Bank Caspian JSC

Consolidated Financial Statements

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

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Bank Caspian JSC

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

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

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

Ernst & Young Kazakhstan

February 9, 2004

CONSOLIDATED BALANCE SHEETS

(Thousands of Kazakhstani Tenge)

	Notes	December 31, 2003	December 31, 2002
Assets			
Cash and cash equivalents	4	**6,219,460**	1,762,004
Obligatory reserves	5	**680,970**	311,507
Trading securities	6	**8,383,241**	5,075,106
Amounts due from credit institutions	7	**1,779,223**	–
Held-to-maturity investment securities	8	**-**	184,594
Loans to customers	9, 11	**35,459,390**	19,599,763
Property and equipment	12	**1,888,070**	1,364,393
Other assets		**325,446**	444,095
Total assets		**54,735,800**	28,741,462
Liabilities			
Amounts due to Government	13	**243,394**	–
Amounts due to credit institutions	14	**8,729,317**	4,083,412
Amounts due to customers	15	**30,022,490**	18,466,791
Debt securities issued:			
– subordinated debt securities issued	16	**7,049,859**	–
– unsubordinated debt securities issued	16	**2,250,293**	2,411,186
Deferred tax liabilities	10	**93,759**	15,697
Provisions	11	**123,046**	–
Other liabilities		**500,489**	332,725
Total liabilities		**49,012,647**	25,309,811
Shareholders' equity			
Share capital	17	**3,700,462**	1,756,828
Additional paid-in capital		**521,530**	433,095
Treasury stock		**(487)**	(6,796)
Convertible subordinated debt		**-**	779,250
Reserves net of accumulated deficit		**1,501,648**	469,274
Total shareholders' equity		**5,723,153**	3,431,651
Total liabilities and shareholders' equity		**54,735,800**	28,741,462
Financial commitments and contingencies	18	**13,221,373**	5,751,711

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

Igor V. Kim — Chairman of the Management Board

Elena V. Elchinskaya — Chief Accountant

February 9, 2004

The accompanying notes on pages 6 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Kazakhstani Tenge, except per share data)

		Years ended December 31,	
	Notes	***2003***	***2002***
Interest income			
Loans to customers		**4,376,557**	1,871,959
Investment securities		**579,713**	364,195
Amounts due from credit institutions		**13,750**	46,748
		4,970,020	2,282,902
Interest expense			
Amounts due to customers		**(1,819,579)**	(974,633)
Amounts due to credit institutions		**(238,630)**	(145,072)
Debt securities issued		**(241,200)**	(187,838)
Subordinated loan		**(195,133)**	(14,594)
		(2,494,542)	(1,322,137)
Net interest income		**2,475,478**	960,765
Impairment of interest earning assets	11	**(732,695)**	(275,105)
		1,742,783	685,660
Fee and commission income	19	**1,186,280**	690,231
Fee and commission expense	19	**(88,039)**	(138,859)
Fees and commissions		**1,098,241**	551,372
Gains less losses from trading securities	20	**33,825**	192,659
Gains less losses from foreign currencies:			
- dealing		**220,372**	111,542
- translation differences		**(92,873)**	83,335
Underwriting income		**31,849**	10,203
Other income		**54,225**	38,664
Non interest income		**247,398**	436,403
Salaries and benefits	21	**(1,050,970)**	(684,906)
Depreciation	12	**(108,765)**	(76,248)
Administrative and operating expenses	21	**(782,395)**	(515,492)
Other impairment and provisions	11	**(123,046)**	–
Non interest expense		**(2,065,176)**	(1,276,646)
Income before income tax expense		**1,023,246**	396,789
Income tax (expense) benefit	10	**(181,645)**	8,984
Net income		**841,601**	405,773
Basic earnings per share (in Kazakhstani Tenge)	22	**122,87**	79,83
Diluted earnings per share (in Kazakhstani Tenge)	22	**134,49**	71,99

The accompanying notes on pages 6 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

(Thousands of Kazakhstani Tenge)

	Share Capital	*Additional paid-in capital*	*Treasury stock*	*Convertible subordinated debt*	*Statutory reserve*	*Revaluation reserve*	*Retained earnings/ (accumulated deficit)*	*Total shareholders' equity*
December 31, 2001	1,427,338	80,124	(6,797)	–	208,043	–	(369,478)	1,339,230
Capital contributions	329,490	352,971	–	–	–	–	–	682,461
Revaluation of property and equipment, net of related deferred tax	–	–	–	–	–	232,738	–	232,738
Dividends - preference shares	–	–	–	–	–	–	(2,415)	(2,415)
Reserves released on deconsolidation of special purpose entities	–	–	–	–	–	–	(5,387)	(5,387)
Treasury stock sale	–	–	1	–	–	–	–	1
Convertible subordinated debt	–	–	–	779,250	–	–	–	779,250
Transfers	–	–	–	–	84,114	–	(84,114)	–
Net income	–	–	–	–	–	–	405,773	405,773
December 31, 2002	1,756,828	433,095	(6,796)	779,250	292,157	232,738	(55,621)	3,431,651
Capital contributions	**1,305,360**	**88,435**	-	-	-	-	-	**1,393,795**
Revaluation of property and equipment, net of related deferred tax	-	-	-	-	-	**193,188**	-	**193,188**
Dividends - preference shares	-	-	-	-	-	-	**(2,415)**	**(2,415)**
Treasury stock purchase	-	-	**(37,611)**	-	-	-	-	**(37,611)**
Treasury stock sale	-	-	**43,920**	-	-	-	-	**43,920**
Conversion of subordinated debt to common shares	**638,274**	-	-	**(638,274)**	-	-	-	-
Purchase of convertible subordinated debt	-	-	-	**(140,976)**	-	-	-	**(140,976)**
Transfers	-	-	-	-	**177,711**	-	**(177,711)**	-
Net income	-	-	-	-	-	-	**841,601**	**841,601**
December 31, 2003	**3,700,462**	**521,530**	**(487)**	-	**469,868**	**425,926**	**605,854**	**5,723,153**

The accompanying notes on pages 6 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Kazakhstani Tenge)

	Years ended December 31,	
	2003	***2002***
Cash flows from operating activities		
Income before income tax	**1,023,246**	396,789
Adjustments for:		
Impairment of interest earning assets	**732,695**	275,105
Other impairment and provisions	**123,046**	–
Depreciation	**108,765**	76,248
Decrease in the carrying amount of property and equipment arising from revaluation	**43,878**	–
Loss on disposal of property and equipment	**11,322**	13,428
Unrealized gain on trading securities	**(57,944)**	(67,709)
Unrealised foreign exchange loss (gain)	**11,385**	(16,310)
Operating income before changes in net operating assets and liabilities	**1,996,393**	677,551
Net (increase) /decrease in operating assets		
Obligatory reserve	**(369,463)**	78,391
Trading securities	**(3,250,191)**	(3,200,142)
Amounts due from credit institutions	**(1,779,223)**	2,704
Loans to customers	**(16,558,199)**	(12,581,862)
Other assets	**118,649**	(229,719)
Net increase /(decrease) in operating liabilities		
Amounts due to Government	**243,394**	–
Amounts due to credit institutions	**4,645,905**	2,252,986
Amounts due to customers	**11,555,699**	7,632,051
Other liabilities	**167,764**	444,448
Net cash used in operating activities before income taxes	**(3,229,272)**	(4,923,592)
Corporate income tax paid	**(186,378)**	(4,868)
Net cash flows used in operating activities	**(3,415,650)**	(4,928,460)
Cash flows from investing activities		
Purchases of property and equipment	**(469,373)**	(313,220)
Proceeds from sale of property and equipment	**57,714**	187,285
Purchases of held-to-maturity investment securities	**-**	(184,594)
Proceeds from sale of held-to-maturity investment securities	**184,594**	–
Net cash flow used in investing activities	**(227,065)**	(310,529)
Cash flows from financing activities		
Capital contributions	**1,393,795**	682,461
Proceeds from debt securities issued	**6,888,966**	1,566,736
Treasury stock purchase	**(37,611)**	–
Treasury stock sale	**43,920**	1
Dividends on preference shares paid	**(2,415)**	–
Convertible subordinated debt	**(140,976)**	779,250
Net cash flows provided by financing activities	**8,145,679**	3,028,448
Exchange rates changes effect on cash and cash equivalents	**(45,508)**	77,025
Net change in cash and cash equivalents	**4,457,456**	(2,133,516)
Cash and cash equivalents at the beginning of the year	**1,762,004**	3,895,520
Cash and cash equivalents at the end of the year (Note 4)	**6,219,460**	1,762,004
Supplementary information:		
Interest paid	**2,027,881**	874,511
Interest received	**4,284,301**	2,104,949

The accompanying notes on pages 6 to 30 are an integral part of these consolidated financial statements.

(Thousands of Kazakhstani Tenge unless otherwise stated)

1. *Principal Activities*

Bank Caspian JSC (the “Bank”), which provides banking services in Kazakhstan, is incorporated and domiciled in the Republic of Kazakhstan. It has one subsidiary, Almaty International Insurance Group OJSC (“AIIG”), which provides insurance services under the laws of the Republic of Kazakhstan. The Bank and AIIG are hereinafter referred to as “the Group”. The Bank was formed in December 1997 as an open joint stock company under the laws of the Republic of Kazakhstan. The Bank operates under a general banking license issued by the National Bank of Kazakhstan (“NBK”) No.10 on August 18, 1997, as well as NBK licenses for foreign currency operations No. 245 granted on December 31, 2003 and for securities operations and custody services No. 0401100615 granted on September 2, 2003. On August 1, 2003, the Bank was reregistered as a joint-stock company based on the requirements of the Kazakhstani statutory legislation.

The Bank accepts deposits from the public, transfers payments in Kazakhstan and abroad, extends credit and provides other banking services in accordance with the Kazakh legislation. The Bank is among the ten largest banks in Kazakhstan in terms of total assets. Its main office is in Almaty and it has 21 branches (2002 – 16 branches) and 50 operating outlets (2002 – 43 operating outlets). The Bank’s registered legal address is 90 Adi Sharipov Street, Almaty, 480012, Republic of Kazakhstan.

AIIG was formed as an open joint stock company under the laws of the Republic of Kazakhstan in 1994. The company’s principal activity is the provision of casualty and property insurance services. The company was granted a license No.DOC 5-2/1 by NBK to provide voluntary insurance and obligatory insurance. AIIG was consolidated in the accompanying consolidated financial statements.

The Bank’s debt securities and shares are listed on the Kazakhstani Stock Exchange CJSC (“KASE”).

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

Shareholder	*%*
Kazakhstan Fuel Company JCS	11.46
Caspian Investment Services Corporation	9.46
Leasing Centre Astana JCS	8.05
Fantasy JCS	6.47
Madoc Capital Limited Company	6.24
Nauryz Services Consulting Company LLP	6.01
Kim V.K.	5.89
Kim V.E.	5.55
Other less than 5%	40.87
Total	**100.00**

The Group had an average of 966 employees during 2003 (2002 – 789 employees).

2. *Basis of Preparation*

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards (“IAS”) and Standing Interpretations Committee interpretations (“SIC”) approved by the International Accounting Standards Committee that remain in effect. These consolidated financial statements are presented in thousands of Kazakhstani tenge (“KZT”), unless otherwise indicated as presented in “tenge”. The KZT is utilized as the shareholders, the managers and the regulators measure the Bank’s performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Bank. Transactions in other currencies are treated as transactions in foreign currencies.

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

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

Consolidated Subsidiary

The consolidated financial statements include the following subsidiary:

Subsidiary	*Holding, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
2003					
Almaty International Insurance Group OJSC	100	Kazakhstan	1994	Casualty and property insurance	2001
2002					
Almaty International Insurance Group OJSC	100	Kazakhstan	1994	Casualty and property insurance	2001

Reconciliation of KAL and IFRS Equity and Net Income

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

	2002	
	Shareholders' equity	*Net income*
Kazakhstani Accounting Legislation	2,741,300	560,496
Allowances for loan losses	(53,559)	24,553
Realised income on securities	–	(237,970)
Revaluation of property and equipment	(15,367)	–
Additional depreciation of property and equipment	(55,463)	(15,387)
Convertible subordinated debt	779,250	–
Other	35,490	74,081
International Financial Reporting Standards	3,431,651	405,773

3. *Summary of Accounting Policies*

Principles of consolidation

The consolidated financial statements of the Group include Almaty International Insurance Group OJSC. The control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Recognition of Financial Instruments

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

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

Cash and Cash Equivalents

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

Obligatory Reserves

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

Trading Securities

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

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

Amounts Due from Credit Institutions

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

Repurchase and Reverse Repurchase Agreements

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

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

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

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

Derivative Financial Instruments

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

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At December 31, 2003 and 2002, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from trading securities.

Investment Securities

Securities with fixed maturities and fixed or determinable payments that Management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity.

The Group classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.

Loans to Customers

Loans granted by the Group by providing funds directly to the borrower are categorized as loans originated by the Group and are initially recorded in accordance with the recognition of financial instruments policy. The difference between nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment.

Operating Leases

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

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan and of the cities in which the Bank has offices and branches and its subsidiary is located. Deferred income tax is provided, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for taxable temporary differences except were the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized except where the deferred income tax asset relating to the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the same time of the transaction, affects neither the accounting profit nor taxable profit nor loss.

(Thousands of Kazakhstani Tenge unless otherwise stated)

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

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

Allowances for Impairment of Financial Assets

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

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

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

Property and Equipment

Equipment is carried at cost less accumulated depreciation and any accumulated impairment for diminution in value. Property is carried at revalued cost less accumulated depreciation and any accumulated impairment for diminution in value. Revaluations of property are performed with sufficient regularity such that the carrying amount does not fluctuate materially.

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

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Land	–
Buildings	50
Furniture and fixtures	3-10
Vehicles	4-8

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

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

Amounts due to Government, Credit Institutions and to Customers

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

Debt Securities Issued

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

Provisions

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

Retirement and Other Benefit Obligations

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

Share Capital

Share capital, additional paid-in capital and treasury stock are recognized at restated cost. Gains and losses on sales of treasury stock are charged to additional paid-in capital.

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

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

Contingencies

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

Income and Expense Recognition

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

The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued in the current year but not received is reversed against interest income and interest accrued in prior years and not received is charged off against the allowance for losses. Subsequent payments by borrowers are applied entirely to principal if the estimated collectibility of the loan is low and to either principal or delinquent interest, based on the estimated collectibility of the loan and delinquent interest at the time of payment, if the Group has objective evidence that the loan and delinquent interest are reasonably assured of repayment within a reasonable period. A non-accrual loan may be restored to accrual status when all the Group has objective evidence that all principal and interest amounts contractually due are reasonably assured of timely repayment.

(Thousands of Kazakhstani Tenge unless otherwise stated)

Underwriting Income

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

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

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

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

Policy acquisition costs, comprising commissions paid to insurance agents and brokers, which vary with and are directly related to the production of new business, are deferred, recorded in the accompanying consolidated balance sheets within other assets, and are amortized over the period in which the related written premiums are earned.

Reserve for Insurance Losses and Loss Adjustment Expenses

The reserve for insurance losses and loss adjustment expenses is included in the accompanying consolidated balance sheets within other liabilities and is based on the estimated amount payable on claims reported prior to the balance sheet date, which have not yet been settled, and an estimate of incurred but not reported claims relating to the reporting period.

Due to the absence of prior experience, the reserve for incurred but not reported claims ("IBNR") was established as being equal to the expected loss ratio for each line of business times the value of coverage, less the losses actually reported.

The methods for determining such estimates and establishing the resulting reserves are continuously reviewed and updated. Resulting adjustments are reflected in current income.

Reinsurance

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

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross unless a right of offset exists and is included in the accompanying consolidated balance sheets within other assets.

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

Foreign Currency Translation

Starting from January 31, 2002, transactions dominated in foreign currencies are recorded using the market exchange rates quoted by the Kazakhstani Stock Exchange ("KASE"), which closely approximated the exchange rates quoted by the National Bank of the Republic of Kazakhstan. Before January 31, 2002, currencies were recoded using the exchange rates quoted by NBK, which closely approximated the market exchange rates quoted by KASE. Starting from January 1, 2003, the market exchange rates quoted by KASE have been used as the official exchange rates.

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

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

Reclassifications

The following reclassifications were made to 2002 balances to conform to the 2003 presentation.

Amount	*Previously reported*	*As reclassified*	*Comment*
2002 balance sheet:			
709,835	Other assets	444,095	Reclassification of other assets into loans to customers
326,389	Other borrowed funds	–	This line was combined with amounts due to credit institutions
696,844	Other liabilities	332,725	Reclassification of interest accrued on time deposits into amounts due to customers
2002 statement of income:			
547,050	Payroll and other staff costs	684,906	Reclassification of social security costs from taxes other than income tax into salaries and benefits
195,507	Occupancy and equipment	76,248	Reclassification of occupancy and rent into administrative and operating expenses
13,428	Losses on disposal of property and equipment	–	Reclassification of losses on disposal of property and equipment into administrative and operating expenses
161,326	Taxes other than income tax	–	Reclassification of operating taxes into administrative and operating expenses
38,052	Advertising expenses	–	Reclassification of advertising expenses into administrative and operating expenses

None of the above reclassifications impacted net income or shareholders' equity.

4. Cash and Cash Equivalents

At December 31, cash and cash equivalents comprise:

	2003	*2002*
Current accounts with NBK	**3,767,636**	339,940
Cash on hand	**1,269,625**	512,330
Current accounts with credit institutions	**1,182,199**	647,276
Time deposits and loans with contractual maturity of less than 90 days	**-**	262,458
Cash and cash equivalents	**6,219,460**	1,762,004

At December 31, 2003, KZT 631,933 was placed in current accounts with OECD based banks (2002 – KZT 561,459).

At December 31, 2002, time deposits and loans with contractual maturity of less than 90 days represent balances with two non-OECD based banks and carried interest at rates ranging from 6% to 10% per annum. The amounts were paid in January 2003 upon maturity.

At December 31, 2003, 5 banks accounted for 82% of total current accounts with credit institutions (2002 – 98%) and represented 17% of the Group's total shareholders' equity (2002 – 18%).

(Thousands of Kazakhstani Tenge unless otherwise stated)

5. *Obligatory Reserves*

Obligatory reserves comprise:

	2003	**2002**
Correspondent account with the NBK allocated to obligatory reserves	**680,970**	311,507

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

6. *Trading Securities*

At December 31, trading securities owned comprise:

	2003	**2002**
Bonds of the Ministry of Finance of the Republic of Kazakhstan	**5,055,979**	1,579,676
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	**3,068,303**	3,270,086
Corporate bonds	**146,420**	225,344
Promissory notes of Kazakh corporations	**112,539**	–
Trading securities	**8,383,241**	5,075,106
Subject to repurchase agreements	**4,482,323**	2,225,829
Pledged as collateral for borrowings from other banks	**-**	376,603

Interest rates and maturity of these securities follow:

	2003		**2002**	
	%	**Maturity**	**%**	**Maturity**
Bonds of the Ministry of Finance of the Republic of Kazakhstan	**6.00% - 17.10%**	**2013**	8.00% - 9.00%	2007
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	**11.13% - 13.63%**	**2007**	11.13% - 13.63%	2007
Corporate bonds	**10.00%**	**2006**	10.00%	2006
Promissory notes of Kazakh corporations	**10.00%**	**2004**	–	–

7. *Amounts due from Credit Institutions*

At December 31, amounts due from credit institutions consisted of the following:

	2003	**2002**
Reverse repurchase agreements	**1,080,182**	–
Time deposits and loans of more than 90 days	**699,041**	–
Amounts due from credit institutions	**1,779,223**	–

At December 31, 2003, 5 credit institutions accounted for 86% of time deposits and loans of more than 90 days and represented 11% of the Group's total shareholders' equity.

At December 31, 2003, time deposits in the amount of KZT 582,217 were pledged to the counterparty banks as security for open letters of credit (2002–nil).

The Group had entered into reverse repurchase agreements with various undisclosed counterparties through KASE and directly with one credit institution. At December 31, 2003, the subject of these agreements are treasury bills of NBK of KZT 480,181 and bonds of the Ministry of Finance of the Republic of Kazakhstan of KZT 600,001 (2002 – KZT nil).

(Thousands of Kazakhstani Tenge unless otherwise stated)

Interest rates and maturities of amounts due from credit institutions were as follows:

	2003		2002	
	%	Maturity	%	Maturity
Reverse repurchase agreements	**2.25% - 2.50%**	**2004**	–	–
Time deposits and loans of more than 90 days	**3.35% - 4.7%**	**2004 - 2005**	–	–

8. *Held-to-Maturity Investment Securities*

At December 31, held-to-maturity investment securities comprise the following:

	2003		2002	
	Carrying value	Nominal value	Carrying value	Nominal value
Corporate bonds	-	-	89,622	82,601
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	74,972	69,945
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	20,000	20,000
Held-to-maturity securities	-	-	184,594	172,546

Interest rates and maturity of these securities follow:

	2003		2002	
	%	Maturity	%	Maturity
Corporate bonds	-	-	10.00%	2006
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	13.63%	2004
Bonds of the Ministry of Finance of the Republic of Kazakhstan	-	-	8.19%	2004

9. *Loans to Customers*

At December 31, loans to customers comprise:

	2003	2002
Loans to customers	**36,682,045**	20,165,152
Overdrafts	**60,840**	–
	36,742,885	20,165,152
Less – Allowance for loan impairment	**(1,283,495)**	(565,389)
Loans to customers	**35,459,390**	19,599,763

As of December 31, 2003, the total gross amount of impaired loans, on which interest was not accrued, was KZT 434,664 (2002 – KZT 84,715). Unrecognised interest related to such loans amounted to KZT 36,463 (2002 – KZT 14,505). At December 31, 2003, overdue loans amounted to KZT 866,239 (2002–KZT 13,181).

As of December 31, 2003, the Group had a concentration of loans represented by KZT 13,888,421 due from ten borrowers (37.95% of total gross loan portfolio) (2002 – KZT 5,300,221 due form ten borrowers, 26.63% of total gross loan portfolio). An allowance of KZT 121,766 (2002 – KZT 43,201) was made against these loans.

Loans to customers include pass-through loans of KZT 470,660 (2002 – KZT 326,389) granted under the State Agriculture Support Programme (Note 14).

As of December 31, 2003, loans of KZT 7,625,548 (2002 – KZT 6,165,339) were secured by 100% cash collateral.

(Thousands of Kazakhstani Tenge unless otherwise stated)

At December 31, loans have been extended to the following types of customers:

	2003	*%*	*2002*	*%*
Private companies	**33,271,036**	**91%**	19,396,977	96%
Individuals	**3,471,849**	**9%**	768,175	4%
	36,742,885	**100%**	20,165,152	100%

At December 31, loans are made principally within Kazakhstan to the following sectors:

	2003	*%*	*2002*	*%*
Trading enterprises	**15,043,824**	**41%**	4,933,274	25%
Manufacturing	**8,169,289**	**22%**	10,202,374	51%
Real estate construction	**3,340,336**	**9%**	1,269,802	6%
Individuals	**3,471,849**	**10%**	459,751	2%
Services	**3,075,482**	**8%**	1,454,149	7%
Transport	**1,711,764**	**5%**	526,588	3%
Agriculture and food processing	**1,576,178**	**4%**	1,291,263	5%
Other	**354,163**	**1%**	27,951	1%
	36,742,885	**100%**	20,165,152	100%

10. Taxation

For the years ended December 31, the corporate income tax expense comprises:

	2003	*2002*
Current tax charge	**186,378**	4,846
Deferred tax benefit	**(4,733)**	(13,830)
Income tax expense / (benefit)	**181,645**	(8,984)

Kazakhstani legal entities must file individual tax declarations. The profit tax rate for banks was 30% for 2003 and 2002. The tax rates for insurance companies in 2003 and 2002 was 30% for non- insurance activities, and 4% for insurance activities.

At December 31, tax liabilities consist of the following:

	2003	*2002*
Deferred tax liabilities	**93,759**	15,697

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual for the years ended December 31, is as follows:

	2003	*2002*
Income before tax	**1,023,246**	396,789
Statutory tax rate	**30%**	30%
Theoretical income tax expense at the statutory rate	**306,974**	119,037
State securities non-taxable income	**(317,612)**	(279,185)
Income of the insurance subsidiary taxed at different rates	**(21,052)**	(4,902)
Non deductible expenditures:		
- interest expense over deductible limits	**226,766**	164,994
–losses on disposal of property and equipment	**3,397**	–
-other	**(16,828)**	(8,928)
Income tax expense / (benefit)	**181,645**	(8,984)

(Thousands of Kazakhstani Tenge unless otherwise stated)

At December 31, deferred tax assets and liabilities comprise:

	2003	*2002*
Tax effect of deductible temporary differences:		
Allowances for impairment and provisions for other losses	**65,355**	91,550
Accrued expenses	**45,455**	5,587
Other	**5,534**	1,763
Deferred tax asset	**116,344**	98,900
Tax effect of taxable temporary differences:		
Property and equipment	**(208,194)**	(114,597)
Other	**(1,909)**	–
Deferred tax liability	**(210,103)**	(114,597)
Deferred tax liability, net	**(93,759)**	(15,697)

Aggregate deferred tax relating to items charged or credited to the shareholders' equity consisted of the following for the years ended December 31:

	2003	*2002*
Deferred tax relating to the revaluation of property and equipment	**82,795**	–

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

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

11. Allowances for Losses and Provisions

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

	Other assets	*Due from credit institutions*	*Loans to customers*	*Total*
December 31, 2001	24,703	47,250	375,371	447,324
Charge	42,519	–	232,586	275,105
Write-offs	(59,392)	(47,250)	(135,528)	(242,170)
Recoveries	–	–	92,960	92,960
December 31, 2002	7,830	–	565,389	573,219
Charge	**-**	**-**	**732,695**	**732,695**
Write-offs	**(3,925)**	**-**	**(32,294)**	**(36,219)**
Recoveries	**-**	**-**	**17,705**	**17,705**
December 31, 2003	**3,905**	**-**	**1,283,495**	**1,287,400**

(Thousands of Kazakhstani Tenge unless otherwise stated)

The movements in allowances for provisions were as follows:

	Guarantees and credit related commitments
December 31, 2001	–
Charge	–
Write-offs	–
December 31, 2002	–
Charge	**123,046**
Write-offs	**-**
December 31, 2003	**123,046**

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

12. *Property and Equipment*

The movements of property and equipment were as follows:

	Land and Buildings	*Furniture and fixtures*	*Vehicles*	*Assets under construction*	*Total*
Cost or revaluation					
December 31, 2002	1,100,635	375,366	129,649	44,760	1,650,410
Additions	**242,749**	**116,360**	**72,187**	**38,077**	**469,373**
Revaluation	**401,986**	**-**	**-**	**-**	**401,986**
Disposals	**(61,398)**	**(22,135)**	**(12,102)**	**-**	**(95,635)**
December 31, 2003	**1,683,972**	**469,591**	**189,734**	**82,837**	**2,426,134**
Accumulated depreciation					
December 31, 2002	(97,699)	(148,436)	(39,882)	–	(286,017)
Charge	**(22,323)**	**(66,734)**	**(19,708)**	**-**	**(108,765)**
Revaluation	**(169,881)**	**-**	**-**	**-**	**(169,881)**
Disposals	**9,224**	**12,239**	**5,136**	**-**	**26,599**
December 31, 2003	**(280,679)**	**(202,931)**	**(54,454)**	**–**	**(538,064)**
Net book value:					
December 31, 2002	1,002,936	226,930	89,767	44,760	1,364,393
December 31, 2003	**1,403,293**	**266,660**	**135,280**	**82,837**	**1,888,070**

During 2002, the Group commenced the process of revaluing its buildings. The revaluation process is planned to be completed during 2004 for all buildings. The valuation of certain buildings was performed by an independent appraisal firm as of December 23, 2003, and November 12, 2002. The basis used for the appraisal was fair market value under the open market premise of value. As of December 31, 2003 the resulting revaluation surplus for 2003 of KZT 275,983 (2002 – KZT 232,738) is recorded in revaluation reserve in shareholders' equity, and the resulting decrease in the carrying amount of KZT 43,878 (2002– KZT nil) arising on the revaluation of the buildings is charged as an expense and recorded within administrative and operating expenses (Note 21). At December 31, 2003 the revalued buildings are included above at the revalued net carrying amount of KZT 661,455 (2002– KZT 475,998). Had the property revalued in 2003 and 2002 been included at cost at December 31, 2003 and 2002, their net carrying amount would have amounted to KZT 429,995 and KZT 246,711, respectively.

(Thousands of Kazakhstani Tenge unless otherwise stated)

13. Amounts due to Government

At December 31, amounts due to Government comprise:

	2003	*2002*
Amounts due to the Ministry of Agriculture of the Republic of Kazakhstan	**167,000**	–
Amounts due to local government bodies	**76,394**	–
Amounts due to Government	**243,394**	–

At December 31, 2003, the amounts due to the Ministry of Agriculture of the Republic of Kazakhstan and local government bodies represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. The Bank bears the credit risk in connection with these loans. The Bank's margin on pass-through loans ranges from 3.80% to 10.00% per annum.

Interest rates and maturities of amounts due to Government were as follows:

	2003		*2002*	
	%	*Maturity*	*%*	*Maturity*
Amounts due to the Ministry of Agriculture of the Republic of Kazakhstan	**7.67%**	**2010**	–	–
Amounts due to local government bodies	**0.00% - 7.11%**	**2005 - 2008**	–	–

14. Amounts Due to Credit Institutions

At December 31, amounts due to credit institutions comprise:

	2003	*2002*
Time deposits and loans	**4,332,771**	1,526,258
Repurchase agreements	**4,048,064**	2,010,003
Loans from the Small Business Development Fund CJSC	**227,266**	326,389
Current accounts	**121,216**	220,762
Amounts due to credit institutions	**8,729,317**	4,083,412

At December 31, 2003 and 2002, amounts due to the Small Business Development Fund CJSC represent pass-through loans to individuals and private companies under the State Agriculture Support Programme. At December 31, 2003, the amounts received under this Programme had been fully advanced to the borrowers and included within loans to customers. The Bank bears the credit risk in connection with these loans.

Interest rates and maturities of amounts due to credit institutions were as follows:

	2003		*2002*	
	%	*Maturity*	*%*	*Maturity*
Time deposits and loans	**3.73% - 4.96%**	**2004**	3.70% - 14.00%	2003
Repurchase agreements	**4.20% - 6.00%**	**2004**	5.70% - 6.50%	2003
Loans from the Small Business Development Fund CJSC	**1.00% - 7.50%**	**2006 - 2007**	1.00% - 7.50%	2006 - 2007

At December 31, 2003, 10 major credit institutions accounted for 90% of time deposits and loans (2002– 9 major credit institutions 100%).

(Thousands of Kazakhstani Tenge unless otherwise stated)

15. Amounts Due to Customers

At December 31, the amounts due to customers included balances in customer current accounts, term deposits, and certain other liabilities, and include the following:

	2003	2002
Time deposits	**23,232,407**	14,704,806
Current accounts	**6,790,083**	3,761,985
Amounts due to customers	**30,022,490**	18,466,791
Held as security against letters of credit and guarantees	**803,572**	1,315
Held as security against loans to customers	**7,625,548**	6,165,339

At December 31, 2003, amounts due to customers of KZT 13,492,048 (43.96% of total amounts due to customers) were due to 10 customers (2002 – KZT 8,088,444 and 43.81% of total amounts due to customers).

At December 31, amounts due to customers include accounts with the following types of customers:

	2003	%	2002	%
Private enterprises	**23,436,552**	**78%**	14,704,806	80%
Individuals	**6,585,938**	**22%**	3,761,985	20%
Amounts due to customers	**30,022,490**	**100%**	18,466,791	100%

At December 31, analysis of customer accounts by sector follows:

	2003	%	2002	%
Trade	**8,804,949**	**29%**	6,811,503	37%
Individuals	**6,585,938**	**22%**	3,761,985	20%
Insurance	**3,103,656**	**10%**	955,992	6%
Manufacturing	**2,701,973**	**9%**	995,042	5%
Transport	**2,393,952**	**8%**	423,750	2%
Service	**1,124,271**	**4%**	586,447	3%
Non-credit financial organizations	**1,161,682**	**4%**	1,876,630	10%
Real estate construction	**1,299,423**	**4%**	1,678,501	9%
Agriculture and food processing	**923,968**	**3%**	854,717	5%
Fuel, gas and chemicals	**416,678**	**1%**	274,582	2%
Machine building	**24,731**	**1%**	23,922	–
Other	**1,481,269**	**5%**	223,720	1%
Amounts due to customers	**30,022,490**	**100%**	18,466,791	100%

16. Debt Securities Issued

At December 31, subordinated debt securities issued comprise:

	2003	2002
Long-term subordinated bonds – third issue	**3,975,744**	–
Long-term subordinated bonds – second issue	**3,074,115**	–
Debt securities issued	**7,049,859**	–

Long-term subordinated bonds of the third issue are indexed to USD and were issued by the Group in December 2003, with interest payable semi-annually at 8.75% per annum and maturity in December 2010. As of December 31, 2003, the Group has issued 198,680 bonds out of 375,000 registered bonds of this issue.

Long-term subordinated bonds of the second issue are indexed to USD and were issued by the Group in May 2003, with interest payable semi-annually at 9.5% per annum and maturity in May 2010. As of December 31, 2003 all registered bonds of this issue were issued.

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At December 31, 2003, long-term unsubordinated bonds are denominated in USD, were issued in July 2001 and mature in July 2004. Interest on these bonds is payable semi-annually at 9.5% per annum. As of December 31, 2002, all unsubordinated bonds were issued.

17. Shareholders' Equity

Movement of shares authorised, fully paid and outstanding follows:

	Number of shares		Amount		Inflation	Total
	Preference	**Common**	**Preference**	**Common**		
December 31, 2001	115,000	4,647,000	24,150	975,870	427,318	1,427,338
Contributed in KZT	–	1,569,000	–	329,490	–	329,490
December 31, 2002	115,000	6,216,000	24,150	1,305,360	427,318	1,756,828
Contributed in KZT	**-**	**2,072,000**	**-**	**1,305,360**	**-**	**1,305,360**
Capitalized convertible subordinated debt	**-**	**877,588**	**-**	**638,274**	**-**	**638,274**
December 31, 2003	**115,000**	**9,165,588**	**24,150**	**3,248,994**	**427,318**	**3,700,462**

As of December 31, 2003, 9,165,588 common shares and 115,000 preference shares were issued, fully paid and registered (2002 – 6,216,000 common shares and 115,000 preference shares).

The share capital of the Group was contributed by the shareholders in KZT and they are entitled to dividends and any capital distribution in Kazakhstani tenge. Preference shares are non-voting and guarantee annual cumulative dividends of not less than 21 tenge per share.

In 2003 amendments to the share capital of the Group were approved by shareholders as follows:

- The share capital was increased through the sales of 2,072,000 common shares of 630 tenge placement value each and an average premium of 42.68 tenge per share.
- The share capital was increased by KZT 638,274, through the conversion of the convertible subordinated debt for 877,588 common shares of 727.30 tenge placement value each.

During 2003, the Group repurchased KZT 140,976 of the convertible subordinated debt in accordance with the agreement with the holder of the convertible subordinated debt on the conversion of the debt.

During the year ended December 31, 2003, the Group declared dividends on preference shares in the amount of KZT 2,415 (2002– KZT 2,415). In accordance with the resolution of the Annual General Shareholders' Meeting held on April 30, 2003 and May 23, 2002, the Group transferred KZT 177,711 and KZT 84,114 from retained earnings to the statutory reserve, respectively.

As of December 31, 2003 and 2002, four shareholders owned 35% and 45% of the outstanding shares, respectively.

18. Commitments and Contingencies

Operating Environment

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

Legal

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

Financial commitments and contingencies

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

	2003	*2002*
Credit related commitments		
Undrawn loan commitments	**7,170,125**	2,266,067
Guarantees	**4,777,821**	2,919,493
Letters of credit	**2,126,048**	497,765
	14,073,994	5,683,325
Lease commitments		
Not later than 1 year	**73,997**	69,701
	14,147,991	5,753,026
Less – Cash collateral	**(803,572)**	(1,315)
Less – Provisions	**(123,046)**	–
Financial commitments and contingencies	**13,221,373**	5,751,711

As of December 31, 2003, letters of credit of KZT 803,572 (2002 – KZT 1,315) were secured by the client's funds, and the Bank did not create any provisions against these commitments.

Insurance

As of December 31, 2003, certain of the Group's property and equipment were insured for KZT 1,828,237 (2002 – insured for KZT 249,288). The Group has not currently obtained insurance coverage relating to liabilities arising from errors or omissions. Liability insurance is generally not available in Kazakhstan at present.

19. Fees and Commissions

Fee and commission income for the years ended December 31 comprise:

	2003	*2002*
Letters of credit and guarantees issued	**343,675**	64,448
Settlement and cash operations	**320,797**	223,542
Transfer operations	**290,747**	203,726
Foreign currency trading	**141,665**	107,604
Current accounts servicing	**36,873**	19,788
Other	**52,523**	71,123
Fee and commission income	**1,186,280**	690,231

Fee and commission expense for the years ended December 31 comprise:

	2003	*2002*
Transfer operations	**(52,224)**	(33,721)
Securities trading	**(8,468)**	(60,957)
Foreign currency trading	**(7,514)**	(20,658)
Other	**(19,833)**	(23,523)
Fee and commission expense	**(88,039)**	(138,859)

20. Gains less Losses from Trading Securities

For the years ended December 31, gains less losses from trading securities comprise:

	2003	*2002*
Change in fair value of trading securities	**57,944**	67,709
Sales and redemptions	**(24,119)**	124,950
Gains less losses from trading securities	**33,825**	192,659

(Thousands of Kazakhstani Tenge unless otherwise stated)

21. Salaries and Administrative and Operating Expenses

For the years ended December 31, salaries and benefits comprise:

	2003	*2002*
Salaries and bonuses	**(891,376)**	(584,261)
Social security costs	**(159,594)**	(100,645)
Salaries and benefits	**(1,050,970)**	(684,906)

For the years ended December 31, administrative and operating expenses comprise:

	2003	*2002*
Operating taxes	**(124,144)**	(60,681)
Marketing and advertising	**(112,927)**	(38,052)
Administrative	**(87,314)**	(83,556)
Communications	**(79,480)**	(41,998)
Occupancy and rent	**(73,997)**	(69,701)
Business travel	**(52,017)**	(39,690)
Decrease in the carrying amount of property arising on revaluation	**(43,878)**	–
Repair and maintenance of property and equipment	**(33,639)**	(24,518)
Transportation	**(31,882)**	(23,597)
Security	**(23,534)**	(18,169)
Office supplies	**(21,979)**	(16,702)
Legal and consultancy	**(16,978)**	(40,451)
Loss on property and equipment disposals	**(11,322)**	(13,428)
Entertainment	**(9,626)**	(2,306)
Other	**(59,678)**	(42,643)
Administrative and operating expenses	**(782,395)**	(515,492)

22. Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of potential dilutive shares. The Group had one type of dilutive shares, convertible debt. The convertible debt is assumed to have been converted into shares and the net profit is adjusted to eliminate the applicable interest expense less the tax effect.

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

	2003	*2002*
Net income attributable to common shareholders for basic earnings per share, being net income less dividends accrued on preference shares	**839,186**	403,358
Interest on convertible debt	**195,133**	14,594
Net income attributable to common shareholders for diluted earnings per share	**1,034,319**	417,952

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

	2003	*2002*
Weighted average number of common shares for basic earnings per share	**6,829,673**	5,053,012
Effect of dilution:		
Convertible debt	**860,758**	752,309
Adjusted weighted average number of common shares for diluted earnings per share	**7,690,431**	5,805,321

(Thousands of Kazakhstani Tenge unless otherwise stated)

23. Risk Management Policies

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

Credit Risk

The Group is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by borrower and product, by industry sector, by region are approved quarterly by the Board of Directors. Where appropriate, and in the case of most loans, the Bank obtains collateral. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. The maximum credit risk exposure in the event other parties fail to meet their obligations under financial instruments is equal to the carrying value of financial assets as presented in the accompanying consolidated financial statements and the disclosed financial commitments.

(Thousands of Kazakhstani Tenge unless otherwise stated)

Concentration

At December 31, the geographical concentration of financial assets and liabilities is set out below:

	2003				2002			
	Kazakhstan	*OECD*	*CIS and other foreign countries*	*Total*	*Kazakhstan*	*OECD*	*CIS and other foreign countries*	*Total*
Assets:								
Cash and cash equivalents	**4,527,996**	**1,119,961**	**571,503**	**6,219,460**	686,471	725,313	350,220	1,762,004
Obligatory reserves	**680,970**	-	-	**680,970**	311,507	–	–	311,507
Trading securities	**8,383,241**	-	-	**8,383,241**	5,075,106	–	–	5,075,106
Amounts due from credit institutions	**1,293,680**	**485,543**	-	**1,779,223**	–	–	–	–
Held-to-maturity investment securities	-	-	-	-	184,594	–	–	184,594
Loans to customers	**33,562,436**	**626,406**	**2,554,043**	**36,742,885**	19,283,638	117,359	764,155	20,165,152
Other assets	**243,079**	**21,438**	**1,031**	**265,548**	411,600	4,787	2,994	419,381
	48,691,402	**2,253,348**	**3,126,577**	**54,071,327**	25,952,916	847,459	1,117,369	27,917,744
Liabilities:								
Amounts due to Government	**243,394**	-	-	**243,394**	–	–	–	–
Amounts due to credit institutions	**4,874,017**	**3,380,999**	**474,301**	**8,729,317**	3,743,606	119,288	220,518	4,083,412
Amounts due to customers	**20,837,480**	**1,065,246**	**8,119,764**	**30,022,490**	10,019,099	1,948,651	6,499,041	18,466,791
Debt securities issued subordinated	**7,049,859**	-	-	**7,049,859**	–	–	–	–
Debt securities issued unsubordinated	**2,250,293**	-	-	**2,250,293**	2,411,186	–	–	2,411,186
Deferred tax liabilities	**93,759**	-	-	**93,759**	15,697	–	–	15,697
Other liabilities	**480,866**	**16,119**	**3,504**	**500,489**	70,918	251,594	10,213	332,725
	35,829,668	**4,462,364**	**8,597,569**	**48,889,601**	16,260,506	2,319,533	6,729,772	25,309,811
Net balance sheet position	**12,861,734**	**(2,209,016)**	**(5,470,992)**	**5,181,726**	9,692,410	(1,472,074)	(5,612,403)	2,607,933
Net off balance sheet position	**12,051,306**	**908,402**	**1,188,283**	**14,147,991**	5,602,745	150,281	–	5,753,026

The above tables do not include the effect of allowances for losses totalling KZT 1,283,495 (2002– KZT 565,389), provisions for other assets totalling KZT 3,905 (2002– KZT 7,830), property and equipment net of accumulated depreciation totalling KZT 1,888,070 (2002– KZT 1,364,393), other non-monetary assets totalling KZT 63,803 (2002– KZT 32,544), and provisions for guarantees and credit related commitments totalling KZT 123,046 (2002– KZT nil) as of December 31, 2003.

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

Currency Risk

The Group is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD) by branches and in total. These limits also comply with the minimum requirements of NBK. At December 31, the Group's exposure to foreign currency exchange rate risk follows:

	2003				*2002*			
	KZT	***Freely convertible currencies***	***Non-convertible currencies***	***Total***	***KZT***	***Freely convertible currencies***	***Non-convertible currencies***	***Total***
Assets:								
Cash and cash equivalents	**4,523,398**	**1,485,623**	**210,439**	**6,219,460**	682,600	1,046,635	32,769	1,762,004
Obligatory reserves	**680,970**	-	-	**680,970**	311,507	–	–	311,507
Trading securities	**5,168,518**	**3,214,723**	-	**8,383,241**	1,805,020	3,270,086	–	5,075,106
Amounts due from credit institutions	**1,369,948**	**409,275**	-	**1,779,223**	–	–	–	–
Held-to-maturity investment securities	-	-	-	-	109,622	74,972	–	184,594
Loans to customers	**22,099,863**	**14,643,022**	-	**36,742,885**	4,292,970	15,872,182	–	20,165,152
Other assets	**234,295**	**30,988**	**265**	**265,548**	108,713	310,154	514	419,381
	34,076,992	**19,783,631**	**210,704**	**54,071,327**	7,310,432	20,574,029	33,283	27,917,744
Liabilities:								
Amounts due to Government	**243,394**	-	-	**243,394**	–	–	–	–
Amounts due to credit institutions	**4,272,988**	**4,352,565**	**103,764**	**8,729,317**	2,201,146	1,882,190	76	4,083,412
Amounts due to customers	**17,089,705**	**12,910,860**	**21,925**	**30,022,490**	6,478,630	11,975,882	12,279	18,466,791
Debt securities issued subordinated	**7,049,859**	-	-	**7,049,859**	–	–	–	–
Debt securities issued unsubordinated	-	**2,250,293**	-	**2,250,293**	–	2,411,186	–	2,411,186
Deferred tax liabilities	**93,759**	-	-	**93,759**	15,697	–	–	15,697
Other liabilities	**426,308**	**73,761**	**420**	**500,489**	212,124	118,384	2,217	332,725
	29,176,013	**19,587,479**	**126,109**	**48,889,601**	8,907,597	16,387,642	14,572	25,309,811
Net balance sheet position	**4,900,979**	**196,152**	**84,595**	**5,181,726**	(1,597,165)	4,186,387	18,711	2,607,933
Net off balance sheet position	**7,039,893**	**4,720,362**	**2,387,736**	**14,147,991**	1,944,399	3,537,949	270,678	5,753,026

The above tables do not include the effect of allowances for losses totalling KZT 1,283,495 (2002– KZT 565,389), provisions for other assets totalling KZT 3,905 (2002– KZT 7,830), property and equipment net of accumulated depreciation totalling KZT 1,888,070 (2002– KZT 1,364,393), other non-monetary assets totalling KZT 63,803 (2002– KZT 32,544), and provisions for guarantees and credit related commitments totalling KZT 123,046 (2002– KZT nil) as of December 31, 2003.

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

The above KZT denominated assets include assets, which are indexed to the USD and revalued, based on the changes of market exchange rate as of December 31, 2003 and 2002, to reflect the effect of any devaluation in the KZT against the USD. As of December 31, 2003, such assets amounted to KZT 3,452,153 (2002– KZT 986,250).

The above KZT denominated liabilities include liabilities, which are indexed to the USD and revalued, based on the changes of market exchange rate as of December 31, 2003 and 2002, to reflect the effect of any devaluation in the KZT against the USD. As of December 31, 2003, such liabilities amounted to KZT 7,049,859 (2002– KZT 2,411,186).

(Thousands of Kazakhstani Tenge unless otherwise stated)

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

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Group's interest rate policy is reviewed and approved by the Group's Assets and Liabilities Management Committee.

At December 31, the interest rates by currencies for interest generating/ bearing monetary financial instruments were as follows:

	2003			***2002***		
	KZT	***USD***	***Other foreign currencies***	***KZT***	***USD***	***Other foreign currencies***
Assets:						
Cash and cash equivalents	-	**0.15%-2.00%**	**0.50%-4.00%**	–	0.15%–10.00%	0.50%-4.00%
Trading securities	**6.00%-17.10%**	**10.00%-13.63%**	-	8.00%–9.00%	10.00%-13.63%	–
Amounts due from credit institutions	**2.25%-18.00%**	-	-	–	–	–
Held-to-maturity investment securities	-	-	-	8.19%	10.00%-13.63%	–
Loans to customers	**5.00%-26.00%**	**5.00%-26.00%**	-	5.00%–25.00%	5.00%–25.00%	–
Liabilities:						
Amounts due to Government	**0.00%-7.67%**	-	-	–	–	–
Amounts due to credit institutions	**11.50%**	**1.00%-9.00%**	**1.72%-9.00%**	12.00%	1.00%–14.00%	–
Amounts due to customers	**2.00%-17.80%**	**2.00%-14.00%**	**1.80%-8.50%**	3.50%–17.00%	2.50%–11.00%	2.50%–8.50%
Debt securities issued	**8.75%-9.50%**	-	-	9.50%	–	–

The Group continuously monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

The tables on the following page provide an analysis of banking assets and liabilities grouped on the basis of the remaining period from the balance sheet date to the contractual maturity date at December 31:

	2003							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	**6,219,460**	-	-	-	-	-	-	**6,219,460**
Obligatory reserves	**680,970**	-	-	-	-	-	-	**680,970**
Trading securities	**8,383,241**	-	-	-	-	-	-	**8,383,241**
Amounts due from credit institutions	-	**1,080,495**	-	**696,709**	**2,019**	-	-	**1,779,223**
Loans to customers		**1,056,667**	**5,107,840**	**17,961,440**	**11,712,353**	**38,346**	**866,239**	**36,742,885**
Other assets	-	**49,541**	**31,036**	**135,378**	**32,372**	**17,221**	-	**265,548**
	15,283,671	**2,186,703**	**5,138,876**	**18,793,527**	**11,746,744**	**55,567**	**866,239**	**54,071,327**
Liabilities:								
Amounts due to Government	-	-	**283**	**2,344**	**73,767**	**167,000**	-	**243,394**
Amounts due to credit institutions	**331,006**	**4,206,181**	**628,384**	**2,823,650**	**739,926**	**170**	-	**8,729,317**
Amounts due to customers	**6,580,293**	**2,195,605**	**7,130,143**	**11,650,738**	**2,465,711**	-	-	**30,022,490**
Debt securities issued subordinated	–	–	–	**49,357**	-	**7,000,502**	-	**7,049,859**
Debt securities issued unsubordinated	-	**95,335**	-	**2,154,958**	-	-	-	**2,250,293**
Deferred tax liabilities	-	-	-	-	**93,759**	-	-	**93,759**
Other liabilities	**53,530**	**170,550**	**53,976**	**221,724**	**709**	-	-	**500,489**
	6,964,829	**6,667,671**	**7,812,786**	**16,902,771**	**3,373,872**	**7,167,672**	-	**48,889,601**
Net position	**8,318,842**	**(4,480,968)**	**(2,673,910)**	**1,890,756**	**8,372,872**	**(7,112,105)**	**866,239**	**5,181,726**
Accumulated gap	**8,318,842**	**3,837,874**	**1,163,964**	**3,054,720**	**11,427,592**	**4,315,487**	**5,181,726**	

	2002							
	On demand	***Less than 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Past due***	***Total***
Assets:								
Cash and cash equivalents	1,404,152	352,547	5,305	–	–	–	–	1,762,004
Obligatory reserves	311,507	–	–	–	–	–	–	311,507
Trading securities	5,075,106	–	–	–	–	–	–	5,075,106
Held-to-maturity investment securities	–	–	–	–	184,594	–	–	184,594
Loans to customers	–	161,070	4,404,206	7,079,411	8,507,284	–	13,181	20,165,152
Other assets	–	27,656	54,741	276,151	59,654	–	1,179	419,381
	6,790,765	541,273	4,464,252	7,355,562	8,751,532	–	14,360	27,917,744
Liabilities:								
Amounts due to credit institutions	220,762	2,010,003	746,838	–	1,105,809	–	–	4,083,412
Amounts due to customers	3,799,412	1,215,483	2,182,575	5,049,511	6,219,810	–	–	18,466,791
Debt securities issued unsubordinated	–	102,858	–	–	2,308,328	–	–	2,411,186
Deferred tax liabilities	–	–	–	–	15,697	–	–	15,697
Other liabilities	46,938	97,856	27,485	139,433	21,013	–	–	332,725
	4,067,112	3,426,200	2,956,898	5,188,944	9,670,657	–	–	25,309,811
Net position	2,723,653	(2,884,927)	1,507,354	2,166,618	(919,125)		14,360	2,607,933
Accumulated gap	2,723,653	(161,274)	1,346,080	3,512,698	2,593,573	2,593,573	2,607,933	

The above tables do not include the effect of allowances for losses totalling KZT 1,283,495 (2002– KZT 565,389), provisions for other assets totalling KZT 3,905 (2002– KZT 7,830), property and equipment net of accumulated depreciation totalling KZT 1,888,070 (2002– KZT 1,364,393), other non-monetary assets totalling KZT 63,803 (2002– KZT 32,544), and provisions for guarantees and credit related commitments totalling KZT 123,046 (2002– KZT nil) as of December 31, 2003.

(Thousands of Kazakhstani Tenge unless otherwise stated)

The Group's capability to discharge its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

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

24. Fair Values of Financial Instruments

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

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

Amounts Due from and to Credit Institutions

For assets maturing within one month, the carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments. For longer term fixed interest bearing amounts due from and to credit institutions, the estimated fair value is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Loans to Customers

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

The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loan within each sector of the portfolio. The estimation of the allowance for loan impairment includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan impairment is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Investment Securities

For held-to-maturity investment securities the estimated fair value is based on quoted market prices.

Amounts Due to Customers

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

Debt Securities Issued

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value at December 31:

	2003		***2002***	
	Carrying Amount	***Fair Value***	***Carrying Amount***	***Fair Value***
Financial assets				
Amounts due from credit institutions	**1,779,223**	**1,779,596**	–	–
Held-to-maturity investment securities	-	-	184,594	185,036
Loans to customers	**35,459,390**	**35,614,052**	19,599,763	19,305,928
Financial liabilities				
Amounts due to Government	**243,394**	**247,550**	–	–
Amounts due to credit institutions	**8,729,317**	**8,700,142**	4,083,412	3,880,126
Amounts due to customers	**30,022,490**	**30,000,565**	18,466,791	18,131,327
Debt securities issued subordinated	**7,049,859**	**7,049,259**	–	–
Debt securities issued non subordinated	**2,250,293**	**2,246,472**	2,411,186	2,317,290

25. Related Party Transactions

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

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise.

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

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

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

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

(Thousands of Kazakhstani Tenge unless otherwise stated)

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

	2003			***2002***		
	Related party transactions	***Percent on normal conditions***	***Total asset or liability category***	***Related party transactions***	***Percent on normal conditions***	***Total asset or liability category***
Balance Sheet						
Cash and cash equivalents	**431,282**	**100.00%**	**6,219,460**	–	–	1,762,004
Loans to customers	**247,000**	**100.00%**	**36,742,885**	183,277	100.00%	20,165,152
Allowance for loan impairment	**(73,210)**	**100.00%**	**(1,283,495)**	–	–	(565,389)
Amounts due to credit institutions	**72,972**	**100.00%**	**8,729,317**	–	–	4,083,412
Amounts due to customers	**279,587**	**100.00%**	**30,022,490**	346,905	100.00%	18,466,791
Off-balance Sheet						
Guarantees issued	**10,962**	**100.00%**	**4,777,821**	249,295	100.00%	2,919,493
Guarantees received	**43,027**	**100.00%**	**2,680,052**	21,674	100.00%	21,674
Income Statement						
Interest income on loans to customers	**28,917**	**100.00%**	**4,376,557**	11,274	100.00%	1,871,959
Fee and commission income	**369**	**100.00%**	**1,186,280**	18,866	100.00%	690,231
Other income	**19**	**100.00%**	**54,225**	–	–	38,664
Interest expense on amounts due to customers	**7,241**	**100.00%**	**1,819,579**	12,624	100.00%	974,633
Interest expense on amounts due to credit institutions	**430**	**100.00%**	**238,630**	–	–	145,072

Cash and cash equivalents are represented by current accounts with two Russian commercial banks, affiliated to the Group.

Included in the loans to customers there are loans granted to the members of the Board of Directors of the Bank and their related parties totalling KZT 154,433. The provision against those loans amounts to KZT 72,514. The terms and conditions of these loans approximate those established by the Bank for third parties.

Included in the amounts due to customers there are time deposits totalling KZT 92,097, which are placed by the members of the Board of Directors of the Bank. The terms and conditions of these time deposits approximate those established by the Bank for third parties.

26. Capital Adequacy

NBK requires banks to maintain a capital adequacy ratio for tier two of 12% of risk-weighted assets, computed based on KAL. As of December 31, 2003 the Bank's capital adequacy ratio on this basis amounted to 21% (2002–19%), and exceeded the statutory minimum.

The Group's international risk based capital adequacy ratio for tier one, computed in accordance with the Basle Accord guidelines issued in 1988, as of December 31, 2003 was 15 % (2002– 15%). These ratios exceeded the minimum ratio of 8% recommended by the Basle Accord.

27. Segment Information

The Group's operations are highly integrated and constitute a single industry segment for the purposes of IAS No. 14 "Segment Reporting". As shown in Note 22, the Group's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Group's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.