net assets	Share in net income
2003					
Kazinstrakh CJSC	41.69	Kazakhstan	Insurance	444,000	68,783
2002					
Pension Fund of Halyk Bank OJSC	20.77	Kazakhstan	Pension Fund	60,826	9,302

Reconciliation of KAS and IFRS Equity and Net Income

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

	2002	
	Shareholders' equity	*Net income*
Kazakh Accounting Legislation	16,824,703	2,770,771
Dividends on preferred shares	(394,459)	–
Allowance for losses	(2,220,535)	(899,608)
Income taxes	(9,243)	–
Other	(13,347)	–
International Financial Reporting Standards	14,187,119	1,871,163

3. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements of the Bank include Halyk Bank and the companies that it controls (subsidiaries). This control is normally evidenced when the Bank 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 Bank and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. All intercompany transactions, balances, and unrealised surpluses and deficits on transactions between Bank companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

Recognition of Financial Instruments

The Bank 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.

(Thousands of Kazakhstani Tenge)

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

Cash and Cash Equivalents

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

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 cash flow statement.

Trading Securities

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

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

Amounts Due from Credit Institutions

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

Repurchase and Reverse Repurchase Agreements

Repurchase and reverse repurchase agreements are utilized by the Bank 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 credit institutions or amounts due to customers. Securities purchased under agreements to resell ('reverse repos') are recorded as amounts due from credit institutions or as loans to customers.

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

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

(Thousands of Kazakhstani Tenge)

Investment Securities

The Bank classified its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- Securities that are not classified by the Bank as held-to-maturity or trading (see above) are included in the available-for-sale portfolio.

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Shares of associates and subsidiaries held by the Bank exclusively with a view to their future disposal are also classified as available-for-sale. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
2. Available-for-sale investment securities are subsequently measured at fair value, which is equal to the market value as at the balance sheet date. When debt securities with fixed maturities are non-marketable or no information is available on market of similar instruments, fair value has been estimated as the discounted future cash flows using current interest rates. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for diminution in value unless there are other appropriate and workable methods of reasonably estimating their fair value.

   Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized in shareholders' equity as fair value change of available-for-sale financial assets in the period that the change occurs.

Loans to Customers

Loans and advances are originated by the Bank by providing money directly to the borrower and are carried at amortized cost. Loans and advances are recognized when cash is advanced to the borrowers. The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income. Subsequent payments by borrowers are applied to either principal or delinquent interest based on the estimated collectibility of the loan and delinquent interest at the time of payment. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period. Loans and advances to customers are carried net of any allowance for impairment.

Taxation

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

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

Deferred income tax liabilities are recognized for all taxable temporary differences:

- except were the deferred income tax liability arises from goodwill amortization or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except were the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

(Thousands of Kazakhstani Tenge)

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

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

Allowances for Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank 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 Bank expects to realize the financial instrument.

The allowances are based on the Bank'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 Bank is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

Property and Equipment

Property and equipment, except buildings, are stated at the lower of cost less accumulated depreciation and net recoverable amount. 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, retirement or depreciation of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained earnings.

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

	Years
Buildings and constructions	15 – 50
Vehicles	7
Computers and banking equipment	4
Other	4 – 10

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

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

(Thousands of Kazakhstani Tenge)

Amounts Due to NBK, Credit Institutions and to Customers

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

Subordinated Debt Securities Issued

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

Provisions

Provisions are recognized when the Bank 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 Bank does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank 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 nominal value with any premium or discount recorded in additional paid in capital. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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

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

Contingencies

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

Income and Expense Recognition

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

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, and 2002, were KZT 144.22 and KZT 155.85 to 1 USD, respectively.

(Thousands of Kazakhstani Tenge)

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2003	*2002*
Overnight deposits in other banks	**5,257,735**	10,704,401
Cash on hand	**4,850,482**	2,641,976
Correspondent accounts with non-OECD based banks	**1,270,400**	611,807
Interest bearing deposits in Kazakh banks and financial institutions	**1,087,822**	372,623
Short-term loans to other non-OECD banks	**510,892**	–
Correspondent accounts with OECD based banks	**436,766**	3,342,021
Short term loans to other Kazakh banks and financial institutions	**1,250**	15,000
Cash and cash equivalents	**13,415,347**	17,687,828

Interest-bearing deposits represent overnight and short-term placements at other banks with annual contractual interest rates ranging as follows at December 31:

	2003		*2002*	
	KZT	**US Dollar**	KZT	US Dollar
Overnight deposits in other banks	**1%**	**1-4%**	–	1%
Deposits with Kazakh banks	**14%**	**1-4%**	9-13%	4%
Short-term loans to other non-OECD banks	**–**	**4-8%**	–	–
Short term loans to other Kazakh banks	**5%**	**–**	5%	–

At December 31, 2003, 10 banks accounted for 49% of total cash and cash equivalents and represented 31% of the Bank's total shareholders' equity. At December 31, 2002, 10 banks accounted for 82% of total cash and cash equivalents and represented 102% of the Bank's total shareholders' equity.

5. Obligatory Reserves

Obligatory reserves comprise:

	2003	*2002*
Due from the NBK allocated to obligatory reserves	**2,018,559**	1,576,240
Cash on hand allocated to obligatory reserves	**3,193,491**	2,949,141
Obligatory reserves	**5,212,050**	4,525,381

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 the NBK or in physical cash and maintained based on average monthly balances of the aggregate of deposits with the 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***
Notes of the NBK	**23,958,264**	10,148,019
Treasury bills of the Ministry of Finance	**9,207,605**	6,209,751
Sovereign bonds of the Republic of Kazakhstan	**4,085,513**	4,549,879
Eurobonds of Kazakh banks	**2,493,542**	2,129,283
Bonds of Development Bank of Kazakhstan	**169,404**	470,050
Trading securities	**39,914,328**	23,506,982
Subject to repurchase agreements	**5,656,840**	4,283,405

(Thousands of Kazakhstani Tenge)

Interest rates and maturity of these securities follow:

	2003		*2002*	
	%	***Maturity***	*%*	*Maturity*
Notes of the NBK	**4.7%-5.4%**	**2004**	6%	2003
Treasury bills of the Ministry of Finance	**5.7%-16.9%**	**2004-2013**	7-17%	2003-2006
Sovereign bonds of the Republic of Kazakhstan	**11.1%**	**2007**	11.1%	2007
Eurobonds of Kazakh banks	**5.1%-8.6%**	**2007-2013**	7.1%	2007
Bonds of Development Bank of Kazakhstan	**9.1%-9.8%**	**2007**	9.1%	2007

At December 31, 2003 and 2002, eurobonds of two banks accounted for 100% of eurobonds of Kazakh banks and represented 11.7% and 15% of the Bank's total shareholders' equity, respectively.

7. Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	2003	*2002*
Time deposits	**7,306,27**	–
Loans to local financial institutions	**422**	–
	7,306,69	–
Less allowance for losses	**(15,764**	–
Amounts due from credit institutions	**7,290,92**	–

At December 31, 2003, the annual interest rates earned by the Bank on time deposits ranged from 8% and 13.55% and matured in June and July 2004.

At December 31, 2003, one bank accounted for 89% of total amounts due from credit institutions and represented 31% of the Bank's total shareholders' equity.

8. Investment Securities

Available-for-sale securities comprise:

	2003	***2002***
Sovereign bonds of Kazakhstan	**1,827,400**	1,955,666
Bonds of Kazakh banks	**848,296**	317,353
Treasury bills of the Ministry of Finance	**301,224**	2,902,792
Corporate bonds	**148,152**	592,649
Notes of the NBK	**106,663**	14,979
Available-for-sale securities	**3,231,735**	5,783,439
Subject to repurchase agreements	**1,181,762**	1,484,161

Interest rates and maturity of these securities follow:

	2003		***2002***	
	%	***Maturity***	***%***	***Maturity***
Treasury bills of the Ministry of Finance	5.5% - 6.1%	2005-2010	7-17%	2003-2007
Sovereign bonds of Kazakhstan	3.9%-13.5%	2004-2007	11.13%	2004-2007
Corporate bonds	7.5%-10.9%	2004-2009	8.5%-9%	2003-2005
Bonds of Kazakh banks	10.5%-13.3%	2004-2010	7%-11%	2003-2007
Notes of the NBK	4.63%-4.9%	2004	6%	2003

At December 31, 2003, bonds of two banks accounted for 67% of Kazakh banks' bonds and represented 2.7% of the Bank's total shareholders' equity. At December 31, 2002, bonds of one bank accounted for 100% of Kazakh banks' bonds and represented 2.2% of the Bank's total shareholders' equity.

(Thousands of Kazakhstani Tenge)

Held-to-maturity securities comprise:

	2003		2002	
	Carrying value	Nominal value	Carrying value	Nominal value
Treasury bills of the Ministry of Finance	**4,705,629**	**4,460,487**	1,566,011	1,573,209
Corporate bonds	**1,333,508**	**1,307,036**	1,152,997	766,980
Local municipal bonds	**402,675**	**380,813**	262,222	166,580
World Bank bonds	**1,485**	**1,441**	1,602	1,000
Held-to-maturity securities	**6,443,297**	**6,149,777**	2,982,832	2,507,769

Interest rates and maturity of these securities follow:

	2003		2002	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	3.9% -8.2 %	2004-2005	7%-17%	2003-2005
Corporate bonds	7.4%-11.5%	2004-2014	8.5%-9%	2003-2005
Local municipal bonds	6%-8.5%	2005-2008	6%-8.5%	2005-2008
World Bank bonds	7.1%	2005	7.1%	2005

9. Loans to Customers

Loans to customers comprise:

	2003	2002
Loans to customers	**171,929,919**	131,256,107
Promissory notes	**1,067,525**	868,318
Factoring	**261,691**	117,000
Overdrafts	**729,363**	957,120
Advances	**429,345**	428,498
	174,417,843	133,627,043
Less – Allowance for loan impairment	**(10,529,346)**	(7,811,004)
Loans to customers	**163,888,497**	125,816,039

At December 31, 2003, the annual interest rates charged by the Bank ranged from 11% to 28% per annum for KZT-denominated loans and advances (2002: 11% - 28%) and from 10% to 23% per annum for US Dollar-denominated loans and advances (2002: 10%-23%).

At December 31, 2003 and 2002, loans for which the accrual of interest has been suspended approximated KZT 3,234,219 and KZT 661,211, respectively.

(Thousands of Kazakhstani Tenge)

Loans are made principally within Kazakhstan to the following sectors:

	2003	%	*2002*	%
Wholesale trading	**28,709,276**	**16%**	16,375,035	12%
Agriculture (grain trading)	**27,434,880**	**15%**	21,962,277	17%
Individuals	**18,650,359**	**10%**	7,511,974	6%
Construction	**16,523,929**	**9%**	9,059,167	7%
Oil and gas	**13,897,785**	**8%**	9,807,910	7%
Mining	**12,237,027**	**7%**	1,550,402	1%
Food industry	**9,275,568**	**5%**	8,087,824	6%
Metallurgy	**6,360,183**	**3%**	6,158,711	5%
Retail trade	**5,808,358**	**3%**	7,302,901	6%
Chemical processing	**5,003,720**	**3%**	4,496,945	3%
Transportation	**3,394,026**	**2%**	3,855,444	3%
Energy	**3,114,309**	**2%**	1,493,995	1%
Financial	**1,616,499**	**1%**	1,788,962	1%
Textile production	**923,809**	**1%**	4,241,613	3%
Machinery and equipment production	**614,854**	**1%**	1,309,541	1%
Communication	**464,380**	**1%**	1,701,241	1%
Hotel industry	**390,771**	**1%**	41,016	1%
Entertainment	**475,261**	**1%**	1,495,929	1%
Other	**19,522,849**	**11%**	25,386,156	18%
	174,417,843		133,627,043	

At December 31, 2003 and 2002, the top 10 borrowers accounted for 30% and 27% of the Bank's gross commercial loans to customers, respectively.

10. Taxation

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable.

The income tax expense comprise:

	2003	*2002*
Current tax charge	709,206	302,245
Current tax of prior periods	(110,133)	–
Deferred tax charge	174,392	–
Income tax expense	**773,465**	**302,245**

Tax assets and liabilities consist of the following:

	2003	*2002*
Current tax assets	**199,373**	–
Deferred tax assets	**–**	–
Tax assets	**199,373**	–
Current tax liabilities	**8,294**	–
Deferred tax liabilities	**174,392**	–
Tax liabilities	**182,686**	–

(Thousands of Kazakhstani Tenge)

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

	2003	***2002***
Income before tax	**8,271,649**	2,173,408
Statutory tax rate	**30%**	30%
Theoretical income tax expense at the statutory rate	**2,481,495**	652,022
Non taxable income on long-term loans granted for modernization of property and equipment	**(553,164)**	(248,863)
State securities non-taxable income	**(1,679,825)**	(1,488,745)
Income of subsidiaries taxed at different rates	**(71,044)**	(78,547)
Tax exempt income	**(33,326)**	(2,342)
Non deductible expenditures:		
- interest on deposits	**703,425**	562,241
- charity	**75,638**	–
- non business expenses	**89,952**	522,331
- dormant accounts	**157,097**	–
- foreign exchange loss	–	11,580
- other	**77,611**	8,307
Income tax of prior years	**(110,133)**	–
Change in unrecognised deferred tax assets	**(364,261)**	364,261
Income tax expense	**773,465**	302,245

Deferred tax assets and liabilities as of December 31 comprise:

	2003	***2002***
Tax effect of deductible temporary differences:		
Allowances for impairment and provisions for other losses	**91,262**	656,131
Gross deferred tax assets	**91,262**	656,131
Unrecognized deferred tax assets	–	(364,261
Deferred tax asset	**91,262**	291,870
Tax effect of taxable temporary differences:		
Property and equipment	**(265,654**	(291,870
Deferred tax liability	**(265,654**	(291,870
Deferred tax liability	**(174,392**	–

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, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

(Thousands of Kazakhstani Tenge)

11. Allowances for Losses and Provisions

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

	Due from credit institutions	*Loans to customers*	*Other assets*	*Total*
December 31, 2001	48,983	3,736,599	142,977	3,928,559
Charge (reversal)	(48,983)	6,248,439	450,340	6,649,796
Write-offs	–	(2,448,218)	(22,644)	(2,470,862)
Recoveries	–	274,184	107	274,291
December 31, 2002	–	7,811,004	570,780	8,381,784
Charge (reversal)	**15,764**	**4,593,313**	**(472,539)**	**4,136,538**
Write-offs	–	**(2,123,080)**	**(42,907)**	**(2,165,987)**
Recoveries	–	**248,109**	**419**	**248,528**
December 31, 2003	**15,764**	**10,529,346**	**55,753**	**10,600,863**

The movements in the allowance for provisions, were as follows:

	Guarantees and commitments
December 31, 2001	**98,06[illegible]**
(Reversal)	(38,503[illegible]
Write- offs	–
Recoveries	–
December 31, 2002	**59,56[illegible]**
Charge	861,01[illegible]
Write-offs	–
Recoveries	–
December 31, 2003	**920,57[illegible]**

Allowances for impairment of assets are deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

12. Property and Equipment

The movements of property and equipment, were as follows:

	Buildings and constructions	*Vehicles*	*Computers and banking equipment*	*Other*	*Total 2003*	*Total 2002*
Cost /Valuation						
January 1,	**3,451,971**	**434,256**	**4,085,610**	**2,309,664**	**10,281,501**	9,303,491
Additions	**279,195**	**89,292**	**339,026**	**664,611**	**1,372,124**	1,466,688
Disposals	**(74,878)**	**(9,606)**	**(61,884)**	**(193,130)**	**(339,498)**	(488,678)
Transfers	–	–	**9,997**	**(9,997)**	–	–
December 31,	**3,656,288**	**513,942**	**4,372,749**	**2,771,148**	**11,314,127**	10,281,501
Accumulated depreciation						
January 1,	**285,034**	**218,065**	**1,894,404**	**838,154**	**3,235,657**	2,486,263
Charge	**128,997**	**62,264**	**384,778**	**366,855**	**942,894**	1,049,432
Disposals	**(80,080)**	**(19,959)**	**(34,988)**	**(51,887)**	**(186,914)**	(300,038)
December 31,	**333,951**	**260,370**	**2,244,194**	**1,153,122**	**3,991,637**	3,235,657
Net book value:						
December 31, 2003	**3,322,337**	**253,572**	**2,128,555**	**1,618,026**	**7,322,490**	
December 31, 2002	**3,166,937**	**216,191**	**2,191,206**	**1,471,510**		7,045,844

(Thousands of Kazakhstani Tenge)

Depreciation and amortization in the consolidated statements of income accounts also include amortization of intangible assets of KZT 64,402 and KZT 157,569 for 2003 and 2002, respectively.

13. Amounts Due to the Government

Amounts due to the Government represent funding for loans to agricultural companies under the World Bank post privatisation program. Under this program, the Government provided financing to agricultural projects in Kazakhstan. At December 31, 2003, these amounts bear interest at 1.27% per annum (2002: 2.8%) and mature in December 2007 (2002: between 2003 and 2006).

14. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2003	*2002*
Loans from OECD based banks	**52,111,282**	16,378,916
Overnight deposits	**3,480,829**	1,924,748
Loans from Small Business Development Fund	**1,960,708**	2,401,355
Loans from Kazakh banks	**1,734,284**	6,907,706
Loans from EBRD	**1,379,120**	4,205,214
Short-term deposits from Kazakh banks	**706,883**	60,000
Correspondent accounts	**196,624**	228,971
Short-term deposits from non- OECD based banks	**144,369**	–
Loans from Financial Institutions	**81,231**	–
Loans from non-OECD based banks	**81,220**	–
	61,876,550	32,106,910

At December 31, 2003, loans from OECD and non-OECD based banks are USD and EUR denominated, bear interest at rates between 1.78% and 8.53% per annum (2002: 2.3% - 7.2%) and mature between 2004 and 2012 (2002: 2003 - 2012).

At December 31, 2003, loans from Kazakh banks are USD and KZT denominated, bear interest at rates between 0.9% and 6% per annum (2002: 3% - 6.0%), and mature between 2004 and 2005 (2002: between 2003 and 2006).

At December 31, 2003, the Bank had several loans from the European Bank for Reconstruction and Development ("EBRD") bearing annual interest at rates ranging from 3.92% to 6.4% per annum, (2002: 4% - 6%) and maturing between 2004 and 2006 (2002: between 2003 and 2004).

At December 31, 2003, loans from the Small Business Development Fund represent a pass-through credit line provided to the Bank through the Government of the Republic of Kazakhstan from EBRD. Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. The facilities mature between 2004 and 2005 (2002: 2003 - 2004) and bear contractual interest at rates between 5% and 10.19% per annum (2002: 5% - 10.53%). The amounts received under this facility have been advanced to borrowers and included within commercial loans in the accompanying consolidated balance sheets.

At December 31, 2003, the Bank had short-term deposits from Kazakh banks bearing annual interest at rates ranging from 1% to 3.8% per annum (2002: 2.55% - 5%) and maturing in January and February 2004 (2002: January 2003).

15. Amounts Due to Customers

The amounts due to customers included balances in customer current accounts and term deposits, and were analysed as follows:

	2003	*2002*
Current accounts:		
Individuals	**23,674,644**	19,251,434
Commercial entities	**33,307,551**	29,445,261
Governmental entities	**1,505,820**	5,395,910
Term deposits:		
Individuals	**65,104,894**	53,266,594
Commercial entities	**29,815,332**	28,185,486
Governmental entities	–	163,455
Held as security against letters of credit	**1,437,457**	1,209,862
	154,845,698	136,918,002

(Thousands of Kazakhstani Tenge)

Term deposits at December 31, 2003 bear annual interest at rates ranging from 5% to 7% per annum (December 31, 2002: from 1% to 9%) for KZT-denominated balances and from 1.75% to 5.5% per annum (2002: from 1% to 7%) for foreign currency-denominated balances.

An analysis of customer accounts by sector follows:

	2003	*2002*
Individuals	**88,635,977**	66,234,876
Mining	**15,526,766**	20,397,747
Oil and gas	**11,336,288**	1,392,547
Metallurgy	**4,597,748**	13,699,629
Energy	**4,308,097**	4,628,793
Construction	**3,965,924**	3,717,617
Retail trade	**2,646,702**	3,068,396
Wholesale trading	**2,556,135**	2,601,773
Transportation	**1,628,714**	2,994,598
Financial	**1,437,457**	1,198,028
Agriculture (grain trading)	**1,239,415**	751,970
Entertainment	**805,499**	400,386
Chemical processing	**407,909**	36,203
Communication	**436,160**	3,035,491
Food industry	**339,083**	568,774
Hotel industry	**297,776**	175,448
Machinery and equipment production	**231,751**	492,989
Light industry	**49,507**	41,181
Other	**14,398,790**	11,481,556
	154,845,698	136,918,002

16. Subordinated Debt Securities Issued

At December 31, 2003 and 2002, subordinated debt securities issued comprised:

	Coupon rate	*Maturity date*	*2003*	2002
KZT denominated bonds	9%	6/19/2009	**4,414,634**	–
USD denominated bonds	11.8%	6/20/2007	**2,287,237**	2,407,780
KZT denominated bonds indexed to USD	8%	5/21/2007	**1,880,733**	2,060,933
Subordinated debt securities issued			**8,582,604**	4,468,713

The repayment of the securities of KZT 1,880,733 is indexed to the KZT/US Dollar exchange rate as at the date of repayment of principal and interest. These subordinated securities are unsecured obligations of the Bank and are subordinated in right of payments to all present and future senior indebtedness and certain other obligations of the Bank.

17. Shareholders' Equity

Share capital at December 31, 2003 consisted of 74,225,999 common shares and 24,742,000 preferred shares (2002: 74,225,999 and 22,611,500). Each common share is entitled to one vote and shares equally in dividends declared. Preferred shares are not redeemable, carry a cumulative dividend of a minimum of 15.75 KZT per share per annum, which is indexed to the KZT/US Dollar exchange rate as at the date of payment, and do not have any voting rights. All shares are KZT denominated.

In September 2002, the Bank issued 20,000,000 common shares with a nominal value of KZT 100 each that were fully paid during 2002 and 2003.

In 2003, the Bank declared dividends relating to 2002 on preferred shares of KZT 394,459 and paid KZT 383,142. During 2003, the Bank accrued for dividends on preferred shares relating to 2003 amounting to KZT 354,936.

(Thousands of Kazakhstani 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 in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The Bank could be affected, for 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 Bank's assets, and the ability of the Bank to maintain or pay its debts as they mature.

Legal

In the ordinary course of business, the Bank 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 Bank.

As of December 31, 2003, the Bank was engaged in litigation proceedings with the local tax authorities who assessed additional taxes of KZT 1,315,412 on the Bank relating to 2002. In March 2004, the regional tax court issued a verdict in favour of the Bank and rejecting the claims of the local tax authorities. Management believes that it is highly unlikely for the local tax authorities to reverse this verdict in the appeals court. Therefore no additional provisions were made in these consolidated financial statements with regard to this contingency.

Financial commitments and contingencies

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

	2003	*2002*
Commitments to extend credit	**39,207,253**	35,509,302
Financial guarantees	**20,343,907**	45,666,793
Commercial letters of credit	**7,794,261**	6,200,041
	67,345,421	87,376,136
Less cash collateral	**(1,437,457)**	(1,209,862)
Less allowances	**(920,576)**	(59,563)
Financial commitments and contingencies	**64,867,876**	86,106,711

At December 31, 2003, the top ten guarantees accounted for 47% of the Bank's total financial guarantees (2002 – 8%) and represented 45% (2002 – 26%) of the Bank's total shareholders' equity.

At December 31, 2003, the top ten letters of credit accounted for 49% of the Bank's total commercial letters of credit (2002 – 75%) and represented 18% (2002 – 33%) of the Bank's total shareholders' equity.

(Thousands of Kazakhstani Tenge)

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.

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

	2003		2002	
	Notional Amount	Unrealised Gains	Notional Amount	Unrealised Gains
Deliverable forward contracts:				
USD-EURO contracts with OECD counteragents	**630,970**	**1**	–	–
USD-EURO contracts with non-OECD counteragents	**54,160**	**–**	–	–

19. Fees and Commissions

Fee and commission income was made from the following sources:

	2003	2002
Transfer operations	**1,530,106**	986,358
Cash operations	**1,200,172**	844,608
Pension fund and asset management	**972,192**	–
Letters of credit and guarantees issued	**740,997**	254,923
Fees for banking services on pension payments	**448,931**	912,159
Servicing customer accounts	**652,873**	421,249
Purchase – sale of currencies	**535,355**	673,365
Servicing utility payments	**575,736**	440,040
Debit/credit cards	**539,858**	168,100
Factoring	**66,180**	114,742
Custodian	**47,025**	36,767
Other	**249,455**	464,496
	7,558,880	5,316,807

Fees and commission expense comprised the following:

	2003	2002
Foreign currencies operations	**268,229**	508,846
Debit/credit cards	**260,457**	142,770
Transfer operations	**59,627**	63,883
Nostro and loro accounts	**53,843**	52,823
Cash operations	**40,701**	242,310
Custodian services	**22,217**	1,604
Letters of credit and guarantees	**4,485**	6,360
Other	**285,540**	114,160
	995,099	1,132,756

20. Write Back of Dormant Customer Accounts

During 2002 and as allowed by the banking regulations in Kazakhstan, the Bank has written back certain dormant customer accounts taken over from the State Savings Bank of Kazakh SSR (the "Predecessor Bank") amounting to KZT 3,698,298. Management believes that none of these accounts will be claimed in the future as these accounts have been dormant for more than nine years.

(Thousands of Kazakhstani Tenge)

21. Salaries and Administrative and Operating Expenses

Salaries and benefits, administrative and operating expenses comprise:

	2003	2002
Salaries and bonuses	**3,771,837**	2,650,987
Social security costs	**778,135**	568,627
Other employment taxes	**735,220**	506,393
Salaries and benefits	**5,285,192**	3,726,007
Repair and maintenance	445,676	206,234
Communication	374,697	347,067
Advertisement	441,074	322,703
Insurance of deposits	358,000	355,000
Professional services	280,076	53,935
Business trip expenses	278,677	213,948
Security	153,850	145,167
Transportation	122,250	105,934
Rent	108,243	111,831
Charity	126,763	16,794
Social events	125,364	27,301
Loss from disposal of premises and equipment	70,806	199,415
Fines and penalties	3,382	5,733
Other	1,209,498	1,118,443
Administrative and operating expenses	**4,098,356**	3,229,505

22. 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 common shares outstanding during the year. The Bank does not have any options or convertible debt or equity instruments.

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

	2003	2002
Net income	**7,460,278**	1,871,163
Less dividends on preferred shares	**(354,936)**	(394,459)
Net income attributable to common shareholders	**7,105,342**	1,476,704
Weighted average number of common shares	**74,073,617**	54,241,298
Basic earnings per share (Tenge)	**96**	27

23. Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Limits on the level of credit risk by borrower and product by industry sector and 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 set by the Credit Committee. The maximum credit risk exposure, 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.

(Thousands of Kazakhstani Tenge)

Concentration

The geographical concentration of the Bank's banking assets and liabilities is set out below:

	2003				2002			
	Kazakhstan	OECD	CIS and other foreign banks	Total	Kazakhstan	OECD	CIS and other foreign banks	Total
Assets:								
Cash and cash equivalents	**9,836,905**	**3,578,442**	**–**	**13,415,347**	13,734,000	3,342,021	611,807	17,687,828
Obligatory reserves	**5,212,050**	**–**	**–**	**5,212,050**	4,525,381	–	–	4,525,381
Trading securities	**39,914,328**	**–**	**–**	**39,914,328**	23,506,982			23,506,982
Amounts due from credit institutions	**239,913**	**7,066,780**	**–**	**7,306,693**	–	–	–	–
Investment securities:								
- available-for-sale	**3,231,735**	**–**	**–**	**3,231,735**	5,783,439	–	–	5,783,439
- held-to-maturity	**6,441,812**	**1,485**	**–**	**6,443,297**	2,981,230	1,602	–	2,982,832
Loans to customers	**174,417,843**	**–**	**–**	**174,417,843**	133,627,043	–	–	133,627,043
Tax assets	**199,373**			**199,373**	–	–	–	–
Other assets	**2,660,949**	**–**	**–**	**2,660,949**	1,933,832	–	–	1,933,832
	242,154,908	**10,646,707**		**252,801,615**	186,091,907	3,343,623	611,807	190,047,337
Liabilities:								
Due to the Government	**528,514**	**–**	**–**	**528,514**	449,025	–	–	449,025
Due to credit institutions	**10,218,307**	**51,633,259**	**24,984**	**61,876,550**	11,496,644	20,584,130	26,130	32,106,910
Due to customers	**154,845,698**	**–**	**–**	**154,845,698**	136,918,002	–	–	136,918,002
Subordinated debt securities issued	**8,582,604**	**–**	**–**	**8,582,604**	4,468,713	–	–	4,468,713
Dividends payable	**366,253**			**366,253**	394,459	–	–	394,459
Tax liabilities	**182,686**			**182,686**	–	–	–	–
Provisions	**920,576**			**920,576**	59,563	–	–	59,563
Other liabilities	**778,847**	**–**	**–**	**778,847**	698,386	–	–	698,386
	176,423,485	**51,633,259**	**24,984**	**228,081,728**	154,484,792	20,584,130	26,130	175,095,058
Net balance sheet position	**65,731,423**	**(40,986,552)**	**(24,984)**	**24,719,887**	31,607,115	(17,240,507)	585,671	14,952,279

The above tables do not include the effect of allowances for impairment of loans and other assets totalling KZT 10,600,863 and KZT 8,381,784 as of December 31, 2003 and 2002, respectively.

Market Risk

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

(Thousands of Kazakhstani Tenge)

Currency Risk

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

	2003			2002		
	KZT	Freely convertible	Total	KZT	Freely convertible	Total
Assets:						
Cash and cash equivalents	**4,821,118**	**8,594,229**	**13,415,347**	4,835,057	12,852,771	17,687,828
Obligatory reserves	**5,212,050**	–	**5,212,050**	4,525,381	–	4,525,381
Trading securities	**33,165,870**	**6,748,458**	**39,914,328**	16,357,771	7,149,211	23,506,982
Amounts due from credit institutions	**237,412**	**7,069,281**	**7,306,693**	–	–	–
Investment securities:			-			
- available-for-sale	**442,922**	**2,788,813**	**3,231,735**	2,978,771	2,804,668	5,783,439
- held-to-maturity	**3,461,866**	**2,981,431**	**6,443,297**	1,457,752	1,525,080	2,982,832
Loans to customers	**72,795,161**	**101,622,682**	**174,417,843**	42,884,022	90,743,021	133,627,043
Tax assets	**199,373**	–	**199,373**	–	–	–
Other assets	**2,346,269**	**314,680**	**2,660,949**	1,776,134	157,698	1,933,832
	122,682,041	**130,119,574**	**252,801,615**	74,814,888	115,232,449	190,047,337
Liabilities:						
Due to Government	**433,028**	**95,486**	**528,514**	449,025	–	449,025
Due to credit institutions	**4,196,673**	**57,679,877**	**61,876,550**	351,750	31,755,160	32,106,910
Due to customers	**88,063,483**	**66,782,215**	**154,845,698**	55,370,920	81,547,082	136,918,002
Subordinated debt securities issued	**4,414,634**	**4,167,970**	**8,582,604**	–	4,468,713	4,468,713
Dividends payable	**366,253**	–	**366,253**	394,459	–	394,459
Tax liabilities	**182,686**	–	**182,686**	–	–	–
Provisions	**920,576**	–	**920,576**	59,563	–	59,563
Other liabilities	**33,082**	**745,765**	**778,847**	698,380	–	698,380
	98,610,415	**129,471,313**	**228,081,728**	57,324,103	117,770,955	175,095,058
Net balance sheet position	**24,071,626**	**648,261**	**24,719,887**	17,490,785	(2,538,506)	14,952,279

The above tables do not include the effect of allowances for impairment of loans and other assets totalling KZT 10,600,863 and KZT 8,381,784 as of December 31, 2003 and 2002, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries. The Bank'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 Euro will affect the carrying value of the Bank's USD denominated monetary assets and liabilities. Such changes may also affect the Bank'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 Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee.

As of December 31, the effective average interest rates by currencies and comparative market rates for interest earning/ bearing monetary financial instruments were as follows:

	2003		2002	
	KZT	USD	KZT	USD
Trading securities	**5.94%**	**8.45%**	8.00%	7.13%
Investment securities:				
- available-for-sale	**7.40%**	**8.45%**	8.00%	12.38%
- held-to-maturity	**7.34%**	**9.53%**	8.00%	8.75%
Loans to customers	**16.26%**	**12%**	17.05%	12.52%
Due to credit institutions	**1.25%**	**4.08%**	5.62%	5.01%
Customer deposits	**4.00%**	**5.34%**	4.08%	6.53%
Subordinated debt securities issued	**9.00%**	**8.03%**	11.03%	–

(Thousands of Kazakhstani Tenge)

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. Additionally, as disclosed in the maturity analysis below, the maturity dates applicable to the majority of the Bank's assets and liabilities are relatively short-term. The Bank monitors its interest rate margin 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 Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the asset/liability management process. The Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The following tables provide an analysis of 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 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	12,357,1[illegible]	–	1,058,191	–	–	–	13,415,347
Obligatory reserves	–	–	–	–	–	5,212,050	5,212,050
Trading securities	39,914,3[illegible]	–	–	–	–	–	39,914,328
Amounts due from credit institutions	24,1[illegible]	–	–	7,282,544	–	–	7,306,693
Investment securities:							
- available-for-sale	3,231,7[illegible]	–	–	–	–	–	3,231,735
- held-to-maturity	–	–	450,000	3,105,731	1,767,917	1,119,649	6,443,297
Loans to customers	–	13,743,085	12,458,877	45,668,600	68,467,648	34,079,633	174,417,843
Tax Assets	–	199,373	–	–	–	–	199,373
Other assets	2,660,9[illegible]	–	–	–	–	–	2,660,949
	58,188,3[illegible]	13,942,458	13,967,068	56,056,875	70,235,565	40,411,332	252,801,615
Liabilities:							
Due to Government	–	15,040	6,431	91,118	415,919	–	528,514
Due to credit institutions	–	7,308,743	1,248,525	29,238,164	17,991,861	6,089,257	61,876,550
Due to customers	51,981,955	25,990,978	16,679,052	30,335,698	16,985,976	12,872,039	154,845,698
Subordinated debt securities issued	–	–	–	–	–	8,582,604	8,582,604
Dividends payable	–	–	366,253	–	–	–	366,253
Tax liabilities	–	–	–	–	182,686	–	182,686
Provisions	920,576	–	–	–	–	–	920,576
Other liabilities	778,847	–	–	–	–	–	778,847
	53,681,378	33,314,767	18,300,261	59,664,980	35,576,442	27,543,900	228,081,728
Net position	4,506,939	(19,372,309)	(4,333,193)	(3,608,105)	34,659,123	12,867,432	24,719,887
Accumulated gap	4,506,939	(14,865,370)	(19,198,563)	(22,806,668)	11,852,455	24,719,887	

(Thousands of Kazakhstani Tenge)

	2002						
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
Assets:							
Cash and cash equivalents	6,595,8[illegible]	10,877,099	214,925	–	–	–	17,687,828
Obligatory reserves	–	–	–	–	–	4,525,381	4,525,381
Trading securities	23,506,9[illegible]	–	–	–	–	–	23,506,982
Investment securities:							
- available-for-sale	5,783,4[illegible]	–	–	–	–	–	5,783,439
- held-to-maturity	–	100,000	104,032	709,567	2,069,233	–	2,982,832
Loans to customers	–	10,808,832	12,794,461	10,697,265	30,249,229	69,077,256	133,627,043
Other assets	–	1,729,070	–	–	–	204,762	1,933,832
	35,886,2[illegible]	23,515,001	13,113,418	11,406,832	32,318,462	73,807,399	190,047,337
Liabilities:							
Due to Government	–	10,640	–	3,501	57,789	377,095	449,025
Due to credit institutions	228,971	9,344,324	–	4,701,820	13,112,482	4,719,313	32,106,910
Due to customers	52,569,810	18,831,712	11,489,645	14,993,155	11,866,163	27,167,517	136,918,002
Subordinated debt securities issued	–	–	–	–	–	4,468,713	4,468,713
Dividends payable	–	–	394,459	–	–	–	394,459
Provisions	59,563	–	–	–	–	–	59,563
Other liabilities	–	698,386	–	–	–	–	698,386
	52,858,344	28,885,062	11,884,104	19,698,470	25,036,434	36,732,638	175,095,058
Net position	(16,972,119)	(5,370,061)	1,229,314	(8,291,644)	7,282,028	37,074,761	14,952,279
Accumulated gap	(16,972,119)	(22,342,180)	(21,112,866)	(29,404,510)	(22,122,482)	14,952,279	

The above tables do not include the effect of allowances for impairment of loans and other assets totalling KZT 10,600,863 and KZT 8,381,784 as of December 31, 2003 and 2002, respectively.

The Bank'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.

24. 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 on arm's length conditions, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and the specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

(Thousands of Kazakhstani Tenge)

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

Amounts Due to Credit Institutions, Loans to Customers, Amounts Due to Government, Subordinated Debt Securities Issued

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

Amounts Due to Customers

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

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

	2003		*2002*	
	Carrying Amount	***Fair Value***	***Carrying Amount***	***Fair Value***
Financial assets				
Loans to customers, net	163,888,497	165,852,558	125,816,039	111,624,630
Financial liabilities				
Amounts due to Government	528,514	176,237	449,025	375,826
Amounts due to credit institutions	61,876,550	60,402,847	32,106,910	26,628,711
Amounts due to customers	154,845,698	154,312,893	136,918,002	127,578,400
Subordinated debt securities issued	8,582,604	8,695,597	4,468,713	4,671,157

25. Related Party Transactions

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

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);
(b) associates – enterprises in which the Bank 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 Bank that gives them significant influence over the Bank, and anyone expected to influence, or be influenced by, that person in their dealings with the Bank;
(d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank 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 Bank and enterprises that have a member of key management in common with the Bank.

(Thousands of Kazakhstani 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 Bank 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	1,841,014	100%	**174,417,843**	14,773,945	100%	133,627,043
Amounts due to customers	777,623	100%	**154,845,698**	–	100%	136,918,002
Guarantees issued	27,418	100%	**20,343,907**	378	100%	45,666,793
Interest income	326,877	100%	**21,593,736**	771,399	100%	13,008,226
Interest expense	286	100%	**6,629,319**	–	–	–

26. Capital Adequacy

The NBK requires banks to maintain a capital adequacy ratio of 8% of risk-weighted assets, computed on the basis of statutory accounting. At December 31, 2003 and 2002, the Bank's capital adequacy ratios on this basis exceeded the statutory minimum.

The Bank's international risk based risk based capital adequacy ratios at December 31, 2003 and 2002, were 14% and 10%, respectively, which exceeded the minimum ratio of 8% recommended by the Basle Accord.