LARIBA BANK ЛАРИБА БАНК

OJSC "Joint Bank "LARIBA-BANK"
Financial Statements in Kazakhstani tenge

For the year ended 31 December 2002
in accordance with International Financial Reporting Standards
(with the Independent Auditor's Report thereon)

Contents

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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 31 December 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 31, 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 31 December 2002, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Janat
Almaty, Kazakhstan
17 January 2003

	Notes	2002 KZT ‘000	2001 KZT ‘000
Interest income	4	209,385	187,781
Interest expense	4	(17,022)	(16,727)
Net interest income		**192,363**	**171,054**
Fee and commission income	5	69,203	55,626
Fee and commission expense	5	(8,666)	(12,689)
Net fee and commission income		**60,537**	**42,937**
Net securities trading income	6	5	403
Net foreign exchange income	7	70,277	73,525
Other income	8	47,682	36,733
Operating income		**117,964**	**110,661**
Impairment losses	9	(6,780)	(28,893)
General administrative expenses	10	(191,442)	(173,827)
Operating expenses		**(198,222)**	**(202,720)**
Income before taxes		**172,642**	**121,932**
Income tax expense	11	(11,154)	(20,360)
Net income for the year		**161,488**	**101,572**

The financial statements as set out on pages 4 to 31 were approved by the Board of Management of the Bank on 17 January 2003.

Alexander Boichenko
President

Olga Ivchenko
Chief Accountant

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

	Notes	2002 KZT '000	2001 KZT '000 Reclassified
ASSETS			
Cash		60,102	84,284
Due from the National Bank of the Republic of Kazakhstan	12	77,203	95,097
Placements with banks and other financial institutions	13	249,067	118,732
Available for sale investments	14	110,127	4,804
Amount receivable under reverse repurchase agreement	15	50,006	-
Loans to customers	16	1,185,978	1,146,421
Other assets	17	49,701	36,198
Property and equipment	18	180,110	179,865
Intangible assets	19	10,900	13,330
Total Assets		**1,973,194**	**1,678,731**
LIABILITIES AND EQUITY			
Deposits and balances from banks and other financial institutions	20	12,672	5,138
Current accounts and deposits from customers	21	719,154	607,954
Other liabilities	22	27,964	7,322
Deferred tax liability	23	19,005	20,360
Total Liabilities		**778,795**	**640,774**
Equity			
Share capital	24	913,305	901,305
Share premium		2,333	2,333
Retained earnings		278,761	134,319
Total Equity		**1,194,399**	**1,037,957**
Total Liabilities and Equity		**1,973,194**	**1,678,731**

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

	Note	2002 KZT '000	2001 KZT '000 Reclassified
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		312,645	194,638
Interest and fee and commission payments		(25,469)	(27,883)
Net receipts from foreign exchange and securities trading		76,156	73,928
Other income		41,808	36,733
General administrative expenses		(172,894)	(156,495)
(Increase)/decrease in operating assets			
Placements with banks and other financial institutions		657	(865)
Minimum reserve requirements		9,172	(12,382)
Amount receivable under reverse repurchase agreement		(50,000)	-
Loans to customers		(79,432)	(361,430)
Other assets		(14,527)	1,146
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		7,517	2,942
Current accounts and deposits from customers		110,998	175,987
Other liabilities		13,955	(13,319)
Net cash provided from/(used in) operating activities before income taxes paid		**230,586**	**(87,000)**
Income taxes paid		(5,822)	-
Cash flows from/(used in) operations		**224,764**	**(87,000)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Sales/(Purchases) of available for sale investments		(105,323)	56,443
Net purchases of property and equipment		(15,417)	(6,549)
sPurchases of intangible assets		(946)	(11,709)
Cash flows (used in)/ provided by investing activities		**(121,686)**	**38,185**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		12,000	272,269
Distribution to shareholders		-	(2,926)
Dividends paid		(17,046)	(184,360)
Cash flows (used in) / from financing activities		**(5,046)**	**84,983**
Net increase in cash and cash equivalents		**98,032**	**36,168**
Cash and cash equivalents at the beginning of the year		255,260	219,092
Cash and cash equivalents at the end of the year	29	**353,292**	**255,260**

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

	Share Capital	Share premium	Retained earnings	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Balance at 1 January 2001	629,036	2,333	220,033	851,402
Net income for the year	-	-	101,572	101,572
Shares issued	87,909	-	-	87,909
Capitalisation of retained earnings	58,485	-	(58,485)	-
Dividends	125,875	-	(125,875)	-
Distribution to shareholders	-	-	(2,926)	(2,926)
Balance at 31 December 2001	**901,305**	**2,333**	**134,319**	**1,037,957**
Shares issued	12,000	-	-	12,000
Net income for the year	-	-	161,488	161,488
Dividends	-	-	(17,046)	(17,046)
Balance at 31 December 2002	**913,305**	**2,333**	**278,761**	**1,194,399**

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 subsequently reorganized as Open Joint Stock Company “Joint Bank “LARIBA-BANK” in October 1994. The Bank commenced operations in March 1995 after registration with the Ministry of Justice. Currently, the Bank performs its operations in accordance with license # 75, issued on 4 June 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 enterprise.

The Bank and its one branch are located in Almaty.

The formation of the Bank and the management and operational framework within which it must conduct its activities is governed 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 Bank maintains its accounting records in accordance with the legislative requirements of the Republic of Kazakhstan. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB").

(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. These 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 market foreign exchange rate. 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.

Currency	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 12,is not considered to be cash equivalent due to restrictions on its availability to the Bank.

(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.

(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) Investment properties

Investment properties are recorded at cost less accumulative depreciation and impairment losses (refer Note 3(i))

(iv) 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:

Buildings	20 years
Vehicles	20 years
Computers	5 years
Equipment and others	5 to 20 years

(h) Intangible Assets

(i) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses (refer Note 3(i)) .

(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:

Software	5 years

(i) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognized in the income statement.

3. Significant accounting policies (continued)

(i) Impairment (continued)

(i) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

(j) 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.

(k) 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.

3. Significant accounting policies (continued)

(l) 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.

(m) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement.

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. Temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit are not provided. 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 the temporary differences, 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.

(n) Comparative information

Comparative information has been reclassified to conform to changes in presentation in the current year. As at 31 December 2002 accrued income and expense have been disclosed within the carrying value of the assets and liabilities to which it relates. As at 31 December 2001 accrued income was disclosed within "Other assets", and accrued expense was disclosed in "Other liabilities". The classification in 2002 better reflects the carrying value of the related assets. Accordingly, the comparatives for 2001 have been reclassified. As a result, there has been a reduction in "Other assets" as at 31 December 2001 by KZT 49,176 thousand and increases in "Loans to customers" by KZT 49,149 thousand, "Placements with banks and other financial institutions" by KZT 27 thousand. In addition, as at 31 December 2001 "Other liabilities" reduced by KZT 1,533 thousand, and "Deposits and balances from banks and other financial institutions" and "Current accounts and deposits from customers" increased by KZT 31 thousand and KZT 1,502 thousand, respectively.

3. Significant accounting policies (continued)

(o) 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.

(p) Fee and commission income

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

(q) Net securities income

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

4. Interest income and interest expense

	2002 KZT '000	2001 KZT '000
Interest income		
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	-
Available for sale investments	83	2,798
	209,385	**187,781**
Interest expense		
Deposits and balances from banks and other financial institutions	135	122
Current accounts and deposits from customers	16,887	16,605
	17,022	**16,727**

5. Fee and commission income and expense

Fee and commission income	2002 KZT '000	2001 KZT '000
Commission income arising from purchase/sale of foreign currency	7,076	8,003
Commission income on 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	19,701	16,689
Other commission income	10,507	7,447
	69,203	**55,626**
Fee and commission expense		
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)
	(8,666)	**(12,689)**

6. Net securities income

	2002 KZT '000	2001 KZT '000
Income from purchase/sale	5	403

7. Net foreign exchange income

	2002 KZT '000	2001 KZT '000
Gain of revaluation of assets and liabilities	47,848	52,043
Gain on trading in foreign currency	22,429	21,482
	70,277	**73,525**

8. Other income

	2002 KZT '000	2001 KZT '000
Other income from banking operations	10,496	9,786
Penalties and fines	9,478	5,180
Other income from non-banking operations	27,708	21,767
	47,682	**36,733**

9. Impairment losses

	2002 KZT '000	2001 KZT '000
Loans to customers	5,756	28,113
Other assets	1,024	780
	6,780	**28,893**

10. General administrative expenses

	2002 KZT '000	2001 KZT '000
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	18,548	16,931
Advertising and marketing	11,486	15,906
Administrative cost	8,608	3,028
Security expenses	6,581	2,407
Audit and consulting	6,232	5,006
Repairs	4,213	5,165
Transport	3,263	2,802
Miscellaneous	9,953	8,204
	191,442	**173,827**

11. Income tax expense

	2002 KZT '000	2001 KZT '000
Current tax:		
Current tax expense	12,509	-
Deferred tax:		
(Reversal)/origination of temporary differences	(1,355)	20,360
Total income tax expense	11,154	20,360

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

Reconciliation of effective tax rate:

	2002 KZT '000	%	2001 KZT '000	%
Income before tax	172,642	100.0	121,932	100.0
Income tax using the applicable tax rate	51,793	30.0	36,580	30.0
Non-deductible costs and non-taxable income	(40,639)	(23.5)	(16,220)	(13.3)
	11,154	**6.5**	**20,360**	**16.7**

12. Due from the National Bank of the Republic of Kazakhstan

	2002 KZT '000	2001 KZT '000
Correspondent account with the NBRK	77,203	95,097

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 shall be liable to deposit money in KZT with NBRK on a monthly basis, so that the deposited amount for each month should not be less than 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 of the NBRK KZT 29,899 thousand (31 December 2001: KZT 39,071 thousand). These balances have been excluded from cash and cash equivalents (refer Note 29).

13. Placements with banks and other financial institutions

	2002 KZT '000	2001 KZT '000 Reclassified
Nostro accounts	245,886	114,950
Placements with Western Union	3,117	3,004
Deposits in other banks	-	751
Accrued interest on deposits in other banks	-	19
Accrued interest on nostro accounts	64	8
	249,067	**118,732**

Concentration of placements with banks and other financial institutions.

As at 31 December 2002 the Bank had exposure to 2 banks (2001: 2) each of which comprised more than 10% of the total placement with banks and other financial institutions. The gross value of these exposures as of 31 December 2002 was KZT 241,668 thousand (2001: KZT 102,712 thousand).

14. Available for sale investments

	2002 KZT '000	2001 KZT '000
Available for sale		
Debt instruments – listed		
Notes of NBRK	109,927	4,604
Equity investments – unlisted		
Central Depositary shares	200	200
	110,127	**4,804**

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

15. Amount receivable under reverse repurchase agreement

	2002 KZT '000	2001 KZT '000
Amount receivable from banks and other financial institutions	50,000	-
Accrued interest	6	-
	50,006	**-**

Collateral security

As of 31 December 2002, the amount receivable under the reverse repurchase agreements was collateralised by the following security :

	Fair value 2002 KZT '000	Fair value 2001 KZT '000
Notes of NBRK	50,037	-

16. Loans to customers

Industry and geographical analysis of the loan portfolio

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

	2002 KZT '000	2001 KZT '000 Reclassified
Retail		
Individuals	276,813	177,174
Commercial		
Transport and transport services	348,318	58,587
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	1,205,407	1,125,975
Accrued interest	15,030	49,149
Provision for impairment	(34,459)	(28,703)
	1,185,978	**1,146,421**

Concentration of loans to customers

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

Analysis in the movement in the provision for impairment losses

	2002 KZT '000	2001 KZT '000
Balance at the beginning of the year	28,703	742
Provision for the year	5,756	28,113
Write - off	-	(152)
	34,459	**28,703**

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 32, 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.

17. Other assets

	2002 KZT '000	2001 KZT '000 Reclassified
Debtors under documentary settlements	27,021	-
Other transit accounts	10,932	6,532
Tax settlements	3,715	10,328
Other debtors	8,408	19,764
Provision for impairment	(375)	(426)
	49,701	**36,198**

Analysis in the movement in the provision for other assets

	2002 KZT '000	2001 KZT '000
Balance at the beginning of the year	426	291
Provision for the year	1,024	780
Write - off	(1,075)	(645)
	375	**426**

18. Property and equipment

In thousands of KZT	Land and buildings	Investment property	Vehicles	Computers	Equipment and others	Total
Cost						
At 1 January 2002	89,272	55,829	2,913	14,368	53,246	215,628
Additions	5,976	-	530	7,673	1,918	16,097
Disposals	-	-	-	(2,245)	(255)	(2,500)
Transfers	(6,368)	6,368	-	-	-	-
At 31 December 2002	88,880	62,197	3,443	19,796	54,909	229,225
Depreciation						
At 1 January 2002	9,318	5,566	218	7,492	13,169	35,763
Depreciation charge	3,762	3,110	146	3,225	4,929	15,172
Disposals	-	-	-	(1,749)	(71)	(1,820)
At 31 December 2002	13,080	8,676	364	8,968	18,027	49,115
Carrying value						
At 31 December 2002	**75,800**	**53,521**	**3,079**	**10,828**	**36,882**	**180,110**
At 31 December 2001	**79,954**	**50,263**	**2,695**	**6,876**	**40,077**	**179,865**

19. Intangible assets

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

20. Deposits and balances from banks and other financial institutions

	2002 KZT '000	2001 KZT '000 Reclassified
Term deposits	12,624	5,107
Accrued interest expense	48	31
	12,672	**5,138**

21. Current accounts and deposits from customers

	2002 KZT '000	2001 KZT '000 Reclassified
Current deposits	393,115	306,372
Term deposit	203,164	189,947
Demand deposits	65,030	51,116
Guarantee deposits	56,141	59,017
Accrued interest expense	1,704	1,502
	719,154	**607,954**

Blocked accounts

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.

22. Other liabilities

	2002 KZT ’000	2001 KZT ’000
Prepaid interest income	5,130	-
Tax settlements	3,715	393
Other creditors	5,543	3,852
Transit accounts	10,367	3,077
Dividends payable (see note 24)	3,209	-
	27,964	**7,322**

23. Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as of 31 December 2002 and 2001. The deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
In thousands of KZT	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Property and equipment	-	-	19,329	20,589	19,329	20,589
Intangible assets	(533)	(229)	-	-	(533)	(229)
Loans to customers	-	-	209	-	209	-
Net deferred tax (assets)/liabilities	(533)	(229)	19,538	20,589	19,005	20,360

Movement in temporary differences during the year

In thousands of KZT	**Balance at 1 January 2002**	**Recognised in the income statement**	**Balance at 31 December 2002**
Property and equipment	20,589	(1,260)	19,329
Intangible assets	(229)	(304)	(533)
Loans to customers	-	209	209
Net deferred tax (assets) / liabilities	20,360	(1,355)	19,005

24. 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. The number of issued and outstanding shares are as following:

Number of shares	**Ordinary shares 2002**	**Ordinary shares 2001**
On issue at the beginning of year	901,305	629,036
Issued during the year	12,000	213,784
Capitalized during the year	-	58,485
On issue at end of year, fully paid	**913,305**	**901,305**

24. Share capital (continued)

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 the Bank's stockholders to use revenues of 2001 of KZT 17,046 thousand to pay dividends. After deduction of withholding tax in the amount of KZT 2,558 thousand, 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 KZT 3,209 thousand (2001:nil) (refer note 22).

25. 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 counterparty 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.

(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 31 "Average effective interest rates".

25. Risk management (continued)

(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 32 "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 33 " Currency analysis".

26. 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 may expire or terminate without being funded.

At any time the Bank has outstanding commitments to extend credit. These commitments take the form of approved loans limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2002 KZT '000	2001 KZT '000
Contracted amount		
Loan commitments	113,706	133,244
Guarantees	12,407	12,558
Letters of credit	27,021	-
Letters of credit	**153,134**	**145,802**

27. 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 have 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 complete 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.

(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.

28. Related party transactions

There are no material related party transactions that occurred during the year to 31 December 2002 (2001: nil).

29. 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:

	2002 KZT ’000	2001 KZT ’000
Cash	60,102	84,284
Correspondent account with NBRK (see note 12)	77,203	95,097
Nostro accounts with other banks (see note 13)	245,886	114,950
Minimum reserve requirements (see note 12)	(29,899)	(39,071)
	353,292	**255,260**

30. Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation,* 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 market 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, amounts due from the NBRK, financial instruments held for trading, available for sale and 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 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.

31. 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 Effective Interest Rate	Value KZT '000	2001 Average Effective Interest Rate
Interest Bearing Assets				
Placements with banks and other financial institutions	**249,067**		**118,732**	
- USD	245,654	11.23	110,406	1.19
- Other currencies	3,413	4.00	8,326	-
Available for sale investments	**110,127**		**4,804**	
- KZT	110,127	3.19	4,804	2.98
Amount receivable under reserve repurchase agreement	**50,006**		**-**	**-**
- KZT	50,006	4.50	-	-
Loans to customers	**1,185,978**		**1,146,421**	
- KZT	1,185,978	16.60	1,040,321	17.00
- USD	-	-	106,100	15.00
Interest Bearing Liabilities				
Deposits and balances from banks and other financial institutions	**12,672**		**5,138**	
- USD	12,672	1.66	5,138	3.26
Current accounts and deposits from customers	**719,154**		**607,954**	
- KZT	424,424	7.50	288,412	6.50
- USD	288,779	5.25	311,984	4.25
- Other currencies	5,951	-	7,558	-

32. Maturity analysis

The following table shows 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 repricing dates.

32. Maturity analysis (continued)

	Less than 1 month KZT ’000	1 to 6 months KZT ’000	6 months to 1 year KZT ’000	1year to 5 years KZT ’000	More than 5 years KZT ’000	No maturity KZT ’000	Total KZT ’000
Assets							
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	245,950	-	-	-	3,117	-	249,067
Available for sale investments	109,927	-	-	-	200	-	110,127
Amount receivable under reverse repurchase agreement	50,006	-	-	-	-	-	50,006
Loans to customers	19,638	90,849	197,989	816,314	61,188	-	1,185,978
Other assets	22,680	27,021	-	-	-	-	49,701
Property and equipment	-	-	-	-	-	180,110	180,110
Intangible assets	-	-	-		-	10,900	10,900
Total assets	**555,607**	**147,769**	**197,989**	**816,314**	**64,505**	**191,010**	**1,973,194**
Liabilities							
Deposits and balances from banks and other financial institutions	-	-	468	-	12,204	-	12,672
Current accounts and deposits from customers	525,152	50,380	129,786	13,836	-	-	719,154
Other liabilities	27,964	-	-	-	-	-	27,964
Deferred tax liability	-	-	-	19,005	-	-	19,005
Total liabilities	**553,116**	**50,380**	**130,254**	**32,841**	**12,204**	**-**	**778,795**
Net position as at 31 December 2002	**2,491**	**97,389**	**67,735**	**783,473**	**52,301**	**191,010**	**1,194,399**
Net position as at 31 December 2001	**49,295**	**58,705**	**10,476**	**726,286**	**-**	**193,195**	**1,037,957**

33. Currency analysis

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

	KZT KZT ’000	USD KZT ’000	Other KZT ’000	Total KZT ’000
Assets				
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	-	245,654	3,413	249,067
Available for sale investment	110,127	-	-	110,127
Amount receivable under reverse repurchase agreement	50,006	-	-	50,006
Loans to customers	1,185,978	-	-	1,185,978
Other assets	10,734	37,789	1,178	49,701
Property and equipment	180,110	-	-	180,110
Intangible assets	10,900	-	-	10,900
Total assets	**1,654,281**	**314,061**	**4,852**	**1,973,194**
Liabilities				
Deposits and balances from banks and other financial institutions	-	12,672	-	12,672
Current accounts and deposits from customers	424,424	288,779	5,951	719,154
Other liabilities	16,198	11,685	81	27,964
Deferred tax liability	19,005	-	-	19,005
Total liabilities	**459,627**	**313,136**	**6,032**	**778,795**
Net Position as of 31 December 2002	**1,194,654**	**(925)**	**(1,180)**	**1,194,399**
Net Position as of 31 December 2001	**1,081,044**	**(43,850)**	**763**	**1,037,957**

34. Concentration of assets liabilities

The geographical concentration of assets and liabilities as at 31 December 2002 was as follows:

	Government of the Republic of Kazakhstan KZT '000	Other Kazakh Entities (1) KZT '000	Other Non-OECD KZT '000	OECD KZT '000	Total KZT '000
Assets					
Cash	-	60,102	-	-	60,102
Due from the National Bank of the Republic of Kazakhstan	77,203	-	-	-	77,203
Placements with banks and other financial institutions	-	80	2,571	246,416	249,067
Available for sale investments	-	110,127	-	-	110,127
Amounts receivable under reverse repurchase agreements	-	50,006	-	-	50,006
Loans to customers	-	1,185,978	-	-	1,185,978
Other assets	-	49,701	-	-	49,701
Property and equipment	-	180,110	-	-	180,110
Intangible assets	-	10,900	-	-	10,900
Total assets	**137,305**	**1,586,902**	**2,571**	**246,416**	**1,973,194**
Liabilities					
Deposits and balances from banks and other financial institutions	-	12,672	-	-	12,672
Current accounts and deposits from customers	-	719,154	-	-	719,154
Other liabilities	-	27,964	-	-	27,964
Deferred tax liability	19,005	-	-	-	19,005
Total liabilities	**19,005**	**759,790**	**-**	**-**	**778,795**
Net position as of 31 December 2002	**118,300**	**827,112**	**2,571**	**246,416**	**1,194,399**
Net position as of 31 December 2001	**159,021**	**761,012**	**1,581**	**116,343**	**1,037,957**

(1) Includes all entities domiciled in the Republic of Kazakhstan, including the Kazakhstani subsidiaries of foreign entities.