

**Consolidated
Financial Statements**

Bank TuranAlem and Subsidiaries

*December 31, 2001 and 2000
with Report of Independent Auditors*



Bank TuranAlem and Subsidiaries

Consolidated Financial Statements

December 31, 2001 and 2000

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□ Ernst & Young
st. Furmanova 273
Almaty 480099 Kazakhstan
Phone: 7(3272) 585 960
7(3272) 585 969
Fax: 7(3272) 585 961

□ Эрнст энд Янг
Казахстан, 480099 г. Алматы
Фурманова 273
Телефон: 7(3272) 585 960
7(3272) 585 969
Факс: 7(3272) 585 961

Report of Independent Auditors

To the Board of Directors and Shareholders
Bank TuranAlem and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bank TuranAlem and Subsidiaries (the "Group") as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with International Accounting Standards.



Almaty
March 29, 2002



Bank TuranAlem and Subsidiaries

Consolidated Balance Sheets

December 31, 2001 and 2000
(in millions of Kazakh Tenge)

| | Notes | 2001 | 2000 |
|---|-------|----------------|---------------|
| Assets | | | |
| Cash and cash equivalents | 4 | 17,220 | 7,005 |
| Obligatory reserves | 5 | 4,684 | 2,450 |
| Due from other banks | 6 | 150 | - |
| Trading securities | 7 | 17,831 | 7,989 |
| Commercial loans and advances, net | 8,9 | 108,049 | 53,806 |
| Accrued interest receivable | | 2,440 | 1,624 |
| Premises and equipment, net | 10 | 5,441 | 4,999 |
| Other assets | | 1,473 | 1,332 |
| Total assets | | <u>157,288</u> | <u>79,205</u> |
| Liabilities and shareholders' equity | | | |
| Amounts owed to the government and the NBK | 11 | 2,433 | 766 |
| Due to other banks and financial institutions | 12 | 41,723 | 18,474 |
| Amounts owed to customers | 13 | 81,008 | 46,933 |
| Debt securities issued | 14 | 13,310 | - |
| Accrued interest payable | | 1,455 | 1,049 |
| Other liabilities | | 1,708 | 2,435 |
| Total liabilities | | <u>141,637</u> | <u>69,657</u> |
| Minority interest | | <u>809</u> | <u>613</u> |
| Shareholders' equity: | | | |
| Share capital: | | | |
| Common shares | 16 | 11,931 | 11,931 |
| Preferred shares | 16 | 4,160 | - |
| | | <u>16,091</u> | <u>11,931</u> |
| Additional paid in capital | | 28 | 28 |
| Treasury shares | | (49) | (246) |
| Accumulated deficit | | (1,228) | (2,778) |
| Total shareholders' equity | | <u>14,842</u> | <u>8,935</u> |
| Total liabilities and shareholders' equity | | <u>157,288</u> | <u>79,205</u> |

The accounting policies and explanatory notes are an integral part of the financial statements.



Bank TuranAlem and Subsidiaries

Consolidated Statements of Income

Years ended December 31, 2001 and 2000
(in millions of Kazakh Tenge, except earnings per share)

| | Notes | 2001 | 2000 |
|--|-------|----------------|----------------|
| Interest income: | | | |
| Loans | | 14,004 | 7,763 |
| Trading securities | | 1,422 | 1,081 |
| Deposits with other banks | | 219 | 103 |
| | | <u>15,645</u> | <u>8,947</u> |
| Interest expense | | <u>(6,671)</u> | <u>(3,416)</u> |
| Net interest income before provision for losses | | 8,974 | 5,531 |
| Provision for losses | 9 | <u>(5,838)</u> | <u>(2,987)</u> |
| Net interest income after provision for losses | | <u>3,136</u> | <u>2,544</u> |
| Fee and commission income | | 3,358 | 1,988 |
| Gains less losses from trading securities | 17 | 123 | (439) |
| Gains less losses from foreign currencies | 18 | 1,678 | 2,336 |
| Other operating income | 19 | 650 | 309 |
| Total other income | | <u>5,809</u> | <u>4,194</u> |
| Payroll and other staff costs | | (1,953) | (1,550) |
| General and administrative expenses | | (1,108) | (1,075) |
| Occupancy and equipment | | (1,427) | (578) |
| Taxes other than income taxes | | (902) | (710) |
| Legal & professional fees | | (192) | (106) |
| Advertising | | (345) | (206) |
| Fee and commission expense | | (491) | (419) |
| Custom duties | | (616) | (1,085) |
| Deposit insurance | | (267) | (94) |
| Loss on disposal of premises and equipment | | (52) | – |
| Total operating expenses | | <u>(7,353)</u> | <u>(5,823)</u> |
| Income before income taxes | | 1,592 | 915 |
| Income tax expense | 15 | – | – |
| Net income before minority interest | | 1,592 | 915 |
| Minority interest | | (1) | (18) |
| Net income after minority interest (in millions of Kazakh Tenge) | | <u>1,591</u> | <u>897</u> |
| Basic earnings per share (in Kazakhstan tenge) | 21 | 1,250 | 870 |
| Diluted earnings per share (in Kazakhstan tenge) | 21 | 1,215 | 870 |

The accounting policies and explanatory notes are an integral part of the financial statements.



Bank TuranAlem and Subsidiaries

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2001 and 2000

(in millions of Kazakh Tenge)

| | Notes | Share Capital- Common Shares | Share Capital- Preferred Shares | Additional Paid in Capital | Treasury Shares | Accumulated Deficit | Total |
|----------------------------------|-------|---------------------------------------|--|----------------------------------|--------------------|------------------------|--------|
| At December 31, 1999 | | 8,757 | – | 1 | – | (3,675) | 5,083 |
| Capital contributions | 16 | 3,174 | – | 27 | – | – | 3,201 |
| Purchase of treasury shares | | – | – | – | (246) | – | (246) |
| Net income | | – | – | – | – | 897 | 897 |
| At December 31, 2000 | | 11,931 | – | 28 | (246) | (2,778) | 8,935 |
| Capital contributions | 16 | – | 4,160 | – | – | – | 4,160 |
| Sale of treasury shares | | – | – | – | 197 | – | 197 |
| Net income | | – | – | – | – | 1,591 | 1,591 |
| Dividends on preferred shares | | – | – | – | – | (41) | (41) |
| At December 31, 2001 | | 11,931 | 4,160 | 28 | (49) | (1,228) | 14,842 |

The accounting policies and explanatory notes are an integral part of the financial statements.



Bank TuranAlem and Subsidiaries

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000
(in millions of Kazakh Tenge)

| | 2001 | 2000 |
|--|----------|----------|
| Cash flows from operating activities | | |
| Net income | 1,591 | 897 |
| Adjustments for: | | |
| Depreciation | 634 | 133 |
| Amortization | 33 | 24 |
| Provision for losses | 5,838 | 2,987 |
| Net loss (gain) on disposal of premises and equipment | 52 | (33) |
| Change in unrealized gain on securities | 164 | 169 |
| Operating income before changes in net operating assets | 8,312 | 4,177 |
| (Increase) decrease in operating assets: | | |
| Obligatory reserves with the NBK | (2,234) | (287) |
| Due from other banks | (150) | - |
| Trading securities | (9,850) | (6,543) |
| Commercial loans and advances | (60,081) | (29,804) |
| Accrued interest receivable | (816) | (1,035) |
| Other assets | (42) | 1,579 |
| Increase (decrease) in operating liabilities: | | |
| Amounts owed to the government and the NBK | 1,667 | 66 |
| Due to other banks and financial institutions | 23,249 | 9,451 |
| Amounts owed to customers | 34,075 | 18,709 |
| Accrued interest payable | 406 | 585 |
| Other liabilities | (936) | 602 |
| Net cash from operating activities | (6,400) | (2,500) |
| Cash flows from investing activities | | |
| Cash acquired in acquisition of subsidiaries, net of cash paid | 43 | - |
| Purchases of premises and equipment | (1,337) | (1,577) |
| Proceeds from sale of fixed assets | 241 | 64 |
| Net cash from investing activities | (1,053) | (1,513) |
| Cash flows from financing activities | | |
| Capital contributions | 4,160 | 3,201 |
| Sale (purchase) of treasury shares | 197 | (246) |
| Debt securities issued | 13,310 | - |
| Minority interest | 1 | 18 |
| Net cash from financing activities | 17,668 | 2,973 |
| Net change in cash and cash equivalents | 10,215 | (1,040) |
| Cash and cash equivalents at beginning of year | 7,005 | 8,045 |
| Cash and cash equivalents at end of year | 17,220 | 7,005 |
| Supplemental information: | | |
| Interest paid | 6,265 | 2,831 |
| Interest received | 14,829 | 7,912 |

The accounting policies and explanatory notes are an integral part of the financial statements.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2001 and 2000
(in millions of Kazakh Tenge unless otherwise stated)

1. Description of Business

Bank Turan Alem and Subsidiaries (the "Group") provide retail and corporate banking services in Kazakhstan. The Parent company of the Group is Bank Turan Alem (the "Bank") which is registered as a closed joint stock company, incorporated and domiciled in the Republic of Kazakhstan. Note 20 lists all of the Bank's subsidiaries whose activities include trading securities, leasing, collateralised small consumer lending, insurance, pension fund management, and real estate management.

The address of the Bank's registered office is: 97 Zholdasbekov Street, Samal-2, Almaty, 480099, Republic of Kazakhstan.

The Bank has a primary listing on the Kazakhstan Stock Exchange, with further listing of debt securities on the Luxemburg Stock Exchange.

The Bank's head office is in Almaty. The Bank has 24 branches and 246 cash settlement units located throughout Kazakhstan.

The Group had 3,298 and 2,905 employees as December 31, 2001 and 2000 respectively.

2. Basis of Preparation

The Group maintains its records and prepares its consolidated financial statements in Kazakh Tenge ("KZT") in accordance with Kazakh accounting and tax regulations. The accompanying consolidated financial statements differ from the consolidated financial statements issued for statutory purposes in Kazakhstan in that they reflect certain adjustments, not recorded on the Group's books, which are appropriate to present the financial position, results of operations, and cash flows of the Group in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee. The principal adjustments are primarily related to the allowance for losses, and the accounting for subsidiaries and affiliates. The KZT is not a fully convertible currency outside the Republic of Kazakhstan.

Transactions denominated in foreign currencies are recorded by using the exchange rates quoted by NBK, which closely approximate the market exchange rates quoted by the Kazakhstan Stock Exchange.

The exchange rates at December 31, 2001 and 2000 were KZT 150.2 = US\$1 and KZT 144.50 = US\$1, respectively.

At March 29, 2002, the official exchange rate was KZT 152.2 = US\$1. The effect of this devaluation on KZT-denominated assets and liabilities has not been determined.

The accompanying financial statements were authorized for issue by the Bank's Chairman and Deputy Chairman on March 29, 2002.



Notes to the Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies

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

Basis of Presentation

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

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from those estimated.

The Group adopted International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement” on January 1, 2001. This has not resulted in any major changes in accounting policies as the accounting policies adopted by the Bank for the measurement of assets and liabilities prior to January 1, 2001 closely approximate the methods of classification, recognition, and measurement of financial instruments adopted by the Bank in applying IAS 39.

Subsidiaries and Consolidation

Subsidiaries comprise those companies and other entities (including Special Purpose Entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies. All subsidiaries have been consolidated.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions, balances, and unrealized surpluses and deficits on transactions between group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Related Parties

Related parties include the Bank’s shareholders, key management personnel, investee and affiliated companies.

Cash and Cash Equivalents

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

3. Summary of Significant Accounting Policies (continued)

Obligatory Reserves

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

Due from other Banks

Due from other banks includes amounts due from, and loans to, other financial institutions, which mature within more than ninety days after the respective balance sheet date, and amounts which mature within ninety days but are not free of contractual encumbrances.

Impairment and uncollectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognized in the statement of income.

Trading Securities

Securities purchased with the intention of recognizing short-term profits are stated at their estimated fair value and classified as trading securities. All securities are initially recognized at cost, being the fair value of the consideration given including acquisition charges associated with the security purchased. After initial recognition, securities, which are classified as held for trading, are measured at estimated fair value. Changes in the estimated fair value are included in the accompanying statement of income within gains less losses from securities.

In determining estimated fair value, trading securities are valued at the last trade price, if quoted on an exchange, or the last bid price, if traded over-the-counter.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at the trade date, which is the date that the Group commits to purchase or sell the asset.

Commercial Loans

All loans are originated by the Group by providing money directly to the borrower and are carried at amortized cost. All loans and advances are recognized when cash is advanced to borrowers.

Notes to the Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Commercial Loans (continued)

The accrual of interest income on loans is generally discontinued when a loan becomes 30 days past due as to principal or interest. When a loan is placed on non-accrual status and becomes 60 days past due, interest accrued but not received is reversed against interest income. Subsequent payments by borrowers are applied to either principal or delinquent interest based on estimated collectibility of the loan and delinquent interest at the time of payment. A non-accrual loan may be restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Allowance for Loan Losses

A credit risk allowance for loan losses is established if there is objective evidence that the Group will not be able to collect all amounts due.

The allowance is based on the Bank's assessment of the credit portfolio, previous loss experience, known and inherent risks in the credit portfolio, the estimated value of any underlying collateral, adverse situations that may affect a borrower's ability to repay, and current economic conditions. The allowance also includes estimates covering probable losses on guarantees.

In addition to the allowance for specific impaired loans and advances, a pooled allowance is made for potential impairment against portfolios of loans and advances based on estimated and historical default rates.

When a loan is deemed uncollectible, it is charged off against the allowance for losses. Subsequent recoveries are credited back to the allowance for loan losses. Actual charge offs, net of recoveries, are deducted from the allowance, while the provision for losses replenishes the allowance.

The Bank allocates the allowance to certain sectors based on the relative risk characteristics of the loan portfolio and other financial instruments with credit exposure. Allocations are based on periodic reviews of individual loans outstanding, an analysis of the migration of loans, and actual loan experience. Specific reserves are established on an individual facility basis to recognize credit losses on outstanding loans and other credit exposures. Pooled reserves are established for portfolios of loans based upon credit rating and historical loss trends. Although the allowance for losses is allocated to individual loans and portfolios, it is available to offset losses in the entire portfolio.



Notes to the Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Investments

Investments in associates are accounted for using the equity method of accounting and are included in other assets. These are undertakings over which the Group generally has between 20% and 50% of the voting rights, and over which the Group has significant influence, but which it does not control. Unrealised gain on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking. Where necessary, the accounting policies used by the associates have been changed to ensure consistency with the policies adopted by the Group.

Premises and Equipment

Premises and equipment are stated at the lower of cost less accumulated depreciation and recoverable amount. Depreciation on assets under construction commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|--------------------------------------|-------------|
| Buildings | 15-50 years |
| Furniture and fixtures and equipment | 4-10 years |

Borrowings

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

Income Taxes

Income taxes payable on profits, based on the applicable tax laws in Kazakhstan, is recognized as an expense in the period in which profits arise.

Deferred income taxes are accounted for under the balance sheet liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying consolidated financial statements. Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date. A valuation allowance is provided when it is probable that some portion or all of a deferred tax asset will not be realized.



3. Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting group and relate to the same tax authority and when the legal right to offset exists. Current and deferred taxes are recognized as tax benefit or expense except for deferred taxes recognized or disposed of on acquisition or disposal of a subsidiary.

Interest Income and Expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

Fee and Commission Income

Fees and commissions are generally recognized on an accrual basis. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition or the purchase or sale of businesses, are recognized upon completion of the underlying transaction.

Foreign Currency Translation

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

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

Sale and Repurchase Agreements and Lending of Securities

Securities sold subject to a linked repurchase agreement ('repos') are retained in the financial statements as trading securities as the title to the underlying securities remains with the Group, and the counterparty liability is included in amounts due to other banks. Securities purchased under agreements to resell ('reverse repos') are recorded as loans to other banks in "Due from other banks" or "Cash and cash equivalents" as appropriate. It is the Group's policy not to take title to the securities purchased under agreements to resell but to ensure that those securities are pledged in favor of the Group.

The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

The Bank monitors the estimated fair value of the underlying securities as compared with the related receivable or payable, and, as necessary, requests additional collateral.



3. Summary of Significant Accounting Policies (continued)

Derivatives

In the normal course of business, the Bank enters into derivative financial instruments, which primarily comprise foreign currency forward contracts. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates. Derivatives with positive market values (unrealized gains) are included in other assets and derivatives with negative market values (unrealized losses) are included in other liabilities in the balance sheet. Gains and losses resulting from these instruments are included in the accompanying consolidated statements of income as gains less losses from foreign currencies.

Share Capital and Treasury Stock

Share issue costs

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Preferred shares

Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Treasury shares

Where the Bank or its subsidiaries repurchase the Bank's share capital or obtains rights to repurchase its share capital, the consideration paid including any attributable transaction costs net of income taxes is shown as a deduction from total shareholders' equity. Gains and losses on sales of treasury shares are charged or credited to the treasury share account in equity.

Dividends

Dividends on common shares and non-redeemable preferred shares are recognized as a liability in the period in which they are declared.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the bank and accordingly are not included in these financial statements.

Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for and disclosed as liabilities with corresponding contra assets.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Social Costs

The Group has contributed social tax to the Government of the Republic of Kazakhstan for its employees. Prior to June 30, 2001 the Group contributed 26% of employees' salaries and related staff costs, and were expensed as incurred. Starting from July 1, 2001 the Group's social contributions rate was reduced to 21%.

Comparative figures

Certain of the 2000 amounts were reclassified to conform with the presentation of the 2001 financial statements. None of these reclassifications impacted net income or shareholders' equity.

4. Cash and Cash Equivalents

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

| | <u>2001</u> | <u>2000</u> |
|--|---------------|--------------|
| Cash on hand | 2,145 | 2,561 |
| Correspondent nostro accounts with Kazakh banks | 31 | 233 |
| Interest-bearing deposits with Kazakh banks | 566 | 74 |
| Loans to other Kazakh banks and financial institutions | 6,242 | 2,223 |
| Correspondent nostro accounts with OECD based banks | 3,775 | 1,119 |
| Correspondent nostro accounts with other banks | 4,461 | 795 |
| | <u>17,220</u> | <u>7,005</u> |

Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

4. Cash and Cash Equivalents (continued)

Interest-bearing deposits represent overnight and short-term placements at other banks with annual contractual interest rates ranging as follows at December 31:

| | 2001 | | 2000 | |
|--|---------|-------|--------|-------|
| | KZT | USS | KZT | USS |
| Deposits with Kazakh banks | 9.8-16% | 8-11% | 12-19% | 18.5% |
| Loans to other Kazakh banks and financial institutions | - | 7-8% | 0.4-8% | - |

Loans to other Kazakh banks and financial institutions are secured by securities held under reverse repo agreements in amounts to fully collateralize the deposits. Management regularly reviews the estimated fair value of the collateral to ensure that pledged securities are sufficient to cover the outstanding loans. These loans mature in January 2002.

5. Obligatory Reserves

Obligatory reserves consisted of the following at December 31:

| | 2001 | 2000 |
|---|-------|-------|
| Due from the NBK | 2,222 | 1,568 |
| Cash on hand allocated to obligatory reserves | 2,462 | 882 |
| | 4,684 | 2,450 |

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

6. Due from Other Banks

At December 31, 2001, the due from other bank balance comprised a USS denominated loan due from a Russian Bank. The loan matures in April 2002 and carries interest at 14% per annum.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

7. Trading Securities

Trading securities, at estimated fair value, consisted of the following at December 31:

| | <u>2001</u> | <u>2000</u> |
|---|---------------|--------------|
| Treasury bills of the Ministry of Finance | 6,921 | 3,596 |
| Sovereign bonds of the Republic of Kazakhstan | 9,728 | 2,776 |
| Corporate bonds | 1,182 | 1,302 |
| Municipal bonds | – | 315 |
| | <u>17,831</u> | <u>7,989</u> |

Treasury bills of the Ministry of Finance carry interest at rates ranging from 7.85% to 17.50% (2000: 16.60%) and mature in 2002 - 2007. Included in treasury bills of the Ministry of Finance are securities pledged under repurchase agreements with other banks whose estimated fair value at December 31, 2001 amounted to KZT 741 million (2000: KZT 2,530 million). At December 31, 2000, treasury bills amounting to KZT 918 million have been pledged as security for certain of the Bank's borrowings.

Sovereign bonds of the Republic of Kazakhstan carry interest at rates ranging from 8.375 % to 13.625% (2000: 8.375% to 13.625%) and mature in 2002 and 2007. Included in the sovereign bonds of the Republic of Kazakhstan are securities pledged under repurchase agreements with other banks whose estimated fair value at December 31, 2001 amounted to KZT 8,642 million (2000: nil).

Corporate bonds represent bonds of prime Kazakh corporations and carry interest at rates ranging from 8% to 11.00% (2000: 9% to 11%) and mature between 2002 and 2005.

Municipal bonds at December 31, 2000 represent bonds by regional Government authorities in Kazakhstan. They carried interest at 11% per annum and matured in July 2001.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

8. Commercial Loans and Advances

Commercial loans and advances consisted of the following at December 31:

| | <u>2001</u> | <u>2000</u> |
|---|----------------|----------------|
| Commercial loans portfolio | 113,610 | 56,012 |
| Advances | 1,143 | 699 |
| | <u>114,753</u> | <u>56,711</u> |
| Allowance for losses | <u>(6,704)</u> | <u>(2,905)</u> |
| Total commercial loans and advances, net of allowance | <u>108,049</u> | <u>53,806</u> |

At December 31, 2001, the annual interest rates charged by the Bank ranged from 12% to 26% for KZT-denominated loans and advances (2000: 11% - 26%) and from 8% to 22% for US\$-denominated loans and advances (2000: 17%-25%).

Included in commercial loans at December 31, 2001 is KZT 2,801 million (2000: KZT 1,530 million) of loans to customers that are funded by the Government of the Republic of Kazakhstan under foreign credit lines. These loans have been granted at commercial terms and conditions, subject to limitations on the interest rate charged.

Loans and advances to shareholders and related parties, including employees, amounted to KZT 2,344 million and KZT 2,515 million at December 31, 2001 and 2000, respectively. At December 31, 2001 and 2000, an allowance for losses of KZT 2 million and KZT 23 million, respectively, had been established against loans to shareholders and related parties.

At December 31, 2001, the annual interest rates charged by the Bank on loans to shareholders and related parties ranged from 19% to 21% for KZT denominated loans and from 8% to 11.5% for US\$ denominated loans (2000: 8% to 24%).

At December 31, 2001 and 2000, loans for which the accrual of interest has been suspended approximated KZT 492 million and KZT 392 million, respectively.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

8. Commercial Loans and Advances (continued)

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

| | 2001 | % | 2000 | % |
|---------------------------------|----------------|------------|---------------|------------|
| Wholesale trading | 30,600 | 27 | 20,651 | 37 |
| Industrial production | 28,274 | 25 | 13,040 | 23 |
| Agriculture and food processing | 23,329 | 21 | 9,659 | 17 |
| Transport | 9,024 | 8 | 696 | 1 |
| Retail trading | 2,553 | 2 | 2,845 | 5 |
| Media and education | 3,882 | 3 | 2,592 | 5 |
| Construction | 3,177 | 3 | 1,075 | 2 |
| Other | 12,771 | 11 | 5,454 | 10 |
| | 113,610 | 100 | 56,012 | 100 |

At December 31, 2001, 19 major borrowers accounted for 39% of the Bank's gross commercial loans and advances (2000: 22 borrowers represented 30% of the portfolio).

9. Allowances for Losses

Changes in the allowance for losses consisted of the following:

| | 2001 | 2000 |
|--------------------------------|--------------|--------------|
| Balances at January 1 | 2,905 | 2,271 |
| Net Charge-Offs: | | |
| Charge-offs | (2,997) | (3,371) |
| Recoveries | 958 | 1,018 |
| Net charge-offs | (2,039) | (2,353) |
| Provision for losses | 5,838 | 2,987 |
| Balances at December 31 | 6,704 | 2,905 |

The allowance for losses consisted of the following at December 31:

| | 2001 | 2000 |
|--------------------|--------------|--------------|
| Pooled allowance | 3,273 | 1,302 |
| Specific allowance | 3,431 | 1,603 |
| | 6,704 | 2,905 |



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

10. Premises and Equipment, net

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

| | <u>Buildings</u> | <u>Furniture, fixtures and equipment</u> | <u>Construc- tion in progress</u> | <u>Total</u> |
|--------------------------------------|---------------------|--|---|---------------------|
| Cost | | | | |
| At January 1, | 3,682 | 1,509 | 191 | 5,382 |
| Additions | 504 | 833 | - | 1,337 |
| Additions from acquired subsidiaries | 11 | 29 | - | 40 |
| Disposals | (5) | (217) | (153) | (375) |
| At December 31 | <u>4,192</u> | <u>2,154</u> | <u>38</u> | <u>6,384</u> |
| Depreciation: | | | | |
| At January 1, | (64) | (319) | - | (383) |
| Change for the year | (249) | (385) | - | (634) |
| Additions from acquired subsidiaries | (2) | (6) | - | (8) |
| Disposals | 1 | 81 | - | 82 |
| At December 31 | <u>(314)</u> | <u>(629)</u> | <u>-</u> | <u>(943)</u> |
| Net Carrying Amount: | | | | |
| At December 31, 2001 | <u>3,878</u> | <u>1,525</u> | <u>38</u> | <u>5,441</u> |
| At December 31, 2000 | <u>3,618</u> | <u>1,190</u> | <u>191</u> | <u>4,999</u> |



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

11. Amounts Owed to the Government and the NBK

| | 2001 | 2000 |
|-------------------------------------|-------|------|
| Amounts due to the Government: | | |
| Non Interest bearing | 10 | 197 |
| Interest bearing – KZT denominated | 1,606 | 18 |
| Interest bearing – USD denominated | 148 | 83 |
| Interest bearing – EURO denominated | 207 | – |
| | 1,971 | 298 |
| Amounts due to the NBK | 462 | 468 |
| | 2,433 | 766 |

Interest bearing KZT denominated amounts due to the Government carry interest at rates ranging from 2.5% to 9.5% and mature within 3 years. The US Dollar denominated amount due to the Government carries interest at 7.16% and matures in June 2011. The EURO denominated amount due to the Government carries interest at 5% and matures in December 2010.

Amounts due to the NBK carry interest at 8.41% per annum and mature in July 2002.

12. Due to Other Banks and Financial Institutions

Balances due to other banks and financial institutions consisted of the following at December 31:

| | 2001 | 2000 |
|--|--------|--------|
| Interest-bearing placement from an OECD based bank | 4,055 | – |
| Interest-bearing placements from Kazakh banks | 2,028 | 966 |
| Correspondent loro accounts | 559 | 31 |
| | 6,642 | 997 |
| Pass-through loans | 3,100 | 2,500 |
| Loans from Kazakh banks and financial institutions | 2,103 | 942 |
| Loans from non-Kazakh banks and financial institutions | 17,341 | 6,810 |
| Loan from International Finance Corporation (“IFC”) | 1,510 | 2,168 |
| Loan from Netherlands Development Finance Company (“FMO”) | 300 | 722 |
| Subordinated loan from DEG - German Investment and Development Company (“DEG”) | 588 | – |
| Loans from Banks Syndicate | 10,139 | 4,335 |
| | 41,723 | 18,474 |



Notes to the Consolidated Financial Statements (continued)

12. Due to Other Banks and Financial Institutions (continued)

The interest-bearing placement from an OECD based bank is US\$ denominated, matures in January 2002, and bears interest at 0.5% per annum.

Interest-bearing placements from Kazakh banks include US\$ denominated deposits that amount to KZT 1,878 million, mature in January 2002, and bear interest at rates ranging from 3.5% to 5% and a KZT denominated deposit that amounts to KZT 150 million, matures in January 2002 and bears interest at 10% per annum.

Pass-through loans represent two credit lines provided to the Bank through the Government of the Republic of Kazakhstan from the European Bank for Reconstruction and Development ("EBRD"), US\$ 14 million, Asian Development Bank ("ADB"), US\$ 3 million, and the Entrepreneurship Development Fund to finance small and medium size importers, US\$ 4 million. Loans are granted to borrowers, based on the Bank's analysis of their creditworthiness, under terms and conditions comparable to similar credit facilities. The facilities mature between April 2002 and October 2006 and bear contractual interest at rates ranging between 5% and 10.53% per annum. At December 31, 2001, the Bank's interest spread on these loans ranged from 3% to 17% per annum. At December 31, 2001 and 2000, all amounts received under pass-through loans had been advanced to borrowers and included within commercial loans in the accompanying balance sheet. Undrawn balances of credit lines at December 31, 2001 and 2000 amounted to US\$ 0 million and US\$ 0.8 million, respectively.

Loans from Kazakh banks and financial institutions are US\$ denominated, bear interest at rates ranging between 4% and 9 % per annum (2000: 8.1% - 13%), and mature in 2002. Included in loans from Kazakh bank and financial institutions at December 31, 2001, are loans amounting to KZT 651 million (2000: KZT 2,256 million) that are secured by a pledge over certain of the Group's trading securities whose fair value at December 31, 2001 amounted to KZT 741 million (2000: KZT 2,530 million).

Loans from non-Kazakh banks and financial institutions are US\$ and EUR denominated, bear interest at rates ranging between 2.61% and 10.26% per annum (2000: 6% - 13.6%), and mature at various dates between January 2002 and July 2006. Included in loans from non-Kazakh banks and financial institutions at December 31, 2001 are loans amounting to KZT 6,959 million (2000: nil) that are secured by a pledge over certain of the Group's trading securities whose fair value at December 31, 2001 amounted to KZT 8,642 million. (2000: nil).

The IFC loan is US\$ denominated, bears interest at the London Interbank Offer Rate (LIBOR) plus 5% per annum, and matures in June 2005.

The FMO loan is US\$ denominated, bears interest at LIBOR plus 4.25% per annum, and matures in October 2006.

Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

12. Due to other banks and financial institutions (continued)

The DEG subordinated loan is Euro denominated, matures in 2007 and bears interest at 11% per annum. The loan ranks behind the claims against the Group depositors and other unsecured, unsubordinated creditors. During the conversion period, i.e. the period to December 31, 2002, DEG has the right to convert the loan or any part thereof together with any outstanding interest and other amounts due under the subordinated loan agreement into common shares at the nominal price of the common shares.

During 2001 the bank entered into a US \$67.5 million loan facility agreement with several OECD based financial institutions ("Banks Syndicate"). At December 31, 2001, the Bank had used the full amount. The facility is unsecured and bears annual interest at LIBOR plus 3.25% per annum. The facility matures in September 2002.

During 2000 the bank entered into a US \$30 million loan facility agreement with several OECD based financial institutions ("Banks Syndicate"). At December 31, 2000, the Bank had used the full amount. The facility is unsecured and bears annual interest at LIBOR plus 4.75%, fixed at the end of each quarter. The facility matured in July 2001.

13. Amounts Owed to Customers

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

| | 2001 | 2000 |
|--|---------------|---------------|
| <i>Customer current accounts:</i> | | |
| Related parties | 25 | 107 |
| Other | 24,507 | 20,886 |
| <i>Term deposits:</i> | | |
| Related parties | 2,249 | 68 |
| Other | 41,416 | 24,467 |
| <i>Amounts payable under letters of credit</i> | 1,957 | 1,008 |
| <i>Other amounts due to customers:</i> | | |
| Related parties | - | - |
| Other | 10,854 | 397 |
| | 81,008 | 46,933 |

At December 31, 2001, KZT 24,532 million (2000: KZT 20,993 million) of the aggregate amounts owed to customers, including KZT 25 million due to related parties (2000: KZT 107 million), was non-interest bearing.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

13. Amounts Owed to Customers (continued)

At December 31, 2001, the Bank had US\$-denominated term deposits from related parties in the amount of KZT 2,249 million bearing interest at 1% per annum (2000: KZT 68 million bearing interest at rates ranging between 1% and 13% per annum) and KZT-denominated deposits in the amount of KZT 13 million bearing interest at 9% per annum.

Other term deposits at December 31, 2001 bear annual interest at rates ranging from 1% to 17% (2000: from 2% to 19%) for KZT-denominated balances and from 1% to 19% (2000: from 6% to 14%) for foreign currency-denominated balances.

14. Debts Securities Issued

Debt securities issued at December 31, consisted of the following:

| | 2001 | 2000 |
|--|---------------|----------|
| US\$ medium term notes | 14,824 | – |
| US\$ long term subordinated Kazakh notes | 2,938 | – |
| | 17,762 | – |
| Own US\$ medium term notes held by the Group | (4,428) | – |
| Own US\$ long term subordinated Kazakh notes held by the Group | (24) | – |
| | <u>13,310</u> | <u>–</u> |

The US\$ medium term notes mature in 2004 and bear interest at 11.5% per annum.

The US\$ long term subordinated Kazakh notes mature in 2009 and bear interest at 12% per annum. These subordinated securities are unsecured obligations of the Group and are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group.

15. Income Taxes

The Republic of Kazakhstan was the only tax jurisdiction in which the Bank's income should be taxed. The Bank had no current or deferred income tax liability at December 31, 2001 and 2000.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

15. Income Taxes (continued)

The Bank incurred no income tax expense during the year ended December 31, 2001 and 2000.

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

| | 2001 | 2000 |
|---|---------|-------|
| Income tax computed at statutory tax rate | 477 | 275 |
| Non-deductible expenses | 701 | 92 |
| Non-taxable income | (1,381) | (428) |
| Tax effect of temporary differences not recognized as measured by the change in valuation allowance | 203 | 61 |
| Provision for income taxes | - | - |

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

| | 2001 | 2000 |
|---|-------|------|
| <i>Deferred tax assets:</i> | | |
| Allowance for losses | 251 | 80 |
| Premises and equipment | 32 | - |
| Valuation allowance for deferred tax assets | (283) | (80) |
| | - | - |

Notes to the Consolidated Financial Statements (continued)

16. Shareholders' Equity

Authorized and issued share capital at December 31, 2001 consisted of 1,287,023 common and 426,722 Convertible Preferred Shares ("CPS"). All shares are KZT denominated and have a nominal value of KZT 10,000 each.

During 2001, the Bank issued 426,722 Convertible Preferred Shares at nominal value and recognized the newly issued share capital in these financial statements at the amount received, KZT 4,267 million, net of the external costs directly attributable to the share issue of KZT 107 million. All new shares were purchased by the following new shareholders:

- DEG – 73,500 shares
- IFC – 73,500 shares
- FMO – 44,100 shares
- EBRD – 73,500 shares
- Raiffeisen Zentralbank Oesterreich AG ("RZB") – 162,122 shares

Authorized and issued share capital at December 31, 2000, consisted of 1,287,023 KZT denominated common shares. All shares have a nominal value of KZT 10,000 each.

During 2000, the Bank issued 317,354 additional shares at a premium of KZT 86 per share, which were purchased by new shareholders.

Convertible Preferred Shares

The CPS Shareholders have the right to convert all or any part of their CPS's into common shares of the Bank.

The Bank is obligated to offer to redeem the Convertible Preferred Shares ("Redemption offer") at the US\$ equivalent of the CPS Purchase Price at the offer date (the "Purchase Price"), if any person makes a Shareholder Protection Tender Offer ("Tender Offer") in accordance with Article 29(3) of the Joint Stock Company Law, i.e. an offer to purchase 30% or more of the Bank's common share capital, and the respective Tender Offer Price for each CPS is less than the CPS Purchase Price. If the CPS Shareholders accept the redemption offer, the Bank is then obligated to redeem the shares. Management believes, that the likelihood of a Shareholder Protection Tender Offer being made is remote and that the fair value of each share will soon exceed the CPS Purchase Price, which would further reduce the likelihood of the CPS Shareholders accepting a Redemption Offer.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

16. Shareholders' Equity (continued)

Convertible Preferred Shares (continued)

Upon the expiration of the Convertibility Period, i.e. on December 31, 2006, and only in the event the Bank fails to sell 55% of the aggregate of the Bank's issued common shares to an OECD based bank with total assets of not less than US \$60 billion and a financial strength rating of not less than D+ ("Strategic Investor"), each CPS Shareholder shall have the right to redeem all or any portion of the Convertible Preferred Shares. As of December 31, 2001 the Bank has received various offers from various Potential Strategic Investors and started working closely with one of those Potential Strategic Investors. The Bank's management believes, that the likelihood of the Bank failing to sell 55% of its issued common shares to a Strategic Investor by December 31, 2006 is remote.

Based on the above, the likelihood of the CPS being redeemed is considered remote and the Convertible Preferred Shares are accounted for as equity.

Dividends on Convertible Preferred Shares

The Convertible Preferred Shares carry a dividend of 10.75% per annum. These dividends are cumulative.

17. Gains less Losses From Trading Securities

Gains less losses from securities for the years ended December 31 were as follows:

| | 2001 | 2000 |
|---|-------|-------|
| Net realized gains (losses) from the sale of securities | 287 | (270) |
| Change in unrealized gains on securities | (164) | (169) |
| | 123 | (439) |

18. Gains less Losses from Foreign Currencies

| | 2001 | 2000 |
|--|-------|-------|
| Net gain on revaluation of foreign currency denominated assets and liabilities | 675 | 409 |
| Net income from foreign currency trading | 1,603 | 1,941 |
| Losses from foreign currency derivative contracts | (600) | (14) |
| | 1,678 | 2,336 |



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

19. Other Operating Income

| | 2001 | 2000 |
|--------------------------------------|------|------|
| Currency transport | 101 | 89 |
| Rent | 240 | 28 |
| Gain on sale of premises & equipment | – | 33 |
| Penalties | 128 | 66 |
| Other | 181 | 93 |
| | 650 | 309 |

20. Subsidiaries

At December 31, 2001 the principal subsidiaries of the Bank are as follows:

| <i>Subsidiary</i> | <i>Ownership %</i> | <i>Domicile</i> | <i>Principal Business</i> |
|-------------------------|--------------------|-----------------|---------------------------------------|
| TuranAlem Securities | 100% | Almaty | Securities trading |
| BTA Leasing | 100% | Almaty | Leasing |
| Altyn Orda | 100% | Almaty | Collateralized small consumer lending |
| TuranAlem Finance B.V. | 100% | Almaty | Securities trading |
| KBS Garant | 54.51% | Almaty | Insurance |
| Kazakhstan Pension Fund | 50.40% | Almaty | Pension Fund |
| Kazco Construction | – | Almaty | Construction |
| Samal Properties | – | Almaty | Property Management |

Although the Bank does not own any shares in Kazco Construction and Samal Properties, they are treated, in accordance with International Accounting Standards, as subsidiaries because the Bank controls their operations.

On March 26, 2001, the Group acquired 54.51% of the share capital of KBS Garant (“KBS”), a small insurance company incorporated in Kazakhstan. KBS contributed operating income of KZT 3 million to the Group from March 26, 2001 to December 31, 2001.



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

20. Subsidiaries (continued)

On August 6, 2001, the Group acquired 50.40% of the share capital of Pension Fund Kazakhstan (“PFK”), a pension fund incorporated in Kazakhstan. PFK contributed operating income of KZT 5 million to the Group from August 6, 2001 to December 31, 2001.

The details of the assets and liabilities acquired are as follows:

| | KBS | PF | |
|--|---------------|---------------------|--------------|
| | Garant | “Kazakhstan” | Total |
| Cash and cash equivalents | 22 | 207 | 229 |
| Trading securities | 137 | 19 | 156 |
| Premises and equipment | 23 | 9 | 32 |
| Other assets | 89 | 43 | 132 |
| Other liabilities | (151) | (17) | (168) |
| Minority interest | (60) | (135) | (195) |
| Cost of acquisition (discharged by cash) | 60 | 126 | 186 |
| Less: Cash and cash equivalents acquired on Acquisition of subsidiaries | (22) | (207) | (229) |
| Cash outflow (inflow) on acquisition | 38 | (81) | (43) |

21. Earnings per Share

A basic earnings per share is calculated by dividing the net income for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. The Bank does not have any options. The subordinated loan from DEG included in amounts due to other banks and financial institutions and the Bank’s preferred shares are convertible to common shares. During the 2000 the Bank had no diluted potential ordinary shares. The Bank did not declare or pay any dividends during 2001 and 2000.

The following reflects the income and share data used in the basic and diluted earnings per share computations for the years ended December 31:

| | 2001 | 2000 |
|--|------------------|-------------|
| Net income attributable to ordinary shareholders and basic earnings per share (in KZT millions) | 1,591 | 897 |
| Net income attributable to ordinary and potential ordinary shareholders and diluted earnings per share (in KZT millions) | 1,596 | 897 |
| Weighted average number of ordinary shares | 1,273,236 | 1,030,566 |
| Weighted average number of potential ordinary shares | 1,313,696 | 1,030,566 |



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

21. Earnings per Share (continued)

A reconciliation of the weighted average number of ordinary shareholders and weighted average number of potential ordinary shareholders at December 31 is as follows:

| | <u>2001</u> | <u>2000</u> |
|--|------------------|------------------|
| Weighted average number of ordinary shares at December 31, | 1,273,236 | 1,030,566 |
| Weighted average number of ordinary shares resulting from the potential conversion of the DEG subordinated loan into common shares | 4,900 | - |
| Weighted average number of ordinary shares resulting from the potential conversion of the preferred shares into common shares | 35,560 | - |
| Weighted average number of potential ordinary shares at December 31, | <u>1,313,696</u> | <u>1,030,566</u> |

22. Commitments and Contingencies

General

The Group's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Kazakh tax and legal systems, the ultimate taxes as well as penalties and fines, if any, assessed may be in excess of the amounts paid to date and accrued at December 31, 2001. Management believes, based upon its best estimates, that the Bank has paid or accrued all taxes that are applicable for the current and prior years, and complied with all essential provisions of laws and regulations of the Republic of Kazakhstan. In management's opinion, the ultimate determination of the Bank's overall tax liability and potential loss contingencies, to the extent not previously provided, will not have a material effect on the financial position of the Bank.

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

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



Notes to the Consolidated Financial Statements (continued)

22. Commitments and Contingencies (continued)

General (continued)

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

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

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

Capital Expenditure

At December 31, 2001, the Bank had outstanding capital expenditure commitments with respect to building renovations and acquisition of premises and equipment of approximately KZT 11 million (2000: KZT 53 million).

23. Financial Instruments with Off-Balance Sheet Risk

General

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

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



Notes to the Consolidated Financial Statements (continued)

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

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

Credit-Related Financial Instruments

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

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

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

Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

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

Credit-Related Financial Instruments (continued)

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

| | 2001 | 2000 |
|---|--------|-------|
| <i>Commitments to extend credit:</i> | | |
| Other parties, KZT-denominated | 661 | – |
| Other parties, foreign currency-denominated | 2,656 | 2,629 |
| <i>Financial guarantees:</i> | | |
| Related party, KZT-denominated | – | 200 |
| Related party, foreign currency-denominated | 148 | 977 |
| Other parties, foreign currency-denominated | 10,610 | 4,402 |
| Other parties, KZT-denominated | 1,520 | – |
| <i>Commercial letters of credit:</i> | | |
| Related party, foreign currency-denominated | – | 415 |
| Other parties, foreign currency-denominated | 15,552 | 7,897 |
| Other parties, KZT-denominated | 178 | – |

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

Deliverable forward contracts

Forward contracts are agreements to purchase or sell a specific quantity of foreign currency or precious metals at an agreed-upon price with delivery and settlement at a specified future date. Such contracts include only deliverable contracts. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in currency exchange rates and prices on precious metals.

At December 31, 2001, the Bank was a party to the following deliverable forward contracts, all of which mature in 2002:

| | Notional Amount | Unrealized Gains | Unrealized Losses |
|---------------------------------------|--------------------|---------------------|----------------------|
| <i>Deliverable forward contracts:</i> | | | |
| US\$-EUR contracts with Kazakh banks | 403 | – | – |
| US\$-KZT contracts with Kazakh banks | 451 | – | – |



Notes to the Consolidated Financial Statements (continued)

24. Maturity Analysis

The maturity of monetary assets and liabilities represents the remaining terms until repayment in accordance with the underlying contractual agreements and terms of issuance of the monetary asset or liability at the respective balance sheet date, except for securities which are shown as demand irrespective of their terms of issuance. In practice, the actual maturity of monetary assets and liabilities may differ from the contractual terms based on addenda to the contracts, which already exist.

The following assumptions and conditions have been adopted in the presentation of the Bank's maturity analysis:

- Obligatory reserves, held in physical cash or deposits with the NBK, are considered as due after one year; however, their availability is dependent on the composition and maturity of the Bank's liabilities in the form of customer accounts and certain other deposits.
- While securities are shown as demand, realizing such assets upon demand is dependent upon financial market conditions.
- The maturity of amounts due from other banks and commercial loans and advances is based on the contractual maturity date. The actual maturity may differ as loan agreements are often extended or rolled over to update interest rates and facilitate longer term financing for the borrowers. Amounts due from other banks and commercial loans and advances are shown gross, excluding any deductions with respect to the allowance for losses.
- The maturity of equity investments is considered to be over one year as the Bank intends to hold such investments for long-term purposes.
- Amounts due to other banks and owed to customers are shown as having a remaining maturity based on the nature of the amount, which is typically demand for loro accounts, placements, and current accounts, and the contractual maturity date for loans and term deposits.
- Other monetary assets and liabilities are predominantly current claims to and from third parties.

Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

24. Maturity Analysis (continued)

At December 31, the maturity of monetary assets and liabilities was as follows:

2001:

| <i>Monetary assets:</i> | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 12 months | Total |
|---|------------------|------------------|------------------|-------------------|-------------------|----------------|
| Cash and cash equivalents | 17,116 | 50 | 13 | 41 | - | 17,220 |
| Obligatory reserves | - | - | - | - | 4,684 | 4,684 |
| Due from other banks | - | - | 150 | - | - | 150 |
| Trading securities | 17,831 | - | - | - | - | 17,831 |
| Commercial loans and advances, gross | 17,565 | 20,716 | 14,425 | 26,050 | 35,997 | 114,753 |
| Accrued interest receivable | 2,440 | - | - | - | - | 2,440 |
| Other monetary assets | - | 110 | 106 | 150 | 1,107 | 1,473 |
| | 54,952 | 20,876 | 14,694 | 26,241 | 41,788 | 158,551 |
| <i>Monetary liabilities:</i> | | | | | | |
| Amounts owed to the government and the NBK | 157 | 37 | 57 | 540 | 1,642 | 2,433 |
| Due to other banks and financial institutions | 16,643 | 1,018 | 2,776 | 13,472 | 7,814 | 41,723 |
| Amounts owed to customers | 39,931 | 29,078 | 7,449 | 1,768 | 2,782 | 81,008 |
| Debt securities issued | - | - | - | - | 13,310 | 13,310 |
| Accrued interest payable | 1,455 | - | - | - | - | 1,455 |
| Other liabilities | 652 | 98 | 249 | 404 | 305 | 1,708 |
| | 58,838 | 30,231 | 10,531 | 16,184 | 25,853 | 141,637 |
| Net position | (3,886) | (9,355) | 4,163 | 10,057 | 15,935 | 16,914 |
| Accumulated gap | (3,886) | (13,241) | (9,078) | 979 | 16,914 | |

2000:

| <i>Monetary assets:</i> | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 12 months | Total |
|---|------------------|------------------|------------------|-------------------|-------------------|---------------|
| Cash and cash equivalents | 6,945 | 31 | 29 | - | - | 7,005 |
| Obligatory reserves | - | - | - | - | 2,450 | 2,450 |
| Trading securities | 7,989 | - | - | - | - | 7,989 |
| Commercial loans and advances, gross | 9,352 | 5,933 | 9,453 | 16,351 | 15,642 | 56,711 |
| Accrued interest receivable | 1,005 | 619 | - | - | - | 1,624 |
| Other monetary assets | - | 1,027 | 33 | 26 | 246 | 1,332 |
| | 25,271 | 7,610 | 9,515 | 16,377 | 18,338 | 77,111 |
| <i>Monetary liabilities:</i> | | | | | | |
| Amounts owed to the government and the NBK | 2 | 28 | 428 | 159 | 149 | 766 |
| Due to other banks and financial institutions | 4,352 | 417 | 5,252 | 1,258 | 7,195 | 18,474 |
| Amounts owed to customers | 28,122 | 6,921 | 5,347 | 5,594 | 949 | 46,933 |
| Accrued interest payable | 1,049 | - | - | - | - | 1,049 |
| Other liabilities | 1,628 | 358 | 165 | 269 | 15 | 2,435 |
| | 35,153 | 7,724 | 11,192 | 7,280 | 8,308 | 69,657 |
| Net position | (9,882) | (114) | (1,677) | 9,097 | 10,030 | 7,454 |
| Accumulated gap | (9,882) | (9,996) | (11,673) | (2,576) | 7,454 | |



Bank TuranAlem and Subsidiaries

Notes to the Consolidated Financial Statements (continued)

25. Currency Analysis

The following table presents the KZT-equivalent amount of monetary assets and liabilities denominated in different currencies at December 31:

| 2001 | KZT | Foreign currencies | Total |
|---|---------------|--------------------|----------------|
| <i>Monetary assets:</i> | | | |
| Cash and cash equivalents | 475 | 16,745 | 17,220 |
| Obligatory reserves | 4,684 | – | 4,684 |
| Due from other banks | – | 150 | 150 |
| Trading securities | 13,519 | 4,312 | 17,831 |
| Commercial loans and advances, gross | 22,749 | 92,004 | 114,753 |
| Accrued interest receivable | 2,440 | – | 2,440 |
| Other monetary assets | 932 | 541 | 1,473 |
| | 44,799 | 113,752 | 158,551 |
| <i>Monetary liabilities:</i> | | | |
| Amounts owed to the government and the NBK | 770 | 1,663 | 2,433 |
| Due to other banks and financial institutions | 814 | 40,909 | 41,723 |
| Amounts owed to customers | 28,030 | 52,978 | 81,008 |
| Debt securities issued | – | 13,310 | 13,310 |
| Accrued interest payable | 116 | 1,339 | 1,455 |
| Other liabilities | 1,708 | – | 1,708 |
| | 31,438 | 110,199 | 141,637 |
| Net position | 13,361 | 3,553 | 16,914 |
| | | | |
| 2000 | KZT | Foreign currencies | Total |
| <i>Monetary assets:</i> | | | |
| Cash and cash equivalents | 2,804 | 4,201 | 7,005 |
| Obligatory reserves | 2,450 | – | 2,450 |
| Trading securities | 3,557 | 4,332 | 7,989 |
| Commercial loans and advances, gross | 25,517 | 31,194 | 56,711 |
| Accrued interest receivable | 1,524 | – | 1,624 |
| Other monetary assets | 509 | 823 | 1,332 |
| | 36,561 | 40,550 | 77,111 |
| <i>Monetary liabilities:</i> | | | |
| Amounts owed to the government and the NBK | 683 | 83 | 766 |
| Due to other banks and financial institutions | 2,463 | 16,011 | 18,474 |
| Amounts owed to customers | 25,394 | 21,539 | 46,933 |
| Accrued interest payable | 1,049 | – | 1,049 |
| Other liabilities | 907 | 1,528 | 2,435 |
| | 30,496 | 39,161 | 69,657 |
| Net position | 6,065 | 1,389 | 7,454 |



Notes to the Consolidated Financial Statements (continued)

25. Currency Analysis (continued)

The above KZT denominated assets and liabilities include assets and liabilities, which are indexed to the US dollar and revalued, based on changes of official NBK rate to reflect the effect of any devaluations in the KZT against the US dollar. At December 31, 2001 such assets amounted to KZT 12,549 million (2000: KZT 6,528 million) and such liabilities amounted to KZT 35,307 million (2000: KZT 2,287 million).

26. Financial Instruments

By its nature the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at fixed rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, thorough lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

Credit Risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Group structures the levels 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 geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector, and by country are approved quarterly by the Board of Directors.

The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

Notes to the Consolidated Financial Statements (continued)

26. Financial Instruments (continued)

Credit Risk (continued)

The Group maintains strict control limits on net open derivative positions, the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (ie. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the group requires margin deposits from counterparties.

Market Risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The Group 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.

Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for overnight positions, which are monitored daily.

Note 25 analyses the assets and liabilities of the Group into relevant currency grouping.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The majority of the bank's assets and liabilities reprice within one year. Accordingly there is a limited exposure to interest rate risk.

The interest rates earned and incurred by the Group on its assets and liabilities are disclosed in the relevant notes to the financial statements.

Notes to the Consolidated Financial Statements (continued)

26. Financial Instruments (continued)*Liquidity Risk*

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Note 24 analyses the assets and liabilities of the Group into relevant maturity groupings.

Fair Values of Financial Assets and Liabilities

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

| | Carrying Amount | | Fair Value | |
|---|-----------------|--------|------------|--------|
| | 2001 | 2000 | 2001 | 2000 |
| <i>Financial assets</i> | | | | |
| Due from other banks | 150 | – | 150 | – |
| Commercial loans and advances | 108,049 | 53,806 | 106,061 | 54,529 |
| Accrued interest receivable | 2,440 | 1,624 | 2,440 | 1,624 |
| Other assets | 1,473 | 1,332 | 1,473 | 1,332 |
| <i>Financial liabilities</i> | | | | |
| Amounts owed to the Government and the NBK | 2,433 | 766 | 3,982 | 766 |
| Due to other banks and financial institutions | 41,723 | 18,474 | 38,905 | 19,946 |
| Amounts owed to customers | 81,008 | 46,933 | 81,005 | 46,776 |
| Debt securities issued | 13,310 | – | 13,310 | – |
| Accrued interest payable | 1,455 | 1,049 | 1,455 | 1,049 |
| Other liabilities | 1,708 | 2,435 | 1,742 | 2,435 |

Due from other banks

Due from other banks includes inter-bank placements and items in the course of collection. The estimated fair value is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances are net of specific and other allowances for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash



Notes to the Consolidated Financial Statements (continued)

flows expected to be received. Expected cash flows are discounted at estimated current market rates to determine fair value.

26. Financial Instruments (continued)

Deposits and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and other borrowings is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Debt securities issued

The aggregate fair value are calculated based on quoted market prices.

27. Capital Adequacy

To monitor the adequacy of its capital the Group uses ratios established by the Bank for International Settlements (BIS). These ratios measure capital adequacy (minimum of 8% for Tier 1 + Tier 2 capital, and minimum of 4% for Tier 1 capital as required by BIS) by comparing the Group's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, 100%) are applied; for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighing, meaning that it must be supported by capital equal to 8% of the carrying amount.

Off-balance-sheet credit related commitments and forwards based derivative instruments are taken into account by applying different categories of conversion factors, designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

Tier 1 capital consists of shareholders' equity. Tier 2 capital includes the Group's eligible long-term debt and general provisions.



Notes to the Consolidated Financial Statements (continued)

27. Capital Adequacy (continued)

The Group's capital adequacy level was as follows:

| | Balance Sheet Notional Amount | | Risk Weighted Amount | |
|----------------------------|----------------------------------|---------------|-------------------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Total risk-weighted assets | 195,176 | 98,473 | 142,614 | 79,553 |

BIS Capital Ratios

| | Capital | | BIS% | |
|-------------------------|---------|-------|--------|--------|
| | 2001 | 2000 | 2001 | 2000 |
| Tier 1 capital | 10,682 | 8,935 | 7.49% | 11.23% |
| Tier 1 + Tier 2 capital | 19,987 | 9,772 | 14.01% | 12.28% |

28. Related Party Transactions

As disclosed elsewhere in the financial statements, the Group enters into transactions with the related parties. The year-end balances in respect of related parties included in the financial statements and the terms relating to those balances are disclosed in other notes to the financial statements.

The income and expenses in respect of related parties included in the financial statements are as follows:

| | 2001 | 2000 |
|------------------|------|------|
| Interest income | 136 | 101 |
| Interest expense | 5 | — |

29. Segment Information

The Group's operations are highly integrated and constitute a single industry segment, banking, that account for more than 95% of the Group's business. Accordingly for the purposes of IAS No. 14 "Reporting Financial Information by Segment" the Group is treated as one business segment. The Bank's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Bank's revenues and net income is derived from operations in, and connected with, the Republic of Kazakhstan.