



ANNUAL REPORT
2001



CONTENTS	Page
A Word from the Chairman	4
Macroeconomics	7
Financial Sector	19
Management Analyses and Discussions Comparing 2001 to 2000	29
Balance Sheet Analyses	32
Funding Base	39
Payment Cards and Electronic Banking	42
Capitalisation	42
Results of Operations Comparing 2001 to 2000	46
Financial Statements and Notes	51
List of Branches	78
Kazakhstan's Davos	79





Nurzhan Subkhanberdin, *Chairman of the Board*

A WORD FROM THE CHAIRMAN

Dear partners, colleagues, and friends!

2001 was a year of historical significance in which the world changed greatly. The first year of the new millennium will forever be remembered for the terrible acts of terrorism in the United States on September 11 and the following military operation in Afghanistan. Economic difficulties continued to depress the USA, Europe, Turkey, and Latin America. Although Kazakhstan was not directly affected by these events, their consequences resulted in a cautious attitude of investors toward emerging markets.

Despite the complicated international situation, Kazakhstan saw a very exciting year marked by the tenth anniversary of its independence. Remarkably, this event coincided with the tenth anniversary of Kazkommertsbank. These were astonishing ten years full of complicated ordeals, dramatic changes, and rapid developments in all spheres of life. Looking back, it is difficult to comprehend their scope and depth. Nevertheless, these years have brought clear economic improvements, which we can be proud of today.

After the break-up of the Soviet Union, the whole economy of Kazakhstan, which had been mainly oriented towards the markets of Russia and other former Soviet republics, found itself on the brink of bankruptcy. However, a favorable investment climate and consistent liberalization of the economy allowed management of the country to attract considerable investments into oil and gas, metals, and other sectors of the economy. Nature has endowed Kazakhstan with a great variety of resources, which, undoubtedly, supported the country during these hard years.

During the ten years of its independence, Kazakhstan has achieved impressive results in the development of national economy and industry. Its growth rates are among the best in the world for economies in transition. GDP increased by 13.2% in 2001 and 9.8% in 2000; FDI in 2001 amounted to USD 2.76 billion compared to USD 1.28 in 2000; the volume of aggregate gold and foreign currency reserves exceeded USD 3.7 billion (including the National Oil Stabilization Fund) while inflation rates stood at 6.4% in 2001 with only 3.8% devaluation of the national currency.

The financial sector of Kazakhstan is considered to be the most advanced among CIS countries, and Kazkommertsbank (KKB) holds the leading position in this sector. Being a contemporary of state independence, Kazkommertsbank has experienced all stages of the national economy's formation and has contributed to economic reforms by its efficient performance and introduction of international standards.

2001 was a year of many important accomplishments. The price of the Bank's shares traded on international stock exchanges has almost doubled. Being committed to delivering maximum value to our shareholders, we adhered to the policy of capitalizing most of the Bank's profits over the past few years. Hence, having the largest capital base in the sector, Kazkommertsbank was in the best position to benefit from the rapid growth of the Kazakh economy. As a result, the Bank increased its assets by 51%, its loan portfolio by 97%, and its deposits by 94%, while retail term deposits multiplied by 3.8 times. And finally, the Bank's net profit under IAS amounted to USD 36 million (USD 28 million in 2000).

Accelerating growth brought the benefits of economies of scale. The cost-to-income ratio (after provisions) fell to 49%, which, even for banks in developed countries, is an outstanding indicator. Kazkommertsbank remains the largest bank in Kazakhstan in terms of assets, capital, and total deposits.

In 2001, KKB made further progress in international capital markets. In May, the Bank successfully repaid its corporate USD 100 million Eurobonds issue. In December, Kazkommertsbank received the largest syndicated loan in the history of Kazakhstan's banking system. The amount reached USD100 million at a revolutionarily low price and for the maximum term available for this kind of financing. Symbolically, this loan was extended in the tenth year of Kazakhstan's independence and on the tenth anniversary of Kazkommertsbank, and it became the tenth international syndication of the Bank.

We are very pleased that Euromoney Publications, Global Finance, and The Banker magazines named Kazkommertsbank the best bank in Kazakhstan in 2001. We have been given these honorable awards for over five consecutive years.

Finally, when preparing this report, we were informed that international rating agencies Fitch, Standard & Poor's and Moody's upgraded Kazkommertsbank to 'B+', 'BB-' and 'Ba3', respectively, with a stable outlook. These results would have been unachievable without the appreciation of the international financial community for the positive developments at Kazkommertsbank and in Kazakhstan. In our opinion, it once again proves the Bank's reputation as one of the best and most reliable borrowers in the region.

Preparation for and participation in the tender for the privatization of a 33% share in the capital of Halyk Bank of Kazakhstan was of particular importance for Kazkommertsbank in 2001. In our opinion, the purchase price rose far above the market value, so we decided to refrain from the planned acquisition. This step was very positively received by independent analysts.

In view of the rapid growth of assets, we undoubtedly understand the necessity to increase KKB's capitalization. Therefore, by the end of 2001, KKB had raised over USD 21 million through a 45% placement of newly issued preferred shares. Local pension funds were the major buyers of the offering.

All these are only the most glaring milestones of 2001. We could single out many more less-noticeable, but no less important, achievements of the Bank in other areas. The most valuable among them is that Kazkommertsbank has actually matured into a solid well-tuned mechanism - a team of high level professionals aimed at maximum performance efficiency.

However, I see that these results are just a beginning. The gradual integration of Kazakhstan into the global community creates new and formidable challenges, and we understand the great responsibility of being the leader in the banking sector. Therefore, today at the beginning of this new stage of the Bank's development, I would like to share our plans for the future with you.



Our development strategy in the mid-term perspective is based upon maximum diversification of both the Bank's assets and funding sources, and concentration on several strategic directions that will assure our leading position.

Firstly, our main efforts will be focused on large (annual sales above USD 9.0 million) and medium (sales between USD 2.5 million and USD 9.0 million) size corporate clients, with significant growth of the latter group. We estimate that there are between 300 and 400 companies falling within these groups, and we assertively claim to dominate this niche. For this particular reason, our creditors consider the risk of Kazkommertsbank as the indirect risk of the largest and most reliable borrowers in Kazakhstan. In addition to having minimal risk and unlimited potential for the introduction of new banking products, such operations have proved to be the most profitable.

Secondly, the consistent improvement of the overall economic situation in Kazakhstan and, consequently, the increasing number of people with a steadily high level of income creates plentiful opportunities in private banking. These opportunities had previously been non-existent in Kazakhstan. It will considerably increase and diversify our deposit base at a minimum cost.

We shall continue our operations with small and medium-sized businesses. For over six years, partially funded under various programs of numerous financial organizations, KKB has been actively involved in SME financing, micro-lending, mortgage, and consumer financing. We are pledged to pursue further diversification of our activities by expanding our retail operations.

Thirdly, we intend to expand our branch network and establish subsidiaries in Russia and other CIS countries, which are major trading partners of Kazakhstan. We strongly believe that the CIS market has enormous capacity and extremely promising prospects. Growing trade operations and similar culture and traditions in our countries will help to ensure the secure and efficient entrance of KKB into neighboring markets. KKB has already started negotiations to establish a subsidiary bank in Moscow.

In conclusion, and on behalf of myself and the Board of Managing Directors, we would like to extend our sincere gratitude to the partners, customers, shareholders, and personnel of Kazkommertsbank for long-standing, fruitful, and fascinating years of cooperation. Together we celebrate our anniversary with dignity, an impressive list of achievements, and even more ambitious plans for the future.

Faithfully yours,



Nurzhan Subkhanberdin
Chairman of the Board





MACROECONOMICS

Kazakhstan's economic development in 2000 and 2001 was particularly favourable: economic growth indicators reached 9.8% and 13.2%, respectively. There were also evident improvements in all other economic parameters. The year 2001 has become a milestone in the development of Kazakhstan marked by significant growth in individual consumption and increasing confidence of the population towards reforms and existing public institutions.

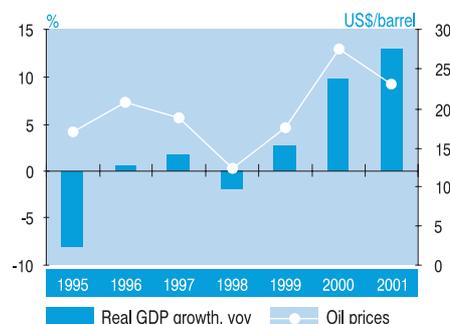
Main macroeconomic indicators

Period	Gross Domestic Product		Industrial output		State budget deficit in % to GDP	Balance of trade, USD million (NB RK assessment)	Gross External Debt, USD million, for period end (NB RK assessment)
	Volume, KZT billion	% compared to respective period of previous year	Volume, KZT billion	% compared to respective period of previous year			
1996	1 416	100.5	722	100.3	-2.6	-335	5 807
1997	1 672	101.7	810	104.0	-3.5	-277	7 750
1998	1 733	98.1	802	97.9	-3.9	-801	9 932
1999	2 016	102.7	1 113	102.2	-3.9	340	12 051
2000	2 600	109.8	1 762	114.6	-0.6	2 440	12 525
2001	3 285	113.2	1 985	113.5	-0.1	896	14 905
2002 *	3 500	106 -107	2 200	110.8	-2.3	1 100	13 465

* Source: The National Bank of the Republic of Kazakhstan, the forecast is based on data of the Government of the Republic of Kazakhstan

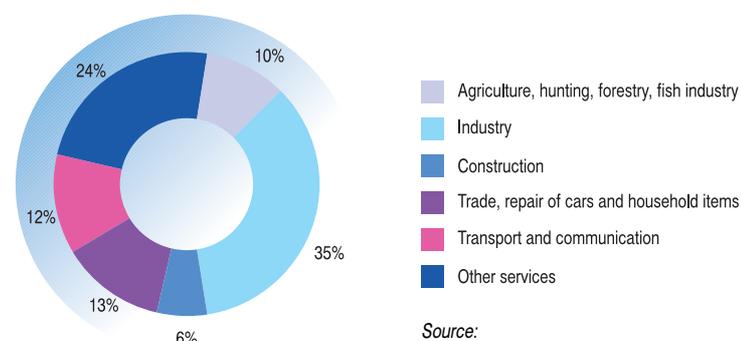
In the opinion of many analysts, 2002 will unveil a new stage of development, reform, and transformation. For example, before 2001 privatization revenues were mainly channelled into the state budget; however, after 2002 the new wave of privatisation will aim to further decentralize the economy and introduce structural reforms in economic industries. Along with impressive growth, the economy is still to a great extent dependent on oil and metal prices due to limited industrial diversification.

GDP Growth vs. Oil Prices



Source: Statistics Agency of the Republic of Kazakhstan, Reuters

GDP Structure, 2001



Source: Statistics Agency of the Republic of Kazakhstan

At the same time, Kazakhstan currently retains its leading position among Central-Asian and CIS countries in terms of economic development and reform. Kazakhstan was assigned the highest long-term sovereign credit ratings in the CIS:

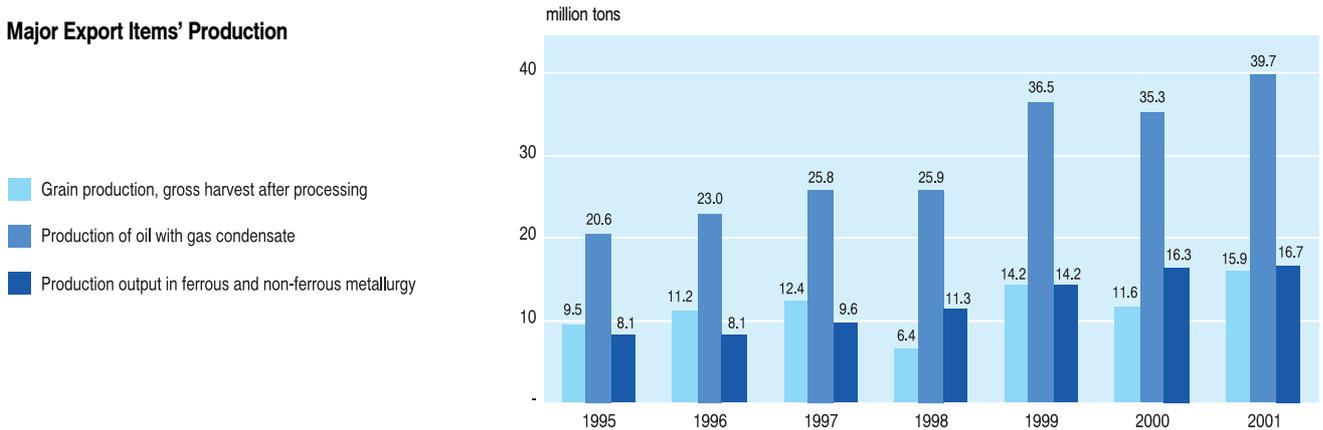
Standard & Poor's:	BB
Moody's:	Ba2
Fitch:	BB

The recession in the United States and Europe and economic crises in Latin America and Turkey have not produced even slight adverse effects on Kazakhstan's economy. Meanwhile, the overall improvement of the economic situation in Russia has ensured a favourable impact in Kazakhstan.

Export items such as oil, gas, grain, and metals still remain the driving force of the Kazakh economy; therefore, the strength of economic growth was considerably dependent on output volumes and prices for these products.

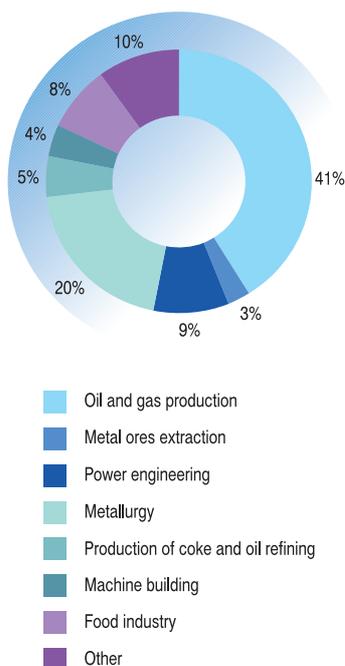
To a great extent, 2002 forecasts are based on oil price forecasts. For example, with the realistic assumption that oil prices do not fall lower than the 1998 price level (USD 12.7 per barrel of Brent grade oil, on average), GDP growth of 6-7% or more (around KZT 3.5 trillion) may be expected. It is expected that the average inflation rate in 2002 will remain at the level of 6.2%, while the average KZT/USD exchange rate is forecast to be KZT154.1/USD1. Anticipated investment inflow into the country in 2002 may reach USD 1.5 billion. There is an evident possibility of accumulating an additional USD 300 million into the National Oil Stabilization Fund. Furthermore, the Republic of Kazakhstan is in the process of negotiations for WTO membership.

Major Export Items' Production



Source: Statistics Agency of the Republic of Kazakhstan

Industrial output, 2001



Source: Statistics Agency of the Republic of Kazakhstan

A number of important laws on "Land," "Grain," "The Development Bank," new Tax and Customs Codes, and others were enacted last year. This undoubtedly contributed to the further revival of the economy. New laws on "Joint-Stock Companies" and "Investments" are expected to be adopted by the Government in 2002.

According to 2001 results, industry holds the largest share in GDP (35%); the second largest are trade (13%) and the transport and telecommunications sector (12%); and the third largest are agriculture (10%) and construction (6%). Kazakhstan industrial output in 2001 showed a 13.5% increase, with the mining industry, including production of oil and gas, metal ores, coal, and other minerals, occupying the leading position and accounting for 47.6% of total industrial production at the end of 2001. The processing industry stood in second place (43%) and included metallurgy, machine building, food, chemical and light industries, and other processing branches. Power engineering was in third place with a 9.4% indicator.

In 2001, inflow of direct investments in Kazakhstan's economy amounted to USD 2.76 billion, compared to USD 1.28 billion in 2000. This growth was mainly driven by long-term capital construction projects and the development of new oil deposits.

The oil and gas sector continues to undergo substantial improvement. Oil and gas account for about 50% of exports, and their output comprises 7.2% of GDP, around 30% of state revenues, and 60% of total foreign direct investment inflow into the country. The substantial oil reserves that were recently discovered on the Caspian Sea shelf and the opening of the new strategic Caspian Pipeline Consortium (CPC) pipeline are the determining factors for further growth of the oil industry and the interest of foreign investors.

Stable oil prices throughout the major part of 2001 and steady investment inflow into the economy, along with an increase in oil production, ensured GDP growth at a rate of 10% during 2000-2001. A reduction in oil prices at the end of 2001 was partially compensated by increased oil output after the CPC pipeline was put into operation.

The expansion of pipelines' throughput will become necessary in the future. Most likely, expansion will be needed no earlier than 2005 when existing oil projects start to generate increased production outflows.

The Kazakhstan Government is reluctant to sell some oil fields in the southern part of the Caspian shelf before the problem of Caspian Sea division is solved. In the best case scenario, this dispute will be settled by the middle of 2002.

The Kashagan oil field is considered to contain recoverable reserves exceeding those of the Tenghiz oil field. Tenghiz deposits are estimated to be between 750 million to 1.125 billion tons under the assessment of TenghizChevrOil Company, which is involved in its development. Within the next 10 years, a Consortium of foreign companies, including Agip KCO (the former OKIOC) headed by Italian Agip, will be investing billions of dollars into the development of the Kashagan oil field. Besides Agip, the Consortium unites such oil giants as BG plc, ExxonMobil, Shell, TotalFinaElf, Inpex, and Philips Petroleum.

Both Agip and BG plc own a 32.5% share in the KIO Consortium, which also includes ChevronTexaco and Lukoil. This Consortium is involved in the development of the huge, mainly gas-condensate Karachaganak deposit in Western Kazakhstan. The most conservative forecast shows that starting in 2010 Kazakhstan's oil production will reach 100 million tons every year for the next 150 years.

ChevronTexaco plans to invest into 50% joint venture TenghizChevrOil about USD 3 billion in next three years. By the year 2005 the annual oil output in Tenghiz oil field is expected to reach 20 million tons from current 13 million tons. Half of this investment will be aimed to production facilities expansion. To the moment, ChevronTexaco has invested USD 4.1 billion into Kazakh economy.

Total planned investment into oil and gas sector of Kazakhstan for next ten years will amount to USD 3 billion annually. Major investments till 2010 will be concentrated on three largest projects: Tenghiz (USD 5.7 billion), Karachaganak (USD 5.05 billion), and Kashagan (USD 8.25 billion) oil fields in Northern Caspian region.

Kazakhstan's oil and gas-condensate production volume in 2001 reached 40 million tons, exceeding 2000 figures by 13.4%. About 4 million tons of liquid hydrocarbons produced in Kazakhstan in 2001 accounted for the gas condensate. The output of this product went down by 13.7% in comparison with 2000. Gas production in 2001 was 9.2 billion cubic tons, which is 3.1% higher than last year.



Oil and gas transportation

Potential pipelines may be laid in all directions - to the North across Russia, to the West through Georgia and Turkey, to the East through China, to the Southeast to Pakistan and India across Afghanistan, and to the South through Iran.

The Caspian Pipeline Consortium connecting Tenghiz with Novorossiysk commenced in November 2001, thereby starting development of the Russian vector. With 28 million tons of initial throughput capacity, the pipeline may annually handle up to 67 million tons in the future.

The construction of an expensive pipeline from the port of Aktau through the Caspian Sea to Baku and further across Azerbaijan and Georgia to Turkish the port of Jeyhan received strong backing from the United States. Russia prefers that Kazakhstan oil from the Caspian region be transported to the North through Russian pipeline routes to Baltic ports or to Croatia. China, Pakistan, and India have also shown their interest in the transportation of Caspian oil. Kazakhstan also considers oil export route to Iran.

Upon the increase of oil production volumes, Kazakhstan will definitely face strategic issues of oil transportation and sale.

Metals

2001 results show that metallurgy accounts for 3.7% of GDP, while products of the metallurgical industry compose 24% of exports. Kazakhstan has enormous resources of ferrous and non-ferrous metals. By reserves, Kazakhstan is ranked first in the world in zinc, second in lead, third in manganese and fifth in copper. Kazakhstan's manganese reserves are exceeded only by those of South Africa and Ukraine. The country holds first place in the world for its reserves of chromium, vanadium, bismuth, and fluorine, and a leading position for deposits of iron, coal, chromites, tungsten, molybdenum, phosphorite, potassium, and cadmium.

Kazakhstan produces a significant amount of precious metals. According to the Kazakhstan Institute of Geology, the country has gold reserves in excess of 1,000 tons and produced approximately 28.2 tons in 2000 and 27.1 tons in 2001. Kazakhstan produces a significant amount of the world's silver, with production output of approximately 981.9 tons in 2001 and 927.1 tons in 2000.

In 2001, the output volume of the mining industry increased by 15.4%. In 2000, Kazakhstan produced 186 thousand tons of lead, 262 thousand tons of zinc, and 665 thousand tons of manganese. In 2001, Kazakhstan produced 159 thousand tons of lead, and 277 thousand tons of zinc. Copper production went up by 12.5% to reach 2.9 million tons in 2001, while output of refined copper equalled 422 thousand tons, showing 6.9% growth over the 394.7 thousand tons produced in 2000.

Transport and communications

Due to its geographically favourable location in the centre of Eurasia, Kazakhstan has since ancient times been a natural crossroads for trade and transit. Today the country has successfully built a new and modernized transport and telecommunication network throughout its vast territory of 2.7 million square kilometres.

Repair of two thousand kilometres of highways is planned in 2002, which accounts for only one-sixth of the total work volume. The Government of Kazakhstan has allocated USD 1.74 billion in the budget for this purpose.

The development of international telecommunication corridors is focused on three major directions: Russia, the Baltic States, and Europe; China, Japan, and South-East Asia; and Central Asia, the Caucasus, Iran, and Turkey.

The Kazakhstan Government strongly believes that the stable performance of Kazakhtelecom, the national telecommunications operator, will ensure successful development of the telecommunications sector.

Transport and communications sector accounts for 12% of Kazakhstan's GDP. In 2001, investments in the transport sector increased by 11.3% and by 33.6% in the communications sector. Over USD 100 million of FDI was invested in the transport and communications sector in 2001.

Agriculture

Structural reform in the agricultural sector is realized through the creation of enterprises with different forms of management. For the last several years, private ownership in agriculture has been gradually prevailing over public ownership as the Government is pursuing the creation of a class of owners who are interested in maximum labour productivity.

The 2000-2002 agriculture development program has been introduced to ensure economic growth in the production of grain (one of the main export items), rice and cotton, oil-bearing crops, and dairy products.

Grain exports show persistent growth as the current level of grain production in Kazakhstan exceeds domestic consumption. Until recently, CIS countries were the major grain importers. However, currently Austria, Great Britain, Venezuela, Latvia, Estonia, Poland, Turkey, Switzerland, the Netherlands, Saudi Arabia, Iran, China, Korea, and Mongolia are interested in exporting Kazakhstan grain. During the Afghan crisis, Kazakhstan managed to send tons of grain as humanitarian aid to this country.

Agriculture comprised 10% of GDP, and export of agricultural products accounted for 5% of total export volumes in 2001. Agriculture production showed a 16.9% growth in 2001, driven by sizeable expansion of sown areas, a rise in yield capacity, and an increase in cattle and poultry livestock. Kazakhstan grain output in 2001 reached 15.9 million tons, which is a 37% increase over last year's figures (11.6 million tons).

Investments and privatisation

As a result of earlier privatisation, the Government currently holds only strategic state assets such as oil and gas pipelines, power engineering, railways, and other facilities. Privatisation programs have been significantly reduced, while foreign investments into economic industries other than oil and gas were insufficient. The slow pace of privatisation is partially defined by the improved budget position of the Kazakhstan Government and expressed in lower financial requirements. Despite this, the subsequent stage of privatisation in Kazakhstan should be mainly dictated by an intention to restructure the industry, enhance competition, and reach a definite level of decentralization - not by the necessity of replenishing the state treasury.

Since the break-up of the USSR, Kazakhstan has attracted USD 12.7 billion of FDI, which has been channelled mainly into long-term oil and gas projects. Foreign direct investment in 2001 amounted to USD 2.76 billion (about 50% from the USA, 12% from Canada, and 10% from UK).

Social sphere

As per the assessment of the Kazakhstan Government, it is necessary to achieve a stable annual GDP growth of 10-12%, which ensures an evident rise in the living standards of the people. Therefore, the Government plans to increase the GDP per capita indicator to USD 1600-1700 before 2004. Moreover, it is planned to decrease the percentage of the population living below the poverty level to less than 20% by 2004.

According to official statistics, there are currently over 14.8 million people living in Kazakhstan. The number of unemployed people in 2001 was 780 thousand people, a reduction of 126 thousand people, or 14% compared to the previous year. The unemployment level stood at 10.4% of the total economically active population (in 2000 it was 12.8%). Statistics shows that the economically active population in Kazakhstan in the previous year was 7.5 million people.

Budget Policy

According to 2001 results, the Kazakhstan republican budget was executed with a KZT 4.3 billion deficit, or 0.1% of GDP. Income (less other receipts) of the republican budget in 2001 comprised KZT 391.2 billion. The total volume of expenses, taking into account lending, was KZT 492.0 billion.

The republican budget for the year 2002 was approved with the following parameters: total inflows are planned in the amount of KZT 525.4 billion; total expenses, including lending - KZT 605.8 billion; deficit - KZT 80.5 billion, or 2.3% of GDP. The world price of USD19 per barrel of Brent brand oil was used in the compilation of the 2002 state budget.

It is expected that the fiscal position will deteriorate mainly due to a reduction of world oil prices and slower economic growth. However, if it is assumed that the Kazakhstan oil price will not fall below USD15 per barrel and that the Government, in accordance with its promises if necessary, will decrease budget expenses, then the budget deficit should not exceed 3.3% of GDP.

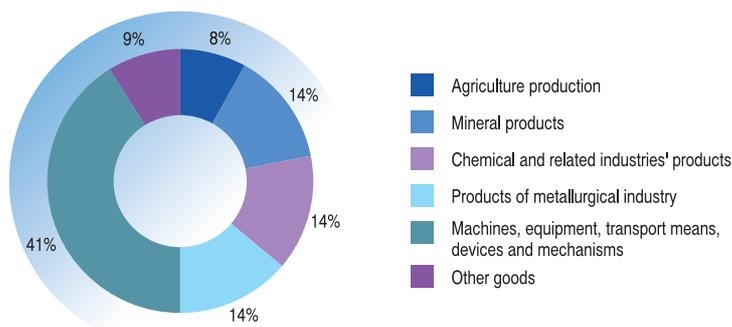
Budget deficit financing will be done without any difficulties subject to an increase in internal debt instruments and significant demand resulting from the liquidity excess of banks and pension funds.

Balance of Payments

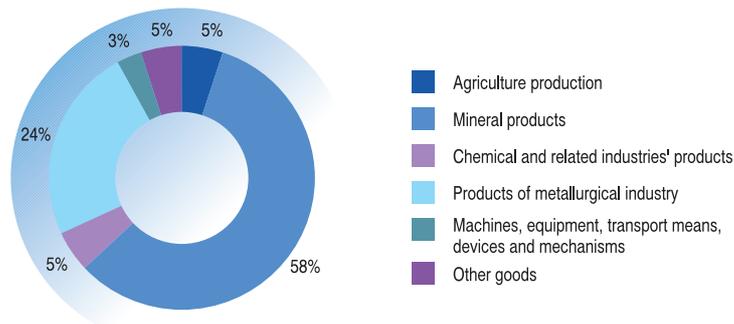
Owing to favourable conditions on trade markets and growth of the world economy in 1999-2000, Kazakhstan was able to significantly improve its balance of payments. A noticeable increase in the current account deficit was expressed in 2001 by a 30% growth of imports and less dynamic export growth. However, this gap was fully covered by the inflow of foreign investments, and therefore this situation did not cause any concern.

As for the structure of imports and exports, it should be mentioned that in 2001 a majority of goods and services (about 70%) was exported out of CIS countries, while approximately half of imports (52%) fell on CIS countries.

Import structure, 2001



Export structure, 2001



Source: Statistics Agency of the Republic of Kazakhstan

The positive trade balance for the year 2001 reached USD 895.7 million. The current account deficit for the same period exceeded USD 1.7 billion, or 7.8% of GDP, while the 2000 surplus of the current account was about 2.25% of GDP. Current account deficit financing was mainly executed through foreign direct investments.

The negative impact of external factors led to a downgrade in export growth rates. Export volume in 2001 was USD 9.1 billion, a 1.8% decrease compared to 2000. At the same time, imports have reached USD 8.2 billion, representing 17% growth compared to 2000.

Export growth will be limited by the reduction of oil prices while increases in imports will remain significant due to existing investment projects.

According to analysts, investment interest towards Kazakhstan will remain intense as long as the major oil companies continue to confirm their long-term intentions to operate in the country.

Items of balance payments, USD million	1999	2000	2001
Current Account	-236.0	411.8	-1 748.7
Trade Balance	340.3	2 439.9	895.7
Export	5 988.5	9 288.1	9 119.7
Import	-5 648.2	-6 848.2	-8 223.9
Capital Account	1 094.3	1 008.2	2 282.6
Financing	-253.6	-585.1	-384.4
Errors and lapses	-604.7	-835.1	-149.4
Total Balance	253.6	585.1	384.4
GDP, converted at the official exchange rate	16 854.4	18 292.4	22 390.7
<i>Official average exchange rate, tenge for USD 1</i>	<i>119.53</i>	<i>142.13</i>	<i>146.74</i>

Source: The National Bank of the Republic of Kazakhstan

International Reserves and the National Oil Stabilization Fund

The National Fund is managed in a transparent and effective way, and foreign assets of the Fund made up USD 1.24 billion at the end of 2001. The Fund may be used to support the state budget in case set income goals are unachieved, which may happen in 2002. On the other hand, the Fund carries a long-term savings function, at the same time increasing its active external position, limiting ratios of net external debt, and maintaining non-renewable hydrocarbon reserves for future generations. For the time being, the oil price of USD 19 per barrel of Kazakhstani oil corresponds to USD 23 per barrel price of Brent oil. Proceeds from sale of oil at a price exceeding USD 19 per barrel shall be assigned to the National Fund. In 2002, there is a possibility of accumulating an additional USD 300 million in the National Fund.

Gross gold and foreign currency reserves, including the National Fund, grew by 79% in 2001 and comprised USD 3.75 billion. The money supply grew by 43.4% to KZT 569.3 billion.

Monetary Policy and Exchange Rate

Since the introduction in 1993 of the national currency Tenge, Kazakhstan has adhered to a strict macroeconomic stabilization program involving strong monetary discipline, restrictive monetary policy, and structural economic reforms, which, applied in combination, have curbed inflation and reduced interest rates.

The country's historical inflation rates are as follows: 1.9% in 1998, 17.8% in 1999, 9.8% in 2000, and 6.4% at the end of 2001. This decrease allowed the National Bank of the Republic of Kazakhstan (NB RK) to reduce refinancing rate in 2001 from 14% to 9%. The official discount rate reduced from 12.5% to 8%, and rates for overnight loans fell from 17% to 12%. In 2001, devaluation of the Tenge to the Dollar was only 3.8% while in 2000 this figure was 5.2%. The average annual inflation rate for 2002 is forecast at 6.2% with the annual average exchange rate at KZT154.1/USD1.

Last year, the NB RK developed a plan for currency regime liberalization. Currently this project is in the approval procedure. As a priority of the currency regime liberalization, NB RK is considering several directions. The first is the creation of conditions for the diversification of residents' investment portfolios. On one hand, this would be enhanced by the cancellation of the requirement to acquire a license for purchase of non-residents' investment quality securities. This category will include the most liquid and reliable securities of foreign issuers with credit ratings no lower than "A" (according to "Standard & Poor's" and "Fitch" classification) or "A2" (under Moody's classification). On the other hand, this would also be enhanced by a mitigation of currency regime regulation in respect to the direct investments of residents abroad.

The second direction is the elimination of excessive barriers to export operations. This means that for exporters of non-raw materials the preferential currency regulation regime will be applied for deferred payments when it is economically viable according to the terms and conditions of business and trade or to the specific features of an industry sector. NB RK intends to cancel a number of restrictions on accounts opened by residents with foreign banks abroad.

Monetary aggregates

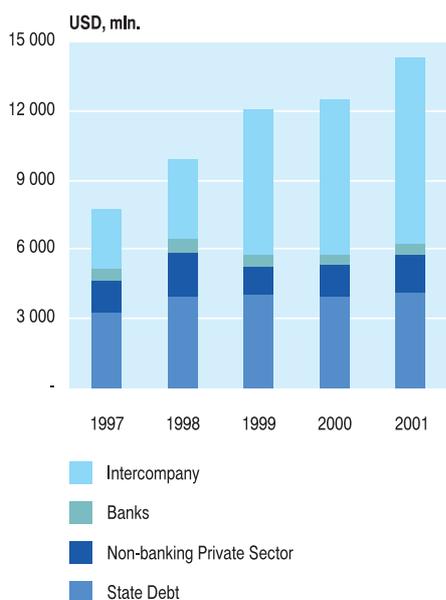
Period	M3 (monetary stock)		M0 (money in circulation)		Gross International Reserves		Net International Reserves	
	Volume, KZT million	Change to beginning of the year, %	Volume, KZT million	Change to beginning of the year, %	Volume, USD million	Change to beginning of the year, %	Volume, USD million	Change to beginning of the year, %
Dec 1996	134 991	16.58	62 812	30.86	1 961	18.61	1 334	14.07
Dec 1997	172 999	28.16	92 796	47.74	2 291	16.86	1 727	29.41
Dec 1998	148 549	-14.13	68 728	-25.94	1 964	-14.29	1 292	-25.18
Dec 1999	273 880	84.37	103 486	50.57	2 003	2.01	1 521	17.74
Dec 2000	397 015	44.96	106 428	2.84	2 096	4.63	2 094	37.66
Dec 2001	569 116	43.35	131 175	23.25	2 508	19.65	2 506	19.66

Source: NB RK

External Debt

The gross external debt of Kazakhstan remains comparatively high, which is explained by the significant liabilities of companies that operate in the oil and gas sector and carry insignificant risk of deferred repayment. The ratio of gross external debt to GDP has stabilized since 2000, and is planned to remain at the same level for the next two years.

In accordance with NBK's estimates, foreign debt at the end of 2001 was USD 14.9 billion, which is an increase of USD 2.3 billion in comparison with 2000. Debt growth occurred mainly in the private sector. State debt in 2001 continued to fall (for the second year in a row) to approximately USD 3.8 billion. An increase in the non-banking private sector's foreign debt was registered resulting from an increase in liabilities between companies caused by the external borrowings of Kazakh subsidiaries from their mother companies abroad.



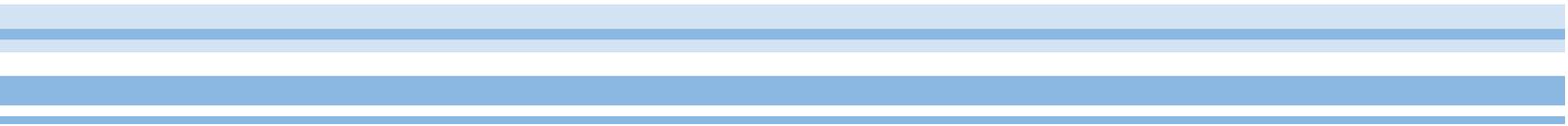
Source: NB RK

The limited volume of new borrowings and the significant amounts of amortized deductions are the main reasons for the total reduction of the state debt. Favourable terms let the National Bank repay earlier debt owed to the International Finance Corporation (IFC) at the beginning of 2000, and there have been no new loans from the IFC since that time. If terms remain favourable, the Government will probably issue new Eurobonds in 2002 in the amount of USD 350 million. These Eurobonds will be directed to refinance obligations due in December 2002.

State debt owed to international financial institutions remains the largest portion of external debt, and this situation will remain as the World Bank and the Asian Development Bank intend to lend funds to the economy to assist in the realization of structural reforms.

Rates of external solvency and liquidity are very positive and are supported by low short-term and growing external reserves, as well as by significant reserves in the National Fund. Access to capital markets will remain rather good due to the seldom issuance of bonds and the high level of demand by local pension funds for such instruments.





FINANCIAL SECTOR



The main results of banking system development show that the positive trends of previous years both continued and strengthened in 2001. Kazakhstan is currently acknowledged as having the most reformed, financially stable, and dynamically developing banking sector among CIS countries.

Reforms in the banking system originated in the early 1990s after the Republic of Kazakhstan gained independence. The two tier banking system was formed in 1991, and republican branches of the USSR State Bank became the central banks of sovereign countries. Such functions were also entrusted to the Kazakhstan bank. At the same time, the first commercial banks started to be established.

The National Bank and its regional subdivisions represent the first tier. The second tier involves commercial banks incorporated either on the basis of pre-existing specialized banks, or banks created anew by legal entities and individual persons.

To further strengthen the banking system, the Program for the Transition of II-Tier Banks to International Standards of Banking Activity was adopted in 1996. In accordance with this program, by the end of 2000 all Kazakhstani banks should have reached international standards for capital adequacy, liquidity, asset quality, management, accounting, collection, and transmission of information. Between 1996 and 2000, the implementation of this program resulted in a significant reduction in the number of banks, which do not comply to necessary requirements, from 204 to 47.

In 2001, the work of the Program for the Transition of II-Tier Banks to International Standards of Banking Activity continued. Currently, 12 banks are acknowledged as having achieved international standards.

Presently, the NB RK is undertaking measures to form a reliable risk management system for banks. This is an additional requirement in accordance with provisions of the new Basel agreement.

As in previous years, in 2001 the National Bank's enforcement of banking sector regulations was primarily to continue the process of consolidation and mergers of banking structures. As of 1 January 2002, there were 44 banks in Kazakhstan including 1 interstate, 2 state, and 16 banks with foreign participation.

Major attention was paid to the attraction of foreign capital into the country. In this regard, the ceiling for equity participation of foreign participants in the total declared capital of joint venture banks increased from 25% to 50%. Currently, the share of foreign capital in the aggregate registered charter capital of banks with foreign participation is 22.3%.

In general, 2001 was quite a successful year for the banking community. Many banks were able to use the favorable economic situation to strengthen their market position, increase capital, and expand their deposit base.

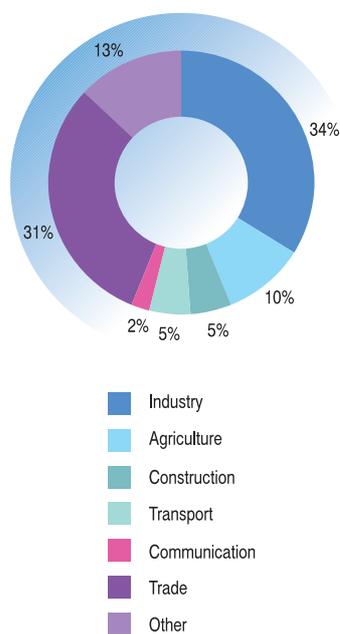
The main sign of the banking system's positive development is the significant growth of total assets, mainly as a result of capitalization and growth in bank liabilities. Last year, total assets grew by 48.5% and reached USD 5.5 billion.

	01.01.00	Position	01.01.01	Position	01.01.02	Position
	USD		USD		USD	
	thousand		thousand		thousand	
Exchange rate USD/KZT	138.2		144.5		150.2	
ASSETS						
Kazkommertsbank	524 073	21.3%	760 968	20.7%	1 274 832	23.4%
TuranAlem Bank	339 300	13.8%	550 765	15.0%	1 081 223	19.9%
Halyk Bank	413 604	16.8%	716 370	19.5%	866 921	15.9%
Almaty Merchant Bank	86 087	3.5%	129 736	3.5%	261 484	4.8%
Citibank Kazakhstan	56 477	2.3%	156 989	4.3%	220 412	4.1%
Centercredit Bank	97 790	4.0%	131 884	3.6%	217 357	4.0%
ABN Amro Kazakhstan	181 935	7.4%	179 081	4.9%	198 189	3.6%
Nurbank	70 325	2.9%	191 396	5.2%	168 155	3.1%
Temirbank	67 631	2.7%	97 200	2.6%	146 365	2.7%
Kaspiyskiy	34 173	1.4%	62 015	1.7%	100 157	1.8%
Total on major banks	1 871 394	75.9%	2 976 402	81.2%	4 535 095	83.3%
Other banks	594 629	24.1%	691 598	18.8%	910 965	16.7%
Total banking system	2 466 023	100.0%	3 668 000	100.0%	5 446 060	100.0%

Under Kazakhstan accounting standards

Source: KKB

Loans from banks by economy sectors



About 60% of banking system assets are concentrated within Kazakhstan's three largest banks.

Despite the high growth rates that characterized the banking sector's development, its potential should not be overestimated. The Kazakhstan banking system's ratio of assets to GDP is 24.9%, and the ratio of loans to economy is 14.9%. The same ratios in other developing countries are 200-300% and 100-200%, respectively.

Steady positive growth trends in the main industries of the real sector, a stable situation in the financial market, and an increase in the 2001 deposit base all significantly enhanced growth in banks' lending operations with enterprises that deal with the real sector of the economy. Lending volumes grew by 77.3% for the year and reached USD 3.3 billion. The growth rate of medium and long-term loans slightly outpaced the growth rate of short-term loans. Medium and long-term loans increased by 86.9% and accounted for USD 1.7 billion. Their share in the aggregate loan portfolio reached 50.8%. At the end of the year, 60% of all banking system assets were directed toward lending to the real sector.

Despite conditions of market stabilization and decreasing profitability of financial instruments, the share of lending operations grew, and this is evidence of their priority.

Improved macroeconomic conditions and stable development in the financial sector led to a decrease in profitability of banking loans. The average weighted interest rate on loans granted in Tenge reduced from 19.1% to 15.9% per annum. As for loans in foreign currency, there was a reduction from 14.9% to 13.6% per annum.

The position of major banks in terms of aggregate loan portfolio

	01.01.00		01.01.01		01.01.02	
	USD thousand	Position	USD thousand	Position	USD thousand	Position
LOANS TO CUSTOMERS						
Kazkommertsbank	388 362	32.1%	466 539	24.2%	951 135	28.3%
TuranAlem Bank	213 555	17.6%	388 306	20.1%	756 525	22.5%
Halyk Bank	160 975	13.3%	356 355	18.5%	562 280	16.7%
Almaty Merchant Bank	34 726	2.9%	60 261	3.1%	166 975	5.0%
Citibank Kazakhstan	63 520	5.2%	86 297	4.5%	145 178	4.3%
Centercredit Bank	8 857	0.7%	68 620	3.6%	101 290	3.0%
ABN Amro Kazakhstan	40 987	3.4%	61 790	3.2%	96 805	2.9%
Nurbank	5 786	0.5%	40 179	2.1%	70 855	2.1%
Temirbank	11 896	1.0%	23 022	1.2%	54 700	1.6%
Kaspiyskiy	26 917	2.2%	31 803	1.6%	43 459	1.3%
Total on major banks	955 581	78.9%	1 583 172	82.1%	2 949 202	87.7%
Other banks	255 306	21.1%	344 704	17.9%	414 730	12.3%
Total banking system	1 210 887	100.0%	1 927 876	100.0%	3 363 932	100.0%

Under Kazakhstan accounting standards

Source: KKB

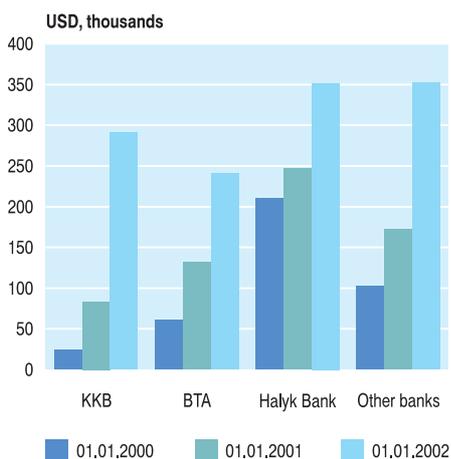
Favorable terms for the re-capitalization of banks resulted in a general increase in the banking system's equity capital. Total bank equity capital grew 37.1% by the end of 2001 and reached USD 878.7 million. However, banking sector capitalization is still inadequate for strong development of and active investment into real sectors of the economy. The relatively low capitalization level of Kazakhstan's banking system (4% of GDP) significantly hampers increasing the functional role of the banking sector in the economy. In contrast, banking system capital that is sufficient for serving a normal reproduction process in accordance with world practice should be no less than 6-7%. In order to change this situation, starting 1 July 2001, the National Bank of Kazakhstan set a new minimum equity capital requirement of KZT 2 billion (more than USD13 million) for newly created banks.

	01.01.00		01.01.01		01.01.02	
	USD thousand	Position	USD thousand	Position	USD thousand	Position
EQUITY						
Kazkommertsbank	84 629	16.1%	100 893	15.7%	142 000	16.2%
TuranAlem Bank	41 078	7.8%	75 379	11.8%	115 952	13.2%
Halyk Bank	41 648	7.9%	55 816	8.7%	55 096	6.3%
Almaty Merchant Bank	37 120	7.1%	44 214	6.9%	36 612	4.2%
Citibank Kazakhstan	10 891	2.1%	21 408	3.3%	30 950	3.5%
Centercredit Bank	10 798	2.1%	13 727	2.1%	29 651	3.4%
ABN Amro Kazakhstan	18 058	3.4%	20 335	3.2%	27 221	3.1%
Nurbank	10 465	2.0%	14 862	2.3%	21 336	2.4%
Temirbank	10 779	2.1%	14 757	2.3%	15 174	1.7%
Kaspiyskiy	7 659	1.5%	8 244	1.3%	10 635	1.2%
Total on major banks	273 125	52.0%	369 635	57.7%	484 627	55.2%
Other banks	252 342	48.0%	271 307	42.3%	394 043	44.8%
Total banking system	525 467	100.0%	640 942	100.0%	878 670	100.0%

Under Kazakhstan accounting standards

Source: KKB

Customers deposits with major banks



The resource base of banks increased rapidly in 2001. Increased confidence of the population toward the banking system was primarily caused by the introduction of the National Individual Deposits Insurance System. As a result of this increased trust, individual deposits almost doubled. Growth in term deposits exceeded this and reached KZT 146.8 billion (USD 977 million). Amnesty on the repatriation of capital undertaken by the government resulted in the inflow of additional funds into the banking system.

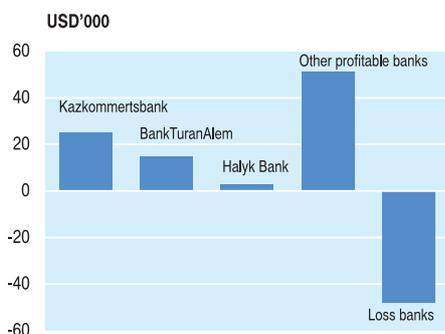
The position of major banks in the deposit market:

	01.01.00 USD thousand	Position	01.01.01 USD thousand	Position	01.01.02 USD thousand	Position
Exchange rate USD/KZT	138.2		144.5		150.2	
DEPOSIT BASE (liabilities to customers)						
Kazkommertsbank	148 507	11.5%	363 697	17.1%	722 650	22.3%
TuranAlem Bank	184 658	14.3%	318 027	14.9%	693 859	21.4%
Halyk Bank	329 935	25.5%	539 443	25.3%	647 272	19.9%
Almaty Merchant Bank	138 283	10.7%	121 694	5.7%	155 501	4.8%
Citibank Kazakhstan	71 228	5.5%	93 351	4.4%	142 298	4.4%
Centercredit Bank	32 993	2.5%	117 604	5.5%	130 389	4.0%
ABN Amro Kazakhstan	53 074	4.1%	75 728	3.6%	130 300	4.0%
Nurbank	52 197	4.0%	130 153	6.1%	122 487	3.8%
Temirbank	33 877	2.6%	56 996	2.7%	71 495	2.2%
Kaspiyskiy	20 148	1.6%	39 611	1.9%	68 789	2.1%
Total on major banks	1 064 900	82.2%	1 856 304	87.1%	2 885 040	88.8%
Other banks	230 320	17.8%	275 908	12.9%	362 649	11.2%
Total banking system	1 295 220	100.0%	2 132 212	100.0%	3 247 689	100.0%

Under Kazakhstan accounting standards

Source: KKB

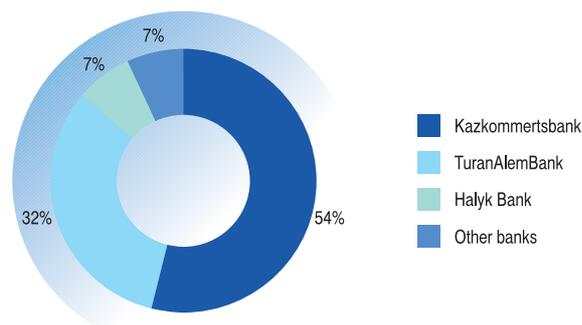
Total net income on II-tier Banks



As of 1 January 2002, the banking sector's total net income after taxation was KZT 6.6 billion. Net interest income was equal to KZT 43.1 billion; allocations to form provisions were KZT 29.6 billion; net non-interest income - KZT 35.6 billion; expenses on banks' operations and payment of taxes - KZT 42.5 billion.

Due to improved macroeconomic conditions, production growth, and capital inflow from both internal and external sources, further strengthening of the banking system will allow the country to intensify economic growth rates.

Share of major banks in total income of banking sector



Securities Market

Last year was the most successful ever in the development of Kazakhstan's financial market. The 2001 volume of operations on the stock exchange was not only the highest in its existence, but it also exceeded the total aggregate operational volume for the previous three years. In comparison with 2000, this volume increased by 2 times.

The share of securities operations in the total volume of stock operations rose from 64.3% in 2000 to 75.7% in 2001. In monetary terms, the growth of securities operations reached USD 4,494.4 million, or KZT678.2 billion.

Despite significant progress in 2001, the financial market is characterized by a number of shortcomings. The following are the most noticeable:

- Pension funds and banks remain almost the only investors in Kazakhstan's financial market, which results in insufficient investment activity.
- The low volume of securities from Kazakhstani issuers and normative restrictions force investors to invest primarily into state securities.
- Insufficient liquidity and the low volume of internal financial instruments cause a low interest level among foreign investors.

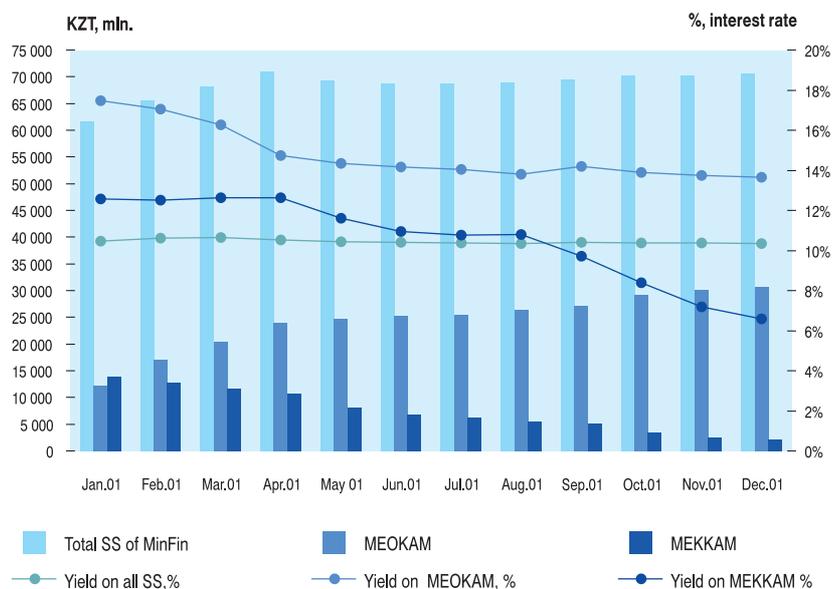
State Securities

The issue volume of Ministry of Finance of the Republic of Kazakhstan (MF RK) securities in 2001 was KZT 25.93 billion (in 2000 it was KZT 61.2 billion). This is related to low demand of the budget in short-term borrowings. The volume of MF RK securities in circulation grew by 15.8% to KZT 70.6 billion.

At the same time, there was a downgrade of yield on all types of state securities:

- medium-term Eurobonds with 2 and 3 years maturity - from 9-10% to 4-5%;
- internal medium-term bonds (MEOKAM) - from 17.5% to 13.6%;
- short-term national currency nominated with a validity up to 1 year (MEKKAM) - the yield came close to 6%, equaling the inflation level for that period.

Structure of State Securities in Circulation Nominated in National Currency



The share of Ministry of Finance securities with a circulation of 12 months or more in the total volume of state securities in circulation increased from 81.7% at the end of 2000 to 95.8% at the end of 2001. This was due to an improved economic situation and an increase in investor reliability. The total volume of securities in circulation at the end of 2001 reached KZT 34.67 billion.

The volume of operations rose by 2.3 times in comparison with 2000. Liquidity of State Securities resulted primarily from the growth of Repo operations, whose share in this sector was 77.3%. Deals on the automatic Repo trading floor became the most widespread due to the fact that pension asset management companies are forced to execute their deals particularly in this sector.

Corporate Securities

Yield on most liquid corporate bonds at the end of 2001 was 9-10% per annum.

The volume of corporate bonds in circulation at the end of 2001 was KZT 47.3 billion (USD 326.7 million).

During 2001, 17 issuances of corporate bonds were undertaken. The total volume of corporate bonds issued in 2001 was close to KZT 28.5 billion. This includes 16 issues nominated in foreign currency for the amount of roughly KZT 26.8 billion, or USD 185 million. (In 2000, the total volume was near KZT 22.8 billion, including roughly KZT 22.7 billion, or USD 159 million, nominated in foreign currency.)

In general, issuers issued medium-term bonds nominated in US Dollars. As a rule, the issuances were organized by major companies and banks such as ShNOS, Kazakhtelecom, Kazakhstan TemirZholy, Bank TuranAlem, Almaty Merchant Bank, Temirbank, and others.

The number of companies whose bonds are included in the "A" listing of the Kazakhstan Stock Exchange remained almost the same in 2001. As of 1 January 2002, the "A" list included 19 issuers and 22 issues of corporate securities, including 3 issues of corporate Eurobonds.

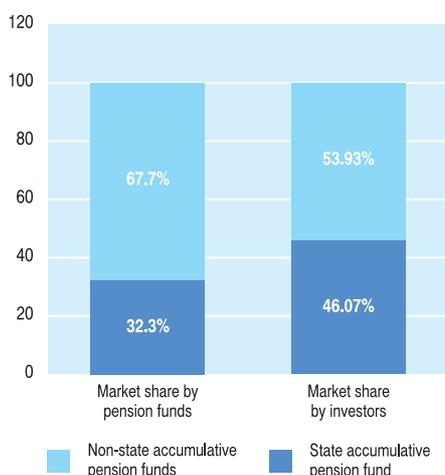
The number and volume of registered share issues went down in 2001. In 2001, there were 100 registered share issuances for the amount of about KZT 31 billion, while in 2000 there were 217 registered share issues for the amount of KZT 49.6 billion. This change is explained by the prevalence of share placements, which do not require state registration, and by a limitation in the number of companies whose issues are subject to mandatory state registration.

Pension System

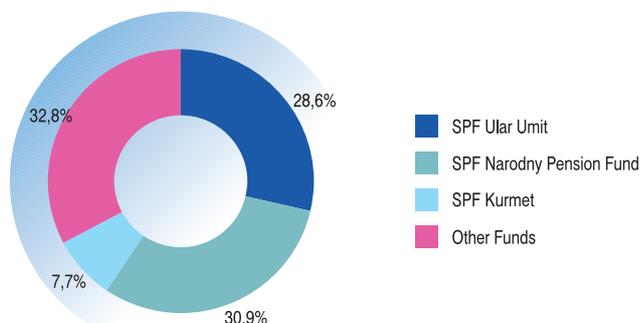
One of Kazakhstan's main achievement is the first successful pension reform in the CIS. Until recently, pension systems were based on principles of solidarity, not the accumulative pension system. Launched in 1998, the new pension system includes both solidarity and savings forms. There are currently 16 pension savings funds (PSF) including 1 state fund, 2 corporate non-state funds, and 13 open non-state funds. The number of pension asset management companies remains the same at 7. The Committee on the Regulation of Pension Savings Funds and the National Bank of Kazakhstan are the governing bodies.

As of 1 January 2001, pension assets in all pension funds in Kazakhstan reached KZT 182.7 billions (about USD 1.2 billion). Therefore, during 2001 pension assets grew by USD 436 million, or almost 60%. The monthly growth of pension assets is 4.5-5%. The number of depositors grew 1.25 times in 2001 and reached 4,652,276 people.

Share of State accumulative pension fund and non-state accumulative pension funds on pension market as of 01.01.02



Specific Gravity of Investors 01.01.02



Insurance Market

The dynamic development of the insurance market in previous years is the result of legislative base improvement, Kazakhstan's general economic development and GDP growth, the increase in per capita income, and a relatively stable foreign currency market.

In accordance with National Bank data as of 1 January 2002, there were 36 insurance institutions with licenses for insurance activity compared to 71 in 1999. The number of insurance institutions has fallen, but those that remain are financial strong and have growing capitalization and insurance reserves. This has sustained the competition and improved the market.

At the end of the 2001, capital owned by insurance companies was more than KZT 5.2 billion (USD 34.6 million), total aggregate assets reached more than KZT 15.2 billion (USD 101.4 million), and insurance reserves were KZT 8.5 billion (USD 56.6 million). Receipt of insurance premiums grew by 63.5% and totaled KZT 13.3 billion (USD 88.8 million). These positive trends may be explained by general economic growth and the resulting interest of owners to insure the benefits of economic activity.