Tsesna Bank

Financial Statements

Years Ended December 31, 2002 and 2001
With Report of Independent Auditors

Tsesna Bank

Financial Statements

December 31, 2002 and 2001

Contents

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Report of Independent Auditors

To the Shareholders of Tsesna Bank –

We have audited the accompanying balance sheet of Tsesna Bank (the "Bank") as of December 31, 2002, and the related 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. The Bank's balance sheet as of December 31, 2001 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended were audited by other auditors, whose report dated March 2, 2002 on those financial statements was unqualified.

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 financial position of the Bank as of December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards as published by the International Accounting Standards Board.

March 30, 2003

Tsesna Bank

Balance Sheets

December 31, 2002 and 2001
(In Thousands of Kazakh Tenge)

	Notes	2002	2001
Assets			
Cash and cash equivalents	**4**	**1,041,584**	575,507
Obligatory reserves	**5**	**260,318**	201,072
Investment securities:			
- available-for-sale	**6**	**1,776,950**	945,092
- held-to-maturity	**6**	**–**	123,337
Commercial loans, net	**7**	**5,431,126**	3,613,026
Premises and equipment, net	**9**	**277,353**	189,110
Intangible assets, net	**10**	**74,823**	57,930
Other assets, net		**51,492**	13,842
Total assets		**8,913,646**	5,718,916
Liabilities			
Amounts owed to the Government	**11**	**190,088**	132,991
Due to other banks and financial institutions	**12**	**605,355**	97,798
Amounts owed to customers	**13**	**6,793,295**	4,320,647
Other liabilities		**32,342**	15,128
Total liabilities		**7,621,080**	4,566,564
Subordinated loans	**14**	**277,765**	264,826
Shareholders' equity			
Share capital	**15**	**531,067**	531,067
Reserves		**162,719**	163,387
Retained earnings		**321,015**	193,072
Total shareholders' equity		**1,014,801**	887,526
Total liabilities and shareholders' equity		**8,913,646**	5,718,916
Financial commitments and contingencies	**23**	**638,917**	95,730

The accompanying notes are an integral part of these financial statements.

Tsesna Bank

Statements of Income

For the Years Ended December 31, 2002 and 2001

(In Thousands of Kazakh Tenge)

	Notes	**2002**	2001
Interest income:			
Loans		**920,900**	443,927
Investment securities		**130,745**	167,562
Deposits with other banks		**4,383**	7,402
		1,056,028	618,891
Interest expense:			
Amounts owed to customers		**(273,544)**	(130,439)
Amounts owed to credit institutions		**(35,273)**	(16,077)
Subordinated loan		**(19,230)**	(15,807)
Amounts owed to the Government		**(4,788)**	(4,604)
		(332,835)	(166,927)
Net interest income before provision for losses		**723,193**	451,964
Provision for loan losses	**8**	**(162,208)**	(142,753)
Net interest income after provision for losses		**560,985**	309,211
Fee and commission income	**16**	**291,915**	197,838
Gains less losses from securities	**17**	**(43,487)**	41,149
Gains less losses from foreign currencies	**18**	**90,758**	65,617
Other operating income		**2,552**	3,254
		341,738	307,858
Salaries	**19**	**(278,126)**	(190,789)
Administrative expenses	**19**	**(225,898)**	(193,421)
Fees and commissions expense	**20**	**(19,108)**	(15,985)
Depreciation and amortization	**9, 10**	**(40,695)**	(25,823)
Other taxes		**(45,551)**	(19,449)
Other provisions	**8**	**(12,000)**	(2,197)
		(621,378)	(447,664)
Income before income taxes		**281,345**	169,405
Income tax expense	**21**	**(51,529)**	(17,842)
Net income		**229,816**	151,563

The accompanying notes are an integral part of these financial statements.

Tsesna Bank

Statements of Changes in Shareholders' Equity

For the Years Ended December 31, 2002 and 2001

(In Thousands of Kazakh Tenge)

	Share Capital	**Revaluation Reserves**	**Reserve Fund**	**Retained Earnings**	**Total**
At January 1, 2001	456,275	13,387	49,718	219,213	738,593
Effect of adoption of IFRS 39 –available-for-sale securities	–	–	–	6,721	6,721
Dividends capitalized	74,792	–	–	(74,792)	–
Dividends declared	–	–	–	(9,351)	(9,351)
Net income	–	–	–	151,563	151,563
Transfers	–	–	100,282	(100,282)	
At December 31, 2001	**531,067**	**13,387**	**150,000**	**193,072**	**887,526**
Net income	**–**	**–**	**–**	**229,816**	**229,816**
Dividends declared	**–**	**–**	**–**	**(102,541)**	**(102,541)**
Realization of revaluation	**–**	**(668)**	**–**	**668**	**–**
At December 31, 2002	**531,067**	**12,719**	**150,000**	**321,015**	**1,014,801**

The accompanying notes are an integral part of these financial statements.

Tsesna Bank

Statements of Cash Flows

For the Years Ended December 31, 2002 and 2001

(In Thousands of Kazakh Tenge)

	2002	2001
Cash flows from operating activities:		
Income before income taxes	**281,345**	169,405
Adjustment for:		
Depreciation and amortization	**40,695**	25,823
Provisions for losses	**174,208**	144,950
Unrealised gains less losses in foreign currencies	**14,357**	241
Unrealized revaluation loss (gain) from securities available-for-sale	**43,487**	(41,149)
Operating income before changes in net operating assets	**554,092**	299,270
(Increase) decrease in operating assets		
Obligatory reserves	**(59,246)**	(17,513)
Commercial loans	**(1,980,308)**	(1,925,259)
Other assets	**(49,650)**	(6,234)
Increase (decrease) in operating liabilities:		
Amounts owed to the Government	**46,086**	39,529
Due to other banks and financial institutions	**507,557**	(58,973)
Amounts owed to customers	**2,472,648**	1,785,524
Other liabilities	**31,055**	6,677
Cash generated from operations	**1,522,234**	123,021
Income tax paid	**(67,335)**	(17,842)
Net cash provided by operating activities	**1,454,899**	105,179
Cash flows from investing activities:		
Purchase of investment securities	**(752,008)**	(56,902)
Purchase of premises and equipment	**(124,561)**	(105,206)
Proceeds from sale of premises and equipment	**4,293**	3,226
Purchase of intangible assets	**(25,563)**	(27,860)
Net cash used in investing activities	**(897,839)**	(186,742)
Cash flows from financing activities:		
Dividends paid	**(90,984)**	(8,989)
Net cash used in financing activities	**(90,984)**	(8,989)
Net change in cash and cash equivalents	**466,076**	(90,552)
Cash and cash equivalents at the beginning of year	**575,507**	666,059
Cash and cash equivalents at the end of year	**1,041,583**	575,507
Supplemental information:		
Interest paid	**281,642**	118,564
Interest received	**1,031,972**	604,214

The accompanying notes are an integral part of these financial statements.

(Amounts in Tables are in Thousands of Kazakh Tenge)

1. Description of Business

Tsesna Bank (the "Bank") was formed on January 17, 1992 as an open joint stock company under the laws of the Republic of Kazakhstan. The Bank possesses a general banking license (number 74) from the National Bank of the Republic of Kazakhstan ("NBK") obtained on December 2, 1996 that also permits conducting banking operations in foreign currency. The Bank also possesses license for brokerage and dealing activities with the right to maintain the clients' accounts as the nominal holder of the State securities from the NBK granted on September 9, 1997. The Bank accepts deposits from the public and makes loans, transfers payments in Kazakhstan and abroad, exchanges currencies and provides investment-banking services for its customers.

The Bank is the main regional bank in Astana (Beibitshilik Street, 43), where it has its main office. It also has four branches located in Almaty, Kostanai, Pavlodar and Stepnogorsk. During 2002 the Bank opened two cash settlement centers, in Astana and Almaty.

At December 31, 2002 and 2001, the Bank had 261 and 216 employees, respectively.

2. Basis of Preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These financial statements are presented in Kazakhstani Tenge ("KZT"). The KZT is utilized as the majority of the Bank's transactions are denominated, measured, or funded in KZT. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank maintains its records and prepares its financial statements in accordance with Kazakh accounting and tax regulations. The accompanying financial statements differ from the financial statements issued for statutory purposes in Kazakhstan in that they reflect certain adjustments, not recorded on the Bank's books, which are appropriate to present the financial position, results of operations, and cash flows of the Bank in accordance with IFRS. The principal adjustments are primarily related to the allowance for losses and depreciation on premises and equipment:

	2002		2001	
	Equity	**Net income**	Equity	Net income
Statutory accounting	**1,097,536**	**294,713**	905,029	147,155
Allowances for losses	**(82,395)**	**(23,225)**	(59,170)	(12,683)
Depreciation	**(3,804)**	**–**	(3,804)	–
Adjustments to fair value	**–**	**(45,350)**	45,350	41,149
Taxation adjustments	**–**	**(2,022)**	2,022	–
Intangible assets	**3,464**	**3,464**	–	–
Interest expenses	**–**	**1,901**	(1,901)	(1,901)
Other	**–**	**335**	–	(22,157)
IFRS	**1,014,801**	**229,816**	887,526	151,563

2. Basis of Preparation (continued)

General (continued)

The KZT is not a fully convertible currency outside the Republic of Kazakhstan. During 2001, transactions denominated in foreign currencies are recorded using the official exchange rates quoted by the National Bank of Kazakhstan (the "NBK"), which closely approximate the market exchange rates quoted by the Kazakhstani stock exchange (KASE). The Bank started to apply the market exchange rates for all of its transaction starting from December 1, 2002.

The market exchange rates at December 31, 2002 and December 31, 2001 were KZT 155.85 = US Dollar 1 and KZT 150.94 = US Dollar 1, respectively. The official exchange rates at December 31, 2002 and 2001 were KZT 155.60 = US Dollar 1 and KZT 150.20 = US Dollar 1, respectively. At March 30, 2003, the market exchange rate was KZT 151.77 = US Dollar 1.

The accompanying financial statements were authorized for issue by the Bank's Chairman and Chief Accountant on March 30, 2003.

Adoption of IFRS 39

As of January 1, 2001, the Bank adopted IFRS 39 "Financial Instruments: Recognition and Measurement". Further information is disclosed in accounting policies and related notes.

Prior to the adoption of IFRS 39, debt and equity securities, except for trading securities, were measured at historical cost, providing only for permanent value impairments.

3. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in preparing the financial statements:

Basis of Presentation

The accompanying financial statements have been prepared in accordance with IFRS, and have been prepared under the historical cost convention, modified by fair value accounting for trading securities as required by IFRS 39 "Financial Instruments: Recognition and Measurement".

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.

Cash and Cash Equivalents

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

3. Summary of Significant Accounting Policies (continued)

Obligatory Reserves

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

Due from Other Financial Institutions

In the normal course of business, the Bank lends or deposits funds for various periods with other financial institutions. Such amounts are categorized as loans originated by the Bank and are carried at amortized cost. As these placements of funds are typically unsecured extensions of credit, management provides general allowances against the risk of possible losses. The Bank also provides specific allowances on a case-by-case basis as some of the assets may be impaired. The principles used to create provision for loan impairment on amounts due from financial institutions are the same as for loans to customers (see below).

Investment Securities

Following the adoption of IFRS 39 as of January 1, 2001, the Bank classified its investment securities into two categories:

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

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

1. Held-to-maturity investment securities – at amortized cost using the effective yield method. An allowance for impairment is estimated on a case-by-case basis.

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

   Gains and losses arising from changes in the fair value of available-for-sale securities are recognized in the statements of income within gains less losses from securities.

3. Summary of Significant Accounting Policies (continued)

Loans to Customers

Loans granted by the Bank by providing funds directly to the borrower are categorized as loans originated by the Bank and are initially recognized at cost being the fair value of the consideration paid. The difference between the nominal amount of the 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 rate method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for impairment.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal or interest unpaid for at least thirty days). When a loan is placed on non-accrual status, contractual interest income is not recognized in the financial statements. A non-accrual loan may be restored to accrual status when principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for Impairment of Financial Assets

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

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

3. Summary of Significant Accounting Policies (continued)

Premises and Equipment

Premises and Equipment are recorded at historical cost adjusted for revaluations made until 1997 using indices provided by the State Committee of Statistics of the Republic of Kazakhstan less accumulated depreciation. Depreciation on assets under construction commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	10-50 years
Furniture, fixtures and equipment	7 years
Computers	7 years

Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic life for intangible assets are six and a half years.

Intangible assets under development are not depreciated. Amortization of these assets will begin when the related assets are placed in service.

Borrowings

Borrowings are recognized initially at ‘cost’, being their issue proceeds net of transaction costs incurred. Subsequently borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

If the Bank purchases its own debt, it is removed from the balance sheets and the difference between the carrying amount of the liability purchased and the consideration paid is included in gains less losses from securities.

Share Capital

Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Treasury stock is recorded at cost. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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

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

3. Summary of Significant Accounting Policies (continued)

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 rate method. The recognition of interest income is suspended when loans become overdue by more then thirty days. Interest income includes coupon income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed. Loan origination fees for loans issued to customers, when significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Non-interest expenses are recognized at the time the transaction occurs.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statements within gains less losses from foreign currencies.

Translation differences on debt securities measured at fair value are included in the accompanying statements of income within gains less losses from foreign currencies.

Taxation

The current income tax charge is calculated in accordance with the regulations of the Republic of Kazakhstan. Deferred income taxes are calculated using the balance sheet liability method. Deferred taxes reflect the effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized.

The Republic of Kazakhstan also has various operating taxes, which are assessed on the Bank’s activities. These taxes are included within taxes other than income taxes in the statement of income.

4. Cash and Cash Equivalents

At December 31, cash and cash equivalents comprised the following:

	2002	2001
Current accounts with NBK	**349,512**	240,241
Current accounts with other banks	**117,646**	75,677
Cash on hand	**563,170**	254,907
Demand deposits in US Dollar	**11,256**	–
Time deposits in US Dollar	–	4,682
Time deposits in KZT	–	45,000
	1,041,584	620,507
Less allowances for losses *(Note 8)*	–	(45,000)
	1,041,584	575,507

At December 31, 2002, demand deposits in USD included deposits held with a local bank carrying interest at 2.08% per annum.

5. Obligatory Reserves

Obligatory reserves consisted of balances of the correspondent account with the NBK allocated to obligatory reserves.

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

6. Investment Securities

Investment securities consisted of the following at December 31:

	2002		2001	
	Nominal value	**Carrying value**	Nominal value	Carrying value
Available-for-sale:				
Treasury bills of the Ministry of Finance	**1,002,074**	**1,228,703**	779,994	878,036
NBK notes	**550,000**	**548,247**	–	–
Corporate bonds	–	–	64,153	67,056
	1,552,074	**1,776,950**	844,147	945,092
Held-to-maturity:				
Treasury bills of the Ministry of Finance	–	–	50,000	48,570
NBK notes	–	–	75,000	74,767
	–	–	125,000	123,337

Treasury bills of the Ministry of Finance at December 31, 2002 carry interest at rates ranging from 7.4% to 18.0% per annum (2001: 8% to 18%) and mature in 2004 – 2005 (2001: 2004-2005).

6. Investment Securities (continued)

Notes of the NBK carry interest at rates ranging from 5.62 % to 5.9% per annum and mature in January 2003.

Corporate bonds at December 31, 2001 include bonds of a local financial institution denominated in US Dollars. The bonds carry interest at 9% per annum and mature in July 2003.

7. Commercial Loans, net

Commercial loans to customers are made principally within the Republic of Kazakhstan and comprised the following at December 31:

	2002	**%**	2001	%
Wholesale trade	**1,659,627**	**29**	1,261,089	33
Agriculture	**748,744**	**13**	519,915	14
Construction	**632,064**	**11**	467,010	12
Food industry	**514,346**	**9**	561,585	15
Retail trade	**411,403**	**7**	265,605	7
Individuals	**406,441**	**7**	419,663	11
Hospitality	**403,973**	**7**	41,075	1
Finance	**320,554**	**6**	97,480	3
Services	**223,689**	**4**	93,260	2
Other	**405,964**	**7**	57,344	2
	5,726,805	**100**	3,784,026	100
Less allowance for losses *(Note 8)*	**(295,679)**		(171,000)	
	5,431,126		3,613,026	

The Bank has a significant concentration of loans in the wholesale trade and agriculture. The Bank has a substantial portion of loans extended to a limited number of customers. At December 31, 2001, 10 customers accounted for 57% of the total loan portfolio or KZT 3,268,021 thousand (2001: 45% of the total loan portfolio or KZT 1,699,249 thousand).

The Bank’s loan portfolio has been extended to the following types of customers at December 31:

	2002	2001
Private companies	**4,117,768**	3,175,530
State companies	**487,053**	268,898
Individuals	**1,121,984**	339,598
	5,726,805	3,784,026

7. Commercial Loans, net (continued)

The Bank accepted state securities and other property as collateral for commercial loans, which the Bank is not permitted to sell or re-pledge in the absence of default. A breakdown of collateral received was as follows at December 31:

	2002	2001
Real estate	**5,568,396**	3,413,430
Securities	**–**	54,024
Cash	**83,877**	–
Other	**2,731,868**	1,827,849
	8,384,141	5,295,303

At December 31, 2002, the Bank had loans totalling KZT 63,328 thousand (2001: KZT 41,455 thousand), which were placed on non-accrual status. Interest income foregone related to non-accrual loans outstanding at year-end was approximately KZT 1,775 thousand for 2002 (2001: KZT 2,073 thousand).

8. Allowances for Losses

The movement on the allowances for losses consisted of the following at December 31:

	Loans to banks	**Commercial loans**	**Other assets**	**Total**
At January 1, 2001	–	68,000	1,861	69,861
Provision for losses	45,000	97,753	2,197	144,950
Charge-offs	–	(1,443)	(4,058)	(5,501)
Recoveries	–	6,690	–	6,690
At December 31, 2001	45,000	171,000	–	216,000
Provision for losses	**–**	**162,208**	**12,000**	**174,208**
Charge-offs	**(45,000)**	**(42,767)**	**–**	**(87,767)**
Recoveries	**–**	**5,238**	**–**	**5,238**
At December 31, 2002	**–**	**295,679**	**12,000**	**307,679**

Allowances for losses are deducted from the related asset.

9. Premises and Equipment, Net

The movements on the Bank's premises and equipment during the years ended December 31 were as follows:

	Land and Buildings	**Computers**	**Vehicles**	**Leasehold Improvement**	**Fixtures and equipment**	**Construction in progress**	**Total**
Cost							
At January 1, 2001	46,041	40,158	14,840	7,176	32,573	–	140,788
Additions	53,068	23,726	7,683	–	20,729	–	105,206
Disposals	(1,524)	–	(3,166)	–	–	–	(4,690)
At December 31, 2001	97,585	63,884	19,357	7,176	53,302	–	241,304
Additions	**5,600**	**22,033**	**6,664**	**446**	**23,338**	**66,480**	**124,561**
Disposals	**(1,202)**	**(576)**	**(459)**	**–**	**(6,029)**	**–**	**(8,266)**
At December 31, 2002	**101,983**	**85,341**	**25,562**	**7,622**	**70,611**	**66,480**	**357,599**
Accumulated depreciation							
At January 1, 2001	2,429	11,804	6,048	408	12,157	–	32,846
Charge for the year	907	10,282	2,530	1,436	5,657	–	20,812
Disposals	(29)	(29)	(1,406)	–	–	–	(1,464)
At December 31, 2001	3,307	22,057	7,172	1,844	17,814	–	52,194
Charge for the year	**3,020**	**14,374**	**3,398**	**1,435**	**9,798**	–	**32,025**
Disposals	**(1,202)**	**(58)**	**(459)**		**(2,254)**	–	**(3,973)**
At December 31, 2002	**5,125**	**36,373**	**10,111**	**3,279**	**25,358**	–	**80,246**
Net book value							
At December 31, 2001	94,278	41,827	12,185	5,332	35,488	–	189,110
At December 31, 2002	**96,858**	**48,968**	**15,451**	**4,343**	**45,253**	**66,480**	**277,353**

10. Intangible Assets

The movements on the Bank's intangible assets during the years ended December 31 were as follows:

	Software	**Software under development**	**Total**
Cost			
At January 1, 2001	36,165	3,728	39,893
Additions	4,521	23,339	27,860
Transfers	3,728	(3,728)	–
At December 31, 2001	44,414	23,339	67,753
Additions	**3,167**	**22,396**	**25,563**
Disposals	**(64)**	**–**	**(64)**
At December 31, 2002	**47,517**	**45,735**	**93,252**
Amortization			
At January 1, 2001	4,812	–	4,812
Charge for the year	5,011	–	5,011
At December 31, 2001	9,823	–	9,823
Charge for the year	**8,670**	**–**	**8,670**
Disposals	**(64)**	**–**	**(64)**
At December 31, 2002	18,429	–	18,429
Net book value			
At December 31, 2001	34,591	23,339	57,930
At December 31, 2002	**29,088**	**45,735**	**74,823**

11. Amounts Owed to the Government

At December 31, amounts owed to the Government of the Republic of Kazakhstan consisted of the following:

	2002	2001
World Bank loans through the Ministry of Finance	**88,776**	–
Local municipal authorities	**101,312**	132,991
	190,088	132,991

At 31 December 2002 and 2001, the Bank had loans from the World Bank through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. The loan matures between 2004- 2007 and bears interest at 2.08% per annum.

Also at December 31, 2002, the Bank had KZT denominated loans from local municipal authorities, which amounted to KZT 101,312 thousand, at interest rates ranging from 1% to 2 % per annum and maturity within one year under the program of financing the agricultural sector.

12. Due to Other Banks and Financial Institutions

Due to other banks and financial institutions comprised the following at December 31:

	2002	2001
Loans from the Small Business Development Fund of Kazakhstan	**168,098**	85,079
Loans from the NBK	**–**	12,719
Time deposits from local banks in USD	**437,257**	–
	605,355	97,798

Loans provided by the Small Business Development Fund of Kazakhstan comprised the following at December 31:

			%	**Date**	
	2002	2001	**rate**	**issue**	**maturity**
Project 1	**40,250**	38,802	10.53	05/07/00	10/06/03
Project 2	**48,007**	46,277	8.53	01/06/01	28/11/04
Project 3	**79,841**	–	7.75	06/03/02	09/03/05
	168,098	85,079			

The loans from the Small Business Development Fund of Kazakhstan represent pass through loans provided by EBRD for use by authorized banks in extending loans to small and medium size enterprises. Interest on the loans is payable semi-annually.

At December 31, 2002 interest-bearing deposits from local banks include US Dollar denominated deposits that amount to US Dollars 2,720,000 thousands, mature in 2003, and bear interest at rates ranging from 9% to 10% per annum.

13. Amounts Owed to Customers

The amounts owed to customers included balances in customer current accounts and term deposits, and were analysed as follows at December 31:

	2002	2001
Current accounts		
Individuals	**129,041**	49,437
State	**72,650**	189,198
Commercial	**2,945,896**	2,018,299
	3,147,587	2,256,934
Time deposits		
Individuals	**2,324,444**	1,673,272
State	**185,298**	–
Commercial	**1,135,966**	390,441
	3,645,708	2,063,713
	6,793,295	4,320,647

Approximately 64% of current accounts as of December 31, 2002 were interest bearing (2001: 44%).

13. Amounts Owed to Customers (continued)

Amounts owed to customers were analysed by geographical regions within Kazakhstan at December 31 as follows:

Region	2002	2001
North Kazakhstan	**6,294,571**	4,107,017
Almaty	**498,724**	213,630
	6,793,295	4,320,647

Term deposits at December 31, 2002 bear interest at rates ranging from 9% to 12% per annum (2001: 9%) for KZT-denominated balances and from 3% to 8% per annum (2001: from 3% to 8%) for foreign currency-denominated balances.

At December 31, 2002, ten customers accounted for 26% (2001 - 12%) of the balances due to customers.

14. Subordinated Loans

Subordinated loans comprised the following loans at December 31:

	2001	2001
Subordinated loan 1	**33,777**	32,605
Subordinated loan 2	**62,629**	60,455
Subordinated loan 3	**181,359**	171,766
	277,765	264,826

On December 28, 1999, the Bank signed an agreement for subordinated loan 1 with a local financial institution in the amount of KZT 30,000 thousand. The loan is repayable in US Dollars and bears interest at 10% per annum and matures on January 28, 2005. In 2000, the local financial institution provided subordinated loan 2 in the amount of KZT 58,161 thousand which is denominated in US Dollars and bears interest at 10% per annum and matures in November 2006.

On April 14, 2000, the Bank received subordinated loan 3 from a foreign company amounting to KZT 158,950 thousand denominated in US Dollar, bearing interest at 2% per annum and maturing on April 14, 2006. On November 1, 2001, the Bank amended the agreement with the foreign company. As per the addendum to the agreement the amount of the subordinated debt is KZT 162,910 thousand payable in KZT, bearing interest rate at 14% per annum and maturing on April 12, 2010.

These subordinated loans are unsecured obligations of the Bank and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Bank.

15. Shareholders’ Equity

At December 31, 2002 and 2001, the authorized share capital of the Bank consisted of 1,000,000 ordinary shares with a nominal value of KZT 1,000 each. At December 31, 2002 and 2001, only 531,067 shares were issued and fully paid. Each share is entitled to one vote and shares equally in dividends declared.

In accordance with the resolution of the general shareholders’ meeting held on April 13, 2001 the Bank increased its share capital by KZT 74,792 thousand through capitalization of dividends. In addition, the Bank declared dividends for 2000 in the amount of KZT 9,351 thousand. In 2001 the Bank paid KZT 8,989 thousand of the declared dividends.

In accordance with the resolution of the general shareholders’ meeting held on April 19, 2002 the Bank declared dividends for 2001 in the amount of KZT 102,541 thousand. In 2002 the Bank paid KZT 90,984 thousand of the declared dividends.

There are certain legal restrictions as discussed in the Kazakhstan Joint Stock Companies Law and the NBRK regulations on the use of the statutory reserve fund created through transfers from current year net income and prior year net income. Dividends on ordinary shares may be declared from net income after making the necessary transfers to reserves as calculated from the KBAR financial statements.

The revaluation reserve arose from a Government mandated revaluation in 1997 and in prior years. The tangible fixed assets of the Bank were revalued by an equivalent amount.

16. Fees and Commission Income

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

	2002	2001
Cash operations	**135,402**	100,454
Settlements operations	**104,260**	58,389
Foreign currency trading	**26,601**	20,230
Loans	**4,996**	7,018
Guarantees issued	**5,174**	2,730
Other	**15,482**	9,017
	291,915	197,838

17. Gains less Losses From Securities

Gains less loss from securities for the year ended December 31, 2002 comprised the fair value adjustment loss amounting to KZT 43,487 thousand (2001: gain amounting to KZT 41,149 thousand).

18. Gains less Losses from Foreign Currencies

Gain less losses from foreign currencies for the years ended December 31 comprised the following:

	2002	2001
Net gain on revaluation of foreign currency denominated assets and liabilities	**6,671**	36,126
Net income from foreign currency trading	**84,087**	29,491
	90,758	65,617

19. Salaries and Administrative Expenses

Salaries and administrative expenses comprised the following for the years ended December 31:

	2002	2001
Salaries	**229,317**	154,336
Social security costs	**43,594**	32,563
Other	**5,215**	3,890
Salaries	**278,126**	190,789
Rent	**75,923**	49,470
Communication	**36,358**	28,234
Advertising	**29,053**	12,583
Security	**12,002**	9,999
Business trip expenses	**11,696**	5,170
Insurance of deposits	**8,887**	6,932
Repairs and maintenance	**7,997**	27,009
Stationery and supplies	**6,972**	9,408
Consulting services	**5,036**	7,735
Transportation	**5,157**	4,737
Training	**3,979**	632
Cash collection	**3,363**	2,989
Charity	**2,479**	5,391
Utility	**2,262**	1579
Twinning program costs	**1,589**	16,577
Other	**13,145**	4,976
Administrative expenses	**225,898**	193,421

The aggregate remuneration and other benefits paid to members of the Management Board for 2002 was KZT 23,245 thousand (2001: KZT 11,464 thousand).

The Bank does not have pension arrangements separate from the State pension system of the Republic of Kazakhstan. The Kazakhstani system requires current contributions by the employer calculated as a percentage of current gross salary payments and a contribution withheld from employees; such expense is charged to the statement of income in the period the related compensation is earned by the employee.

20. Fee and Commission Expense

Fees and commission expense for the years ended December 31 comprised the following:

	2002	2001
Settlement operations	**14,727**	10,111
Correspondent account service	**2,338**	2,847
Foreign currency banknote transactions	**92**	1,839
Securities	**390**	246
Other	**1,561**	942
	19,108	15,985

21. Income Taxes

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income is taxable. The components of the provision for income taxes were as follows for the years ended December 31:

	2002	2001
Current tax charge	**51,529**	17,614
Current tax of prior periods	**–**	228
	51,529	17,842

Kazakh legal entities must individually report taxable income and remit profit taxes thereon to the appropriate authorities. In 2001, the profit tax rate changed from 20% to 30% due to change of Astana status as free economic zone where the Bank is located. The effect of the change in tax rates was KZT 3,000 thousand and included in the change in unrecognized deferred tax assets.

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

	2002	2001
Income before taxation	**281,345**	169,504
Statutory tax rate	**30%**	30%
Income tax charge at statutory rate	**84,404**	50,851
Change in unrecognized deferred tax assets	**6,338**	27,981
State securities income	**(41,191)**	(62,443)
Tax exempt income from		
- Investment loans	**(19,935)**	–
- Other tax exempt income	**(2,789)**	(3,999)
Non-deductible expenditures from		
- Interest expenses	**21,899**	4,494
Other permanent differences	**2,803**	958
Income tax provision	**51,529**	17,842

21. Income Taxes (continued)

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

	2002	2001
Deferred tax assets:		
Allowance for losses	**39,619**	32,651
Premises and equipment	**700**	1,330
Deferred taxes	**40,319**	33,981
Unrecognized deferred tax assets	**(40,319)**	(33,981)
	–	–

Deferred tax asset was not recognized because of the uncertainty of its future reliability.

22. Commitments and Contingencies

The Bank's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Kazakh tax and legal systems, the ultimate taxes as well as penalties and fines, if any, assessed may be in excess of the amounts paid to date and accrued at December 31, 2002. Management believes, based upon its best estimates, that the Bank has paid or accrued all taxes that are applicable for the current and prior years, and complied with all essential provisions of laws and regulations of the Republic of Kazakhstan. In management's opinion, the ultimate determination of the Bank's overall tax liability and potential loss contingencies, to the extent not previously provided, will not have a material effect on the financial position of the Bank.

The Bank's proprietary trading activities involve the execution, settlement, and financing of various securities and financial instrument transactions. The execution of these transactions includes the purchase and sale of securities, and the purchase and sale of forward purchase and sales contracts for foreign currencies. These activities may expose the Bank to additional risk in the event the counterparty to the transaction is unable to fulfill its contractual obligations.

In these situations, the Bank may be required to purchase or sell financial instruments at prevailing market prices, which may not fully cover the obligations of the counterparty. The Bank attempts to limit this risk by identifying and monitoring its individual and aggregate exposures to counterparties and establishing and maintaining procedures for counterparty limit authorization and implementation.

Settlement activities involve the Bank using State securities as collateral in support of various secured financing sources. In the event the counterparty does not meet its contractual obligation to return the collateral, the Bank may need to reacquire the securities to satisfy its obligations. The Bank controls this risk by evaluating and establishing limits for its counter parties and monitoring the market value of securities pledged on a daily basis.

The Kazakh economy displays emerging market characteristics. These characteristics include lack of liquidity in the capital markets, and the existence of currency controls which causes the national currency to be illiquid outside Kazakhstan.

22. Commitments and Contingencies (continued)

In addition to the emerging market characteristics mentioned above, the banking system is in a constant state of supervisory reform and additional laws and enforcement actions may be implemented to produce a more sound banking and financial system. The success and stability of the Kazakh economy may be significantly impacted by the government's actions with regard to supervisory, legal, and economic reforms.

Tax Liabilities

The Republic of Kazakhstan's tax code covers various taxes such as value added tax, corporate income tax, and payroll taxes, together with others. The tax code has not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and various 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 that are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of five years.

Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant.

Legal

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

Insurance

The Bank has not currently obtained insurance coverage related to property, except for the vehicles as motor insurance is required in accordance with the legislation of the Republic of Kazakhstan, and insurance for transportation of cash funds and other valuables. Also the Bank has no insurance coverage for liabilities arising from errors or omissions. Errors or omissions insurance is generally not available in Kazakhstan at present.

23. Financial Instruments with Off-Balance Sheet Risk

General

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include credit-related financial instruments (commitments to extend credit, financial guarantees, commercial letters of credit) and derivative foreign exchange contracts. These instruments involve elements of credit and market risk in excess of the amounts recognized in the balance sheets of the Bank.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits, and monitoring procedures.

Market risk represents the possibility that the value of financial instruments will change, either positively or negatively, with changes in market prices, such as interest or foreign exchange rates. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Credit-Related Financial Instruments

Commitments are contractual agreements to extend credit, which generally have fixed expiration dates or other termination requirements and require payment of a fee. Substantially all of the Bank’s commitments to extend credit are revocable as they are contingent upon the prospective borrower maintaining specific credit standards at the time of loan funding. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank applies similar principles as those applied in assessing the required allowance for losses under other credit facilities when assessing the likelihood of loss under a guarantee. Commercial letters of credit represent a financing transaction by the Bank to its customer where the customer is usually the buyer/importer of goods and the beneficiary is typically the seller/exporter. Credit risk is limited as the merchandise shipped serves as collateral for the transaction.

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

23. Financial Instruments with Off-Balance Sheet Risk (continued)

Credit-Related Financial Instruments (continued)

The Bank's exposure to loss under credit-related financial instruments is limited to the contractual amount and was as follows at December 31:

	2002	2001
Commitments to extend credit	**576,685**	49,520
Commercial letters of credit	**34,848**	46,210
Financial guarantees	**62,232**	40,873
	673,765	136,603
Less cash collateral	**(34,848)**	(40,873)
	638,917	95,730

Usually the period of letters of credit and guarantees issued by the Bank expires within twelve months. It is expected that the main part of these commitments will expire and not require funding.

24. Risk Management Policies

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

Credit Risk

The Bank is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to a monthly review. Limits on the level of credit risk by borrower and by industry sector are approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit-related commitments ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully covered by the funds deposited by customers and therefore bear no credit risk.

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

24. Risk Management Policies (continued)

Liquidity

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs, guarantees and from margin and other calls on derivatives settled by cash. 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 Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Board sets and approves the risk management policies.

The contractual maturities of monetary assets and liabilities at December 31 were as follows:

2002

	On demand	Less than 1 month	1 to 3 months	3 month to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	1,041,584	–	–	–	–	–	1,041,584
Obligatory reserves					260,318		260,318
Investment securities	1,776,950	–	–	–	–	–	1,776,950
Commercial loans, net	5,489	203,893	959,369	3,390,840	843,881	27,654	5,431,126
	2,824,023	203,893	959,369	3,390,840	1,104,199	27,654	8,509,978
Liabilities							
Amounts owed to the Government	–	290	–	1,666	188,132	–	190,088
Due to other banks and financial institutions	–	162,203	–	315,308	127,844	–	605,355
Amounts owed to customers	3,472,785	293,754	1,122,723	1,719,960	184,073	–	6,793,295
Subordinated loans	–	–	–	–	96,406	181,359	277,765
	3,472,785	456,247	1,122,723	2,036,934	596,455	181,359	7,866,503
Net position	(648,762)	(252,354)	(163,354)	1,353,906	507,744	(153,705)	643,475
Accumulated gap	(648,762)	(901,116)	(1,064,470)	289,436	797,180	643,475	

24. Risk Management Policies (continued)

Liquidity (continued)

2001

	On demand	Less than 1 month	1 to 3 months	3 month to 1 year	1 to 5 years	Over 5 years	Total
Assets							
Cash and cash equivalents	575,507	–	–	–	–	–	575,507
Obligatory reserves		–	–	–	201,072	–	201,072
Investment securities	945,092	74,989	814	47,534	–	–	1,068,429
Commercial loans, net	–	75,525	248,176	1,867,864	1,415,144	6,317	3,613,026
Total assets	1,520,599	150,514	248,990	1,915,398	1,616,216	6,317	5,458,034
Liabilities							
Amounts owed to the Government	–	–	–	97,514	35,477	–	132,991
Due to other banks and financial institutions	–	199	14,989	–	82,610	–	97,798
Amounts owed to customers	2,224,822	137,876	738,512	461,767	757,670	–	4,320,647
Subordinated loans	–	–	–	–	264,826	–	264,826
Total liabilities	2,224,822	138,075	753,501	559,281	1,140,583	–	4,816,262
Net position	(704,223)	12,439	(504,511)	1,356,117	475,633	6,317	641,772
Accumulated gap	(704,223)	(691,784)	(1,196,295)	159,822	635,455	641,772	

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

24. Risk Management Policies (continued)

Currency Analysis

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

	2002			2001		
	KZT and other currencies	**Freely convertible currencies**	**Total**	KZT and other currencies	Freely convertible currencies	Total
Assets						
Cash and cash equivalents	**761,756**	**279,828**	**1,041,584**	441,768	133,739	575,507
Obligatory reserves	**260,318**	**–**	**260,318**	201,072	–	201,072
Investment securities	**1,776,950**	**–**	**1,776,950**	1,004,276	64,153	1,068,429
Commercial loans, net	**2,455,463**	**2,975,663**	**5,431,126**	1,765,439	1,847,587	3,613,026
	5,254,487	**3,255,491**	**8,509,978**	3,412,555	2,045,479	5,458,034
Liabilities						
Amounts owed to the Government	**101,313**	**88,775**	**190,088**	–	132,991	132,991
Due to other banks and financial institutions	**–**	**605,355**	**605,355**	–	97,798	97,798
Amounts owed to customers	**4,427,866**	**2,365,429**	**6,793,295**	2,530,688	1,789,959	4,320,647
Subordinated loans	**–**	**277,765**	**277,765**	264,826	–	264,826
	4,529,179	**3,337,324**	**7,866,503**	2,795,514	2,020,748	4,816,262
Net position	**725,308**	**(81,833)**	**643,475**	617,041	24,731	641,772

The substantial portion of the Bank's net position in freely convertible currencies is in US Dollars.

The Bank has extended loans and advances denominated in foreign currencies. Although these loans are generally funded by the same currencies, their appreciation against KZT can adversely affect the borrowers' repayment ability and therefore increases the likelihood of future loan losses.

24. Risk Management Policies (continued)

Geographical Concentration

The geographical concentration of monetary assets and liabilities were as follows at December 31:

2002

	Kazakhstan	OECD	Other non-OECD	Total
Assets				
Cash and cash equivalents	**983,973**	**32,979**	**24,632**	**1,041,584**
Obligatory reserves	**260,318**			**260,318**
Investment securities	**1,776,950**	–	–	**1,776,950**
Commercial loans, net	**5,431,126**	–	–	**5,431,126**
	8,452,367	**32,979**	**24,632**	**8,509,978**
Liabilities				
Amounts owed to the Government	**190,088**	–	–	**190,088**
Due to other banks and financial institutions	**605,355**	–	–	**605,355**
Amounts owed to customers	**6,793,295**	–	–	**6,793,295**
Subordinated loans	**96,406**	–	**181,359**	**277,765**
	7,685,144	–	**181,359**	**7,866,503**
Net position	**767,223**	**32,979**	**(156,727)**	**643,475**

2001

	Kazakhstan	OECD	Other non-OECD	Total
Assets				
Cash and cash equivalents	514,940	48,187	12,380	575,507
Obligatory reserves	201,072	–	–	201,072
Investment securities	1,068,429	–	–	1,068,429
Commercial loans, net	3,613,026	–	–	3,613,026
	5,397,467	48,187	12,380	5,458,034
Liabilities				
Amounts owed to the Government	132,991	–	–	132,991
Due to other banks and financial institutions	97,798	–	–	97,798
Amounts owed to customers	4,320,647	–	–	4,320,647
Subordinated loans	93,060	–	171,766	264,826
	4,644,496	–	171,766	4,816,262
Net position	752,971	48,187	(159,386)	641,772

24. Risk Management Policies (continued)

Interest Rate Risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net 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. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

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 interest margin and on the value of interest-sensitive assets and liabilities.

25. Related Party Transactions

Balances and transactions with related parties comprise the following at December 31 and for the years then ended:

	2002			2001
	Related party	**Percentage on normal conditions**	**Total items category**	Related party
Commercial loans	**768,918**	**100%**	**5,431,126**	479,604
Amounts owed to customers	**570,479**	**100%**	**6,793,295**	207,711
Subordinated loans	**95,631**	**100%**	**277,765**	93,060
Interest income	**8,722**	**100%**	**920,900**	27,617
Interest expense on amount owed to customers	**1,485**	**100%**	**273,544**	1,905
Interest on subordinated loans	**9,637**	**100%**	**19,230**	9,227
Rent	**64,857**	**100%**	**75,923**	37,714

The percentages indicated above represent the percentages of related parties transactions that have been entered into under normal commercial and banking terms and conditions.