

**LARIBA BANK**



**ЛАРИБА БАНК**

**OJSC “Joint Bank “LARIBA-BANK”**  
**Financial Statements in Kazakhstani tenge**  
For the year ended 31 December 2002  
in accordance with Kazakhstan Accounting Standards  
(with the Independent Auditor’s report thereon)

**OJSC “Joint Bank “LARIBA-BANK”**

**Contents**

*Prepared in accordance with Kazakhstan Accounting Standards  
for the year ended 31 December 2002*

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### Independent Auditor's report

To the Board of the Management  
OJSC "Joint Bank "LARIBA-BANK"

We have audited the accompanying balance sheet of OJSC "Joint Bank "LARIBA-BANK" (the "Bank") as of December 31, 2002 and the related statements of income, changes in equity and cash flows for the year then ended. The financial statements, as set out on pages 4 to 29, 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 as issued by the International Federation of Accountants. 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2002, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with Kazakhstan Accounting Standards.

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Berdalina J.K.  
Certified Auditor

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Cocker M.R.  
Partner

General Director "KPMG Janat" LLC  
*License # 6 dated 1 November 1996,  
to conduct banking audits*

Almaty, Kazakhstan  
17 January 2003



*KPMG Janat LLC, a company  
registered under the laws of the  
Republic of Kazakhstan, is a  
member of KPMG International, a  
Swiss non-operating association.*

**OJSC “Joint Bank “LARIBA-BANK”****Balance sheet**

Prepared in accordance with Kazakhstan Accounting Standards  
for the year ended 31 December 2002

	Notes	<b>2002</b> <b>KZT ‘000</b>	<b>Restated</b> <b>2001</b> <b>KZT ‘000</b>
<b>ASSETS</b>			
Cash		60,102	84,284
Due from the National Bank of the Republic of Kazakhstan	4	77,203	95,097
Placements with banks and other financial institutions	5	249,003	118,705
Securities portfolio	6	110,127	4,804
Amounts receivable under reverse repurchase agreements	7	50,000	-
Loans to customers	8	1,194,602	1,118,305
Other assets	9	64,801	73,658
Property and equipment	10	180,110	191,440
Intangible assets	11	10,900	13,330
<b>Total Assets</b>		<b><u>1,996,848</u></b>	<b><u>1,699,623</u></b>
<b>LIABILITIES AND EQUITY</b>			
Deposits and balances from banks and other financial Institutions	12	12,624	5,107
Current accounts and deposits from customers	13	717,450	606,452
Other liabilities	14	29,716	8,855
<b>Total Liabilities</b>		<b><u>759,790</u></b>	<b><u>620,414</u></b>
<b>Equity</b>			
Share capital	15	913,305	901,305
Reserves		152,628	152,682
Retained earnings		171,125	25,222
<b>Total Equity</b>		<b><u>1,237,058</u></b>	<b><u>1,079,209</u></b>
<b>Total Liabilities and Equity</b>		<b><u>1,996,848</u></b>	<b><u>1,699,623</u></b>

The financial statements as set out on pages 4 to 29 were approved by the Board of Management of the Bank on 17 January 2003.

Alexander Boichenko  
President

Olga Ivchenko  
Chief Accountant

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

**OJSC “Joint Bank “LARIBA-BANK”****Income statement**

*Prepared in accordance with Kazakhstan Accounting Standards  
for the year ended 31 December 2002*

	Notes	2002 KZT '000	2001 KZT '000
Interest income	16	209,385	187,781
Interest expense	16	<u>(17,022)</u>	<u>(16,727)</u>
<b>Net interest income</b>		<b><u>192,363</u></b>	<b><u>171,054</u></b>
Fee and commission income	17	69,203	55,626
Fee and commission expense	17	<u>(8,666)</u>	<u>(12,689)</u>
<b>Net fee and commission income</b>		<b><u>60,537</u></b>	<b><u>42,937</u></b>
Net securities trading income	18	5	403
Net foreign exchange income	19	70,277	73,632
Other income	20	<u>47,823</u>	<u>36,733</u>
<b>Operating income</b>		<b><u>118,105</u></b>	<b><u>110,768</u></b>
Provisions	21	(4,159)	(7,860)
General administrative expenses	22	<u>(191,442)</u>	<u>(173,968)</u>
<b>Operating expenses</b>		<b><u>(195,601)</u></b>	<b><u>(181,828)</u></b>
<b>Income before taxes</b>		<b>175,404</b>	<b>142,931</b>
Income tax expenses	23	(12,509)	-
<b>Net income for the year</b>		<b><u>162,895</u></b>	<b><u>142,931</u></b>

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements

**OJSC “Joint Bank “LARIBA-BANK”**

**Statement of Cash Flows**

*Prepared in accordance with Kazakhstan Accounting Standards  
for the year ended 31 December 2002*

	<b>2002</b>	<b>2001</b>
<b>Note</b>	<b>KZT ‘000</b>	<b>KZT ‘000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	175,404	142,931
Adjustments to net cash operations:		
Depreciations	18,601	17,063
Provision for loans and other assets	4,159	7,860
Written -off loans	-	(152)
Written -off accounts receivable	(1,075)	(645)
	<hr/>	<hr/>
Operating profit before working capital changes	197,089	167,057
<b>(Increase)/decrease in operating assets and liabilities</b>		
Placements with banks and other financial institutions	638	(865)
Securities portfolio	(105,393)	56,519
Minimum reserve requirements	(29,899)	-
Amounts receivable under reverse repurchase agreements	(50,000)	-
Loans to customers	(79,432)	(381,169)
Other assets	8,908	(25,956)
Deposits and balances from banks and other financial institutions	7,517	2,939
Current accounts and deposits from customers	110,998	177,805
Other liabilities	14,174	(13,677)
	<hr/>	<hr/>
Net cash provided from operating activities before taxes paid	74,670	(17,347)
Taxes paid	(5,822)	-
	<hr/>	<hr/>
<b>Net cash provided from/(used in) operating activities after taxes paid</b>	<b>68,848</b>	<b>(17,347)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchases of property and equipment	(3,895)	(7,778)
Net purchases of intangible assets	(946)	(11,308)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>	<b>(4,841)</b>	<b>(19,086)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions from shareholders	12,000	87,909
Dividends paid	(17,046)	-
Distribution to shareholders	-	(2,926)
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>	<b>(5,046)</b>	<b>84,983</b>
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>58,961</b>	<b>48,550</b>
Cash and cash equivalents at the beginning of the year	294,331	245,781
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<b>28 353,292</b>	<b>294,331</b>

The statement of cash flows is to be read in conjunction with the notes, to and forming part of the financial statements.

**OJSC ‘Joint Bank “LARIBA-BANK”**  
**Statement of Changes in Equity**  
*for the year ended 31 December 2002*

	Share Capital	Share premium	Reserve fund	Retained earnings	Total
	KZT'000	KZT'000	KZT'000	KZT'000	KZT'000
Balance as of 1 January 2001	629,036	2,333	61,333	158,700	851,402
Net income for the period	-	-	(107)	142,931	142,824
Shares issued for cash	87,909	-	-	-	87,909
Capitalisation of retained earning	58,485	-	-	(58,485)	-
Capitalisation of dividends	125,875	-	-	(125,875)	-
Transfer to reserve fund	-	-	(43)	43	-
Other payments	-	-	-	(2,926)	(2,926)
<b>Balance as of 31 December 2001</b>	<b>901,305</b>	<b>2,333</b>	<b>150,349</b>	<b>25,222</b>	<b>1,079,209</b>
Net income for the period	-	-	-	162,895	162,895
Shares issued for cash	721	-	-	-	721
Capitalisation of dividends	11,279	-	-	(17,046)	(5,767)
Transfer to reserve fund	-	-	(54)	54	-
<b>Balance at 31 December 2002</b>	<b>913,305</b>	<b>2,333</b>	<b>150,295</b>	<b>171,125</b>	<b>1,237,058</b>

The statement of changes in equity is to be read in conjunction with the notes, to and forming part of, the financial statements.

## **1. Background**

### **(a) Principal activities**

“Joint Bank “LARIBA-BANK” (“the Bank”) was established in January 1992 and re-registered into the Open Joint Stock Company in October 1994. The Bank commenced operations in March of 1995 after registration with the Ministry of Justice. At present time the Bank performs its operations in accordance with license No 75 issued on June 4, 2001 by the National Bank of the Republic of Kazakhstan (the “NBRK”), which allows it to provide banking services including lending and foreign currency operations.

The founders of the Bank comprised 28 individuals and 1 legal entity.

The Bank is located in Almaty and has one branch which is also located in Almaty.

The formation of the Bank and the management and operational framework within which it must conduct its activities is dictated by the Charter and internal policies of the Bank. The Charter states that the Bank is organised for an unlimited duration; however, the Bank may be liquidated under certain conditions including by decision of the shareholders or the court in the case of its forced liquidation.

### **(b) Kazakhstani business environment and Country Risk**

The economic environment of Kazakhstan has been assessed by international rating agencies. The country rating of Kazakhstan was increased by the three international rating organizations. Standard & Poor’s increased the long-term currency rating to “BB” and the long-term rating of borrowings in the national currency up to “BB+”, Moody’s Investors Service increased the rating of long-term debentures of Kazakhstan in foreign currency up to “Baa3” and the rating of promissory notes of Kazakhstan in the national currency up to “Baa1”. Fitch increased the rating of the long-term borrowings in foreign currency up to “BB+”, in the national currency up to “BBB-“.

The Bank’s operations are subject to country risk being the economic, political, and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.



## **2. Basis of preparation**

### **(a) Statement of compliance**

The financial statements are prepared in accordance with Kazakhstan Accounting Standards (“KAS”) and in compliance with the requirements of the National Bank of the Republic of Kazakhstan (“NBRK”). The form of presentation of the financial statements meets the requirements of KAS 21 in respect of the financial statements of the banks, and the relative requirements of the NBRK.

### **(b) Basis of measurement**

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

### **(c) Measurement and Presentation Currency**

The national currency of the Republic of Kazakhstan is the Kazakhstani tenge (“KZT”). Management have determined the Bank’s measurement currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in KZT has been rounded to the nearest thousand.

### **(d) Convertibility of the Tenge**

The KZT is not a convertible currency outside the Republic of Kazakhstan and, accordingly, any conversion of KZT amounts to foreign currency should not be construed as a representation that KZT amounts have been, could be, or will be in the future, convertible into foreign currency at the exchange rate shown, or at any other exchange rate.

### **(e) Going concern**

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank’s assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

### **3. Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the financial statements. The accounting policies have been consistently applied.

#### **(a) Foreign currency transactions**

Transactions in foreign currencies are translated to KZT at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to KZT at the foreign exchange rate reported by the Kazakhstani Stock Exchange at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to KZT at the foreign exchange rate ruling at the date of the transaction.

<i>Currency</i>	31.12.2002	31.12.2001
1 United States Dollar	155.85	150.20
1 Euro	162.46	134.77
1 Russian Rouble	4.90	4.97

#### **(b) Cash and cash equivalents**

The Bank considers cash, correspondent accounts with the NBRK and nostro accounts with other banks to be cash and cash equivalents. The minimum reserve requirements with the NBRK, as disclosed in Note 4 is not considered to be cash equivalent due to restrictions on its withdraw ability.

#### **(c) Financial instruments**

##### **(i) Classification**

*Trading instruments* are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

*Originated loans and receivables* are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

### **3. Significant accounting policies (continued)**

#### ***(ii) Recognition***

The Bank recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

#### ***(iii) Measurement***

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

#### ***(iv) Fair value measurement principles***

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

#### ***(v) Gains and losses on subsequent measurement***

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities trading are recognised in the income statement.

### **3. Significant accounting policies (continued)**

#### **(d) Derecognition**

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that assets. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

#### **(e) Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase are retained within the trading or available-for-sale securities portfolios and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement.

#### **(f) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **(g) Property and equipment**

##### **(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation (refer below). The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

##### **(ii) Leased assets**

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below).

Operating leases, the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

**3. Significant accounting policies (continued)**

**(g) Property and equipment (continued)**

**(iii) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	2002 years	2001 years
Buildings	20	20
Computers	5	5
Equipment and others	5 to 20	8 to 16
Vehicles	20	20

**(h) Intangible Assets**

**(i) Intangible assets**

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

**(ii) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the first day of the month subsequent to the date the asset is available for use. The estimated useful lives are as follows:

	2002 years	2001 years
Software	5	5

### **3. Significant accounting policies (continued)**

#### **(i) Interest bearing borrowings**

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

#### **(j) Provisions**

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### **(k) Dividends**

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of the NBRK and other Kazakh legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings as and when declared.

#### **(l) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### **3. Significant accounting policies (continued)**

#### **(m) Comparative information**

Comparative information has been reclassified to conform to changes in presentation in the current year. As at 31 December 2002 accrued income/expense has been disclosed within the carrying value of the assets and liabilities to which it relates.

As 31 December 2002 discount on the available for sale securities has been disclosed in the carrying value of the assets. As 31 December 2001 discount on the available for sale securities was disclosed within "Other assets". The classification in 2002 better reflects the carrying value of the related assets, accordingly, the comparatives for 2001 have been restated. The impact was the reduction of “Securities portfolio” at 31 December 2002 by KZT 73 thousand (2001: KZT 3 thousand) and, accordingly, the decrease of other liabilities by the same amount.

#### **(n) Interest income**

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

#### **(o) Fee and commission income**

Fee and commission income is recognized when the corresponding service is provided.

#### **(p) Net trading income**

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

#### **(q) Employee benefits**

The Bank withholds from its employees an amount equivalent to 10% of their salary. The amounts withheld are paid by the Bank into the pension scheme. Pension fund payments withheld from employees’ salaries are reported in the income statement as part of the salary expense. The Bank does not have any other liabilities related to pension payments.

According current legislation the Bank is committed to reimburse employees for expenses incurred in case of injuries at work. These amounts are expensed when they are paid. The Bank also covers sick leave allowance.

#### 4. Due from the National Bank of the Republic of Kazakhstan

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Correspondent account with the NBRK	47,304	95,097
Minimum reserve requirements	29,899	-
	<b>77,203</b>	<b>95,097</b>

The NBRK has established minimum requirements as a means of regulating the activities of banks in the Republic of Kazakhstan and protecting the interests of depositors. The amount of the minimum reserve is determined as a fixed percentage of all deposit obligations of the Bank to individuals and legal entities other than banks. From November 2002, banks that are not part of the multiple insurance system must deposit money in KZT with the NBRK on a monthly basis, so that the deposited amount for each month is not less than the minimum reserve requirements estimated as of the first business day of that month. The Bank is not part of the multiple insurance scheme and so has deposited its minimum reserve requirement with the NBRK. As of 31 December 2002, the Bank had met its minimum reserve requirements and deposited with the NBRK KZT 29,899 thousand (31 December 2001: nil). These balances have been excluded from cash and cash equivalents (refer Note 28).

#### 5. Placements with banks and other financial institutions

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Nostro accounts	245,886	114,950
Deposits in other banks	-	751
Placement with Western Union	3,117	3,004
	<b>249,003</b>	<b>118,705</b>

#### 6. Securities portfolio

	<b>2002</b>	<b>Restated 2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Short – term notes of NBRK	109,927	4,604
Central depository shares	200	200
	<b>110,127</b>	<b>4,804</b>

Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are recognised in net trading income.

#### 7. Amounts receivable under reverse repurchase agreements

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Amounts receivable from banks and other financial institutions	50,000	-
	<b>50,000</b>	<b>-</b>



## 8. Loans to customers

### Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan and who operate in the following economic sectors:

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
<b>Commercial customers</b>		
Transport and additional transport services	348,318	58,587
Individual services	276,813	177,174
Construction	230,211	405,905
Retail trade	222,600	265,620
Wholesale trade	37,729	65,600
Commercial services	31,200	11,269
Public health	19,102	2,898
Rent services	14,678	13,067
Hotels and restaurants	7,525	1,442
Technical rubber production	7,000	8,506
Other	10,231	115,907
Subtotal	<u>1,205,407</u>	<u>1,125,975</u>
Provision	<u>(10,805)</u>	<u>(7,670)</u>
	<b><u>1,194,602</u></b>	<b><u>1,118,305</u></b>

### Significant credit exposures

As of 31 December 2002 and 2001, the Bank exposures to 3 enterprises (2001:3) every of which individually comprised more than 10% of loans to customers (gross of provision from loan losses). The gross value of these exposures as of December 31, 2002 was KZT 570,281 thousand (2001:KZT 503,357 thousand).

### Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 31 which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. It is possible that loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the classification indicated based on contractual terms.

## 9. Other assets

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Debtors under documentary settlements	27,021	-
Accrued interest receivable on loans to clients	15,100	49,176
Other transit accounts	10,932	6,532
Tax settlements	3,715	10,328
Other debtors	8,408	8,048
Provision for impairment	(375)	(426)
	<u><b>64,801</b></u>	<u><b>73,658</b></u>

## 10. Property and equipment

<u>In thousands of KZT</u>	<b>Land and buildings</b>	<b>Property for rent</b>	<b>Transport</b>	<b>Computers</b>	<b>Equip- ment and others</b>	<b>Total</b>
<b>Cost</b>						
At 1 January 2002	145,101	11,716	2,913	14,368	53,246	227,344
Additions	5,976	2,153	530	7,673	1,918	18,250
Disposals	-	(13,869)	-	(2,245)	(255)	(16,369)
At 31 December 2002	<u>151,077</u>	<u>-</u>	<u>3,443</u>	<u>19,796</u>	<u>54,909</u>	<u>229,225</u>
<b>Depreciation</b>						
At 1 January 2002	14,884	141	218	7,492	13,169	35,904
Depreciation charge	6,872	53	146	3,225	4,929	15,225
Disposals	-	(194)	-	(1,749)	(71)	(2,014)
At 31 December 2002	<u>21,756</u>	<u>-</u>	<u>364</u>	<u>8,968</u>	<u>18,027</u>	<u>49,115</u>
<b>Carrying value</b>						
At 31 December 2002	<u><b>129,321</b></u>	<u><b>-</b></u>	<u><b>3,079</b></u>	<u><b>10,828</b></u>	<u><b>36,882</b></u>	<u><b>180,110</b></u>
At 31 December 2001	<u><b>130,217</b></u>	<u><b>11,575</b></u>	<u><b>2,695</b></u>	<u><b>6,876</b></u>	<u><b>40,077</b></u>	<u><b>191,440</b></u>

## 11. Intangible assets

<u>In thousands of KZT</u>	<u>Software</u>	<u>Other</u>	<u>Total</u>
<b>Cost</b>			
At 1 January 2002	15,631	1,152	16,783
Additions	886	78	946
At 31 December 2002	<u>16,499</u>	<u>1,230</u>	<u>17,729</u>
<b>Amortization</b>			
At 1 January 2002	2,996	457	3,453
Amortisation charge	3,368	8	3,376
At 31 December 2002	<u>6,364</u>	<u>465</u>	<u>6,829</u>
<b>Carrying amount</b>			
At 31 December 2002	<u><u>10,135</u></u>	<u><u>765</u></u>	<u><u>10,900</u></u>
At 31 December 2001	<u><u>12,635</u></u>	<u><u>695</u></u>	<u><u>13,330</u></u>

## 12. Deposits and balances from banks and other financial institutions

	<b>2002</b> <b>KZT '000</b>	<b>2001</b> <b>KZT '000</b>
Term deposits	<u>12,624</u>	<u>5,107</u>

## 13. Current accounts and deposits from customers

	<b>2002</b> <b>KZT '000</b>	<b>2001</b> <b>KZT '000</b>
Current deposits	393,115	306,372
Term deposit	203,164	189,947
Demand deposits	65,030	51,116
Guarantee deposits	<u>56,141</u>	<u>59,017</u>
	<u><u>717,450</u></u>	<u><u>606,452</u></u>

### Guarantee deposits

As of 31 December 2002, the Bank maintained customer deposit balances of KZT 50,680 thousand (2001: KZT 46,877 thousand) which were blocked by the Bank as collateral for loans and off-balance sheet credit instruments granted by the Bank.

### Concentrations of current accounts and customer deposits

As at 31 December 2002 and 2001, the Bank did not have any exposures to customers who maintained deposits which individually exceeded 10% of total current accounts and deposits from customers.

## 14. Other liabilities

	<b>2002</b>	<b>Restated</b>
	<b>KZT '000</b>	<b>2001</b>
		<b>KZT '000</b>
Prepaid interest income	5,130	-
Tax settlements	3,715	393
Other creditors	5,543	3,852
Transit accounts	10,367	3,077
Accrued interest expenses	1,752	1,533
Dividends payable (see note 15)	3,209	-
	<u>29,716</u>	<u>8,855</u>

## 15. Share capital

### Share capital

The authorised share capital comprises 1,000,000 ordinary shares (2001: 1,000,000). All shares have a par value of 1,000 tenge (2001:1,000 tenge).

<b>Number of shares</b>	<b>Ordinary</b>	<b>Ordinary</b>
	<b>shares</b>	<b>shares</b>
	<b>2002</b>	<b>2001</b>
On issue at the beginning of year	901,305	629,036
Issued during the year	12,000	272,269
On issue at end of year, fully paid	<u>913,305</u>	<u>901,305</u>

### Dividends

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

On 19 March 2002 a decision was taken at the annual general meeting of Bank's stockholders to use revenues of 2001 of 17,046 thousand tenge to pay dividends. After deduction of withholding tax in the amount of 2,558 thousand tenge, net dividends were used by many stockholders to purchase stock of the fifth issue. Unpaid dividends are recorded as payables to stockholders in amount of 3,209 thousand tenge (2001:0), (see note 14).

## 16. Interest income and interest expense

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
<b>Interest income</b>		
Placements with banks and other financial institutions	6,918	8,830
Loans to customers	202,378	176,153
Amounts receivable under reverse repurchase agreements	6	-
Securities portfolio	83	2,798
	<u>209,385</u>	<u>187,781</u>
<b>Interest expense</b>		
Deposits and balances from banks and other financial institutions	135	122
Current accounts and deposits from customers	16,887	16,605
	<u>17,022</u>	<u>16,727</u>

## 17. Fee and commission income and expenses

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
<b>Commission income</b>		
Commission income arising from purchase/sale of foreign currency	7,076	8,003
Commission income on acceptance of deposits, opening and maintaining banking customer accounts	1,548	7,647
Commission income on transfer transactions	28,653	14,579
Commission income arising from issued guarantees	1,718	1,261
Commission income from cash transactions of the bank	19,701	16,689
Other commission income	10,507	7,447
	<u><b>69,203</b></u>	<u><b>55,626</b></u>
<b>Commission expense</b>		
Commission expense arising from purchase/sale of foreign currency	(3)	(117)
Commission expenses on transfer transactions	(4,393)	(3,076)
Commission expenses on insurance	(2,394)	(5,737)
Other commission expense	(1,876)	(3,759)
	<u><b>(8,666)</b></u>	<u><b>(12,689)</b></u>

## 18. Net securities trading income

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Income from purchase/sale	5	403
	<u>5</u>	<u>403</u>

## 19. Net foreign exchange income

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Foreign currency revaluation loss	(2,701)	-
Loans revaluation	47,269	51,825
Purchase/sale of foreign currency	22,429	21,589
Securities portfolio	3,280	218
	<u><b>70,277</b></u>	<u><b>73,632</b></u>

## 20. Other income

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Other income from banking operations	10,637	9,786
Penalties and fines	9,478	5,180
Other income from non-banking operations	27,708	21,767
	<u><b>47,823</b></u>	<u><b>36,733</b></u>

## 21. Provisions

	<b>Loans to customers (note 8)</b>	<b>Other debtors (note 9)</b>	<b>Total</b>
<b>As at 1 January 2001</b>	(742)	(291)	(1,033)
Provision for the year	(7,080)	(780)	(7,860)
Written off assets	152	645	797
<b>31 December 2001</b>	<b>(7,670)</b>	<b>(426)</b>	<b>(8,096)</b>
Provision for the year	(3,135)	(1,024)	(4,159)
Written off assets	-	1,075	1,075
<b>31 December 2002</b>	<b>(10,805)</b>	<b>(375)</b>	<b>(11,180)</b>

## 22. General administrative expenses

	<b>2002 KZT '000</b>	<b>2001 KZT '000</b>
Employee compensation	73,409	60,758
Taxes except for income tax	25,921	28,285
Other general expenses	23,228	25,335
Depreciation and amortization	18,601	17,063
Advertising and marketing	11,486	15,906
Administrative cost	8,608	3,028
Security expenses	6,581	2,407
Audit and consulting expenses	6,232	5,006
Renovation expenses	4,213	5,165
Transport	3,263	2,806
Miscellaneous	9,900	8,209
	<b>191,442</b>	<b>173,968</b>

The average number of persons employed by the Bank during the period was 66 (2001: 65).

## 23. Income tax expense

	<b>2002</b> <b>KZT '000</b>	<b>2001</b> <b>KZT '000</b>
<i>Current tax expense</i>	12,509	-
<i>Deferred tax expense</i>	-	-
Total income tax expense in the income statement	12,509	-

The Bank's applicable tax rate is 30% (2001 – 30%).

Reconciliation of effective tax rate:

	<b>2002</b> <b>KZT '000</b>	<b>%</b>	<b>2001</b> <b>KZT '000</b>	<b>%</b>
Income before tax	175,404	100.0	142,931	100.0
Income tax using the applicable tax rate	52,621	30.0	42,879	30.0
Non-deductible costs and non-taxable income	(40,112)	(22.9)	(42,879)	(30.0)
	<b>12,509</b>	<b>7.1</b>	-	-

## 24. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

### (i) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counter party on their obligation to the Bank.

The Bank has developed policies and procedures for the management of credit exposures, including organisation of Credit Committee, monitoring of loans and borrowers concentration in the industry.

The Bank's credit policy is reviewed and approved by the Board of Directors.

## **24. Risk management (continued)**

### **(ii) Interest rate risk**

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank’s management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities. The Bank has access to the markets which allow it to reposition itself quickly as market conditions dictate.

The Bank’s interest rate policy is reviewed and approved by the Board of Directors.

See Note 30 “Average effective interest rates”.

### **(iii) Liquidity risk**

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

The Bank’s liquidity policy is reviewed and approved by the Board of Directors.

See Note 31 “Maturity analysis”.

### **(iv) Foreign exchange rate risk**

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Bank’s foreign currency policy is reviewed and approved by the Board of Directors.

See Note 32 “Currency analysis”.

## **25. Commitments**

A portion of the Bank’s activities relates to off-balance sheet trade finance products. The Bank enters into commitments and assumes contingent liabilities in the normal course of business to meet the financing need of its customers. These commitments include credit instruments which represent varying degrees of risk exposure in excess of amounts indicated in the balance sheet.

The contractual or notional amount of these instruments indicate the level of activity associated with a particular class of financial instrument and does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.



## 25. Commitments (continued)

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
<i>Contracted amount</i>		
Loan commitments	113,706	133,244
Guarantees	12,407	12,558
Letters of credits	27,021	-
	<b>153,134</b>	<b>145,802</b>

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

## 26. Contingencies

### (i) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not coverage for business interruption or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank’s operations and financial position. Immovable properties and assets forming collateral for loans issued are fully insured. The Bank has insured the staff in case of industrial accident.

### (ii) Litigation

The Bank is not involved in legal proceedings, including arbitration, other than routine legal proceedings in the ordinary course of business. In the opinion of management, the final disposition of these legal proceedings will not have a material adverse effect on the financial condition or results of operations of the Bank.

### (iii) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Republic of Kazakhstan substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

## 27. Related party transactions

The Bank does not material related party transactions that occurred during the period to December 31, 2002 (2001: 0).

## 28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	<b>2002</b>	<b>2001</b>
	<b>KZT '000</b>	<b>KZT '000</b>
Cash	60,102	84,284
Correspondent account with NBRK (see note 4)	47,304	95,097
Nostro accounts with other banks (see note 5)	245,886	114,950
	<u><b>353,292</b></u>	<u><b>294,331</b></u>

## 29. Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by KAS 21 “*Bank’s Financial Statement*” to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Kazakhstan markets, it is not possible to determine the fair value of all of its financial assets and financial liabilities.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash, due from the NBRK, financial instruments held for trading and non-Kazakhstan, non-related party placements with banks and financial institutions and deposits and balances from banks and other financial institutions. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

This estimate of fair value is intended to approximate to the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However, given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets.

### 30. Average effective interest rates

The table below displays the Bank’s interest bearing assets and liabilities as at 31 December 2002 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	Value KZT '000	2002 Average of Interest Rate	Value KZT '000	2001 Average of Interest Rate
<b>Interest Bearing Assets</b>				
<b>Placements with banks and other financial institutions</b>	<b>249,003</b>		<b>118,705</b>	
- USD	245,590	1.23	110,379	1.19
- Other currencies	3,413	4.00	8,326	-
<b>Securities portfolio</b>	<b>110,127</b>		<b>4,804</b>	
- KZT	110,127	3.19	4,804	2.98
<b>Amounts receivable under reserve repurchase agreements</b>	<b>50,000</b>		-	
- KZT	50,000	4.50	-	-
<b>Loans to customers</b>	<b>1,194,602</b>		<b>1,118,305</b>	
- KZT	1,194,602	16.60	1,010,778	17.00
- USD	-		107,527	15.00
<b>Interest Bearing Liabilities</b>				
<b>Deposits and balances from banks and other financial institutions</b>	<b>12,624</b>		<b>5,107</b>	
- USD	12,624	1.66	5,107	3.26
<b>Current accounts and deposits from customers</b>	<b>717,450</b>		<b>606,452</b>	
- KZT	423,804	7.50	286,910	6.50
- USD	287,701	5.25	311,984	4.25
- Other currencies	5,945	-	7,558	-

### 31. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2002. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate reprising dates.

	<b>Less than 1 month KZT '000</b>	<b>1 to 3 months KZT '000</b>	<b>3 months to 1 year KZT '000</b>	<b>1year to 5 years KZT '000</b>	<b>More than 5 years KZT '000</b>	<b>No maturity KZT '000</b>	<b>Total KZT '000</b>
<b>Assets</b>							
Cash	60,102	-	-	-	-	-	60,102
Due from the National Bank of the Republic Kazakhstan	47,304	29,899	-	-	-	-	77,203
Placements with banks and other financial institutions	245,886	-	-	-	3,117	-	249,003
Securities portfolio	109,927	-	-	-	200	-	110,127
Amounts receivable under reverse repurchase agreements	50,000	-	-	-	-	-	50,000
Loans to customers	15,885	8,529	277,293	830,458	62,437	-	1,194,602
Other assets	37,780	-	27,021	-	-	-	64,801
Property and equipments	-	-	-	-	-	180,110	180,110
Intangible assets	-	-	-	-	-	10,900	10,900
<b>Total assets</b>	<b>566,884</b>	<b>38,428</b>	<b>304,314</b>	<b>830,458</b>	<b>65,754</b>	<b>191,010</b>	<b>1,996,848</b>
<b>Liabilities</b>							
Deposits and balances from banks and other financial institutions	-	-	468	-	12,156	-	12,624
Current accounts and deposits from customers	523,448	50,380	129,786	13,836	-	-	717,450
Other liabilities	29,716	-	-	-	-	-	29,716
<b>Total liabilities</b>	<b>553,164</b>	<b>50,380</b>	<b>130,254</b>	<b>13,836</b>	<b>12,156</b>	<b>-</b>	<b>759,790</b>
<b>Net position as at 31 December 2002</b>	<b>13,720</b>	<b>(11,952)</b>	<b>174,060</b>	<b>816,622</b>	<b>53,598</b>	<b>191,010</b>	<b>1,237,058</b>
<b>Net position as at 31 December 2001</b>	<b>5,904</b>	<b>20,620</b>	<b>80,149</b>	<b>764,762</b>	<b>3,004</b>	<b>204,770</b>	<b>1,079,209</b>

## 32. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2002:

	<b>KZT</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>
	<b>KZT '000</b>	<b>KZT '000</b>	<b>KZT '000</b>	<b>KZT '000</b>
<b>Assets</b>				
Cash	29,223	30,618	261	60,102
Due from the National Bank of the Republic of Kazakhstan	77,203	-	-	77,203
Placements with banks and other financial institutions	-	246,590	3,413	249,003
Securities portfolio	110,127	-	-	110,127
Amounts receivable under reverse repurchase agreements	50,000	-	-	50,000
Loans to customers	1,194,602	-	-	1,194,602
Other assets	25,770	37,853	1,178	64,801
Property and equipments	180,110	-	-	180,110
Intangible assets	10,900	-	-	10,900
<b>Total assets</b>	<b>1,677,935</b>	<b>314,061</b>	<b>4,852</b>	<b>1,996,848</b>
<b>Liabilities</b>				
Deposits and balances from banks and other financial institutions	-	12,624	-	12,624
Current accounts and deposits from customers	423,804	287,701	5,945	717,450
Other liabilities	17,902	11,733	81	29,716
<b>Total liabilities</b>	<b>441,706</b>	<b>312,058</b>	<b>6,026</b>	<b>759,790</b>
<b>Net Position as of 31 December 2002</b>	<b>1,236,229</b>	<b>2,003</b>	<b>(1,174)</b>	<b>1,237,058</b>
<b>Net Position as of 31 December 2001</b>	<b>1,120,869</b>	<b>(42,423)</b>	<b>763</b>	<b>1,079,209</b>