

JOINT STOCK COMPANY KAZKOMMERTSBANK

Independent Auditors' Report

Consolidated Financial Statements

For the years ended 31 December 2003
and 2002

JOINT STOCK COMPANY KAZKOMMERTSBANK

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Company Kazkommertsbank:

We have audited the accompanying consolidated balance sheet of JSC Kazkommertsbank and its consolidated subsidiaries (the "Bank") as of 31 December 2003 and 2002, and the related consolidated profit and loss accounts, statements of cash flows and changes in equity for each of the three years ended 31 December 2003, 2002 and 2001. 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 audits.

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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of 31 December 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years ended 31 December 2003, 2002 and 2001, in accordance with International Financial Reporting Standards.

TOO Deloitte & Touche

27 February 2004

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001 (in Kazakhstani tenge and in thousands, except per share earning amounts)

	Notes	2003	2002	2001
Interest income	4, 34	35,106,301	24,500,940	17,870,462
Interest expenses	4, 34	(18,623,916)	(11,257,899)	(7,887,765)
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	4	16,482,385	13,243,041	9,982,697
Provision for loan losses	5	(5,887,610)	(7,341,589)	(4,572,275)
NET INTEREST INCOME		10,594,775	5,901,452	5,410,422
Net (loss)/gain on trading securities	6	(316,992)	935,993	1,500,266
Net gain on foreign exchange operations	7	1,600,977	1,207,409	1,385,827
Fee and commission income	8	8,399,779	5,791,790	3,850,309
Fee and commission expense	8	(1,334,332)	(1,126,385)	(588,970)
Net (loss)/gain on investment securities	9	(47,397)	3,916,126	(55,486)
Dividends received		382,449	446,719	38,327
Other income	10	1,239,355	433,141	282,910
NET NON-INTEREST INCOME		9,923,839	11,604,793	6,413,183
OPERATING INCOME		20,518,614	17,506,245	11,823,605
OPERATING EXPENSES	11	(8,969,071)	(7,955,983)	(6,119,370)
OPERATING PROFIT		11,549,543	9,550,262	5,704,235
Provision for losses on other transactions	5	(270,312)	(1,327,071)	(525,862)
(Expenses)/income from associates	22	(20,249)	33,869	389,083
PROFIT BEFORE TAXATION AND MINORITY INTEREST		11,258,982	8,257,060	5,567,456
Income tax expense	12	(2,091,667)	(276,067)	(278,555)
NET PROFIT BEFORE MINORITY INTEREST		9,167,315	7,980,993	5,288,901
Minority interest	13	(406,554)	(2,230)	-
NET PROFIT		8,760,761	7,978,763	5,288,901
Earnings per share				
Basic and diluted (in tenge)	14	25.89	25.94	18.37

On behalf of the Board:



Zhusupova N.A.
Chairperson

27 February 2004
Almaty



Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

The notes on pages 7-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 1.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2003 AND 2002 (in Kazakhstani Tenge and in thousands)

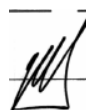
	Notes	2003	2002
ASSETS:			
Cash and balances with national (central) banks	15	28,484,613	19,394,771
Precious metals		300,158	-
Loans and advances to banks, less allowance for loan losses	16	38,582,824	43,451,143
Trading securities	17, 34	71,200,859	21,279,111
Securities purchased under agreement to resell, less allowance for losses	18	2,608,318	2,266,775
Derivative financial instruments	19	15,399	7,000
Loans to customers, net	20, 34	283,062,443	175,248,585
Investment securities:			
- securities available for sale	21	137,554	5,539,019
- securities held-to-maturity	21	32,372	17,276
Investments into associates	22, 34	146,206	285,917
Fixed assets, less accumulated depreciation	23	5,867,947	3,447,613
Intangible assets, less accumulated amortization	24	436,051	608,577
Other assets, less allowance for losses	25	3,366,413	3,215,511
TOTAL ASSETS		434,241,157	274,761,298
LIABILITIES AND SHAREHOLDER EQUITY			
LIABILITIES:			
Loans and advances from banks	26	76,221,919	54,662,867
Securities sold under agreements to repurchase		37,250,675	-
Derivative financial instruments	19	801	2,203
Customer accounts	27, 34	151,589,416	141,371,975
Debt securities issued	28	98,233,366	30,316,786
Other borrowed funds	29	3,525,473	4,651,066
Dividends payable		404	406
Other liabilities	30, 34	8,402,672	5,548,558
		375,224,726	236,553,861
Subordinated debt	31	8,732,914	6,060,409
Total liabilities		383,957,640	242,614,270
Minority interest	13	4,704,625	81,240
FINANCIAL COMMITMENTS AND CONTINGENCIES	33, 34	-	-
SHAREHOLDERS' EQUITY:			
Share capital	32	4,018,930	3,499,688
Share premium		9,453,411	5,473,313
Fixed assets revaluation reserve		569,783	6,872
Retained earnings		31,536,768	23,085,915
Total shareholders' equity		45,578,892	32,065,788
TOTAL LIABILITIES AND SHAREHOLDER EQUITY		434,241,157	274,761,298

On behalf of the Board:



Zhusupova N.A.
Chairperson

27 February 2004
Almaty



Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

The notes on pages 7-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 1.

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001 (in Kazakhstani Tenge and in thousands)

	Share capital	Share premium	Fixed assets revaluation reserve	Retained earnings	Total
31 December 2000	2,931,906	2,793,930	10,351	11,615,900	17,352,087
Depreciation of fixed assets revaluation reserve	-	-	(2,226)	2,226	-
Share capital increase of:					
- ordinary shares	1	-	-	-	1
- preference shares	555,901	2,632,594	-	-	3,188,495
Sale of repurchased shares	9,883	38,163	-	-	48,046
Dividends declared	-	-	-	(1,454,502)	(1,454,502)
Net profit for the year	-	-	-	5,288,901	5,288,901
31 December 2001	3,497,691	5,464,687	8,125	15,452,525	24,423,028
Share capital increase of:	1,731	8,273			
- preference shares			-	-	10,004
Sale of repurchased shares	266	353	-	-	619
Depreciation of fixed assets revaluation reserve	-	-	(1,253)	1,253	-
Dividends declared preference shares	-	-	-	(346,626)	(346,626)
Net profit for the year	-	-	-	7,978,763	7,978,763
31 December 2002	3,499,688	5,473,313	6,872	23,085,915	32,065,788
Depreciation of fixed assets revaluation reserve	-	-	(14,233)	14,233	-
Fixed assets revaluation (less deferred income tax of KZT 228,917 thousand)	-	-	577,144	-	577,144
Share capital increase of:					
- ordinary shares	519,212	3,979,934	-	-	4,499,146
Sale of repurchased shares	30	164	-	-	194
Dividends declared on preference shares	-	-	-	(324,141)	(324,141)
Net profit for the year	-	-	-	8,760,761	8,760,761
31 December 2003	4,018,930	9,453,411	569,783	31,536,768	45,578,892

On behalf of the Board:



Zhusupova N.A.
Chairperson

27 February 2004
Almaty



Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

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JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001 (in Kazakhstani Tenge and in thousands)

	Notes	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:				
Profit before income tax and minority interest		11,258,982	8,257,060	5,567,456
Adjustments for:				
Provision for loan losses		5,887,610	7,341,589	4,572,275
Provision for losses on other transactions		270,312	1,327,071	525,862
Unrealised gain and amortisation of discounts on trading securities and securities available-for-sale		(171,831)	(4,317,810)	(955,650)
Amortization of discount/premium on issued securities		(1,467,824)	185,746	-
Depreciation and amortisation		978,832	625,058	516,347
Decrease/(increase) in net interest accruals		377,057	1,465,157	(2,958,124)
Expenses/(income) from associates		20,249	(33,869)	(389,083)
Net change in recovery value of derivative financial instruments (net)		(9,801)	249,036	(230,316)
Cash flows from operating activities before changes in operating assets and liabilities		<u>17,143,586</u>	<u>15,099,038</u>	<u>6,648,767</u>
Changes in operating assets and liabilities				
(Increase)/decrease in operating assets:				
Minimum reserve deposit with the Central Bank of the Russian Federation		(121,865)	-	-
Loans and advances to banks		(12,151,488)	5,409,000	(9,164,838)
Precious metals		(300,158)	-	-
Trading securities		(49,174,659)	(6,764,553)	13,863,820
Securities available-for-sale		9,857,668	(744,352)	996,556
Securities held-to-maturity		(15,305)	125,726	(93,536)
Securities purchased under repurchase agreements		(228,935)	(2,313,035)	-
Loans to clients		(112,945,369)	(35,627,095)	(74,617,909)
Dividends received		382,449	380,121	541,498
Other assets		(487,380)	(2,879,510)	(1,130,365)
Increase/(decrease) in operating liabilities				
Loans and advances from banks and repurchase agreements		58,144,477	10,065,523	21,099,758
Customer accounts		9,438,227	29,436,987	54,836,729
Other borrowed funds		(1,025,302)	(674,626)	819,954
Other liabilities		958,337	(714,835)	(1,790,940)
Cash (outflow)/inflow from operating activities before taxation		<u>(80,525,717)</u>	<u>10,798,389</u>	<u>12,009,494</u>
Income tax paid		<u>(471,059)</u>	<u>(722,962)</u>	<u>(20,702)</u>
Net cash (outflow)/inflow from operating activities		<u>(80,996,776)</u>	<u>10,075,427</u>	<u>11,988,792</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets (net)		(2,612,818)	(1,587,635)	(743,816)
Sale-purchase of intangible assets (net)		81,839	(196,711)	(146,177)
Sale/(acquisition) of investments into associates		119,462	(55,800)	(74,560)
Acquisition of investments into subsidiaries		-	(249,840)	-
Consolidation effect of Moskommertsbank		434,042	-	-
Net cash outflow from investing activities		<u>(1,977,475)</u>	<u>(2,089,986)</u>	<u>(964,553)</u>

JOINT STOCK COMPANY KAZKOMMERTSBANK

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001 (CONTINUED) (in Kazakhstani Tenge and in thousands)

	Notes	2003	2002	2001
CASH FLOWS FROM FINANCING				
ACTIVITIES:				
Issue of ordinary share capital		519,212	-	1
Issue of preference share capital		-	1,731	555,901
Proceeds from/(repayment of) debt securities issued		68,226,334	29,614,150	(14,899,527)
Subordinated debt		2,667,928	1,773,864	-
Sale of repurchased shares		30	266	9,883
Share premium		3,980,098	8,626	2,670,757
Dividends paid		(324,141)	(347,473)	-
Net cash inflow/(outflow) from financing activities		<u>75,069,461</u>	<u>31,051,164</u>	<u>(11,662,985)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(7,904,790)	39,036,605	(638,746)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	15	<u>55,226,912</u>	<u>16,190,307</u>	<u>16,829,053</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	15	<u>47,322,122</u>	<u>55,226,912</u>	<u>16,190,307</u>

Interest paid and received by the Bank in cash during the year ended 31 December 2003 amounted to KZT 17,185,965 thousand and KZT 34,110,598 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2002 amounted to KZT 9,822,159 thousand and KZT 21,985,172 thousand, respectively.

Interest paid and received by the Bank in cash during the year ended 31 December 2001 amounted to KZT 6,597,635 thousand and KZT 12,953,470 thousand, respectively.

On behalf of the Board:



Zhusupova N.A.
Chairperson

27 February 2004
Almaty



Cheusov P.A.
Chief Accountant

27 February 2004
Almaty

The notes on pages 7-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is presented on page 1.

JOINT STOCK COMPANY KAZKOMMERTSBANK

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001 (in Kazakhstani tenge and in thousands, except per share amounts)

1. ORGANISATION

JSC Kazkommertsbank (the “Kazkommertsbank”) was incorporated on 12 July 1990 as an open joint stock company, in accordance with the laws of the Soviet Socialist Republic of Kazakhstan under the name of Medeu-Bank, to engage in various activities in the banking sector. Following the independence of Kazakhstan, Medeu-Bank was re-registered under the name of JSC Kazkommertsbank and obtained a banking license from the National Bank of the Republic of Kazakhstan (the “NBRK”) on 21 October 1991. In 1994, JSC Kazkommertsbank merged with Astana Holding Bank and continued under the name of JSC Kazkommertsbank. Astana Holding Bank, a joint stock company, was incorporated in May 1993. Kazkommertsbank is registered in the Ministry of Justice under # 4466-1910-AO.

The registered address of the Kazkommertsbank is 135 “Zh”, Gagarin Ave., Almaty.

Kazkommertsbank has 22 branches in the Republic of Kazakhstan and a representative office in London (Great Britain). In December 2002 Kazkommertsbank obtained a license for branch opening in the Republic of Cyprus.

The number of employees of the Bank at 31 December 2003 and 2002 was 3,044 and 2,850, respectively.

Kazkommertsbank is a parent company of the Banking Group (the “Bank”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	Kazkommertsbank ownership interest		Type of operation
		2003	2002	
OJSC Kazkommerts Securities	Republic of Kazakhstan	100%	100%	Securities market transactions
JSC Kazkommerts Invest	Republic of Kazakhstan	100%	-	Finance services to large corporate and private clients
OJSC IC Kazkommerts Policy	Republic of Kazakhstan	65%	100%	Insurance
Kazkommerts International B.V.	Netherlands	100%	100%	Capital borrowings on large international monetary markets
OJSC Kazkommertsbank Kyrgyzstan	Kyrgyz Republic	73.97%	73.84%	Commercial bank

Kazkommert Capital 2 B.V. (100%) and Kazkommerts Finance 2 B.V. (100%), subsidiaries, are not consolidated into the consolidated financial statements due to the immateriality of their financial statements.

In February 2003 53,846 ordinary shares of OJSC IC Kazkommerts-Policy of KZT 212,590 thousand were purchased by other shareholders which led to decrease of the Kazkommertsbank’s ownership interest in the share capital of OJSC IC Kazkommerts Policy to 65%.

In June 2002 the Bank acquired 72.35% of outstanding common stock of Kyrgyzavtobank, a commercial bank operating in the Republic of Kyrgyzstan, and in December 2002 its investment was increased to 73.84%. On 5 December 2002 Kyrgyzavtobank was re-registered as OJSC Kazkommertsbank Kyrgyzstan. OJSC Kazkommertsbank Kyrgyzstan was consolidated into the consolidated financial statements of the Bank from 30 June 2002. The Bank paid KZT 249,840 thousand for the shares of JSC Kyrgyzautobank. On 30 May 2003 the Bank acquired 250 shares in amount of KZT 461 thousand, which increased its share holding up to 73.97%.

Notwithstanding Kazkommertsbank has no ownership in the share capital of Moskommertsbank (the "MKB"), a commercial bank in the Russian Federation, the MKB was included into the consolidated financial statements of the Bank since the Bank has ability and has exercised effective control over its operations. There is an agreement between the shareholders of the MKB and the Bank on purchase of no less than 51% of MKB shares by the Bank. Transaction completion is subject to approval of the NBRK and the Central Bank of the Russian Federation.

These consolidated financial statements were authorized for issue by the Bank's Board of Managing Directors on 27 February 2004.

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Kazakhstani tenge ("KZT"), except for per share earning amounts and unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention, except for the buildings and constructions revaluation which was performed in 2003 to record their fair value and amounted to KZT 577,144 thousand and cost of financial assets and liabilities modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities held for trading, derivative financial instruments.

The Bank maintains its accounting records in accordance with IFRS, its foreign subsidiaries maintain accounting records in accordance with the requirements of their countries of residence where subsidiaries operate. These consolidated financial statements have been prepared based on accounting records of Kazkommertsbank and its foreign subsidiaries, and have been adjusted to conform to IFRS.

Measurement currency – The measurement currency of these consolidated financial statements is KZT.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the accounts of majority-owned subsidiaries, and MKB, operations of which are controlled by Kazkommertsbank.

All significant inter-company transactions and balances have been eliminated from the consolidated financial statements. The ownership interest of Kazkommertsbank and the proportion of voting power of the Bank in the significant subsidiaries as of 31 December 2003 and 2002 is presented in Note 1.

Enterprises acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority interests are shown separately in the balance sheets and profit and loss accounts, respectively.

In translating the financial statements of a foreign subsidiary into the measurement currency for incorporation in the financial statements, the Bank follows a translation policy in accordance with International Accounting Standard 21 “The Effects of Changes in Foreign Interest Rates” (“IAS 21”).

Equity accounting – The share of Kazkommertsbank in net assets and net income of entities, where Kazkommertsbank holds 20 to 50% of share capital and/or has the ability to exercise significant influence over their operating and financial policies (“associates”) is included in the consolidated net assets and operating results using the equity method of accounting from the date of acquisition (Note 22). Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Bank.

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using trade date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, net of any transaction costs incurred, respectively. 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 include cash on hand, unrestricted balances on correspondent accounts with the National Bank of the Republic of Kazakhstan, Central Bank of the Russian Federation and National Bank of the Kyrgyz Republic and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”).

Precious metals – Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the KZT/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

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

Trading securities – Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank’s trading securities. When reliable 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 management’s estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Repurchase and reverse repurchase agreements – The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. repos and reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

In case when assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/(losses) on securities. Any related income or expense arising from the pricing difference between purchase and sale of the underlying securities is recognized as interest income or expense.

Derivative financial instruments – The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards, swaps, foreign currency options.

Derivative financial instruments are initially recorded at cost which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of derivatives the Bank enters into are of short-term and speculative nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

Originated loans – Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank are initially recognized in accordance with the policy stated below. The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account.

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 loan losses.

Write off of loans – Loans are written off against allowance for loan losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has received all available collateral.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 30 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for losses – The Bank establishes an allowance for losses 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 financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity – Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment plus accrued coupon income. Amortized discounts are recognized in the interest income over the period to maturity.

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine the fair value for the Bank's securities available-for-sale. If such quotes do not exist, management estimation is used.

Fixed and intangible assets – Fixed and intangible assets are carried at historical cost less accumulated depreciation. Buildings and constructions are accounted for at market value. The appraisal of building and constructions is performed by the independent appraiser. The basis for the determination of the fair market value is the real estate market. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

Buildings	2.5%
Furniture and equipment	10 – 30%
Intangible assets	15 – 33.3%

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Taxation – Taxes on income are computed in accordance with the laws of the countries where the Bank and its subsidiaries operate. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- the Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- the Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority in each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Countries where the Bank operates also have various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued – Debt securities issued represent promissory notes issued by the Bank to customers. They are accounted for according to the same principles used for customer and bank deposits.

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.

Share capital and share premium – Share capital is recognized at historic cost. Gains and losses on sales of treasury stock are credited to share premium.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction thereof in the period in which they are declared.

Retirement and other benefit obligations – The Bank does not have any pension arrangements separate from the state pension system of the Republic of Kazakhstan and other countries where its subsidiaries domicile, which requires current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis. The recognition of interest income is suspended when loans become overdue by more than 30 days. Interest income also includes interest income earned on investment and trading securities. Other income are credited to income when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loans effective yield. Commission income/expenses are recognized on an accrual basis.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in net gain on foreign exchange transactions.

Rates of exchange – The exchange rates at year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2003	31 December 2002
KZT/US Dollar	144.22	155.85
KZT/Euro	180.23	162.46
KZT/Gold (1ounce)	60,031.58	53,417.88

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fiduciary activities – The Bank provides trustee services to its customers. Also the Bank provides depositary services to its customers that include transactions with securities on their deposit accounts. Assets accepted and liabilities incurred under the trustee activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

Reclassifications – Certain reclassifications have been made to the financial statements as of 31 December 2002 and 2001 to conform to the presentation as of 31 December 2003.

4. NET INTEREST INCOME

	2003	2002	2001
Interest income			
Interest on loans to customers	29,749,318	23,044,439	15,842,523
Interest on debt securities	3,774,899	1,110,697	1,316,069
Interest on loans and advances to banks	1,526,766	345,804	711,870
Interest on reverse repurchase transactions	55,318	-	-
Total interest income	<u>35,106,301</u>	<u>24,500,940</u>	<u>17,870,462</u>
Interest expense			
Interest on debt securities issued	8,577,577	2,083,414	762,717
Interest on customer accounts	7,773,268	6,880,159	4,521,120
Interest on loans and advances from banks	1,911,084	1,939,714	2,266,854
Other interest expenses	361,987	354,612	337,074
Total interest expense	<u>18,623,916</u>	<u>11,257,899</u>	<u>7,887,765</u>
Net interest income before provision for loan losses	<u>16,482,385</u>	<u>13,243,041</u>	<u>9,982,697</u>

5. ALLOWANCE FOR LOSSES AND IMPAIRMENT, OTHER PROVISIONS

The movements in allowance for losses on interest earning assets, were as follows:

	Loans and advances to banks	Loans to customers	Securities under repurchase agreements	Total
31 December 2000	93,122	8,399,789	-	8,492,911
Provision	202,038	4,370,237	-	4,572,275
Write-off of assets	-	(2,485,805)	-	(2,485,805)
Recoveries of assets previously written off	-	1,387,882	-	1,387,882
31 December 2001	<u>295,160</u>	<u>11,672,103</u>	-	<u>11,967,263</u>
Acquisition of subsidiary bank (Recovery)/Provision	-	29,047	-	29,047
Write-off of assets	(125,002)	7,420,331	46,260	7,341,589
Recoveries of assets previously written off	-	(6,319,964)	-	(6,319,964)
Recoveries of assets previously written off	-	1,214,865	-	1,214,865
31 December 2002	<u>170,158</u>	<u>14,016,382</u>	46,260	<u>14,232,800</u>
Consolidation effect of MKB	5,043	4,644	-	9,687
Provision/(Recovery)	239,385	5,694,485	(46,260)	5,887,610
Write-off of assets	-	(2,233,398)	-	(2,233,398)
Recoveries of assets previously written off	-	1,586,965	-	1,586,965
31 December 2003	<u><u>414,586</u></u>	<u><u>19,069,078</u></u>	<u><u>-</u></u>	<u><u>19,483,664</u></u>

The movements in allowances for losses on other transactions were as follows:

	Insurance reserves	Accounts receivable	Guarantees and other commitments	Total
31 December 2000	-	3,017	287,156	290,173
Acquisition of the subsidiary	138,849	-	-	138,849
Provision	130,855	15,387	379,620	525,862
Write-offs	-	(5,495)	-	(5,495)
Recoveries	-	400	-	400
31 December 2001	<u>269,704</u>	<u>13,309</u>	<u>666,776</u>	<u>949,789</u>
Provision	150,800	52,840	1,123,431	1,327,071
Write-offs	-	(16,364)	-	(16,364)
Recoveries	-	3,300	-	3,300
31 December 2002	<u>420,504</u>	<u>53,085</u>	<u>1,790,207</u>	<u>2,263,796</u>
Consolidation effect of MKB	-	227	-	227
Provision/(Recovery)	636,240	(2,011)	(363,917)	270,312
Write-offs	-	(89,595)	-	(89,595)
Recoveries	-	68,814	-	68,814
31 December 2003	<u><u>1,056,744</u></u>	<u><u>30,520</u></u>	<u><u>1,426,290</u></u>	<u><u>2,513,554</u></u>

6. NET (LOSS)/GAIN ON TRADING SECURITIES

Net (loss)/gain on trading securities comprise:

	2003	2002	2001
Debt securities	(26,814)	885,357	1,371,559
Equity securities	(290,178)	50,636	128,707
Total net (loss)/gain on trading securities	<u>(316,992)</u>	<u>935,993</u>	<u>1,500,266</u>

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	2003	2002	2001
Dealing, net	1,419,322	640,405	730,264
Translation differences, net	181,655	567,004	655,563
Total net gain on foreign exchange operations	<u>1,600,977</u>	<u>1,207,409</u>	<u>1,385,827</u>

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	2003	2002	2001
Fee and commission income:			
Cash operations	2,094,290	1,634,263	1,327,706
Settlements	1,614,231	1,269,487	639,440
Documentary operations	1,614,916	1,215,418	480,819
Foreign exchange and securities operations	1,149,461	732,067	662,383
Credit cards operations	627,323	407,121	236,645
Commission for the loan issuance	605,881	110,428	158,622
Insurance operations	123,532	127,382	-
Encashment operations	112,115	79,431	86,179
Commission for consulting	10,930	2,923	13,051
Other	447,100	213,270	245,464
Total fee and commission income	<u>8,399,779</u>	<u>5,791,790</u>	<u>3,850,309</u>
Fee and commission expense:			
Commission from loans	395,761	489,254	141,050
Bank cards services	303,630	228,832	127,596
Letters of credit and guarantees	290,217	167,130	43,787
Insurance operations	132,652	55,626	15,292
Correspondent bank services	65,565	56,870	38,950
Foreign currency and securities operations	62,214	46,375	50,831
Services of processing centre of the NBRK	39,830	49,801	75,080
Other	44,463	32,497	96,384
Total fee and commission expense	<u>1,334,332</u>	<u>1,126,385</u>	<u>588,970</u>

9. NET (LOSS)/GAIN ON INVESTMENT SECURITIES

Net (loss)/gain on investment securities include results from operations with available-for-sale securities and comprise:

	2003	2002	2001
Unrealized gain/ (loss) from revaluation of securities available-for-sale	40,784	3,916,126	(54,071)
Net loss on derecognition of securities available-for-sale	(88,181)	-	(1,415)
Total net (loss)/gain on investment securities	<u>(47,397)</u>	<u>3,916,126</u>	<u>(55,486)</u>

On 29 January 2003 the shares of CJSC Air Kazakhstan were sold by the Bank to the Government of Kazakhstan for the amount of KZT 2,390,700 thousand.

On 24 June 2003 the Bank sold 29% of shares of CJSC ABN AMRO Bank Kazakhstan to the existing shareholders of ABN AMRO Bank Kazakhstan for KZT 2,949,051 thousand.

The value of CJSC ABN AMRO Bank Kazakhstan investments in 2002 was determined using the generally accepted methodology of equity evaluation, where a growing factor of 7% p.a. and a discount of 13.7% were used. Application of this method has led to the double proportion of the market value to the carrying amount and amounted to KZT 3,120,172 thousand. Actual value of the transaction turned out to be less for KZT 171,121 thousand, at the same time the Bank received dividends for 2002 in amount of KZT 369,947 thousand less withholding tax.

Unrealized income from securities available-for-sale in 2002 included a revaluation gain on the cost of investments in CJSC ABN AMRO Bank Kazakhstan and CJSC Air Kazakhstan for the amount of KZT 1,560,086 thousand KZT 2,390,700 thousand, respectively.

10. OTHER INCOME

	2003	2002	2001
Insurance premiums of Kazkommerts Policy	1,048,665	335,214	205,851
Income from recovery of expenses paid	74,358	609	1,819
Proceeds from sale of fixed assets and fixed assets received free of charge	22,281	12,192	345
Fines and penalties received	4,565	649	433
Sale of low-value inventory and blanks	1,234	7,180	9,082
Other income	88,252	77,297	65,380
	<u>1,239,355</u>	<u>433,141</u>	<u>282,910</u>

11. OPERATING EXPENSES

	2003	2002	2001
Staff costs	4,129,235	4,178,014	2,914,122
Depreciation and amortization	978,832	625,058	516,347
Fixed assets maintenance (buildings, intangibles, etc.)	442,558	242,499	132,128
Advertising costs	379,117	311,911	289,198
Insurance of individual deposits	310,419	352,755	141,154
Business trip expenses	269,753	252,806	203,718
Communications	261,981	220,203	223,479
Value added tax	253,133	233,676	256,004
Lease	206,609	159,584	121,792
Membership fee	203,357	12,904	808
Taxes, other than income tax	181,897	139,282	164,744
Security	145,681	102,290	113,149
Vehicles maintenance	140,502	109,885	89,777
Charity and sponsorship expenses	136,755	157,740	182,931
Professional services	97,431	96,221	126,925
Training	85,055	68,093	20,375
Unused vacation and sick leave reimbursements	72,251	31,679	41,329
Cash collection expenses	70,589	65,921	69,536
Stationery	60,116	52,411	32,639
Representative expenses	47,475	35,054	21,567
Mail and courier expenses	32,764	30,157	21,333
Legal services	27,821	25,888	40,648
Custom duties for import of foreign currency	20,433	89,420	195,443
Other expenses	415,307	362,532	200,224
	<u>8,969,071</u>	<u>7,955,983</u>	<u>6,119,370</u>

12. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Bank and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003 and 2002 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003 and 2002 comprise:

	2003	2002
Deferred assets:		
Provisions under guarantees and letters of credit	-	252,581
Other assets	398,466	219,278
Total deferred assets	<u>398,466</u>	<u>471,859</u>

Deferred liabilities:		
Loans to banks and customers	3,005,134	341,910
Provisions under guarantees and letters of credit	92,916	-
Investments in associates	71	1,100,795
Fixed and intangible assets	245,292	243,562
Total deferred liabilities	3,343,413	1,686,267
Net deferred liabilities	2,944,947	1,214,408

Relationships between tax expenses and accounting profit for the years ended 31 December 2003, 2002 and 2001 are explained as follows:

	2003	2002	2001
Profit before income tax and minority interest	11,258,982	8,257,060	5,567,456
Tax at the statutory tax rate	3,357,404	2,477,118	1,670,237
Tax effect of permanent differences	(1,265,737)	(2,201,051)	(1,391,682)
Income tax expense	2,091,667	276,067	278,555
Current income tax expense	590,045	477,990	23,646
Reversal of prior year tax	-	-	(153,085)
Deferred tax expense/(recovery)	1,501,622	(201,923)	407,994
Income tax expense	2,091,667	276,067	278,555
Deferred income tax liabilities	2003	2002	2001
At beginning of the period	1,214,408	1,416,331	1,008,337
Decrease of fixed assets revaluation reserve	228,917	-	-
Increase/(decrease) in the deferred income tax for the period	1,501,622	(201,923)	407,994
At end of the period	2,944,947	1,214,408	1,416,331

13. MINORITY INTEREST

The movement in minority interest during 2003 and 2002 comprises:

31 December 2001	-
Minority interest in the subsidiary purchased by the Bank	79,010
Minority interest in the net profit of the Bank for the year	2,230
31 December 2002	81,240
Consolidation effect of MKB	4,220,116
Minority interest in the net profit of the Bank for the year	406,554
Foreign exchange effect	(3,285)
31 December 2003	4,704,625

14. EARNINGS PER SHARE

	2003	2002	2001
Income:			
Net income for the year	8,760,761	7,978,763	5,288,901
Less:			
Dividends on preference stock	<u>(324,141)</u>	<u>(346,626)</u>	<u>-</u>
Income less dividends on preference shares	<u>8,436,620</u>	<u>7,632,137</u>	<u>5,288,901</u>
Weighted average number of common stock for basic and diluted earnings per share (pieces)	<u>325,817,299</u>	<u>294,182,278</u>	<u>287,982,090</u>
Earnings per share – basic and diluted (KZT)	<u><u>25.89</u></u>	<u><u>25.94</u></u>	<u><u>18.37</u></u>

15. CASH AND BALANCES WITH NATIONAL (CENTRAL) BANKS

The balance with the Central Bank of the Russian Federation as of 31 December 2003 included amounts of KZT 121,865 thousand represented by the balances with the Central Bank of the Russian Federation. The Bank is required to maintain the reserve balances at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	2003	2002	2001
Cash on hand	10,352,004	10,135,899	5,822,268
Balances with national (central) banks	18,132,609	9,258,872	5,656,147
Loans and advances to banks in OECD countries (Note 16)	<u>18,963,568</u>	<u>35,832,141</u>	<u>4,711,892</u>
	47,448,181	55,226,912	16,190,307
Less minimum reserve deposit with the Central Bank of the Russian Federation	(121,865)	-	-
Less accrued interest income on balances with NBRK	(4,194)	-	-
Total cash and cash equivalents	<u><u>47,322,122</u></u>	<u><u>55,226,912</u></u>	<u><u>16,190,307</u></u>

16. LOANS AND ADVANCES TO BANKS

	2003	2002
Loans and advances to banks	35,385,911	32,554,375
Correspondent accounts with other banks	3,477,327	11,020,905
Accrued interest income on loans and advances to banks	<u>134,172</u>	<u>46,021</u>
	38,997,410	43,621,301
Less allowance for loan losses	(414,586)	(170,158)
Total loans and advances to banks	<u><u>38,582,824</u></u>	<u><u>43,451,143</u></u>

Movements in allowances for loan losses and advances to banks for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

On 31 December 2003 the Bank entered into short-term deposit transactions with two counter-parties totaling to KZT 12,979,800 thousand, which individually exceeded 10% of the Bank's equity. These transactions were closed on 5 January 2004.

17. TRADING SECURITIES

Debt securities:

Short-term NBRK notes	1.96-5.11%	22,700,525	5.35-5.89%	5,879,159
State bonds of the Federal Republic of Germany	4.5%-5.25%	7,731,347		-
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	11.125-13.625%	6,399,117	5.36-9.26%	5,446,171
Government treasury bills	5.8-9.99%	6,061,421	6.17-14.4%	2,410,209
Freddie MAC bonds	9.28-15.29%	3,909,001		-
The Netherlands state bonds	3.75%	3,676,560		-
Fannie MAE bonds	2.0%	3,605,301		-
Federal Home Loan Bank bonds	2.18%	3,579,163		-
Kaztransoil bonds	8.5-9%	2,649,512	9.72-10.12%	586,425
Eurobonds of TuranAlem Finance B.V.	7.875-11.5%	1,951,242	8.52-11.30%	2,041,722
Bonds of PetroKazakhstan Oil Products	10.0%	1,744,830	11.22%	15,700
US Treasury bills	3.63%	1,392,056		-
Bonds of Development Bank of Kazakhstan	7.125-7.375%	1,017,559		-
Bonds of Kazakhstani Mortgage Company	8-8.6%	767,742		-
Atyrau region's administration bonds	8.5-8.6%	468,790	6.39-8.6%	6,466
Kazakhtelecom bonds	10.0%	428,638	7.11-10.25%	55,094
Eurobonds of the Ministry of Finance of the Russian Federation	12.75%	360,521	12.75%	571,093
Astana municipality bonds	8-8.5%	352,098		-
Dalsvyaz bonds	14.5%	317,536		-
Nidan Foods bonds, 1st issue.	17.0%	248,911		-
Debt securities of Yaroslav Region	13.76%	168,345		-
KAZTRANSCOM bonds	8.0%	157,996		-
Avtovaz bonds	15.25%	151,400		-
East Kazakhstan regional administration bonds	5.97-6.3%	149,307	7.83-8.96%	138,711
KAZATOMPROM bonds	8.5%	95,544		-
Nevinnomisski Azot bonds	18.0%	69,351		-
VITA bonds	8.6-14%	66,863		-
Kaztransoil bonds	8.5%	20,094	7.76-13.36%	2,229,652
Almaty Kus bonds	10.0%	9,886	12.0-12.22%	15,312
Caspian Bank bonds	9.5%	3,008		-
Karazhanbasmunai bonds	-	-	11-11.42%	989,814
Eurobonds of Hurricane Hydrocarbons Ltd	-	-	12.0%	157,470
		<u>70,253,664</u>		<u>20,542,998</u>

	Ownership share	2003	Ownership share	2002
Shares:				
Gazprom	0.82%	543,508	-	-
Kazakhtelecom GDR	0.54%	219,209	1.62%	247,904
Kazakhmys	0.11%	83,649	0.11%	348,008
Ust-Kamenogorsk Titanium and Magnesium Plant	0%	56,474	0.96%	140,201
Mosenergo	0.03%	44,355	-	-
		<u>947,195</u>		<u>736,113</u>
Total trading securities		<u>71,200,859</u>		<u>21,279,111</u>

As of 31 December 2003 and 2002 included in trading securities is accrued interest income on debt securities amounting to KZT 773,634 thousand and KZT 245,773 thousand, respectively.

As of 31 December 2003 trading securities included Bonds of the Ministry of Finance of the Republic of Kazakhstan, Notes of the National Bank of the Republic of Kazakhstan, securities of the Government of the USA, Germany, the Netherlands, and corporate bonds pledged under repurchase agreements with other banks amounting to KZT 37,250,675 thousand. All the agreements have maturity within 3 months.

18. SECURITIES PURCHASED UNDER AGREEMENT TO RESELL

As of 31 December 2003 and 2002 the Bank purchased securities amounting to KZT 2,608,318 thousand and KZT 2,313,035 thousand under agreements to resell them within 3 months. A coupon of 4-7% p.a. of the nominal value is payable on above mentioned securities.

	2003	2002
Bonds of the Russian Federation institutions	1,043,008	-
Shares of the Russian Federation institutions	945,128	-
State mid-term obligations of the Ministry of Finance of the Republic of Kazakhstan	487,548	309,693
Notes of the National Bank of the Republic of Kazakhstan	100,000	2,000,822
Government treasury bills of the Ministry of Finance of the Kyrgyz Republic	32,634	-
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	-	2,520
	<u>2,608,318</u>	<u>2,313,035</u>
Less allowance for losses of repurchase agreements	-	(46,260)
Total securities purchased under agreement to resell, net	<u>2,608,318</u>	<u>2,266,775</u>

Movements in allowances for loan losses under repurchase agreements for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	Amount payable	2003		Amount payable	2002	
		Asset	Liability		Asset	Liability
Foreign currency contracts						
Forwards	4,407,171	15,399	-	3,117,000	7,000	-
Swaps	216,330	-	(801)	487,380	-	(2,203)
Securities contracts						
Forwards	12,569,911	-	-	-	-	-
		<u>15,399</u>	<u>(801)</u>		<u>7,000</u>	<u>(2,203)</u>

20 LOANS TO CUSTOMERS

	2003	2002
Originated loans	291,512,002	179,018,399
Accrued interest income on loans to customers	10,619,519	10,246,568
	<u>302,131,521</u>	<u>189,264,967</u>
Less allowance for loan losses	(19,069,078)	(14,016,382)
Total loans to customers, net	<u>283,062,443</u>	<u>175,248,585</u>

	2003	2002
Loans collateralized by combined collateral	125,477,075	69,031,306
Loans collateralized by real estate	59,298,681	45,256,405
Loans collateralized by guarantees of enterprises	40,758,423	18,211,792
Loans collateralized by inventories	27,035,014	15,717,804
Loans collateralized by shares of other companies	13,444,865	10,650,747
Loans collateralized by equipment	10,959,952	12,086,239
Loans collateralized by cash or Kazakhstani Government guarantees	8,536,912	9,334,649
Loans collateralized by guarantees of financial institutions	4,341,365	50,975
Unsecured loans	12,279,234	8,925,050
	<u>302,131,521</u>	<u>189,264,967</u>
Less allowance for loan losses	(19,069,078)	(14,016,382)
Total loans to customers, net	<u>283,062,443</u>	<u>175,248,585</u>

Movements in allowances for loan losses for the years ended 31 December 2003 and 2002 are disclosed in Note 5.

	2003	2002
Analysis by industry:		
Trade	55,661,465	33,288,670
Energy	47,506,445	46,189,634
Construction	34,566,516	13,755,620
Agriculture	34,468,555	28,845,739
Individuals	31,790,749	12,234,452
Food	24,187,221	15,496,591
Transport and communication	14,764,673	7,701,327
Hotel business	14,128,249	4,789,925
Mining and metallurgy	10,261,097	6,133,103
Real estate	5,981,736	6,536,943
Machinery construction	4,940,297	2,350,152
Finance sector	2,640,527	357,184
Culture and art	2,335,968	2,110,036
Other	18,898,023	9,475,591
	<u>302,131,521</u>	<u>189,264,967</u>
Less allowance for loan losses	(19,069,078)	(14,016,382)
Total loans to customers, net	<u>283,062,443</u>	<u>175,248,585</u>

As of 31 December 2003 and 2002 included in loans to customers are non-accrual loans which amounted to KZT 2,452,768 thousand and KZT 2,312,351 thousand, respectively. As of 31 December 2003 and 2002 the total amount of interest on these loans non-recognized as income amounted to KZT 145,822 thousand and KZT 107,540 thousand, respectively.

As of 31 December 2003 and 2002 the Bank's loans to the clients, which individually exceeded 10% of the Bank's equity, are represented by the following enterprises and institutions:

	2003	2002
Djeilan Holding	10,330,813	-
Food Contract Corporation	9,127,803	4,844,632
CNPC Aktobemunaigaz Holding	8,292,792	-
Alibi Holding	7,852,305	3,745,787
BIPEK Auto Holding	6,771,643	-
Tolkynneftegas Holding	6,206,352	6,104,713
GOLDEN GRAIN GROUP Holding	-	5,103,966
Kazpolmunai Holding	-	4,580,200
Ai-Dan Holding	-	4,312,389
Assets Ltd	-	4,210,855
Almaty International Airport Holding	-	4,330,923
Ordabasy Corporation Holding	-	3,956,540
Seymar Holding	-	3,935,332
Zangar Kazakhstan Trade House	-	3,472,223
	<u>48,581,708</u>	<u>48,597,560</u>

Significant amount of loans is granted to companies operating in the Republic of Kazakhstan, which represents significant geographical concentration in one region.

21. INVESTMENT SECURITIES

Securities available-for-sale

	Interest to nominal	2003	Interest to nominal	2002
Debt securities				
JSC Almaty Merchant Bank	8.6%	2,860	-	-
		<u>2,860</u>		<u>-</u>
	Share, %		Share, %	
Equity securities				
Bank CenterCredit	1.9%	86,000	-	-
Aktubinsk chrome plant	3.07%	22,805	3.07%	4,613
Kazakhtelecom, including:				
- ordinary shares	0.04%	15,164	0.04%	12,779
- preference shares	0.01%	2,149	0.01%	2,657
ABN AMRO Bank Kazakhstan	-	-	29.0%	3,120,172
Air Kazakhstan	-	-	50.0%	2,390,700
Other	16.7%	8,576	16.7%	8,098
		<u>134,694</u>		<u>5,539,019</u>
Total securities available-for-sale		<u>137,554</u>		<u>5,539,019</u>

In September 2002 the Bank entered into an agreement with the Government of Kazakhstan related to the sale of the Bank's shares of Air Kazakhstan. On 29 January 2003 the shares of CJSC Air Kazakhstan were sold by the Bank at the value determined in the agreement between the Bank and the Government of the Republic of Kazakhstan in the amount of KZT 2,390,700 thousand.

On 24 June 2003 the Bank sold its holding of 29% of the shares of CJSC ABN AMRO Bank Kazakhstan to the existing shareholders of ABN AMRO Bank Group for KZT 2,949,051 thousand.

Securities held-to-maturity

Securities held-to-maturity are represented as follows:

	Interest to nominal	2003	Interest to nominal	2002
Bonds of the Ministry of Finance of the Kyrgyz Republic	0%	32,372	0%	35
Kyrgyztelecom bonds	-	-	9.0%	17,241
Total securities held-to-maturity		32,372		17,276

22. INVESTMENTS INTO ASSOCIATES

The following enterprises were recorded in the financial statements using the equity method:

	2003		2002	
	% Held	Amount	% Held	Amount
UlarUmit Pension fund	33.18%	146,206	29.0%	147,375
ABN AMRO Asset Management	-	-	48.88%	82,742
Sinooil	-	-	33.33%	55,800
		146,206		285,917

In 2003 Kazkommertsbank purchased shares of Ular Umit Pension Fund and as of 31 December 2003 the Bank's share in the equity of the Ular Umit Pension Fund increased by 4.18%.

The percentage held of the above associates represents both direct and indirect ownership of the Bank.

The movement of investments are accounted for in the financial statements using the equity method:

31 December 2000	1,947,368
Purchase cost	74,557
Share of net income	389,083
Dividends from associates	(637,054)
31 December 2001	1,773,954
Purchase cost	72,841
Reclassification of securities	(1,150,756)
Share of net income	33,869
Dividends from associates	(443,991)
31 December 2002	285,917
Purchase cost	19,080
Investments sale	(138,542)
Share of net loss	(20,249)
31 December 2003	146,206

In 2003 the Bank sold its shares of CJSC ABN AMRO Asset Management and OJSC Sinoil to third parties for KZT 173,759 thousand and KZT 62,951 thousand, respectively. Income from the sale of these investments amounted to KZT 98,168 thousand.

23. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and equipment	Other	Total
At cost				
31 December 2002	1,194,330	3,747,453	134,974	5,076,757
Additions	448,757	1,974,804	166,781	2,590,342
Revaluation	876,195	-	-	876,195
Consolidation effect of MKB	-	47,282	45,511	92,793
Transfers	8,119	4,123	(12,242)	-
Disposals	(124,781)	(108,637)	(10,656)	(244,074)
31 December 2003	<u>2,402,620</u>	<u>5,665,025</u>	<u>324,368</u>	<u>8,392,013</u>
Accumulated depreciation				
31 December 2002	88,356	1,510,855	29,933	1,629,144
Depreciation expense	39,814	808,306	40,025	888,145
Consolidation effect of MKB	-	12,424	3,328	15,752
Revaluation	70,134	-	-	70,134
Transfers	44	3,079	(3,123)	-
Disposals	(2,099)	(73,281)	(3,729)	(79,109)
31 December 2003	<u>196,249</u>	<u>2,261,383</u>	<u>66,434</u>	<u>2,524,066</u>
Net book value				
31 December 2003	<u>2,206,371</u>	<u>3,403,642</u>	<u>257,934</u>	<u>5,867,947</u>
31 December 2002	<u>1,105,974</u>	<u>2,236,598</u>	<u>105,041</u>	<u>3,447,613</u>

The Bank's office building in Almaty was appraised based on an independent expertise.

24. INTANGIBLE ASSETS

	2003	2002
At cost		
1 January	879,734	689,477
Additions	118,710	201,489
Additions from acquired subsidiary bank	-	2,776
Consolidation effect of MKB	842	-
Disposals	(201,552)	(14,008)
31 December	<u>797,734</u>	<u>879,734</u>
Accumulated amortization		
1 January	271,157	161,420
Amortisation charge	90,687	118,306
Additions from acquired subsidiary bank	-	1,194
Consolidation effect of MKB	250	-
Disposals	(411)	(9,763)
31 December	<u>361,683</u>	<u>271,157</u>
Net book value		
31 December	<u>436,051</u>	<u>608,577</u>

Intangible assets include software, patents and licenses.

25. OTHER ASSETS

	2003	2002
Prepayments and other debtors	1,856,938	1,459,044
Insurance debtors	792,492	647,565
Prepaid expenses	686,972	750,933
Tax settlements, other than income tax	60,531	411,054
	<u>3,396,933</u>	<u>3,268,596</u>
Less allowance for losses on other assets	(30,520)	(53,085)
Total other assets, net	<u>3,366,413</u>	<u>3,215,511</u>

26. LOANS AND ADVANCES FROM BANKS

	2003	2002
Correspondent accounts of other banks	6,087,644	449,085
Loans from banks and financial institutions, including:		
Syndicated loan from a group of banks (Deutsche Bank AG London)		
Tranche A due on 19.12.2004, coupon rate 2.22%	27,401,800	-
Tranche B due on 19.12.2005, coupon rate 2.61%	15,864,200	-
Syndicated loans from banks (ING Amsterdam) 4.02%	6,489,900	-
Syndicated loan from banks (due in December 2003, coupon rate 4.18% p.a.)	-	23,377,500
EBRD loan (due in 2003, coupon rate 1.5%-4.5% p.a.)	-	10,557,278
EBRD loan (due in 2006, coupon rate 2.72%-5.26% p.a.)	7,757,044	
Loans from NBRK	358,098	724,895
Loans from other banks and financial institutions	12,047,117	12,960,479
Deposits of banks	1,875	6,459,019
Accrued interest expenses	214,241	134,611
	<u>76,221,919</u>	<u>54,662,867</u>
Total loans and advances from banks	<u>76,221,919</u>	<u>54,662,867</u>

As of 31 December 2003 and 2002 loans from NBRK include advances received under the program of gold mining enterprises support and development in the amount of KZT 300,410 thousand and KZT 502,030 thousand, respectively, as well as advances from the European Bank for Reconstruction and Development under the program of industry development and construction in the amount of KZT 57,688 thousand and KZT 222,866 thousand as of 31 December 2003 and 2002, respectively.

27. CUSTOMER ACCOUNTS

Customer accounts comprise:

	2003	2002
Time deposits	99,227,367	99,757,812
Repayable on demand	49,163,891	38,654,476
Accrued interest expense on customer accounts	3,198,158	2,959,687
	<u>151,589,416</u>	<u>141,371,975</u>
Total customer accounts	<u>151,589,416</u>	<u>141,371,975</u>

28. DEBT SECURITIES ISSUED

	2003	2002
Eurobonds of Kazkommerts International B.V. due in April 2013 coupon rate 8.5%):		
Tranche A issued in April 2003 at price of 97.548%	50,477,000	-
Tranche B issued in April 2003 and placed in May 2003 at price 99.00%	21,633,000	-
In May 2007 (coupon rate 10.125%):		
Tranche A issued in May 2002 at price of 99.043%	21,633,000	23,377,500
Tranche B issued in November 2002 and allocated in December 2002 at price of 107.00%	7,211,000	7,792,500
	<u>100,954,000</u>	<u>31,170,000</u>
Including/(less):		
(Discount)/premium on debt securities issued	(1,282,078)	185,746
Amounts of accrued interest on debt securities issued	1,631,951	516,890
Eurobonds repurchased by the Bank	<u>(4,787,527)</u>	<u>(1,555,850)</u>
Total issued Eurobonds of Kazkommerts International B.V.	96,516,346	30,316,786
Issued promissory notes	1,717,020	-
Total debt securities issued	<u>98,233,366</u>	<u>30,316,786</u>

Eurobonds were issued by the Kazkommerts International B.V., a subsidiary of Kazkommertsbank, and guaranteed by the Kazkommertsbank. For Eurobonds with a maturity of May 2007 interest is paid semi-annually on 8 May and 8 November, while for those having a maturity of April 2013, interest is paid on 16 April and 16 October.

MKB issued promissory notes with a maturity of 6 months for the amount of KZT 1,048,359 thousand and with a maturity of 1 year for the amount of KZT 668,661 thousand.

29. OTHER BORROWED FUNDS

	Interest rate	2003	Interest rate	2002
Funding by the Small Business Support Fund	8.34%	2,546,170	8.49%	2,952,022
Funding by the Ministry of Finance of the Republic of Kazakhstan	4.92%	909,395	5.41%	1,594,937
Accrued interest expenses		<u>69,908</u>		<u>104,107</u>
Total other borrowed funds		<u>3,525,473</u>		<u>4,651,066</u>

Financing by the Small Business Support Fund is made from funds of EBRD and ADB and is represented as follows:

	2003	2002
EBRD	2,321,942	2,587,110
ABD	224,228	364,912
	<u>2,546,170</u>	<u>2,952,022</u>

Funding from the Ministry of Finance of the Republic of Kazakhstan is provided under the Agriculture Industry Development Programme by funds of the Asian Development Bank, International Bank for Reconstruction and Development (IBRD), and Kreditanstalt für Wiederaufbau (“KfW”) and regional departments, and represented as follows:

	2003	2002
ABD, IBRD and KfW	764,330	1,464,393
Regional departments	145,065	130,544
	<u>909,395</u>	<u>1,594,937</u>

30. OTHER LIABILITIES

	2003	2002
Deferred tax liabilities	2,944,947	1,214,408
Other creditors	2,182,226	1,205,959
Allowance for losses on guarantees and letters of credit	1,426,290	1,790,207
Insurance reserves	1,056,744	420,504
Accounts payable on re-insurers	478,632	580,661
Taxes payable, other than income tax	313,833	336,819
	<u>8,402,672</u>	<u>5,548,558</u>

31. SUBORDINATED DEBT

	Maturity date	Interest rate (%)	2003	2002
Indexed subordinated bonds	2009	8.00%	3,979,575	-
Subordinated notes	2007	11.00%	2,844,149	3,062,997
Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft	2008	9.31-9.94%	1,802,300	1,624,600
International subordinated bonds	2007	5.50%	54,226	1,324,725
Accrued interest expenses			<u>52,664</u>	<u>48,087</u>
			<u>8,732,914</u>	<u>6,060,409</u>

Indexed subordinated bonds were issued in January 2003 in accordance with the decision of the General Shareholders Meeting and the Board of Directors Meeting for the total amount of KZT 7.5 billion and allocated for the amount of KZT 3,979,575 thousand as of 31 December 2003.

Subordinated bonds were issued in 2002 in US dollars and represent an equivalent of US dollars 20,000 thousand as of December 2003 and 2002.

Subordinated debt of Deutsche Investitions und Entwicklungsgesellschaft was received in 2002 in Euro and represents the KZT equivalent of 10,000 thousand Euro as of 31 December 2003 and 2002.

The international subordinated bonds were issued in April 2002 in accordance with a Decision of the Shareholders’ Meeting. These bonds were issued in US dollars and represent the KZT equivalent of USD 376 thousand and US dollars 8,500 thousand at 31 December 2003 and 2002, respectively.

32. SHAREHOLDERS' EQUITY

As of 31 December 2003 the Kazkommertsbank's share capital comprised the following:

	Authorized share capital	Unissued and unpaid share capital	Repurchased share capital	Total share capital
Ordinary shares	3,750,000	(288,587)	(115)	3,461,298
Preference shares	<u>1,250,000</u>	<u>(692,368)</u>	<u>-</u>	<u>557,632</u>
	<u>5,000,000</u>	<u>(980,955)</u>	<u>(115)</u>	<u>4,018,930</u>

As of 31 December 2002 the Kazkommertsbank's share capital comprised the following:

	Authorized share capital	Unissued and unpaid share capital	Repurchased share capital	Total share capital
Ordinary shares	3,750,000	(807,799)	(145)	2,942,056
Preference shares	<u>1,250,000</u>	<u>(692,368)</u>	<u>-</u>	<u>557,632</u>
	<u>5,000,000</u>	<u>(1,500,167)</u>	<u>(145)</u>	<u>3,499,688</u>

Ordinary shares: 375,000,000 shares were authorized, 346,129,915 and 294,220,100 shares were issued and partially paid, 115 and 145 shares were repurchased with par value of KZT 10 at 31 December 2003 and 2002, respectively.

Preference shares: 125,000,000 shares were authorized and registered, 55,763,155 shares were partially paid with par value of KZT 10 each with dividend of up to USD 0.04 per share at 31 December 2003 and 2002, respectively.

JSC Kazkommertsbank and EBRD agreed on EBRD having a share holding in the share capital of Kazkommertsbank and the Board of Directors of EBRD approved on 5 March 2003 the purchase of 15% ordinary shares of JSC Kazkommertsbank in 2003.

33. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

Accrued allowance for losses on letters of credit and guarantees amounted to KZT 1,426,290 thousand and KZT 1,790,207 thousand as of 31 December 2003 and 2002, respectively.

As of 31 December 2003 and 2002, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2003		31 December 2002	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	22,769,317	22,769,317	18,951,094	18,951,094
Letters of credit and other transaction related contingent obligations	23,408,923	4,681,785	18,465,695	1,103,856
Commitments on credits and unused credit lines	15,866,353	-	20,065,094	-
Total contingent liabilities and credit commitments	62,044,593	27,451,102	57,481,883	20,054,950
	Amount Payable	Risk Weighted Amount	Amount Payable	Risk Weighted Amount
Derivative financial instruments				
Foreign currency forwards	4,407,171	14,204	3,117,000	31,170
Foreign currency swaps	216,330	-	487,380	-
Forwards with securities	12,569,911	-	-	-
Total derivative financial instruments	17,193,412	14,204	3,604,380	31,170

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 31 December 2003 and 2002.

Rental commitments – No material rental commitments were outstanding as of 31 December 2003 and 2002.

Fiduciary activities – The Bank renders depositary services. As of 31 December 2003 the Bank had the following securities of clients at nominal account of the securities holder:

Brokerage:

- dealing operations of 956,334,557 securities,
- custodian operations of 54,000,125 securities.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxes – Due to the presence in commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance were made in the financial statements. Tax years remain open to review by the tax authorities for five years.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the respective countries. As of 31 December 2003 and 2002, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting business environment in the Republic of Kazakhstan are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

34 TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24, are those counter parties 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 Bank. (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;

(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. The Bank had the following transactions outstanding with related parties:

	2003		2002	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers	2,619,017	291,512,002	1,625,607	179,018,399
Accrued interest on loans to customers	150,067	10,619,519	83,010	10,246,568
Allowance for loans	(70,647)	(19,069,078)	(100,875)	(14,016,382)
Customer accounts	2,395,219	148,391,258	953,229	138,412,288
Accrued deposit interest	60,678	3,198,158	64,614	2,959,687
Allowance for guarantees and letters of credit	632	1,426,290	670	1,790,207
Unused loan commitments	27,057	15,866,353	32,729	20,065,094
Letters of credit	-	23,408,923	5,455	18,465,695
Guarantees given	27,057	22,769,317	27,274	18,951,094

The increase of loans to related parties and deposits from related parties occurred in 2003 in comparison with 2002 was mainly due to Bank's management and Ular Umit Pension Fund.

Transactions turnover on trading securities of the Bank with related parties in 2003 and 2002 amounted to KZT 391,909 thousand and KZT 67,573 thousand, respectively.

The Bank's investments into equity of related parties as of 31 December 2003 and 2002 amounted to KZT 146,206 thousand and KZT 285,917 thousand, respectively. The decrease was due to the sale of CJSC ABN AMRO Asset Management and CJSC Sinoil shares.

As of 31 December 2002 Central Asian Industrial Investments N.V. placed a deposit in Kazkommerts International B.V., a subsidiary of Kazkommertsbank, of KZT 5,143,050 thousand (equal to US dollars 33,000 thousand) recognized as customers accounts (see Note 27). This deposit later was pledged to secure a loan issued to Karakudukmunai Company.

Included in the profit and loss account for the years ended 31 December 2003, 2002 and 2001 are the following amounts which arose due to transactions with related parties:

	2003		2002		2001	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	178,210	35,106,301	275,541	24,500,940	215,720	17,870,462
Interest expense	(145,829)	(18,623,916)	(99,341)	(11,257,899)	(46,384)	(7,887,765)

In 2003 and 2002, dividends on preference shares were accrued and paid in the amount of KZT 324,141 thousand and KZT 346,626 thousand, respectively. Dividends for 2001 amounted to KZT 1,454,502 thousand.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and 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.

As of 31 December 2003 and 2002 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with national (central) banks – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – As of 31 December 2003 and 2002, the carrying amount of deposits and advances given is a reasonable estimate of their fair value.

Trading securities – As of 31 December 2003 and 2002 trading securities are stated at fair value amounting to KZT 70,427,225 thousand and KZT 21,033,338 thousand, respectively, plus accrued interest income totalling KZT 773,634 thousand and KZT 245,773 thousand, respectively. The fair value of trading securities was determined with reference to an active market.

Derivative financial instruments – As of 31 December 2003 and 2002 derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on quoted market prices.

Securities purchased under repurchase agreements – As of 31 December 2003 and 2002, the carrying amount of securities purchased under repurchase agreements is a reasonable estimate of the fair value.

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

Securities available-for-sale – As of 31 December 2003 and 2002 securities available-for-sale are stated at fair value amounting to KZT 137,431 thousand and KZT 5,539,019 thousand, respectively, plus accrued coupon income totalling KZT 123 thousand as of 31 December 2003. The fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with a similar credit risk and/or maturity, in other cases – by reference to the share in estimated equity capital of the investee. If such quotes do not exist, management estimation is used (see Note 9).

Securities held-to-maturity – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively. The fair value of securities held-to-maturity as of 31 December 2003 and 2002 was KZT 32,372 thousand and KZT 17,067 thousand, respectively, plus accrued interest income totalling KZT 209 thousand as of 31 December 2002. The fair value of securities held-to-maturity was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. For unquoted securities the fair value was determined by reference to market prices of securities with similar credit risk and/or maturity.

Deposits from banks – As of 31 December 2003 and 2002 the carrying amount is a reasonable estimate of their fair value.

Customer accounts – As of 31 December 2003 and 2002 the carrying amount of deposits and current accounts of the Bank’s customers is a reasonable estimate of their fair value.

Securities sold under repurchase agreements – As of 31 December 2003 the carrying value of securities sold under agreement to repurchase amounting to KZT 37,250,675 thousand is a reasonable estimate of their fair value.

Debt securities issued – Debt securities issued are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value.

Other borrowed funds – As of 31 December 2003 and 2002 the carrying amount of other borrowed funds is a reasonable estimate of the fair value.

Subordinated debt – As of 31 December 2003 and 2002 the carrying amount of subordinated debt is a reasonable estimate of its fair value.

36 REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders’ capital plus the Bank’s provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of the Republic of Kazakhstan
0%	State debt securities in Tenge
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
100%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The Bank's actual capital amounts and ratios are presented in the following table:

Capital amounts and ratios	Actual Amount in KZT thousand	For Capital Adequacy purposes in KZT thousand	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As of 31 December 2003				
Total capital	45,578,892	60,642,904	16.43%	8%
Tier 1 capital	49,713,734	49,713,734	13.47%	4%
As of 31 December 2002				
Total capital	32,065,788	37,484,463	16.37%	8%
Tier 1 capital	32,059,916	32,059,916	14.00%	4%

As of 31 December 2003 the Bank included in the computation of Total capital for Capital adequacy purposes the subordinated loan received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this loan is subordinate to the repayments of the Bank's liabilities to all other creditors.

37 RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals on the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The ALMC also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with the positive interest margin. The Department of Financial Control conducts monitoring of the current Bank's financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rates on financial assets and liabilities are disclosed in the corresponding Notes.

The analysis of interest rate and liquidity risk on balance sheet transaction is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2003 Total
ASSETS							
Loans and advances to banks, net	23,064,504	11,609,691	4,189,043	-	-	(414,586)	38,448,652
Trading securities	31,091,764	11,976,770	14,783,571	9,153,225	3,421,895	-	70,427,225
Securities purchased under agreement to resell	2,512,145	60,200	32,600	-	-	-	2,604,945
Investment securities	-	27,286	139,780	2,737	-	-	169,803
Loans to customers	<u>23,672,832</u>	<u>18,849,182</u>	<u>86,946,870</u>	<u>122,369,177</u>	<u>39,673,941</u>	<u>(19,069,078)</u>	<u>272,442,924</u>
Total interest bearing assets	80,341,245	42,523,129	106,091,864	131,525,139	43,095,836	(19,483,664)	384,093,549
Cash and balances with national (central) banks	28,480,419	-	-	-	-	-	28,480,419
Precious metals	300,158	-	-	-	-	-	300,158
Derivative financial instruments	15,399	-	-	-	-	-	15,399
Investments into associates	-	-	-	-	146,206	-	146,206
Fixed assets, net	-	-	-	-	5,867,947	-	5,867,947
Intangible assets, net	-	-	-	-	436,051	-	436,051
Interest accrued on interest bearing assets	4,680,285	1,571,893	3,088,830	1,911,285	282,722	-	11,535,792
Other assets	<u>541,237</u>	<u>318,948</u>	<u>2,022,971</u>	<u>504,162</u>	<u>9,615</u>	<u>(30,520)</u>	<u>3,366,413</u>
TOTAL ASSETS	114,358,743	44,413,970	111,203,665	133,940,586	49,838,377	(19,514,184)	434,241,157
LIABILITIES							
Loans and advances from banks	9,648,980	310,540	39,911,806	26,136,352	-	-	76,007,678
Securities sold under agreements to repurchase	37,216,263	-	-	-	-	-	37,216,263
Customer accounts	64,183,505	19,433,587	51,903,435	12,726,511	144,220	-	148,391,258
Debt securities issued	137,365	1,039,145	540,510	25,838,315	69,046,080	-	96,601,415
Other borrowed funds	-	216,330	982,450	1,623,628	633,157	-	3,455,565
Subordinated debt	-	-	-	4,702,161	3,978,089	-	8,680,250
Total interest bearing liabilities	111,186,113	20,999,602	93,338,201	71,026,967	73,801,546	-	370,352,429
Derivative financial instruments	801	-	-	-	-	-	801
Other financial liabilities	1,707,447	145,476	1,122,703	2,944,012	-	(2,483,034)	8,402,672
Interest accrued on interest bearing liabilities	250,893	821,695	3,385,874	742,872	-	-	5,201,334
Dividends payable	<u>30</u>	<u>374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>404</u>
TOTAL LIABILITIES	113,145,284	21,967,147	97,846,778	74,713,851	73,801,546	(2,483,034)	383,957,640
Interest sensitivity gap	<u>(30,844,868)</u>	<u>21,523,527</u>	<u>12,753,663</u>	<u>60,498,172</u>	<u>(30,705,710)</u>		
Cumulative interest sensitivity gap	<u>(30,844,868)</u>	<u>(9,321,341)</u>	<u>3,432,322</u>	<u>63,930,494</u>	<u>33,224,784</u>		
Cumulative interest sensitivity gap as a percentage of total assets	<u>(7.10%)</u>	<u>(2.15%)</u>	<u>0.79%</u>	<u>14.72%</u>	<u>7.65%</u>		

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2003 is presented in the table below.

OFF-BALANCE SHEET LIABILITIES	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	Total
Accounts payable on forwards	(17,193,412)	-	-	-	-	-	(17,193,412)
Accounts receivable on forwards	<u>17,208,010</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,208,010</u>
Liquidity gap	<u>14,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Cumulative liquidity gap	14,598	14,598	14,598	14,598	14,598		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2002 Total
ASSETS							
Loans and advances to banks, net	43,575,280	-	-	-	-	(170,158)	43,405,122
Trading securities	4,486,828	1,361,260	8,960,062	6,219,521	5,667	-	21,033,338
Securities purchased under agreement to resell	2,311,517	-	-	-	-	(46,260)	2,265,257
Loans to customers, net	9,175,553	13,923,107	46,547,690	97,214,900	12,157,149	(14,016,382)	165,002,017
Investment securities	-	-	5,556,086	-	-	-	5,556,086
Total interest bearing assets	<u>59,549,178</u>	<u>15,284,367</u>	<u>61,063,838</u>	<u>103,434,421</u>	<u>12,162,816</u>	<u>(14,232,800)</u>	<u>237,261,820</u>
Cash and balances with national (central) banks	19,394,771	-	-	-	-	-	19,394,771
Derivative financial instruments	7,000	-	-	-	-	-	7,000
Investments into associates	-	-	-	-	285,917	-	285,917
Fixed assets, net	-	-	-	-	3,447,613	-	3,447,613
Intangible assets, net	-	-	-	-	608,577	-	608,577
Interest accrued on interest bearing assets	2,849,254	2,455,656	1,975,563	2,968,701	290,915	-	10,540,089
Other assets	960,123	123,746	1,744,218	436,607	3,902	(53,085)	3,215,511
TOTAL ASSETS	<u>82,760,326</u>	<u>17,863,769</u>	<u>64,783,619</u>	<u>106,839,729</u>	<u>16,799,740</u>	<u>(14,285,885)</u>	<u>274,761,298</u>
LIABILITIES							
Loans and advances from banks	9,968,303	284,785	38,261,304	5,504,772	509,091	-	54,528,255
Customer accounts	54,531,114	23,753,871	40,408,715	19,718,545	43	-	138,412,288
Debt securities issued	-	-	185,746	29,614,150	-	-	29,799,896
Other borrowed funds	399	467	325,858	3,537,525	682,710	-	4,546,959
Subordinated loan	-	-	-	1,272,265	4,740,057	-	6,012,322
Total interest bearing liabilities	<u>64,499,816</u>	<u>24,039,123</u>	<u>79,181,623</u>	<u>59,647,257</u>	<u>5,931,901</u>	<u>-</u>	<u>233,299,720</u>
Derivative financial instruments	2,203	-	-	-	-	-	2,203
Other liabilities	1,194,695	233,946	356,924	337,874	1,214,408	2,210,711	5,548,558
Interest accrued on interest bearing liabilities	361,027	726,412	2,349,431	326,513	-	-	3,763,383
Dividends payable	406	-	-	-	-	-	406
TOTAL LIABILITIES	<u>66,058,147</u>	<u>24,999,481</u>	<u>81,887,978</u>	<u>60,311,644</u>	<u>7,146,309</u>	<u>2,210,711</u>	<u>242,614,270</u>
Interest sensitivity gap	<u>(4,950,638)</u>	<u>(8,754,756)</u>	<u>(18,117,785)</u>	<u>43,787,164</u>	<u>6,230,915</u>		
Cumulative interest sensitivity gap	<u>(4,950,638)</u>	<u>(13,705,394)</u>	<u>(31,823,179)</u>	<u>11,963,985</u>	<u>18,194,900</u>		
Cumulative interest sensitivity gap as a percentage of total assets	<u>(1.80%)</u>	<u>(4.99%)</u>	<u>(11.58%)</u>	<u>4.35%</u>	<u>6.62%</u>		

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in the liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2002 is presented in the table below.

OFF BALANCE SHEET LIABILITIES	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Allowance for losses	2002 KZT thousand
Accounts payable on forwards	(2,045,880)	(1,558,500)	-	-	-	-	(3,604,380)
Accounts receivable on forwards	2,044,177	1,565,000	-	-	-	-	3,609,177
Liquidity gap	<u>(1,703)</u>	<u>6,500</u>	<u>-</u>	<u>-</u>	<u>-</u>		
Cumulative liquidity gap	(1,703)	4,797	4,797	4,797	4,797		

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALMC controls currency risk by management of the open currency position on the estimated basis of KZT devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of national (central) banks.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	KZT	USD USD1= KZT 144.22	EUR USD1= KZT 180.23	Other currency	Allowance for losses	2003 Total
ASSETS						
Cash and balances with national (central) banks	22,310,905	4,533,995	800,584	834,935	-	28,480,419
Precious metals	-	-	-	300,158	-	300,158
Loans and advances to banks, net	1,786,062	34,219,406	1,963,138	894,632	(414,586)	38,448,652
Trading securities	29,020,756	28,698,320	11,179,126	1,529,023	-	70,427,225
Securities purchased under agreement to resell	585,200	-	-	2,019,745	-	2,604,945
Investment securities	134,694	2,737	-	32,372	-	169,803
Loans to customers, net	58,616,965	223,933,230	6,492,375	2,469,432	(19,069,078)	272,442,924
Derivative financial instruments	15,399	-	-	-	-	15,399
Investments into associates	146,206	-	-	-	-	146,206
Fixed assets, net	5,718,297	-	-	149,650	-	5,867,947
Intangible assets, net	419,320	-	-	16,731	-	436,051
Interest accrued on interest bearing assets	5,067,997	5,981,428	442,368	43,222	-	11,535,015
Other assets	1,506,612	1,846,310	18,959	25,052	(30,520)	3,366,413
TOTAL ASSETS	125,328,413	299,215,426	20,896,550	8,314,952	(19,514,184)	434,241,157
LIABILITIES						
Loans and advances from banks	1,711,996	72,331,640	1,913,930	50,112	-	76,007,678
Securities sold under agreements to repurchase	6,827,000	19,634,063	10,755,200	-	-	37,216,263
Customer accounts	49,212,509	93,237,189	4,647,984	1,293,576	-	148,391,258
Debt securities issued	-	95,831,580	-	769,835	-	96,601,415
Subordinated debt	-	6,877,950	1,802,300	-	-	8,680,250
Other borrowed funds	145,065	2,680,657	629,843	-	-	3,455,565
Derivative financial instruments	801	-	-	-	-	801
Dividends payable	374	-	-	30	-	404
Interest accrued on interest bearing liabilities	361,032	4,742,751	96,575	976	-	5,201,334
Other liabilities	4,745,183	1,143,509	19,720	11,226	(2,483,034)	8,402,672
TOTAL LIABILITIES	63,003,960	296,479,339	19,865,552	2,125,755	(2,483,034)	383,957,640
OPEN BALANCE SHEET POSITION	62,324,453	2,736,087	1,030,998	6,189,197		

Derivative financial instruments

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2003:

DERIVATIVE FINANCIAL INSTRUMENTS	KZT	USD USD1= KZT 144.22	EUR USD1= KZT 180.23	Other currency	Allowance for losses	2003 Total
Accounts payable on forwards	(143,780)	(14,037,219)	-	(3,012,413)	-	(17,193,412)
Accounts receivable on forwards	388,595	10,886,734	2,072,645	3,860,036	-	17,208,010
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	244,814	(3,150,485)	2,072,645	847,623	-	
TOTAL OPEN POSITION	62,569,268	(414,398)	3,103,643	7,036,820	-	
	KZT	USD USD1= KZT 155.85	EUR USD1= KZT 162.46	Other currency	Allowance for losses	2002 Total
ASSETS						
Cash and balances with national (central) banks	8,613,309	9,734,538	666,027	380,897	-	19,394,771
Loans and advances to banks, net	121,773	41,043,691	470,545	1,939,271	(170,158)	43,405,122
Trading securities	8,733,946	12,297,544	1,848	-	-	21,033,338
Loans to customers, net	41,681,084	131,649,095	5,595,330	92,890	(14,016,382)	165,002,017
Investment securities	5,539,019	17,031	-	36	-	5,556,086
Securities purchased under agreement to resell	2,311,517	-	-	-	(46,260)	2,265,257
Derivative financial instruments	7,000	-	-	-	-	7,000
Investments in associates	285,917	-	-	-	-	285,917
Fixed assets, net	3,428,847	-	-	18,766	-	3,447,613
Intangible assets, net	592,880	-	-	15,697	-	608,577
Interest accrued on interest bearing assets	4,578,959	5,757,876	202,733	521	-	10,540,089
Other assets	2,415,591	758,515	85,716	8,774	(53,085)	3,215,511
TOTAL ASSETS	78,309,842	201,258,290	7,022,199	2,456,852	(14,285,885)	274,761,298
LIABILITIES						
Loans and advances from banks	1,191,548	48,712,442	3,055,794	1,568,471	-	54,528,255
Customer accounts	35,859,377	100,395,367	1,318,849	838,695	-	138,412,288
Debt securities issued	-	29,799,896	-	-	-	29,799,896
Other borrowed funds	130,544	3,733,705	682,710	-	-	4,546,959
Derivative financial instruments	2,203	-	-	-	-	2,203
Dividends payable	374	-	-	32	-	406
Interest accrued on interest bearing liabilities	792,656	2,914,725	52,724	3,278	-	3,763,383
Other liabilities	2,391,300	934,572	552	11,423	2,210,711	5,548,558
Subordinated debt	-	4,387,722	1,624,600	-	-	6,012,322
TOTAL LIABILITIES	40,368,002	190,878,429	6,735,229	2,421,899	2,210,711	242,614,270
OPEN BALANCE SHEET POSITION	37,941,840	10,379,861	286,970	34,953		

Derivative financial instruments

The fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2002:

DERIVATIVE FINANCIAL INSTRUMENTS	KZT	USD USD1=KZT 155.85	EUR USD1=KZT 162.46	Other currency	Allowance for losses	2002 Total
Accounts payable on forwards	-	(3,117,000)	(487,380)	-	-	(3,604,380)
Accounts receivable on forwards	3,124,000	485,177	-	-	-	3,609,177
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	3,124,000	(2,631,823)	(487,380)	-		
TOTAL OPEN POSITION	41,065,840	7,748,038	(200,410)	34,953		

Market Risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its products which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Commercial Directorate. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. 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. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Bank's Commercial Directorate sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	OECD countries	Other non-OECD countries	Allowance for losses	2003 Total
ASSETS				
Cash and balances with national (central) banks	-	28,484,613	-	28,484,613
Precious metals	300,158	-	-	300,158
Loans and advances to banks, net	18,975,185	20,022,225	(414,586)	38,582,824
Trading securities	25,748,751	45,452,108	-	71,200,859
Investment securities	-	169,926	-	169,926
Securities purchased under agreement to resell	538	2,607,780	-	2,608,318
Loans to customers, net	9,057,608	293,073,913	(19,069,078)	283,062,443
Derivative financial instruments	-	15,399	-	15,399
Investments in associates	-	146,206	-	146,206
Fixed assets, net	-	5,867,947	-	5,867,947
Intangible assets, net	-	436,051	-	436,051
Other assets	996,797	2,400,136	(30,520)	3,366,413
TOTAL ASSETS	55,079,037	398,676,304	(19,514,184)	434,241,157
LIABILITIES				
Loans and advances from banks	47,533,427	28,688,492	-	76,221,919
Securities sold under agreements to repurchase	30,417,589	6,833,086	-	37,250,675
Debt securities issued	96,516,346	1,717,020	-	98,233,366
Subordinated debt	4,683,221	4,049,693	-	8,732,914
Customer accounts	7,970,186	143,619,230	-	151,589,416
Other borrowed funds	-	3,525,473	-	3,525,473
Derivative financial instruments	-	801	-	801
Other liabilities	100,815	5,818,823	2,483,034	8,402,672
Dividends payable	-	404	-	404
TOTAL LIABILITIES	187,221,584	194,253,022	2,483,034	383,957,640
NET BALANCE SHEET POSITION	(132,142,547)	204,423,282		

	OECD countries	Other non- OECD countries	Allowance for losses	2002 Total
ASSETS				
Cash and balances with national (central) banks	5,727,509	13,667,262	-	19,394,771
Loans and advances to banks, net	35,877,084	7,744,217	(170,158)	43,451,143
Trading securities	2,425,106	18,854,005	-	21,279,111
Investment securities	-	5,556,295	-	5,556,295
Securities purchased under agreement to resell	-	2,313,035	(46,260)	2,266,775
Loans to customers, net	206,583	189,058,384	(14,016,382)	175,248,585
Derivative financial instruments	-	7,000	-	7,000
Investments into associates	-	285,917	-	285,917
Fixed assets, net	-	3,447,613	-	3,447,613
Intangible assets, net	-	608,577	-	608,577
Other assets	2,592,837	675,759	(53,085)	3,215,511
TOTAL ASSETS	46,829,119	242,218,064	(14,285,885)	274,761,298
LIABILITIES				
Loans and advances from banks	41,146,350	13,516,517	-	54,662,867
Debt securities issued	30,316,786	-	-	30,316,786
Subordinated debt	4,729,429	1,330,980	-	6,060,409
Customer accounts	6,118,270	135,253,705	-	141,371,975
Other borrowed funds	-	4,651,066	-	4,651,066
Derivative financial instruments	-	2,203	-	2,203
Other liabilities	95,855	3,241,992	2,210,711	5,548,558
Dividends payable	-	406	-	406
TOTAL LIABILITIES	82,406,690	157,996,869	2,210,711	242,614,270
NET BALANCE SHEET POSITION	(35,577,571)	84,221,195		