Tsesna Bank JSC

Financial Statements

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

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NOTES TO THE FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of Tsesna Bank –

We have audited the accompanying balance sheets of Tsesna Bank (the "Bank") at December 31, 2003, 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.

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 at 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

March 23, 2004

BALANCE SHEETS

(Thousands of Kazakh Tenge)

	Notes	December 31, 2003	2002
Assets			
Cash and cash equivalents	4	**1,132,286**	1,041,584
Obligatory reserves	5	**295,705**	260,318
Amounts due from credit institutions		**8,665**	–
Trading securities	6	**284,192**	–
Investment securities:			
- available-for-sale	7	**1,710,656**	1,776,950
- held-to-maturity	7	**512,223**	–
Loans to customers	8	**7,522,837**	5,431,126
Premises and equipment	10	**490,182**	277,353
Other assets		**189,413**	126,315
Total assets		**12,146,159**	8,913,646
Liabilities			
Amounts due to the Government	12	**108,187**	190,088
Amounts due to credit institutions	13	**1,436,425**	605,355
Amounts due to customers	14	**8,936,524**	6,793,295
Subordinated debt	15	**299,132**	277,765
Provisions	9	**3,060**	–
Other liabilities		**28,992**	32,342
Total liabilities		**10,812,320**	7,898,845
Shareholders' equity	16		
Share capital		**531,067**	531,067
Reserves		**150,000**	162,719
Retained earnings		**652,772**	321,015
Total shareholders' equity		**1,333,839**	1,014,801
Total liabilities and shareholders' equity		**12,146,159**	8,913,646
Financial commitments and contingencies	17		

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

Kozhakhmetov K.B. — Chairman of the Board

Baymaruzova G.S. — Chief Accountant

March 23, 2004

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

STATEMENTS OF INCOME

(Thousands of Kazakh Tenge)

	Notes	*Years ended December 31,* 2003	2002
Interest income			
Loans to customers		**1,113,564**	920,900
Securities		**199,270**	130,745
Credit institutions		**7,421**	4,383
		1,320,255	1,056,028
Interest expense			
Customers		**(356,399)**	(273,544)
Credit institutions		**(75,762)**	(35,273)
Subordinated debt		**(37,244)**	(19,230)
Government		**(2,445)**	(4,788)
		(471,850)	(332,835)
Net interest income		**848,405**	723,193
Provision for losses	9	**(168,635)**	(174,208)
		679,770	548,985
Fee and commission income	18	**355,730**	291,915
Fee and commission expense		**(25,120)**	(19,108)
Fees and commissions		**330,610**	272,807
Gains less losses from securities		**15,623**	(43,487)
Gains less losses from foreign currencies:			
- dealing		**131,561**	84,087
- translation differences		**6,795**	6,671
Other income		**2,874**	2,552
Non interest income		**156,853**	49,823
Salaries and benefits	19	**(373,333)**	(278,126)
Administrative and operating expenses	19	**(285,371)**	(217,011)
Depreciation and amortization		**(59,082)**	(40,695)
Taxes other than income taxes		**(62,079)**	(45,551)
Deposit insurance		**(17,463)**	(8,887)
Other impairment and provisions	9	**(3,060)**	–
Non interest expense		**(800,388)**	(590,270)
Income before income tax expense		**366,845**	281,345
Income tax expense	11	**(47,807)**	(51,529)
Net income		**319,038**	229,816

The accompanying notes on pages 5 to 23 are an integral part of these financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002

(Thousands of Kazakh Tenge)

	Share Capital	*Revaluation Reserve*	*Reserve Fund*	*Retained Earnings*	*Total shareholders' equity*
December 31, 2001	531,067	13,387	150,000	193,072	887,526
Net income	–	–	–	229,816	229,816
Dividends	–	–	–	(102,541)	(102,541)
Transfers	–	(668)	–	668	–
December 31, 2002	**531,067**	**12,719**	**150,000**	**321,015**	**1,014,801**
Net income	–	–	–	**319,038**	**319,038**
Transfers	–	**(12,719)**	–	**12,719**	–
December 31, 2003	**531,067**	–	**150,000**	**652,772**	**1,333,839**

The accompanying notes on pages 5 to 23 are an integral part of these financial statements

STATEMENTS OF CASH FLOWS

(Thousands of Kazakh Tenge)

	Years ended December 31, 2003	2002
Cash flows from operating activities:		
Net income before income taxes	**366,845**	281,345
Adjustments for:		
Depreciation and amortization	**59,082**	40,695
Provision for losses and other provisions	**168,635**	174,208
Loss on sale of premises and equipment	**360**	–
Unrealised foreign exchange (gain) loss	**(66,107)**	19,388
Unrealised (gain) loss on securities	**(21,960)**	43,487
Operating income before changes in net operating assets	**506,855**	559,123
(Increase) decrease in operating assets:		
Obligatory reserves	**(35,387)**	(59,246)
Amounts due from credit institutions	**(8,665)**	–
Trading securities	**(284,192)**	–
Loans to customers	**(2,442,451)**	(1,980,308)
Other assets	**(51,690)**	(49,650)
Increase (decrease) in operating liabilities:		
Amounts due to the Government	**(75,276)**	46,086
Amounts due to credit institutions	**884,886**	507,557
Amounts due to customers	**2,321,235**	2,472,648
Other liabilities	**10,369**	31,056
Net cash flows from operating activities before income tax	**825,684**	1,527,266
Income tax paid	**(71,432)**	(67,335)
Net cash flows from operating activities	**754,252**	1,459,931
Cash flows from investing activities:		
Purchases of investment securities	**(972,216)**	(875,345)
Proceeds from redemption of investment securities	**548,247**	123,337
Purchases of premises and equipment	**(221,632)**	(124,561)
Proceeds from sale of premises and equipment	**106**	4,293
Purchases of intangible assets	**(38,529)**	(25,563)
Net cash flow from investing activities	**(684,024)**	(897,839)
Cash flows from financing activities:		
Subordinated debt received	**104,271**	–
Subordinated debt repaid	**(94,020)**	–
Dividends paid	**(10,659)**	(90,984)
Net cash flows from financing activities	**(408)**	(90,984)
Effects of exchange rates' changes on cash and equivalents	**20,882**	(5,031)
Net change in cash and cash equivalents	**90,702**	466,077
Cash and cash equivalents at the beginning of year	**1,041,584**	575,507
Cash and cash equivalents at the end of year (Note 4)	**1,132,286**	1,041,584
Supplemental information:		
Interest received	**1,302,145**	281,642
Interest paid	**442,423**	1,031,972

The accompanying notes on pages 5 to 23 are an integral part of these financial statements.

(Thousands of Kazakh Tenge)

1. Principal Activities

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 September 19, 2003 that also permits conducting banking operations in foreign currencies. The Bank also possesses a 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 4, 2000. 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. Due to a change in legislation introduced in 2003, the Bank was reregistered as a joint stock company on December 26, 2003.

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 2003 the Bank opened four new cash settlement centers, two in Astana and one in Kostanay and Pavlodar. At December 31, 2003, it had ten cash settlement units (2002: six cash settlement units).

At December 31, 2003 and 2002, the Bank had 352 and 261 employees, respectively.

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

Shareholder	%
Central Depositor CJSC (nominee holder)	23.13
Tsesna Corporation CJSC	9.74
Astana Finance OJCS	9.85
SKP Khleborob LLP	9.70
Corcern Nayza-Kurilis LLP	8.89
Tamgrit LLP	6.65
Adite LLP	9.84
Concern Aymak LLP	6.68
Firma Tsesintorg LLP	6.24
Otherы	9.28
Total	**100.00**

2. Basis of Preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the majority of the Bank's transactions are denominated, measured, or funded in KZT. 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 Bank 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 financial statements for 2002 were based on the Bank's statutory books and records, as adjusted and reclassified in order to comply with IFRS. The reconciliation for 2002 between KAL and IFRS is presented later in this note. Starting January 1, 2003, the Bank maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regard to those financial statements relate to the allowances for losses, income taxes, the carrying value of securities and intangible assets. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

(Thousands of Kazakh Tenge)

The KZT is not a fully convertible currency outside the Republic of Kazakhstan. Transactions denominated in foreign currencies are recorded using the market exchange rates quoted by the Kazakhstani Stock exchange (KASE). The market exchange rates at December 31, 2003 and 2002 were KZT 144.22 = US Dollar 1 and KZT 155.6 = US Dollar 1, respectively. At March 23, 2004, the market exchange rate was KZT 138.83 = US Dollar 1.

Reconciliation of KAL and IFRS Equity and Net Income

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

	2002	
	Shareholders' equity	***Net income***
Kazakh Accounting Legislation	**1,097,536**	**294,713**
Allowances for losses	(82,395)	(23,225)
Depreciation	(3,804)	–
Adjustments to fair value	–	(45,350)
Taxation adjustments	–	(2,022)
Intangible assets	3,464	3,464
Interest expenses	–	1,901
Other	–	335
IFRS	**1,014,801**	**229,816**

3. Summary of Significant Accounting Policies

Recognition of Financial Instruments

The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

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

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

Cash and Cash Equivalents

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

Obligatory Reserves

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

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.

(Thousands of Kazakh Tenge)

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

Amounts due from credit institutions

In the normal course of business, the Bank maintains current accounts or deposits for various periods of time with other banks. Amounts due from credit institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method and carried net of any allowance for impairment.

Repurchase and Reverse Repurchase Agreements

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

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

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

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

Investment Securities

The Bank classified its investment securities into two categories:

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

The Bank classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

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

(Thousands of Kazakh Tenge)

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 recorded in accordance with the recognition of financial instruments policy. The difference between the 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 in income statement. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment.

Taxation

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

Deferred income tax is provided, using the liability method, on 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 in respect of taxable temporary differences, except were the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for 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.

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 Bank's activities. These taxes are included as a component in the statement of income.

Allowances for Losses and Impairment of Financial Assets

The Bank establishes allowances for impairment of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of the related loans issued, held-to-maturity securities and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between 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 allowances are based on the Bank's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowances for impairment of financial assets in the accompanying financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Republic of Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

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

(Thousands of Kazakh Tenge)

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation.

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

	Years
Buildings	10–50
Fixtures and equipment	10
Computers	5–7
Vehicles	7
Leasehold improvements	5

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. 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.

Amounts Due to Government, Credit Institutions and to Customers

Amounts due to the 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. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

Provisions

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

Retirement and Other Benefit Obligations

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

Share Capital

Share capital are recognized at the fair value of consideration received or paid. Purchases of treasury stock are recorded at nominal value with any premium or discount recorded in additional paid in capital. Gains and losses on sales of treasury stock are charged or credited to additional paid-in capital.

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

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

Related Parties

Related parties include the Bank's shareholders, key management personnel, investees and affiliated companies.

(Thousands of Kazakh Tenge)

Contingencies

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

Income and Expense Recognition

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

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at 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 (translation differences).

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	2003	*2002*
Current accounts with other banks	**520,779**	117,646
Cash on hand	**501,902**	563,170
Current accounts with the NBK	**109,605**	349,512
Deposit with a local bank in foreign currency	**-**	11,256
	1,132,286	1,041,584

At December 31, 2002, the deposit held with a local bank carried interest at 2.08% per annum:

5. Obligatory Reserves

Obligatory reserves consisted of the balances of current accounts 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 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. Trading Securities

At December 31, 2003 trading securities comprise Treasury bills of the Ministry of Finance that carry interest at rates ranging from 7.0% to 12.0% per annum and mature in 2004 – 2005.

7. Investment Securities

Available-for-sale securities comprise:

	2003	*2002*
Treasury bills of the Ministry of Finance	**1,456,871**	1,228,703
Corporate bonds	**156,378**	–
Local municipal bonds	**97,407**	–
NBK notes	–	548,247
	1,710,656	1,776,950

(Thousands of Kazakh Tenge)

Interest rates and maturity of available-for-sale securities follow:

	2003		2002	
	%	Maturity	%	Maturity
Treasury bills of the Ministry of Finance	**6.0%-16.3%**	**2004-2013**	7.4%-18%	2003-2006
Corporate bonds	**6.9%**	**2013**	–	–
Local municipal bonds	**8.5%**	**2007**	–	–
NBK notes	**-**	**-**	5.62%-5.90%	2003

Held-to-maturity securities comprise:

	2003		2002	
	Carrying value	Nominal value	Carrying value	Nominal value
NBK notes	**512,223**	**520,000**	–	–

Interest rates and maturity of held to maturity securities follow:

	2003		2002	
	%	Maturity	%	Maturity
NBK notes	**4.8%-4.9%**	**2004**	-	-

8. Loans to Customers

The Bank's gross commercial loan portfolio is concentrated in the following main sectors at December 31:

	2003	%	2002	%
Individuals	**2,632,955**	**33%**	406,441	7%
Wholesale trading	**2,082,938**	**26%**	1,659,627	29%
Food industry	**837,199**	**11%**	514,346	9%
Agriculture	**724,070**	**9%**	748,744	13%
Hospitality	**422,213**	**5%**	403,973	7%
Retail trade	**359,400**	**5%**	411,403	7%
Construction	**254,720**	**3%**	632,064	11%
Services	**208,800**	**3%**	223,689	4%
Non-credit financial organisations	**121,423**	**2%**	320,554	6%
Other	**307,623**	**4%**	405,964	7%
	7,951,341	**100%**	5,726,805	100%
Less - Allowance for losses	**(428,504)**		(295,679)	
	7,522,837		5,431,126	

At December 31, 2003, 10 customers accounted for 21% of the total loan portfolio or KZT 1,693,259 thousand (2002: 57% of the total loan portfolio or KZT 3,268,021 thousand).

Loans are placed on non-accrual status as to contractual interest when full payment of principal or interest is in doubt (a loan with principal and 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 timely repayment.

At December 31, 2003, the Bank had loans totaling KZT 223,816 thousand (2002: KZT 63,328 thousand), which were placed on non-accrual status. Interest income foregone related to non-accrual loans outstanding at year-end was approximately KZT 8,356 thousand for 2003 (2002: KZT 1,775 thousand).

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

	2003	2002
Private companies	**4,460,150**	4,117,768
State companies	**197,854**	487,053
Individuals	**3,293,337**	1,121,984
	7,951,341	5,726,805

(Thousands of Kazakh Tenge)

9. Allowance for Losses and Provisions

The movements on the allowances for losses, were as follows:

	Amounts due from credit institutions	*Other assets*	*Loans to customers*	*Total*
December 31, 2001	45,000	–	171,000	216,000
Provision for losses	–	12,000	162,208	174,208
Charge-offs	(45,000)	–	(42,767)	(87,767)
Recoveries	–	–	5,238	5,238
December 31, 2002	**-**	**12,000**	**295,679**	**307,679**
Provision for losses			**168,635**	**168,635**
Charge-offs	**-**	**(12,000)**	**(36,587)**	**(48,587)**
Recoveries	**-**	**-**	**777**	**777**
December 31, 2003	**-**	**-**	**428,504**	**428,504**

The movements on the allowances for other losses and provisions, were as follows:

	Letters of credit and guarantees
December 31, 2001	–
Provision	–
December 31, 2002	–
Provision	**3,060**
December 31, 2003	**3,060**

Allowances for impairment of assets are deducted from the related assets and the provisions for letters of credit and guarantees are included in other liabilities.

10. Premises and Equipment

The movements on the Bank's premises and equipment during the year were as follows:

	Land and Buildings	*Computers*	*Vehicles*	*Leasehold improvements*	*Fixtures and equipment*	*Construction in progress*	*Total*
Cost							
Beginning of the year	101,983	85,341	25,562	7,622	70,611	66,480	357,599
Additions	11,654	79,129	3,164	6,167	41,576	119,870	261,560
Disposals	(14)	(1,542)	(967)	(5,003)	(7,430)	–	(14,956)
Transfers	–	55	–	–	(55)	–	–
End of the year	**113,623**	**162,983**	**27,759**	**8,786**	**104,702**	**186,350**	**604,203**
Accumulated depreciation:							
Beginning of the year	5,125	36,373	10,111	3,279	25,358	–	80,246
Charge	2,071	22,855	3,828	1,730	11,738	–	42,222
Disposals	–	(1,264)	(966)	–	(6,217)	–	(8,447)
Transfers	–	55	–	–	(55)	–	–
End of the year	**7,196**	**58,019**	**12,973**	**5,009**	**30,824**	–	**114,021**
December 31, 2003	**106,427**	**104,964**	**14,786**	**3,777**	**73,878**	**186,350**	**490,182**
December 31, 2002	96,858	48,968	15,451	4,343	45,253	66,480	277,353

Depreciation and amortization in the statements of income accounts also include amortization of intangible assets of KZT 16,860 thousand and KZT 8,670 thousand for 2003 and 2002, respectively.

(Thousands of Kazakh Tenge)

11. Income Taxes

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

	2003	*2002*
Current tax	**48,009**	51,529
Income tax of prior periods	**(202)**	–
Income tax	**47,807**	51,529

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

	2003	*2002*
IFRS income before tax	**366,845**	281,345
Statutory income tax	**30%**	30%
Income tax computed at the statutory tax rate	**110,054**	84,404
Non deductible expenses:		
Interest on deposits in excess of the allowed limit	**37,984**	21,899
Fines and penalties	**3,261**	–
Non-business expenses	**2,203**	1,719
Taxes of prior year	**202**	–
Charity	**1,410**	744
Other	**1,064**	340
Tax exempt income:		
Government securities	**(61,339)**	(41,191)
Income on long-term loans granted for modernization of property and equipment	**(42,949)**	(19,935)
Other	**(31)**	(2,789)
Change in unrecognised deferred tax assets	**(4,052)**	6,338
Income tax expense	**47,807**	51,529

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:

	2003	*2002*
Deferred tax assets:		
Allowance for losses	**62,483**	39,619
Premises and equipment	–	700
	62,483	40,319
Deferred tax liabilities:		
Premises and equipment	**(26,216)**	–
Net deferred tax assets	**36,267**	40,319
Unrecognized deferred tax assets	**(36,267)**	(40,319)
	–	–

Deferred tax assets were not recognized because of the uncertainty of their future realization.

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

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

(Thousands of Kazakh Tenge)

12. Amounts due to the Government

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

	2003	*2002*
World Bank loans through the Ministry of Finance	**43,024**	88,776
Local municipal authorities	**65,163**	101,312
	108,187	190,088

The Bank received loans from the World Bank (International Bank of Reconstruction and Development) through the Ministry of Finance for the purpose of financing a particular company under an agricultural support program. At December 31, 2003, the loans mature between 2004- 2008 (2002: 2004 – 2007) and bear interest at 1.27% per annum (2002: 2.08% per annum).

Also at December 31, 2003 and 2002, the Bank had KZT denominated loans from local municipal authorities of KZT 65,163 thousand (2002: KZT 101,312 thousand), at interest rates ranging from 0.5% to 2 % per annum (2002: from 1% to 2% per annum) and maturing in 2004 (2002: 2003) under Government program of financing the agricultural sector.

13. Amounts due to credit institutions

Amounts due to credit institutions consisted of the following at December 31:

	2003	*2002*
Time deposits from local banks	**900,606**	437,257
Repurchase agreement	**350,047**	–
Loans from the Small Business Development Fund of Kazakhstan	**184,446**	168,098
Correspondent accounts	**1,326**	–
	1,436,425	605,355

At December 31, 2003 interest-bearing time deposits from local banks include US Dollar and KZT denominated deposits that bear interest at rates ranging from 5.5% to 9.5% per annum (2002: from 9% to 10% per annum) and mature in 2004 (2002: 2003).

Included in amounts due to credit institutions at December 31, 2003, is a repurchase agreement of KZT 350,047 thousand (2002: nil) that is secured by a pledge over certain of the Bank's held-to-maturity securities whose fair value at December 31, 2003 amounted to KZT 368,324 thousand. That repurchase agreement matures on January 5, 2004 and bears interest at 1% per annum (2002: nil).

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

			%	*Date*	
	2003	*2002*	*rate*	*issue*	*maturity*
Project1	–	40,250	10.53	5/7/2000	10/6/2003
Project2	**44,435**	48,007	8.53	6/10/2002	11/28/2004
Project3	**73,880**	79,841	7.75	6/24/2002	11/28/2005
Project4	**66,131**	–	6.00	2/19/2003	7/19/2006
	184,446	168,098			

At December 31, 2003 loans from the Small Business Development Fund of Kazakhstan represent pass through loans provided by the European Bank of Reconstruction and Development for use by authorized banks in extending loans to small and medium size enterprises. Interest on the loans is payable semi-annually.

(Thousands of Kazakh Tenge)

14. Amounts due to Customers

Amounts due to customers included balances in customer current accounts and term deposits, and were analyzed as follows at December 31:

	2003	*2002*
Customer current accounts:		
Commercial	**3,235,734**	2,945,896
State	**565,160**	72,650
Individuals	**161,844**	129,041
	3,962,738	3,147,587
Term deposits:		
Individuals	**3,523,996**	2,324,444
Commercial	**1,396,423**	1,135,966
State	**53,367**	185,298
	4,973,786	3,645,708
	8,936,524	6,793,295

Amounts due to customers were analyzed by geographical regions within Kazakhstan at December 31 as follows:

	2003	*2002*
North Kazakhstan	**8,244,449**	6,294,571
Almaty	**692,075**	498,724
	8,936,524	6,793,295

Term deposits at December 31, 2003 bear interest at rates ranging from 6.0% to 12.5% per annum (2002: from 9.0% to 12.0%) for KZT-denominated balances and from 3.5% to 9.0% per annum (2002: from 3.0% to 8.0%) for foreign currency-denominated balances.

At December 31, 2003, ten customers accounted for 19% (2002: 26%) of amounts due to customers.

An analysis of amounts due to customers by sector follows:

	2003	*2002*
Individuals and entrepreneurs	**3,685,840**	2,453,485
Non-credit financial organisations	**1,654,748**	830,227
Construction	**1,635,767**	959,124
Agriculture (grain trading)	**469,110**	111,045
Utility distribution and service	**440,111**	244,724
Retail trade	**226,076**	70,994
Wholesale trading	**145,004**	1,314
Transportation	**115,866**	123,729
Real estate	**108,066**	206,066
Food industry	**83,564**	5,218
Printing business	**72,446**	456,827
Education	**64,810**	24,714
Communication and postal service	**25,744**	192,132
Information technologies and related services	**19,603**	144,866
Other	**189,769**	968,830
	8,936,524	6,793,295

15. Subordinated Debt

Subordinated debt comprised the following loans at December 31:

	2003	*2002*
Subordinated loan 1	–	33,777
Subordinated loan 2	–	62,629
Subordinated loan 3	**200,269**	181,359
Subordinated loan 4	**98,863**	–
	299,132	277,765

(Thousands of Kazakh Tenge)

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. In April 2003, loans 1 and loans 2 were repaid in advance and the Bank obtained subordinated loan 4 from this financial institution. Subordinated loan 4 is denominated in US Dollars, bears interest at 11% per annum and matures in April 2010.

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. In April 2003 the Bank amended the agreement with the foreign company. As per the addendum to the agreement the amount of the subordinated debt includes interest accrued and amounted to KZT 183,438 thousand payable in KZT, bearing interest at 14% per annum, accrued and capitalized monthly, 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.

16. Shareholders' Equity

At December 31, 2003 and 2002, the authorized share capital of the Bank consisted of 1,000,000 shares with a nominal value of KZT 1,000 each. At December 31, 2003 and 2002, 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 19, 2002 the Bank declared dividends for 2001 in the amount of KZT 102,541 thousand.

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. During 2003 the remaining revaluation reserve was transferred to retained earnings as a result of amortization and disposal of the related property and equipment.

17. 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 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.

Financial commitments and contingencies

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

	2003	***2002***
Undrawn loan commitments	**827,694**	576,685
Guarantees	**574,132**	62,232
Letters of credit	**29,941**	34,848
	1,431,767	673,765
Less – Provisions	**(3,060)**	
Less cash collateral	**(132,994)**	(40,081)
Financial commitments and contingencies	**1,295,713**	633,684

(Thousands of Kazakh Tenge)

Financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing guarantees is essentially the same as involved in extend facilities to other customers.

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.

At December 31, 2003, the top ten guarantees accounted for 50% (2002: all guarantees outstanding are less than net) of total financial guarantees and represented 22% of the Bank's total shareholders' equity.

Insurance

The Bank has not currently obtained insurance coverage related to property, except for vehicles as motor insurance is obligatory 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 against liabilities arising from errors or omissions. Errors or omissions insurance is generally not available in Kazakhstan at present.

18. Fee and Commission Income

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

	2003	*2002*
Cash operations	**162,840**	135,402
Settlements operations	**10,281**	29,444
Foreign currency trading	**25,524**	26,601
Transfer operations	**103,914**	80,318
Guarantees issued	**26,683**	5,174
Other	**26,488**	14,976
Fee and commission income	**355,730**	291,915

19. Salaries and Administrative and Operating Expenses

Salaries and administrative and operating expenses comprise:

	2003	*2002*
Salaries and bonuses	**299,920**	229,317
Social costs	**57,782**	43,594
Other payments	**15,631**	5,215
Salaries and benefits	**373,333**	278,126
Rent	**77,430**	75,923
Communication	**44,098**	36,358
Advertising	**48,977**	29,053
Security	**17,440**	12,002
Business trip expenses	**11,657**	11,696
Repairs and maintenance	**17,215**	7,997
Stationery and supplies	**11,862**	6,972
Penalties and fines	**10,907**	–
Audit and consulting services	**8,280**	5,036
Transportation	**5,073**	5,157
Training	**2,847**	5,568
Cash collection services	**2,814**	3,363
Charity	**4,701**	2,479
Other	**22,070**	15,407
Administrative and operating expenses	**285,371**	217,011

(Thousands of Kazakh Tenge)

The aggregate remuneration and other benefits paid to members of the Management Board for 2003 was KZT 32,281 thousand (2001: KZT 23,245 thousand).

20. Risk Management Policies

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

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty 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 Bank of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by borrower and by industry sector are approved monthly by the Board of Directors.

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, Assets and Liabilities Management Committee, which is called once a week.

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.

The credit risk exposure on derivatives is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments.

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 or partially 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.

(Thousands of Kazakh Tenge)

Concentration

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

2003

	Kazakhstan	*OECD*	*CIS and other foreign banks*	*Total*
Cash and cash equivalents	**1,041,625**	**68,488**	**22,173**	**1,132,286**
Obligatory reserves	**295,705**	–	–	**295,705**
Amounts due from credit institutions	**8,665**	–	–	**8,665**
Trading securities	**284,192**	–	–	**284,192**
Investment securities:		–	–	
- available-for-sale	**1,710,656**	–	–	**1,710,656**
- held-to-maturity	**512,223**	–	–	**512,223**
Loans to customers	**7,951,341**	–	–	**7,951,341**
Other assets	**62,457**	–	–	**62,457**
	11,866,864	**68,488**	**22,173**	**11,957,525**
Amounts due to the Government	**108,187**	–	–	**108,187**
Amounts due to credit institutions	**1,436,425**	–	–	**1,436,425**
Amounts due to customers	**8,936,524**	**-**	–	**8,936,524**
Subordinated debt	**98,863**	–	**200,269**	**299,132**
Provisions	**3,060**	–	–	**3,060**
Other liabilities	**28,992**	–	–	**28,992**
	10,612,051	–	**200,269**	**10,812,320**
	1,254,813	**68,488**	**(178,096)**	**1,145,205**

2002

	Kazakhstan	*OECD*	*CIS and other foreign countries*	*Total*
Cash and cash equivalents	983,973	32,979	24,632	1,041,584
Obligatory reserves	260,318	–	–	260,318
Investment securities available-for-sale	1,776,950	–	–	1,776,950
Loans to customers	5,726,805	–	–	5,726,805
Other assets	44,503	–	–	44,503
	8,792,549	32,979	24,632	8,850,160
Amounts due to the Government	190,088	–	–	190,088
Amounts due to credit institutions	605,355	–	–	605,355
Amounts due to customers	6,793,295	–	–	6,793,295
Subordinated debt	96,406	–	181,359	277,765
Other liabilities	32,342	–	–	32,342
	7,717,486	-	181,359	7,898,845
	1,075,063	32,979	(156,727)	951,315

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Assets and Liabilities Management Committee 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 NBK. The Bank's exposure to foreign currency exchange rate risk follows.

(Thousands of Kazakh Tenge)

The Bank's monetary assets and liabilities were denominated as follows at December 31:

2003

	KZT and other currencies	*Freely convertible currencies*	*Total*
Cash and cash equivalents	**565,640**	**566,646**	**1,132,286**
Obligatory reserves	**295,705**	–	**295,705**
Amounts due from credit institutions	–	**8,665**	**8,665**
Trading securities	**284,192**		**284,192**
Investment securities:			
- available-for-sale	**1,710,656**	–	**1,710,656**
- held-to-maturity	**512,223**	–	**512,223**
Loans to customers	**4,995,753**	**2,955,588**	**7,951,341**
Other assets	**48,013**	**14,444**	**62,457**
	8,412,182	**3,545,343**	**11,957,525**
Amounts due to the Government	**65,163**	**43,024**	**108,187**
Amounts due to credit institutions	**661,927**	**774,498**	**1,436,425**
Amounts due to customers	**6,326,959**	**2,609,565**	**8,936,524**
Subordinated debt	**200,269**	**98,863**	**299,132**
Provisions	**3,060**	–	**3,060**
Other liabilities	**27,245**	**1,747**	**28,992**
	7,284,623	**3,527,697**	**10,812,320**
Net position	**1,127,559**	**17,646**	**1,145,205**

2002

	KZT and other currencies	*Freely convertible currencies*	*Total*
Cash and cash equivalents	761,756	279,828	1,041,584
Obligatory reserves	260,318	–	260,318
Investment securities available-for-sale	1,776,950	–	1,776,950
Loans to customers	2,751,142	2,975,663	5,726,805
Other assets	44,503	–	44,503
	5,594,669	3,255,491	8,850,160
Amounts due to the Government	101,313	88,775	190,088
Amounts due to credit institutions	–	605,355	605,355
Amounts due to customers	4,427,866	2,365,429	6,793,295
Subordinated debt	182,133	95,632	277,765
Other liabilities	32,342	–	32,342
	4,743,654	3,155,191	7,898,845
Net position	851,015	100,300	951,315

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

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan drawdowns and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor 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.

(Thousands of Kazakh Tenge)

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

2003

	On demand	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	**1,132,286**	–	–	–	–	–	**1,132,286**
Obligatory reserves	–	–	–	–	**295,705**	–	**295,705**
Amounts due from credit institutions	**8,665**	–	–	–	–	–	**8,665**
Trading securities	**284,192**	–	–	–	–	–	**284,192**
Investment securities:							
- available-for-sale	**1,710,656**	–	–	–	–	–	**1,710,656**
- held-to-maturity	–	–	**348,045**	**164,178**	–	–	**512,223**
Loans to customers	–	**320,517**	**70,364**	**1,270,970**	**4,252,468**	**2,037,022**	**7,951,341**
Other assets	**62,457**						**62,457**
	3,198,256	**320,517**	**418,409**	**1,435,148**	**4,548,173**	**2,037,022**	**11,957,525**
Amounts due to the Government	–	**9,849**	**602**	**32,577**	**65,159**	–	**108,187**
Amounts due to credit institutions	**1,326**	**511,694**	**441,629**	**344,767**	**137,009**	–	**1,436,425**
Amounts due to customers	**4,028,477**	**85,019**	**1,122,468**	**2,371,319**	**1,329,057**	**184**	**8,936,524**
Subordinated debt						**299,132**	**299,132**
Provisions	**3,060**	–	–	–	–	–	**3,060**
Other liabilities	**28,992**	–	–	–	–	–	**28,992**
	4,061,855	**606,562**	**1,564,699**	**2,748,663**	**1,531,225**	**299,316**	**10,812,320**
Net position	**(863,599)**	**(286,045)**	**(1,146,290)**	**(1,313,515)**	**3,016,948**	**1,737,706**	**1,145,205**
Accumulated gap	**(863,599)**	**(1,149,644)**	**(2,295,934)**	**(3,609,448)**	**(592,501)**	**1,145,205**	

2002

	On demand	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
Cash and cash equivalents	1,041,584	–	–	–	–	–	1,041,584
Obligatory reserves	–	–	–	–	260,318	–	260,318
Investment securities available-for-sale	1,776,950	–	–	–	–	–	1,776,950
Loans to customers	5,489	203,893	959,369	3,686,519	843,881	27,654	5,726,805
Other assets	44,503	–	–	–	–	–	44,503
	2,868,526	203,893	959,369	3,686,519	1,104,199	27,654	8,850,160
Amounts due to the Government	–	290	–	1,666	188,132	–	190,088
Amounts due to credit institutions	–	162,203	–	315,308	127,844	–	605,355
Amounts due to customers	3,472,785	293,754	1,122,723	1,719,960	184,073	–	6,793,295
Subordinated debt	–	–	–	–	96,406	181,359	277,765
Other liabilities	32,342	–	–	–	–	–	32,342
	3,505,127	456,247	1,122,723	2,036,934	596,455	181,359	7,898,845
Net position	(636,601)	(252,354)	(163,354)	1,649,585	507,744	(153,705)	951,315
Accumulated gap	(636,601)	(888,955)	(1,052,309)	597,276	1,105,020	951,315	

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.

(Thousands of Kazakh Tenge)

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 Assets and Liabilities Management Committee. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed by the Bank's Assets and Liabilities Management Committee and approved by the Board of Directors.

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

	2003		***2002***	
	KZT	***USD***	*KZT*	*USD*
Trading securities	**10.89%**	–	–	–
Investment securities:				
- available-for-sale	**6.99%**	–	10%	–
- held-to-maturity	**10.00%**	–	–	–
Loans to customers	**17.10%**	**15.9%**	17.35%	15.78%
Due to the Government	**0.38%**	**1.27%**	0.50%	2.08%
Due to credit institutions	**5.50%**	**8.15%**	–	9.36%
Customer deposits	**9.01%**	**6.64%**	9.88%	7.65%
Subordinated debt	**12.32%**	**10.8%**	8.50%	7.69%

21. Fair Values of Monetary Assets and Liabilities

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

Loans to Customers, Amounts Due to Credit Institutions Subordinated Debt

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

Amounts Due to Customers

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

(Thousands of Kazakh Tenge)

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

	2003		2002	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets				
Loans to customers	**7,522,837**	**8,532,177**	5,431,126	6,430,297
Financial liabilities				
Amounts due to credit institutions	**1,436,425**	**1,436,425**	605,355	605,355
Amounts due to customers	**8,936,524**	**9,951,972**	6,793,295	6,962,678
Subordinated debt	**299,132**	**358,757**	277,765	253,542

22. Related Party Transactions

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

(a) enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting enterprise. (This includes holding companies, subsidiaries and fellow subsidiaries);

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

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

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

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

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 Bank had the following balances with related parties:

	2003			2002
	Related party	*Percentage on normal conditions*	*Total items category*	*Related party*
Loans to customers	**282,161**	**100%**	**7,522,837**	768,918
Amounts due to customers	**591,788**	**100%**	**8,936,524**	570,479
Subordinated loans	**98,863**	**100%**	**299,132**	95,631
Interest income	**33,869**	**100%**	**1,113,564**	8,722
Interest expense on amount owed to customers	**11,417**	**100%**	**356,399**	1,485
Interest on subordinated loans	**10,511**	**100%**	**37,244**	9,637
Rent	**60,119**	**100%**	**77,430**	64,857