

KZI BANK

Kazakhstan-Ziraat International Bank

CJSC Kazakhstan-Ziraat International Bank

Financial Statements in Kazakhstani tenge

For the year ended 31 December 2002

in accordance with International Financial Reporting Standards
(with the Independent Auditor's Report thereon)

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Independent Auditor's Report

To the Board of Directors, CJSC Kazakhstan-Ziraat International Bank

We have audited the accompanying balance sheet of CJSC Kazakhstan-Ziraat International Bank (the "Bank"), as of 31 December 2002, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements, as set out on pages 3 to 30 are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2002 and of the results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

KPMG Janat
Almaty, Kazakhstan
5 March 2003



*KPMG Janat LLC, a company
registered under the laws of the
Republic of Kazakhstan, is a
member of KPMG International, a
Swiss non-operating association.*

CJSC Kazakhstan-Ziraat International Bank
Income Statement
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2002

	Notes	2002 KZT '000	2001 Reclassified KZT '000
Interest income	4	74,543	98,485
Interest expense	4	<u>(6,130)</u>	<u>(17,536)</u>
Net interest income		68,413	80,949
Fee and commission income	5	70,513	76,868
Fee and commission expense	5	<u>(8,510)</u>	<u>(19,452)</u>
Net fee and commission income		62,003	57,416
Net securities loss	6	(2,043)	(1,340)
Net foreign exchange income	7	49,719	50,088
Other income	8	<u>9,155</u>	<u>1,248</u>
Operating income		187,247	188,361
Recovery of provisions	9	151	12,709
General administrative expenses	10	<u>(167,360)</u>	<u>(206,087)</u>
Operating expenses		(167,209)	(193,378)
Income/(loss) before taxes		20,038	(5,017)
Income tax benefit/(expense)	11	1,947	(11,673)
Net income/(loss)		<u>21,985</u>	<u>(16,690)</u>

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

CJSC Kazakhstan-Ziraat International Bank
Balance Sheet
prepared in accordance with International Financial Reporting Standards
as of 31 December 2002

	2002	2001
Notes	<u>KZT '000</u>	<u>Reclassified KZT '000</u>
ASSETS		
Cash	39,152	55,094
Due from the National Bank of the Republic of Kazakhstan	12 90,857	62,458
Placements with banks	13 439,858	715,830
Loans to customers	14 54,423	61,436
Investments	15 799,293	710,862
Other assets	16 56,130	162,327
Property and equipment	17 300,327	311,026
Intangible assets	18 11,548	4,741
Total Assets	<u>1,791,588</u>	<u>2,083,774</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits and balances from banks	-	195,260
Current accounts and deposits from customers	19 648,844	762,740
Other liabilities	20 1,064	4,132
Deferred tax liability	21 9,726	11,673
Total Liabilities	<u>659,634</u>	<u>973,805</u>
Shareholders' Equity		
Share capital	22 1,058,287	1,058,287
Non-distributed reserve fund	22 42,672	42,672
Retained earnings	30,995	9,010
Total Shareholders' Equity	<u>1,131,954</u>	<u>1,109,969</u>
Total Liabilities and Shareholders' Equity	<u>1,791,588</u>	<u>2,083,774</u>

The financial statements as set out on pages 3 to 30 were approved by the Board of Management of the Bank on 4 March 2003.

Halil Tekpynar
Chairman

Mayra Amirzhanova
Chief Accountant

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

CJSC Kazakhstan-Ziraat International Bank
Statement of Cash Flows
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2002

	2002	2001
Note	KZT '000	KZT '000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss) before taxes	20,038	(5,017)
Adjustment for non-cash items:		
Depreciation and amortisation	16,406	17,147
Recovery of provisions	(151)	(12,709)
Recovery of loans written off in prior years	-	5,538
Loss on disposal of fixed assets	1,244	14
Loss on sale of repossessed assets	2,668	-
Non-cash movements from credit activity	-	2,088
	<hr/>	<hr/>
Cash flows from operating activities before changes in operating assets and liabilities	40,205	7,061
(Increase)/decrease in operating assets		
(Increase)/decrease in placements with banks	(214,139)	143,586
Decrease in loans to customers	7,164	207,498
(Increase)/decrease in other assets	(3,668)	1,400
Increase/(decrease) in operating liabilities		
Decrease in current accounts and customer deposits	(113,896)	(100,424)
Decrease in deposits from banks	(195,260)	(409,473)
Decrease in other liabilities	(3,068)	(15,096)
	<hr/>	<hr/>
Cash flows used in operating activities	(482,662)	(165,448)
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of securities, net	(88,431)	(152,154)
Sale of repossessed assets	103,910	-
Purchase of fixed and intangible assets	(10,471)	(5,260)
	<hr/>	<hr/>
Cash flows from/(used in) investing activities	5,008	(157,414)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	317,043
	<hr/>	<hr/>
Cash flows from financing activities	-	317,043
Net decrease in cash and cash equivalents		
	(477,654)	(5,819)
Cash and cash equivalents at the beginning of the year	618,409	624,228
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year	140,755	618,409
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The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

CJSC Kazakhstan-Ziraat International Bank
Statement of Changes in Shareholders' Equity
prepared in accordance with International Financial Reporting Standards
for the year ended 31 December 2002

	Share capital	Reserve fund	Retained earnings	Total
	KZT'000	KZT'000	KZT'000	KZT'000
Balance as of 31 December 2000	728,910	42,672	38,034	809,616
Shareholders' contributions	317,043	-	-	317,043
Capitalisation of retained earnings	12,023	-	(12,023)	-
Other movements	311	-	(311)	-
Net loss for the year	-	-	(16,690)	(16,690)
Balance as of 31 December 2001	1,058,287	42,672	9,010	1,109,969
Net income for the year	-	-	21,985	21,985
Balance at 31 December 2002	1,058,287	42,672	30,995	1,131,954

The statement of changes in shareholders' equity is to be read in conjunction with the notes to, and forming part of, the financial statements.

1. Background

(a) Principal activities

CJSC Kazkommerts-Ziraat International Bank, renamed as Kazakhstan-Ziraat International Bank (the "Bank") was established and started its operations in 1993. On 10 February 1999, the Bank re-registered its share capital with the Ministry of Justice of the Republic of Kazakhstan. On 7 May 1999, the Bank registered its third share emission with the National Securities Commission (Number A3861-2). On 23 January 2001, the Bank registered its fourth share emission with the National Securities Commission (Number A3861-3). T.C. Ziraat-Bankasi, Turkey and Basak Sigorta A.S. (a subsidiary of T.C. Ziraat Bankasi, Turkey) now own 95.5% and 4.5% of the Bank's share capital, respectively.

The main activities of the Bank comprise commercial lending to Kazakhstani and joint venture companies and providing general corporate banking services to its clients. The Bank is located in Almaty and does not have any branches.

(b) Kazakhstani business environment and country risk

The economic environment of Kazakhstan has been assessed by international rating agencies. The country rating of Kazakhstan was increased by the three international rating organizations. Standard & Poor's increased the long-term currency rating to BB and the long-term rating of borrowings in the national currency up to BB+, Moody's Investors Service increased the rating of long-term debentures of Kazakhstan in foreign currency up to Baa3 and the rating of promissory notes of Kazakhstan in the national currency up to Baa1. Fitch increased the rating of the long-term borrowings in foreign currency up to BB+, in the national currency up to BBB-.

The Bank's operations are subject to country risk being the economic, political, and social risks inherent in doing business in Kazakhstan. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

The accompanying financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

The Bank maintains its accounting records in accordance with the legislative requirements of the Republic of Kazakhstan. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”), as promulgated by the International Accounting Standards Board (“IASB”).

(b) Basis of measurement

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available for sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

(c) Measurement and Presentation Currency

The national currency of the Republic of Kazakhstan is the Kazakhstani tenge (“KZT”). Management have determined the Bank’s measurement currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Bank. The KZT is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in KZT has been rounded to the nearest thousand.

(d) Convertibility of the Tenge

The KZT is not a convertible currency outside the Kazakhstan and, accordingly, any conversion of KZT amounts to foreign currencies should not be construed as a representation that KZT amounts have been, could be, or will be in the future, convertible into foreign currencies at the exchange rate shown, or at any other exchange rate.

(e) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Bank’s assets, as well as the future operation of the Bank, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to KZT at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to KZT at the foreign exchange rate reported by the Kazakhstani Stock Exchange at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to KZT at the foreign exchange rate ruling at the date of the transaction. The conversion rates at 31 December 2002 and 2001 were:

<i>Currency</i>	2002	2001
1 United States Dollar	155.85	150.20
1 Great Britain Pound	250.10	218.08
1 Euro	162.47	134.77
1 Russian Rouble	4.90	4.97

(b) Cash and cash equivalents

Cash and cash equivalents comprises cash balances, balances with the NBRK, excluding the minimum reserve requirements of the NBRK, and nostro accounts.

(c) Financial instruments

(i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated or effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition

The Bank recognises financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognised on the day they are transferred to or originated by the Bank.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities are recognised in the income statement.

3. Significant accounting policies (continued)

(d) Derecognition

A financial asset is derecognised when the Bank loses control over contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the asset. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

(e) Offsetting

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

(f) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (refer to note 3(h) below). The cost for self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

3. Significant accounting policies (continued)

(f) Property and equipment (continued)

(ii) Leased assets

Leases under the terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer to Note 3(h) below).

Operating leases, under the terms of which the Bank does not assume substantially all the risks and rewards of ownership, are expensed.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	50
Computers	8
Vehicles	7
Other fixed assets	11

(g) Intangible Assets

(i) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortisation and impairment losses.

(ii) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Amortisation commences from the first day of the month subsequent to the date the asset is available for use. The estimated useful lives are as follows:

	Years
Software	5

3. Significant accounting policies (continued)

(h) Impairment

The carrying amounts of the Bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of the Bank's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed, if there has been a change in the estimates used to determine the receivable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

3. Significant accounting policies (continued)

(j) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Dividends

Subject to specific provisions contained within the Charter, the shareholders may approve in a General Meeting the payment of an annual or an interim dividend whenever the financial position of the Bank justifies such payment in the opinion of the shareholders.

Dividends, whether declared in cash, securities, or property, or other monies payable by the Bank respective to the shares, shall not bear interest. Distributions of the Bank profits are to be made in accordance with the percentage ownership of shares.

(l) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for if they relate to the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Significant accounting policies (continued)

(m) Interest Income and Expense

Interest income and expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(n) Fee and commission income and expense

Fee and commission income and expense are recognized when the corresponding services are provided or received.

(o) Net securities loss

Net securities loss includes gains and losses arising from dealing operations and the fair value revaluation of securities.

(p) Net foreign exchange income

Net foreign exchange income includes gain and losses arising from foreign currency operations and from the revaluation of assets and liabilities denominated in foreign currencies.

(q) Employee benefits

(i) Pension payments

The Bank pays into the state pension fund on behalf of its employees an amount equal to 10% of all employees' wages. These amounts are expensed when they are incurred. Pension fund payments are withheld from employee's salaries and reported in the income statement as part of salaries expense.

The Bank does not have other liabilities related to pension payments.

(ii) Social tax

The Bank is committed to paying social taxes calculated at 21% of the total salaries paid to its employees. These costs are recorded in the income statement as part of employee compensation.

(r) Comparative information

The comparative information has been reclassified to conform to changes in presentation in the current year. Accrued interest income is presented now with a principal amount since the Bank believes that this better reflects the carrying value of the asset at the balance sheet date. Accordingly, the comparative information for 2001 has also been adjusted.

4. Interest income and expense

	2002	2001
	KZT '000	KZT '000
Interest income		
Placements with banks	13,669	18,280
Loans to customers	6,329	22,940
Investments	54,545	57,265
	<u>74,543</u>	<u>98,485</u>
 Interest expense		
Deposits and balances from banks	(1,460)	(11,450)
Current accounts and deposits from customers	(4,670)	(6,086)
	<u>(6,130)</u>	<u>(17,536)</u>

5. Fee and commission income and expense

	2002	2001
	KZT '000	KZT '000
Fee and commission income		
Commission income from transfer services	49,598	49,607
Commission income from issued guarantees	10,364	15,815
Commission income from clients' account maintenance	8,102	9,548
Commission income from documentary settlements	1,439	-
Other commission income	1,010	1,898
	<u>70,513</u>	<u>76,868</u>
 Fee and commission expense		
Commission expense from transfer services	(3,304)	(3,866)
Commission expense from sale/purchase of securities	(371)	(265)
Commission expense from sale/purchase of foreign currency	(1,037)	(7,230)
Commission expense from custodian services	(100)	-
Other commission expense	(3,698)	(8,091)
	<u>(8,510)</u>	<u>(19,452)</u>

6. Net securities loss

	2002	2001
	KZT '000	KZT '000
Gain from sales of securities	-	614
Losses from sales of securities	(2,043)	(1,954)
	<u>(2,043)</u>	<u>(1,340)</u>

7. Net foreign exchange income

	2002	2001
	KZT '000	KZT '000
Net gain on revaluation of assets and liabilities	12,179	12,947
Net gain on foreign currencies trading	37,540	37,141
	<u>49,719</u>	<u>50,088</u>

8. Other income

	2002 KZT '000	2001 KZT '000
Penalties and fines	25	25
Other income	9,130	1,223
	<u>9,155</u>	<u>1,248</u>

9. Provisions

	Loans	Other assets	Total
Balance at 1 January 2001	(434)	(7,997)	(8,431)
Provisions made in the year	(826)	-	(826)
Write-off of assets	-	7,997	7,997
Balance at 31 December 2001 (refer Note 14)	<u>(1,260)</u>	<u>-</u>	<u>(1,260)</u>
Net reversal of provisions	151	-	151
Balance at 31 December 2002 (refer Note 14)	<u>(1,109)</u>	<u>-</u>	<u>(1,109)</u>

In addition, in 2001 the Bank reversed KZT 5,538 thousand in respect of loans that had been previously written off, making a total credit to the income statement of KZT 12,709 thousand.

10. General administrative expenses

	2002 KZT '000	2001 KZT '000
Employee compensation	(92,614)	(107,297)
Administrative expenses	(24,795)	(31,342)
Taxes except income tax	(22,220)	(40,032)
Depreciation and amortisation	(16,406)	(17,147)
Commission expense from audit	(4,433)	(3,750)
Other expenses	(4,220)	(3,959)
Loss on sale of repossessed assets	(2,668)	-
Fines and penalties	(4)	(2,560)
	<u>(167,360)</u>	<u>(206,087)</u>

11. Income tax

	2002 KZT '000	2001 KZT '000
<i>Current tax expense</i>		
Total current tax expense	<u>-</u>	<u>-</u>
<i>Deferred tax expense</i>		
(Reversal)/origination of timing differences	<u>(1,947)</u>	<u>11,673</u>
Total income tax (benefit)/expense in the income statement	<u>(1,947)</u>	<u>11,673</u>

11. Income tax (continued)

The Bank's applicable tax rate is 30% (2001: 30%).

Reconciliation of the effective tax rate:

	2002		2001	
	<u>KZT '000</u>	<u>%</u>	<u>KZT '000</u>	<u>%</u>
Income/(loss) before tax	17,939	100.0	(5,017)	100.0
Income tax using the applicable tax rate	5,382	30.0	(1,505)	30.0
Tax effect of permanent differences	(7,329)	(40.8)	13,178	(262.7)
	<u>(1,947)</u>	<u>(10.8)</u>	<u>11,673</u>	<u>(232.7)</u>

12. Due from the NBRK

	2002 KZT '000	2001 KZT '000
Correspondent account with the NBRK	90,857	62,458
	<u>90,857</u>	<u>62,458</u>

The NBRK sets up minimum reserve requirements as a measure of regulating activities of the banks of the Republic of Kazakhstan and protecting the interests of depositors. The amount of the minimum reserve is determined as a fixed percentage of all deposit obligations of the Bank to individuals and legal entities other than banks. The Bank is liable either to deposit a required amount to the NBRK's accounts calculated as of the first day of the following month or to allocate funds to cash and their equivalents so that the average monthly balance of these funds exceeds the minimum required reserve. From November 2002 banks that are not part of the multiple insurance system shall be liable to deposit money in KZT with the NBRK on a monthly basis, so that the deposited amount for each month should not be less than minimum reserve requirements estimated as of the first business day of this month. The Bank is not part of the multiple insurance system. As of 31 December 2002 the Bank met these requirements stipulated by the NBRK, which amounted to KZT 37,467 thousand (2001: KZT 64,665 thousand). These balances have been excluded from cash and cash equivalents (refer Note 28).

13. Placements with banks

	2002 KZT '000	2001 Reclassified KZT '000
Nostro accounts (refer Note 28)	41,616	388,651
Nostro accounts with related banks (refer Note 28)	6,597	176,871
Demand deposits	-	150,200
Short-term deposits	389,625	-
Accrued interest income on deposits in other banks	2,020	108
	<u>439,858</u>	<u>715,830</u>

14. Loans to customers

Industry and geographical analysis of the loan portfolio

Loans and advances to customers are issued primarily to customers located within the Republic of Kazakhstan and who operate in the following economic sectors:

	2002	2001
	KZT '000	Reclassified KZT '000
Retail customers	20,737	-
Commercial customers		
Trade	31,875	1,950
Chemical industry	2,855	1,118
Communication and post	-	28,718
Automotive and related services industries	-	21,028
Other	-	9,870
Accrued interest on loans to customers	65	12
	<u>55,532</u>	<u>62,696</u>
Provisions (refer Note 9)	<u>(1,109)</u>	<u>(1,260)</u>
Total	<u><u>54,423</u></u>	<u><u>61,436</u></u>

Staff Loans

Staff loans at 31 December 2002, disclosed within "Retail customers" above, amounted to KZT 2,518 thousand (2001: KZT 3,405 thousand). These loans are repayable up to two years and bear interest rates ranging from 10% to 17% per annum (2001: 10% per annum).

Significant credit exposures

As at 31 December 2002 the Bank had exposure to 2 borrowers (2001: 2) whose loan balances exceeded more than 10% of the total loans to customers. The gross value of these loans as of 31 December 2002 was KZT 27,681 thousand (2001: KZT 43,738 thousand).

Loan maturities

The maturity of the Bank's loan portfolio is presented in Note 31, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

15. Investments

	2002	2001
	KZT '000	Reclassified KZT '000
Held-to-maturity debt securities		
Turkish Government Eurobonds	195,527	190,437
Short – term notes of the NBRK	596,788	498,615
Treasury bills of the Kazakhstan Government	-	14,958
Accrued income on held-to-maturity securities	3,478	3,352
Equity investments – available for sale		
Kazakhstan Stock Exchange	3,500	3,500
	<u>799,293</u>	<u>710,862</u>

16. Other assets

	2002	2001
	KZT '000	Reclassified KZT '000
Inventory	1,753	1,047
Prepayments	12,389	3,076
Tax settlements	1,500	350
Due for repossessed assets sold	33,276	-
Repossessed assets held for sale	7,212	157,854
	<u>56,130</u>	<u>162,327</u>

17. Property and equipment

<u>In thousands of KZT</u>	Land and buildings	Computers	Vehicles	Other fixed assets	Total
Cost					
At 1 January 2002	276,485	33,578	10,487	39,026	359,576
Additions	-	1,423	-	80	1,503
Disposals	-	(5,344)	(2,425)	(2,368)	(10,137)
At 31 December 2002	<u>276,485</u>	<u>29,657</u>	<u>8,062</u>	<u>36,738</u>	<u>350,942</u>
Depreciation					
At 1 January 2002	4,546	21,832	6,491	15,681	48,550
Depreciation charge	4,872	4,745	1,349	3,279	14,245
Disposals	-	(5,344)	(2,425)	(4,411)	(12,180)
At 31 December 2002	<u>9,418</u>	<u>21,233</u>	<u>5,415</u>	<u>14,549</u>	<u>50,615</u>
Carrying value					
At 31 December 2002	<u>267,067</u>	<u>8,424</u>	<u>2,647</u>	<u>22,189</u>	<u>300,327</u>
At 31 December 2001	<u>271,939</u>	<u>11,746</u>	<u>3,996</u>	<u>23,345</u>	<u>311,026</u>

18. Intangible assets

<u>In thousands of KZT</u>	Software
Cost	
At 1 January 2002	9,586
Additions	8,968
At 31 December 2002	<u>18,554</u>
Amortisation	
At 1 January 2002	4,845
Amortisation charge for the year	2,161
At 31 December 2002	<u>7,006</u>
Carrying value	
At 31 December 2002	<u>11,548</u>
At 31 December 2001	<u>4,741</u>

19. Current accounts and deposits from customers

	2002	2001
	KZT '000	Reclassified KZT '000
Demand deposits	568,051	665,160
Current accounts	80,793	97,186
Accrued interest payable on customer deposits	-	394
	<u>648,844</u>	<u>762,740</u>

Blocked accounts

As of 31 December 2002, the Bank maintained guarantee deposits of KZT 67,866 thousand (2001: KZT 85,145 thousand) which were blocked by the Bank as collateral pledged for loans and off-balance sheet credit instruments granted by the Bank.

20. Other liabilities

	2002	2001
	KZT '000	KZT '000
Payables to employees	-	22
Other creditors on non-banking activity	1,064	-
Other creditors on banking activity	-	4,110
	<u>1,064</u>	<u>4,132</u>

21. Deferred tax

Deferred tax assets and liabilities are attributable to the following items:

<u>In thousands of KZT</u>	Assets		Liabilities		Net	
	2002	2001	2002	2001	2002	2001
Property and equipment	-	-	(9,788)	(12,100)	(9,788)	(12,100)
Intangible assets	394	427	-	-	394	427
Loans to customers	-	-	(332)	-	(332)	-
Net deferred tax assets/(liabilities)	<u>394</u>	<u>427</u>	<u>(10,120)</u>	<u>(12,100)</u>	<u>(9,726)</u>	<u>(11,673)</u>

Movement in temporary differences during the year:

<u>In thousands of KZT</u>	Balance 1 January 2002	Recognised in income	Balance 31 December 2002
Property and equipment	(12,100)	2,312	(9,788)
Intangible assets	427	(33)	394
Loans to customers	-	(332)	(332)
Deferred tax liability	<u>(11,673)</u>	<u>1,947</u>	<u>(9,726)</u>

22. Share capital and non-distributed reserve fund

Share capital

The authorised, issued and outstanding share capital comprises 85,000 ordinary shares (2001: 85,000). All shares have a par value of 12,450 KZT.

Non-distributed reserve fund

The non-distributed reserve fund represents amounts set aside, as allowed by the regulations of the Republic of Kazakhstan, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The fund has been created in accordance with the Bank's Charter.

23. Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

(i) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counter party on their obligation to the Bank.

The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Bank's credit risk.

The Bank's credit policy is reviewed and approved by the Board of Directors.

(ii) Interest rate risk

Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on current earnings and on the value of interest sensitive assets and liabilities.

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

See Note 30 "Average effective interest rates".

(iii) Liquidity risk

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Bank's liquidity policy is reviewed and approved by the Board of Directors.

See Note 31 "Maturity analysis".

(iv) Foreign exchange rate risk

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currencies risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Bank's foreign currency policy is reviewed and approved by the Board of Directors.

See Note 32 "Currency analysis".

24. Commitments

The Bank provides letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the balance sheet date if counter parties failed completely to perform as contracted.

	2002 KZT '000	2001 KZT '000
<i>Contracted amount</i>		
Guarantees	90,206	276,940

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as many of these commitments may expire or terminate without being funded.

At 31 December 2002 the extent of collateral held for guarantees was KZT 106,049 thousand (2001: KZT 679,898 thousand).

25. Contingencies

(i) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to Bank operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(ii) Litigation

The Bank is not involved in legal proceedings, including arbitration, other than routine legal proceedings in the ordinary course of business. In the opinion of management, the final disposition of these legal proceedings will not have a material adverse effect on the financial condition or results of operations of the Bank.

(iii) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

25. Contingencies (continued)

(iii) Taxation contingencies (continued)

These facts may create tax risks in the Republic of Kazakhstan substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

26. Related party transactions

Related parties are entities controlled by T. C. Ziraat Bank Group, a company incorporated in Turkey. During the year to 31 December 2002, the only related party transactions that the Bank had were in respect of nostro accounts (refer Note 13). No interest was received on the nostro accounts.

27. Subsequent events

In January 2003 the Bank merged with CJSC “Turkey Kazakhstan International Bank” following the merger of the parent banks in Turkey.

28. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

	2002 KZT '000	2001 KZT '000
Cash	39,152	55,094
Correspondent account with the NBRK (refer Note 12)	90,857	62,458
Nostro accounts with other banks (refer Note 13)	41,616	388,651
Nostro accounts with related banks (refer Note 13)	6,597	176,871
Minimum reserve in the NBRK (refer Note 12)	<u>(37,467)</u>	<u>(64,665)</u>
	<u>140,755</u>	<u>618,409</u>

29. Fair value of financial instruments

The Bank has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Kazakhstan markets it is not possible to determine the fair value of the all of its financial assets and financial liabilities.

29. Fair value of financial instruments (continued)

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for include cash amounts, due from the NBRK, financial instruments held for trading, non-Kazakhstan, non-related party placements with banks and financial institutions and deposits and balances from banks and other financial institutions. The Bank estimates the fair value of these assets to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets.

30. Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2002 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities. Amounts of interest bearing assets and liabilities balances below are presented with related accrued income or expense at the end of year.

	2002 Value	2002 Average effective interest rate	2001 Value	2001 Average effective interest rate
	KZT '000	%	KZT '000	%
Interest Bearing Assets				
Placements with banks	439,858		715,830	
- USD	428,481	0-3.17	683,847	0-3.74
- other currencies	11,377	-	31,983	-
Loans to customers	54,423		61,436	
- KZT	28,438	10-26	10,778	10-20
- USD	25,985	10-22	50,658	14-20
Investments	799,293		710,862	
- KZT	600,288	5.7	518,500	5.43-7.3
- USD	199,005	10.4	192,362	10.31
Interest Bearing Liabilities				
Deposits and balances from banks	-		195,260	
- USD	-	-	195,260	3.75
Current accounts and deposits from customers	648,844		762,740	
- KZT	300,429	-	221,519	-
- USD	340,306	0-3	540,179	0-3
- other currencies	8,109	-	1,042	-

31. Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2002. Due to the fact that substantially all the financial instruments of by the Bank are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

31. Maturity analysis (continued)

	Less than 1 month KZT '000	1 to 3 months KZT '000	3 months to 1 year KZT '000	1 year to 5 years KZT '000	More than 5 years KZT '000	No maturity KZT '000	Total KZT '000
Assets							
Cash	39,152	-	-	-	-	-	39,152
Due from the NBRK	53,390	-	-	-	-	37,467	90,857
Placements with banks	281,988	157,870	-	-	-	-	439,858
Loans to customers	-	3,054	35,056	16,313	-	-	54,423
Investments	169,700	427,088	-	199,005	-	3,500	799,293
Other assets	-	-	56,130	-	-	-	56,130
Property and equipment	-	-	-	-	-	300,327	300,327
Intangible assets	-	-	-	-	-	11,548	11,548
Total assets	544,230	588,012	91,186	215,318	-	352,842	1,791,588
Liabilities							
Current accounts and deposits from customers	568,051	13,586	55,519	11,688	-	-	648,844
Other liabilities	-	-	-	1,064	-	-	1,064
Deferred tax liability	-	-	9,726	-	-	-	9,726
Total liabilities	568,051	13,586	65,245	12,752	-	-	659,634
Net position as at 31 December 2002	(23,821)	574,426	25,941	202,566	-	352,842	1,131,954
Net position as at 31 December 2001	374,417	135,810	(60,040)	355,688	-	304,094	1,109,969

32. Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2002:

	KZT	USD	Other	Total
	KZT '000	KZT '000	currencies	KZT '000
			KZT '000	
Assets				
Cash	23,423	15,729	-	39,152
Due from the NBRK	90,857	-	-	90,857
Placements with banks	-	428,481	11,377	439,858
Loans to customers	28,438	25,985	-	54,423
Investments	600,288	199,005	-	799,293
Other assets	56,130	-	-	56,130
Property and equipment	300,327	-	-	300,327
Intangible assets	11,548	-	-	11,548
Total assets	1,111,011	669,200	11,377	1,791,588
Liabilities				
Current accounts and deposits from customers	300,429	340,306	8,109	648,844
Other liabilities	1,064	-	-	1,064
Deferred tax liability	9,726	-	-	9,726
Total liabilities	311,219	340,306	8,109	659,634
Net Position as of 31 December 2002	799,792	328,894	3,268	1,131,954
Net Position as of 31 December 2001	844,539	234,489	30,941	1,109,969

33. Concentration of assets and liabilities

The geographical concentration of assets and liabilities as at 31 December 2002 was as follows:

	Government of the Republic of Kazakhstan KZT '000	Other Kazakh Entities (1) KZT '000	Other Non- OECD KZT '000	OECD KZT '000	Total KZT '000
Assets					
Cash	23,423	-	-	15,729	39,152
Due from the NBRK	90,857	-	-	-	90,857
Placements with banks	-	433,261	6,597	-	439,858
Loans to customers	-	54,423	-	-	54,423
Investments	599,567	3,500	196,226	-	799,293
Other assets	-	56,130	-	-	56,130
Property and equipment	-	300,327	-	-	300,327
Intangible assets	-	11,548	-	-	11,548
Total assets	713,847	859,189	202,823	15,729	1,791,588
Liabilities					
Current accounts and deposits from customers	-	648,844	-	-	648,844
Other liabilities	-	1,064	-	-	1,064
Deferred tax liability	-	9,726	-	-	9,726
Total liabilities	-	659,634	-	-	659,634
Net position as of 31 December 2002	713,847	199,555	202,823	15,729	1,131,954
Net position as of 31 December 2001	633,797	(118,648)	444,620	150,200	1,109,969

(1) Includes all entities domiciled in the Republic of Kazakhstan, including the Kazakhstani subsidiaries of foreign entities.