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## List of acronyms

The President of the Republic of Kazakhstan	The President
The National Bank of the Republic of Kazakhstan	The National Bank
The National Fund of the Republic of Kazakhstan	The National Fund
The Government of the Republic of Kazakhstan	The Government
The Majilis of the Parliament of Republic of Kazakhstan	The Majilis
The Ministry of Finance of the Republic of Kazakhstan	The Ministry of Finance
The Ministry of Justice of the Republic of Kazakhstan	The Ministry of Justice

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# INTRODUCTION

In 2002 Kazakhstan's economy developed on the background of decrease in economic growth rates in the largest regions of the world and quotations in stock markets. In 2002 the growth rates in world economy continued to decline as a result of "geopolitical tension" in the Middle East and economic crisis in Latin America.

Following the assessment made as of the date of this report the growth rate of global economy in 2002 was 2.5%. With reference to projections in 2002 economic growth in the US will be 1.4%, in EU countries – 1.8%, Japan is expecting 0.3% decline. Negative disposition of investors motivated by concerns about the future of American economy and profits made by enterprises have produced the

drop of US stock indices which in many ways has determined dynamics of European and Japanese stock markets.

In the face of unfavorable development trends within the global economy, high economic advances registered in Kazakhstan in 2000–2001 were also observed in 2002. Real GDP growth was 9.5% in 2002.

A crucial factor which positively affected economic development in Kazakhstan in 2002 was the upturn of economic environment in most CIS countries (see Table 1). One of the reasons to raise economic activity in the region was the relative political, macroeconomic and financial stability in Russia, the main trade partner of Kazakhstan.

## Change of the key macroeconomic indices in CIS in 2002, %

Table 1

Countries	Real GDP	Average annual inflation (December to December)	Change of National Currency against USD*
Kazakhstan	9,5	5,9	3,25*
Russia	4,3	16,0	5,46*
Ukraine	4,1	0,8	0,64
Belarus	4,7	42,8	21,52
Moldova	7,2	5,3	5,50
Kyrgyzstan	-0,5	2,1	-3,82*
Azerbaijan	10,6	2,8	2,49
Georgia	5,4	5,8	-4,87
Armenia	12,9	1,0	3,56
Tajikistan	9,1	20,9	17,65

\* – official exchange rate

Consistent socioeconomic reforms in Kazakhstan had a continuous favorable impact on macroeconomic situation in the country in 2002. So, the average annual inflation in 2002 was 5.9% (vs 8.4% in 2001), net international

reserves of the National Bank in money terms have increased by 25.5% (i. e. by 632.4 million USD) and reached 3138,3 million USD enabling coverage of over 3.5 months import of goods and services. Accordingly, refinancing rate has

## INTRODUCTION

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reached the lowest level since Kazakhstan's independence (7.5%).

One of the major factors contributing to positive economic trends seen in the country is a relatively favorable pricing for hydrocarbon raw materials. So, following the results of 2002 the world price for oil increased by 56.7%. The main factor contributing to the rise in prices for oil is its high dependency upon political climate in the Middle East.

Macroeconomic stability was in many ways enabled by fiscal policy pursued by the National

Bank. Overvaluation of Tenge was not allowed. This enabled to retain price competitiveness of Kazakh products in external markets thus facilitating revival in importsubstitution and exportoriented industries.

Recognition of economic upturn in Kazakhstan was enabled by assigning the investmentclass rating. On September 19, 2002 Moody's Investors Services upgraded Kazakhstan's rating for the bonds denominated in foreign currency to Baa3 level. The ratings are projected as stable.

# I. Economic development

## 1.1. Real Sector of Economy<sup>1</sup>

In 2002 GDP was estimated to be 3 747.2 billion Tenge where the real growth reached 9.5%.

In 2002 industrial output increased by 9.8%, including mining industry – by 14.7%, processing – by 7.7%. Inconsiderable overrun is seen in the share of mining industry (46.8%) against processing (44.5%) in the total industry output.

Gross agricultural produce rose by 2.7% making 552 billion Tenge in money terms. Increase of gross agricultural produce was determined by expansion of cultivated lands, growth of yield of many crops, increment of livestock capita and poultry and their productivity.

The growth of Kazakhstan's economy was largely facilitated by investment activity of domestic and foreign funds. The main sources of fixed capital investment were equity funds of economic entities (25.1%). In 2002 fixed capital investments increased by 19%.

In 2002 812.5 billion (68%) out of 1 193.1 billion Tenge of fixed capital investments were used in development of industry. Production of oil and natural gas, transport and communications are the priority sectors.

The prices for industrial products increased by 11.9% (vs 2001 – 14.1% setback). Manufacturing products were 5.1% added in value.

In 2002 inflation was 6.6% (cf. in 2001 – 6.4%) i. e. inconsiderably exceeding established indicative inflation level (6.5%).

In 2002 the average monthly nominal wage increased by 16.6% (in real terms – by 10.1%) making 20 305 Tenge.

In December 2002 average nominal cash earnings per capita were 9 602 Tenge i. e. 14.3% higher compared to 2001. The real cash income for the same period increased by 7.2%. Average minimum subsistence income per capita was raised by 5.7% making 4 901 Tenge as of December 2002.

## 1.2. Fiscal policy<sup>2</sup>

Positive trends seen in economic development of Kazakhstan had a favorable effect on execution of the national budget by increase in the fiscal revenues.

In 2002 earnings of the national budget are estimated to make 821.4 billion Tenge, i. e. 21.9% GDP, expenditures are expected to amount to 834.2 billion Tenge accounting for 22.3% GDP. Budget deficit is 12.8 billion Tenge i. e. 0.3% GDP.

In 2002 revenues to the national budget amounted to 565.5 billion Tenge. Most of the revenues were tax receipts of which major shares

were made by corporate income tax and VAT as well as payments for the use of natural resources and custom charges.

Expenditures of the national budget are estimated to make 570.0 billion Tenge in total. Expenditures were considerably increased in culture, sports, information, transport and communications, fuel and power sector, public order and agriculture. Pursuant to the Military Doctrine expenditures in defense industry accounted for 1% GDP.

In 2002 execution of the national budget was estimated to have 4.5 billion Tenge deficit i. e. 0.1% GDP.

<sup>1</sup> Source: Agency of Kazakhstan for Statistics.

<sup>2</sup> Source: the Ministry of Finance

The problem of uneven funding for the budget programs still existed in 2002. Similarly to previous years, major burden on the budget (56.1% annual expenditures) was in the second half of 2002, specifically in December (14.6%).

As of the end 2002, internal debt of the Government was increased by 45.0% while foreign debt was dropped by 9.8%, i. e. the overall governmental debt has raised by 1.0% making 579.9 billion Tenge.

Internal debt of the Government as of the end 2002 was 121.8 billion Tenge. The growth of debt was mainly determined by increase in

midterm debt instruments of the Ministry of Finance where outstandings have raised 2.3 times.

In view of the fact that in 2002 the Ministry of Finance faced no problems of current liquidity, securities have been issued to refinance treasury bonds issued in previous years.

Within recent years a positive trend seen in the structure of governmental internal debt was a declining share of shortterm liabilities and debt expressed in foreign currency. This enables debt stability in the midterm outlook and reduces its dependence upon fluctuations of exchange rates.

### 1.3. Balance of Payments and Foreign Debt

**Balance of payments.** In 2002 on the background of negative trends in the world economy retention of demand for energy products and increase in prices enabled to reach the highest export indices and considerably strengthen position of the country on a global level.

Advance in the world prices for oil was seen during 2002, except for a short period of decline in November. In quarter IV 2002 the average spot prices for crude oil were 38% higher compared to quarter IV 2001. In average the world prices for crude oil in 2002 were 2% higher than in 2001 making up for reduction of prices for ferrous and nonferrous metals. Basically, in 2002 the price index calculated for the main export products of Kazakhstan (83% export registered by customs records) was 2.4% higher compared to 2001. The trends of advance in prices were also typical for imported products, although the prevalence of oil with dynamically increasing prices in export structure of Kazakhstan determined the rise of world price factors to the advantage of Kazakhstan's exports. The average annual trade condition index calculated as the ratio between change of foreign export prices and change of foreign import prices, has advanced 1.9% (see Annex 1 to Section I Subsection 1.3, Table 1.3.1).

Positive change in price environment in 2002 enabled to recapture the value of export to the level of 2001 where in the first half the prices were high while the biggest contribution to the top annual export factors was made by increase of physical amounts of export. Moderate inflation and stable dynamics of exchange rates enabled to retain competitiveness of export products and the

products manufactured for domestic markets and constrained accretion of demand for import coming along with economic growth.

Subsequent strengthening of Kazakhstan's economy stabilization trends, improvement of external liquidity as well as export growth potential of raw materials supported by the declaration of opening Kashagan oil fields have considerably strengthened the country's position at international stock markets (see Annex 1 to Section I Subsection 1.3, Table 1.3.2).

In 2002 the negative balance of current accounts was 596 million USD i. e. 1.8 times below the level of 2001. Relative to GDP deficit of the current account was 2.8% against 4.9% in 2001. External turnover in 2002 ran 7% higher making 17.8 billion USD. Increase in turnover was fully secured by 12.8% increase in the value of exports whereas import was equivalent to the previous year (Annex 2 to Section I Subsection 1.3, see Table 1.3.3).

Exports registered by customs records has grown by 12.5% against previous year making 9 709 million USD i. e. the highest figure in the history of Kazakhstan. Exports to CIS countries reduced by 16% compared to 2001 making 2223 million USD, exports to other countries faced a 25% increase reaching 7 486 million USD. Growth in export of energy products determined changes in the product structure of exports. The share of mineral products and base metals and products makes 80% total customs export of products.

The value of import registered by customs records for the period under review was 6 491 million USD. Import from CIS countries reduced

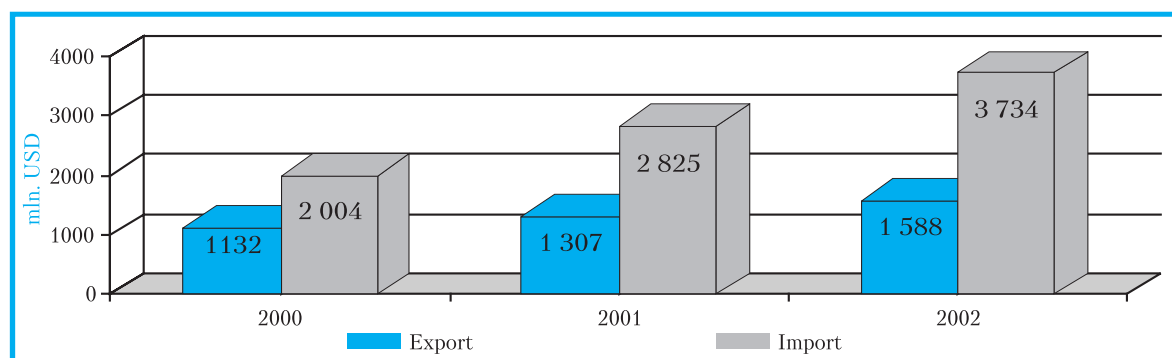
by 8.4% and the growth of exports from other countries 10.3%. The main factor which determined reduction of import from CIS countries was a relative reduction of prices for import from Russia.

The balance of international services for the period under review had a 2.1 million USD deficit (see Figure 1.3.1).

Implementation of expansion projects in Tengiz field and major constructions in Karachaganak field determined the highest share of construction services in the structure of import and the list of most expensive items of external service trade of Kazakhstan. Disbursement of funds for construction purposes by nonresidents exceeded 1 billion US dollars in 2002, i. e. 1/3 increase as compared to 2001.

Figure 1.3.1

### Dynamics of external trade of services for 2000–2002



Fall of loan value at the international stock markets and increase in the country's credit rating promoted inflow of funding from residents of Kazakhstan.

The tendency of largescale raising debt capital observed in 2001 was also typical of 2002. In particular, expansive growth of extraneous funding through loans and borrowings was seen in the country's banking sector.

In the face of considerable price fluctuations for primary goods, the inflow of direct investments remained steadily high within recent 3 years. It was preconditioned mostly by investments in oil and gas industry where the size of investment are basically determined by implementation of longterm investment projects by strategic investors.

A typical trend of 2002 was seen in growth of foreign assets owned by nongovernmental sector and expansion of the range of financial instruments used by residents.

In 2002 a positive balance of financial accounts amounted to 1395 million USD. The positive balance of foreign direct investments (FDI) in 2002 amounting to 2 138 million USD was 24% reduced against 2001 which was mainly associated with investments in shareholders' capital of foreign

companies and banks in view to diversification of investments and expansion of sales markets. Residents' assets directly invested overseas with a considerable growth first registered in early 2002, have increased by 423 million USD for the period under review.

Steadily high inflow of direct investments to Kazakhstan was preconditioned by implementation of largescale investment projects focused on development of Tengiz, Kashagan, Karachaganak and Kumkol fields. The inflow of direct investments to Kazakhstan in 2002 amounted to 4 073 million USD of which 51% account for extraction of crude oil and natural gas, 19% – geology and reconnaissance and 14% – extraction of nonferrous metals.

Investors from the US (25% total FDI), Great Britain (15% FDI), Switzerland (13% FDI), Italy (12% FDI) and Russia (5% FDI) dominated in the structure of direct investors given by country.

The negative balance of foreign portfolio investments for 2002 was over 1 247 million USD. Increments of assets of monetary control agencies reflected in the balance of payments as shares and debt securities of nonresidents amounting to over 748 million USD shall refer to placements of

national fund in foreign assets. Considerable growth of national fund as of quarter II 2002 was ensured by incomings from the Government's foreign accounts the flows of which were not previously reflected in balance of payments.

Inflow of financial resources under "Other investments" item in the period under report amounted to 505 million USD i. e. almost halved since 2001. The structure of flows also faced some changes: within a considerable growth of shortterm foreign assets, the growth of liabilities was mainly determined by mediumterm and longterm loans and borrowings. Net inflow of funds from mediumterm and longterm borrowings was 823 million USD in 2002 i. e. 1.6 times exceeded the same index in 2001 and was determined by active disbursement of loans and credits by companies and banks of Kazakhstan. Net outflow of funds under shortterm investments was 318 million USD compared to inflow of 627 million USD in 2001.

Considerable inflow of external funds with a steadily high inflow of direct investments as a major component, has excessively covered deficits of current account and capital transactions account and enabled a subsequent growth of international reserves of the National Bank. Positive balance of the balance of payments (in analytical terms) amounted to over 535 million USD within the reported period.

**Foreign Debt.** As of December 31, 2002 the gross foreign debt was 18 042 million USD with a 19.5% increase against the year of 2001.

With the fall of liabilities of governmental and governmentguaranteed foreign debt to 3 481 million USD the growth of foreign debt was preconditioned by borrowings of banks and companies of Kazakhstan unsecured by the government (unsecured foreign debt). Increment of funding for the biggest oil and gas reconnaissance, extraction, processing and transportation projects is a key factor of stable growth tendency of unsecured share of the foreign debt. Unsecured external debt for the reported period was increased by 29% amounting to over 14 561 million USD as of the end of 2002. Over 72% unsecured foreign debt account for intercompany debt increased by 20% during the year (see Annex 3 to Section I, Subsection 1.3, Table 1.3.4).

The ratio of gross external debt to GDP increased by 5.6% against 2001 and made 74% remaining in the rage of moderate indebtedness (48–80% as classified by the World Bank). Cost of external debt repayment and servicing in 2002 were 8.2 billion USD worth i.e. increased by 28% against the year of 2001 (see Annex 3 to Section I Subsection 1.3 Table 1.3.5). A 32% increase of debt servicing payments resulted from increase of payments referring to repayment of shortterm trade credits. Cost of external debt repayment and servicing for industries which raised direct investments reduced by 9.5% compared to the level of 2001. Fluctuation of prices for primary products determined reduction of payments to cover liabilities of mining companies visa-vis foreign parent companies.



## II. Monetary and foreign exchange policy

### 2.1. Monetary policy

Since 2001 the benchmarks of monetary policy are set by the National Bank for 3 years in advance with an annual adjustment. This is associated with a macro-economic stability in the country and enables to make projections and develop strategic focuses for a longer period in the context of economic environment and situation at financial markets.

Preparation and transition to inflation targeting was declared an important focus of the National Bank's monetary policy for the near future. Inflation targeting principle meets more clearly the main goal of the National Bank to lower inflation and ensures greater degree of market participants confidence in monetary policy pursued by the NBK.

In February 2002 the official REPO rate was introduced as a current target indicator for the purposes of inflation targeting. REPO rate is set at 5.5% with (+/-) 1% spread. The official REPO rate remained unchanged during 2002.

In 2002 the National Bank continued the policy focused on maintaining low inflation.

A positive factor within inflation dynamics is the reduction of average annual inflation from 8,4% in 2001 to 5,9% in 2002. Downfall of inflation meets the goals set by the National Bank for 2002 (5–7%).

Considerable supply of foreign currency determined by both exporters' currency revenues and revenues in foreign currency for the Ministry of Finance required active action of the National Bank for monetary regulation in order to retain stability at do-mestic foreign exchange market.

In the year of 2002 the rate of exchange was relatively stable. Depreciation of Tenge against dollar was 3,25% in 2002 (cf. 3,8% in 2001).

Downfall of quarterly volatility of exchange rate is a new positive trend.

The level of *monetary base* remained one of the main operational indicators used by the National Bank as an interim benchmark of monetary policy. Expansion of monetary base by 19% to reach 208.2 billion Tenge was determined by increase in the net international reserves driven by purchases of foreign currency at internal ex-change markets and by continuing considerable increase of foreign currency on the accounts of the Ministry of Finance.

In 2002 dynamics of monetary base retained the trends of past years with no any considerable changes observed.

Monetary base was regulated by indirect instruments exclusively such as issuance of short-term notes of the National Bank and open-market transactions. Considerable currency inflow was partly balanced by increased issuance of short-term notes of the National Bank. In 2002 dynamics of monetary base was considerably affected by changes in the balances on accounts of the Government in the National Bank conditioned by peculiarities of budget spending. So, reduction of balances on accounts of the Government due to increase of expenditures in vacation period of budget organizations in the field of education in July and expenses of funding budget programs at the end of December among other factors, resulted in maximal expansion of monetary base (by over 11%) in those months. The maximum rate of contraction (by 8,8%) was recorded in January due to a seasonal drop of the government's expenditures resulted in considerable growth of balances on accounts of the Government in the National Bank.

Increase of **currency in circulation** (M0) in 2002 by 23.3% (amounting to 161.7 billion Tenge) was due to continuous surge of nominal and real incomes of people within favorable macroeconomic trends in the country. The growth of nominal wages, pensions and allowances driven by favorable economic situation were the main channels to replenish money in circulation.

A growth of **broad money** (M3) in 2002 by 32.8% (765 billion Tenge) considerably outpaced the expansion of monetary base. As a result monetarization of economy rose up from 17.7% to 20.4%, the highest level ever seen in the country since 1994.

Key factors contributing to the growth of broad money were increase in both net external assets and internal banking assets (exclusive of the National fund's assets). Net external assets of banking system increased by 32.6% as a result of growth of gold and foreign exchange reserves of the National Bank. Internal banking assets have increased by 31.8% due to raised net claims of banks to the government and other industries. The growth of banks' net claims to the Government by almost 2.9 times was preconditioned by the uprise of domestic borrowings by the Ministry of Finance through issuance of securities (primarily medium-term and long-term). Continuous inflow of deposits into the banking system on the background of stable macroeconomic situation determined increased activities of the banks in the credit market. As a result, banking claims to other industries (except for the government) have increased by 34.3%. Other net internal banking assets have reduced by 45.8%.

In addition to seasonal factor, maximal rise (10.1%) of broad money in 2002 reported in December was determined by increase of legal entities' deposits in foreign currency due to accumulation of funds by potential investors for declared sale of state share-package of Kazakhmys Corporation OJSC. Maximal drop of broad money (by 6.8%) was reported in January 2002.

As a result of an outpacing growth of deposits as compared to broad money in circulation, a positive trend of the growing share of bank deposits retained in the structure of broad money. In 2002 this figure has increased from 77.2% to 78.9% resulting in rise of **money multiplier** from 3.29 to 3.67.

Official rates of the National Bank, issuance of short-term notes and open-market operations were the main instruments of monetary policy.

Fall of inflation enabled to gradually reduce **refinancing rate** during the year of 2002 from 9% to 7.5%, reduce a rate of overnight loans from 12% to 9%.

**Short-term notes.** In 2002 the National Bank issued short-term notes for the amount of 208.3 billion Tenge (almost twofold increase against 2001 from 116.4 billion Tenge). Maximal issuance was seen in quarter IV with almost even placement within the quarter (October – 25.3 billion Tenge, November – 26.5 billion Tenge, December – 23.9 billion Tenge). Increase in issuance of notes was affected by the following two factors: the need of adequate replacement of redeemable eurobonds of 1997 issue in APF portfolios in the first half of quarter IV and the need to sterilize liquidity at the end of the year. As a result the amount of circulated short-term notes increased 3.7 times up to 64.3 billion Tenge. Efficient yield of short-term notes rose from 5.80% to 5.89% (weighted-average yield for the last month).

**National Bank's Operations at the Secondary Market.** In 2002 the trend of excessive second-tier banks' liquidity was retained driven by the great inflow of funds to economy. In this connection, REPO operations contributing to decrease of liquidity have increased over 7 times up to 575.8 billion Tenge compared to 2001, while reverse REPO operations practically remained on the level of 2001 making 38 billion Tenge (37.6 billion Tenge in 2001).

In 2002 the National Bank handled no sell transactions of state securities due to inconsiderable size of NBK's securities portfolio and considerable amount of REPO transactions. Purchases amounted to 3.2 billion Tenge.

**Deposit transactions at domestic market.** In 2002 the National Bank raised Tenge deposits for the amount of 746.6 billion at domestic market i.e. 515.4 billion Tenge (almost 3 times) in excess as compared to the year of 2001. Total amount includes 127.1 billion Tenge of second-tier banks (with average 2-weeks' term of raising and 4.82% rate per annum) and 619.5 billion Tenge of the Ministry of Finance (at an average rate of 4.42% per annum and the average 1.5 months' term of raising).

**Credit activities and rediscount of promissory notes.** In 2002 the banks were provided loans for the amount of 2 679 million Tenge including:

- Narodny Bank Kazakhstan OJSC: 2 579 million Tenge (to purchase accounts re-ceived for

individuals' deposits placed for account of pension assets of Komirbank OJSC);

- Almaty Merchant Bank OJSC: 100 million Tenge (overnight loan).

Repayment of bank loans for the reported period was 402 million Tenge.

Total debt of bank loans issued by the National Bank as of January 1, 2003 was 3 788.5 million Tenge including for the banks making part of lending banks consortium of gold mining industry – 1 036.7 million Tenge (6.7 million USD), Kazakhstan Interbank Center – 288.9 million Tenge and Narodny Bank Kazakhstan OJSC – 2 462.9 million Tenge.

In 2002 the number of first-class issuers increased from 4 to 6 companies (Kazatomprom CJSC, Kazakhtelecom OJSC, Kazakhstan Temir Zholy Republican State Enterprise (RSE), Kazakhstan Electricity Grid Organizing Company OJSC, AlmatyKus OJSC, Astanafinance OJSC).

In 2002 General Agreements for promissory notes rediscount by the National Bank were valid with 8 banks. 47 promissory notes have been accepted for rediscount amounting to 225.5 million Tenge from Kazatomprom CJSC and 7 notes of Kazakhstan Temir Zholy Republican State Enterprise for the amount of 200.0 million Tenge with a payment period of 1–2 months. In 2002 redeemed promissory notes accepted for rediscount amounted to 232.6 million Tenge including 7.1 million Tenge accounting for the notes accepted to rediscount in quarter IV 2001.

Loan portfolio was classified on a monthly basis. In the reported period, provisions on the basis of classifications have not been made for bank loans making part of the National Bank's loan portfolio.

General Agreements for the overnight bank loans were made with 21 second-tier banks.

As of January 1, 2003 loss-making debt of bank loans issued in the national currency amounts to 1 810.9 million Tenge including Kramdsbank JSC – 1 696.6 million Tenge, Erminbank JSC – 102.4 million Tenge and Tsvetmetbank JSC – 10 million Tenge.

For the reported period debts of liquidated banks have been canceled for the amount of 1.02 billion Tenge.

### 2.2. Gold and foreign exchange reserves of the National Bank and their management

In 2002 total gold and foreign exchange reserves of the National Bank increased by 632.6 million

**Monitoring of businesses in the real sector of economy.** To enable bank loans issuance for real sector the National Bank performs monitoring of real sector industries. Results of monitoring determine operational assessments of changes in the economic environment indices, financial standing and investment climate within the real sector of economy.

In 2002 the number of enterprises covered by monitoring increased from 799 to 1 046. The share of sales revenues of monitored enterprises in total revenues of large-scale and medium-size businesses rose from 38.5% in quarter IV 2001 to 47.8% in quarter IV 2002.

The following trends have been shown by monitoring in the real sector of economy in 2002:

In 2002 business environment was continuously improving. Growth of effective demand, working assets, improvement of payment discipline were seen in 2002. At the same time improved business environment is still not adequate to ensure considerable growth of manufacture. To a greater extent this relates to processing industry, in a less degree – to mining.

Insufficient orders for finish products were seen in economy.

Manufacturing facilities remained under-loaded (in quarter I the load was 72.1%, in quarter IV – 74.2%) mainly due to insufficient solvent demand for products and working assets. Provision of working assets improved by the end of 2002.

Dynamics of finished stock in 2002 was stable and is ranked as close to a normative level. Employment in real sector covers the demand.

Continuous growth of production in 2002 was primarily determined by full use of manufacturing resources. Sales revenues were continuously growing in all industries, especially in mining which is associated with increased export share in sales revenues of mining industry from 51.5% as of beginning of 2002 to 73.7% in quarter IV.

A low growth tendency is seen in companies' investment activities. The most favorable situation is observed in mining industry.

The main sources of investments are equities of the companies.

USD and made 3 140.8 million USD as of January 1, 2003. Changes in the amount of gold and foreign

## II. Monetary and foreign exchange policy

exchange reserves were affected by increase in hard currency assets by 557.7 million USD and assets in precious metals – by 74.9 million USD (see Table 2.2.1).

Increase of gross currency assets was affected by both internal and external factors. Money market of Kazakhstan is influenced by considerable supply of foreign currency which was maintained by exporters' currency revenues. Stable situation at internal money market was reached through the active monetary regulation activities undertaken by the National Bank. NBK's net purchase in Kazakhstan Stock Exchange (KASE) for the reported period was 470.1 million USD and net purchase at the interbank market was 403.8 million USD.

Another reason of increase in gross currency assets was foreign currency revenues of the Ministry of Finance amounting to 637.9 million USD where

the biggest amounts accounted for taxes of oil companies (453.9 million USD) and rental charges of the Russian Government for Baikonur space launcher complex (115.2 million USD).

At the same time the National Bank made payments of external debts under instructions of the Government amounting to 751.0 million USD. The bulk of such payments included redemption of principal and interests on eurobonds placed in the foreign stock markets for the amount of 364.7 million USD. In addition, Tenge revenues to the National fund have been converted for the amount of 369.8 million USD.

A 23.5% growth of world prices for gold also contributed to increase in the gold and foreign exchange reserves.

Net gold and foreign exchange reserves in 2002 rose by 632.4 million USD making 3 138.3 million USD.

### International Reserves of the National Bank

Table 2.2.1

	<i>Million USD</i>	
	As of January 1, 2002	As of January 1, 2003
1. Gross gold and foreign exchange reserves, total	2 508.241	3 140.832
Including		
1.1. Monetary gold	510.695	585.555
1.2. Assets in hard currency and SDR	1 997.546	2 555.277
a) Foreign currency in cash (FCC)	0.695	1.402
б) Deposits in hard currency	306.476	64.183
в) Loans in hard currency pledged by securities	150.206	257.208
г) Securities (except for shares) in hard currency	1 532.998	2 222.311
д) Financial derivative and other accounts	7.170	10.173
2. External liabilities (FCC)	2.268	2.499
Including:		
2.1. Liabilities vis-a-vis international financial institutions	0.172	0.128
2.2. Medium-term and long-term loans	1.903	1.903
2.3. Financial derivatives	0.011	0.008
2.4. Other accounts	0.182	0.461
3. Net international reserves (1–2), total	2 505.973	3 138.333

**Operations on managing gold and foreign exchange reserves.** Based on the main principles of gold and foreign exchange reserves management to ensure safety, liquidity and maximal yield, the following operations have been made by the National Bank in 2002:

**Reverse REPO operations.** In 2002 the average balance of transactions with the Federal Reserve

Bank of USA on reverse REPO account was 171.1 million USD with an average interest rate of 1.65% per annum.

The National Bank made 41 fixed-term reverse REPO transactions for the amount equivalent to 871.8 million USD including 35 transactions in USD for 778.3 million USD, 5 transactions in Euro for the amount equivalent to 79.9 million USD and

1 transaction in UK pounds for the amount equivalent to 13.6 million USD. The average term of reverse REPO transactions was about 2 months with the average interest rates of 1.78% in USD, 3.29% in Euro and 3.90% in UK pounds.

**Transactions at the international market of government securities.** In 2002 security portfolio of foreign governments increased by the equivalent

of 506.0 million USD up to 1 375.6 million USD (see Table 2.2.2). Securities portfolio of international financial institutions was reduced by the amount equivalent to 23.8 million USD making 11.8 million USD as of the end of reported period. Portfolio of agency securities was reduced by the amount equivalent to 54.8 million USD making the equivalent of 275.8 million USD as of the end of 2002.

## Securities portfolio of foreign governments in 2002

Table 2.2.2

Million USD

	Growth per annum	As at the end of 2002
Total	506.0	1 375.6
including:		
USA	314.4	763.4
EU	176.7	540.3
UK	14.1	71.1
Japan	0.8	0.8

**Externally managed assets.** Since the beginning of 2002 dollar portion of currency assets was managed by 4 foreign administrators. In April 2002 one of the dollar assets management agreements expired and a new one was made effective in October to manage the part of assets in Euro. Market value of externally managed portfolio was

619.4 million USD worth at the beginning of 2002 and at the end of the year – 634.3 million USD as reported by the custodian.

**Transactions on gold.** In operations on gold the National Bank pursued a strategy of transactions to raise the yield of gold portfolio (see Table 2.2.3).

## Transactions on gold

Table 2.2.3

	2001		2002	
	Number of transactions	Gross-turnover (million USD)	Number of transactions	Gross-turnover (million USD)
Deposit transactions	337	3 388.7	340	3 550.6
Arbitrage operations	0	0.0	9	41.1
Option	4	20.7	9	44.6
Buy/ sell	104	23.1	9	42.7
Interest swap	1	8.3	0	0.0
Total	446	3 440.8	367	3 679.0

In 2002 the National Bank handled 367 operations on gold for 3 679.0 million USD. Deposit operations on gold were 3 550.6 million USD with an average placement term of 1 month at 0.3% annual interest rate. 9 deposit operations of the above-specified number were builtin option for the amount of 114.1 million USD. NBK also made 9 arbitrage operations for 41.1 million USD including

4 transactions on opening arbitrage positions for the amount of 20.6 million USD.

**Foreign exchange deposit transactions.** Foreign exchange deposit transactions with counter-partners were held within the approved limits. In 2002 the National Bank carried out 140 transactions to place foreign currency assets denominated in US dollars for the total amount of 5 201.0 million USD, 19

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transactions in Euro (equivalent to 443.1 million USD) and 5 transactions in Pound Sterling (equivalent to 106.6 million USD).

In addition, in 2002 the National Bank raised 25 deposits in US dollars in domestic market place including 8 deposits from second-tier banks amounting to 104.3 million USD and 17 deposits from the Ministry of Finance for the amount of 857.2 million USD.

**Foreign exchange transactions in foreign markets.** In 2002 136 foreign exchange transactions

have been handled in the foreign market for the amount of 645.2 million USD including 48 transactions focused on portfolio restructuring for the total amount of 395.5 million USD and 13 arbitrage operations for 37.0 million USD. In 2002 the National Bank also handled 1 transaction to purchase US dollars in cash for the amount of 3.0 million USD and 1 transaction to purchase Euro in cash for the amount equivalent to 0.5 million USD (see Table 2.2.4).

### Foreign exchange transactions in foreign markets in 2002

Table 2.2.4

	Number	Amount, million USD
EUR/USD	92	523.2
USD/JPY	22	96.3
GBP/USD	8	19.7
USD/CHF	14	6.0
Total:	136	645.2

**Income structure of the transactions on gold and foreign exchange reserves.** In order to increase a long-term revenue position of assets with maintaining high li-liquidity and strengthening investment discipline, gold and foreign exchange reserves have conventionally been divided into long-term, short-term and gold portfolio.

Resolution of the Board of the National Bank ref. 180 dated May 13, 2002 embodied amendments to the operational Investment Strategy on Management of Gold and Foreign Exchange Reserves approved by Decree of NBK Board ref. 362 dated September 19, 2001. Pursuant to the amendments as specified below, standard portfolio within the long-term portfolio reduced the share of Merrill Lynch US Treasuries&Agencies 1–3 years from 70% to 65% and increased the share of Merrill Lynch German Federal Governments 1–3 years up to 30%.

In 2002 market value of long-term portfolio of gold and foreign exchange reserves advanced by 186.7 million USD up to 1 706.7 million USD with a 12.28% rate of return. In 2002 the revenue position of the long-term GFER portfolio in the basket of currencies was 6.39% i. e. 58 basic points higher than the standard portfolio with a yield of 5.82%. All domestically and externally managed sub-portfolios showed positive results. In addition, a favorable contribution to super yield of standard portfolio GFER was made by changes in currency distribution in quarter II 2002 when Euro gained

strength against US dollar. So, the yield of independently managed long-term sub-portfolio was 6.00% per year, standard portfolio – 5.88%. The yield of part of UBS Asset Management managed dollar portfolio was 6.18% with a super yield of 30 basis points. Super yield was 12 basis points with provision for commissions. The yield of part of dollar portfolio managed by Goldman Asset Management was 6.59% with a super yield of 71 basis points. Super yield was 41 basis points with provision for commissions.

Annual yield of independently managed portfolio in Euro was 5.71%, standard portfolio – 5.67%. The yield of sub-portfolio in Euro managed by Credit Agricole Asset Management for the management period between October and the end of 2002 was 1.22% with a (-)1 basis point super yield. The lag was 3 basis points with a provision for commissions. The yield of long-term portfolio in Pound Sterling was 6.64% per year, standard portfolio – 6.59%. The yield of long-term portfolio in JPY in 2002 was 0.48%, standard portfolio – 0.35%.

For short-term portfolio the standard portfolio is Merrill Lynch 3-month US Treasury Bill Index. For the long-term portfolio – 65% Merrill Lynch US Treasuries&Agencies 1–3 years, 30% Merrill Lynch German Federal Governments 1–3 years, 4% Merrill Lynch U.K. Gilts 1–3 years Index and 1% Merrill Lynch Japanese Governments 1–3 years. The yield of short-term GFER portfolio for the

reported period was 2.73% with super yield of 95 basis points. Independently managed sub-portfolio had a yield of 2.78% compared to 1.78% yield of the standard portfolio. The yield of sub-portfolio managed by Citigroup Asset Management was 2.54% i. e. 82 basis points higher compared to the yield of composite standard portfolio. Super yield was 72 basis points with provision for commissions.

In view to raise efficiency of GFER management, approve the limits of risk arising from NBK's GFER portfolio management operations, the Board of NBK is-sued Resolution ref. 416 dated October 24, 2002

to approve a new Investment GFER Management Strategy. Pursuant to this strategy the share of US dollars in a standard portfolio of long-term portfolio was leveled down in favor of Euro i. e. the share of Merrill Lynch US Treasuries&Agencies 1–3 years will make 55% instead of 65% and the share of Merrill Lynch German Federal Governments 1–3 years – 40% instead of 30%. Consolidate incomes generated by operations on gold are calculated in US dollar equivalent against KZT based on the official NBK rate as of the end of reported period (see Table 2.2.5).

### Income Structure Based on the Accrual Method

Table 2.2.5

	2001	2002	%
Foreign exchange transactions	2.6	5.6	
Money market operations	4.6	2.3	
Stock market operations	70.0	70.3	
Gold transactions	1.9	1.4	
External management	20.9	20.4	
Total:	100.00	100.00	

### 2.3. Currency regulations and control

Major activities of the National Bank addressing improvement of foreign exchange regulations and control in 2002 were practical steps to liberalize exchange regulation and improve efficiency of the instruments and methods of foreign exchange control.

To implement the tasks a number of normative and legal documents were approved. The main goal of amendments was to give more freedom to participants of money market through removing administrative barriers.

Excessive control of government authorities was released for foreign exchange transactions being reliable and transparent in terms of its performance technique. In pursuance to a new edition of the Rules of licensing for activities associated with use of foreign exchange assets, the following categories have been excluded from the list of licensable operations:

- Ex-im operations associated with capital flow not exceeding 5 thousand USD;
- Investments of residents in securities issued in Kazakhstan by international financial institutions;

- Transactions in which foreign currencies received as loans from non-residents are transferred on the third parties' accounts for (1) governmental and government-secured loans; (2) loans unsecured by the state raised from foreign banks which are to be disbursed under documentary settlement pattern; (3) loans unsecured by the government raised to finance ex-im operations insured in the foreign state agencies for export credit loans (pursuant to specific list).

To simplify the licensing procedures, the number of state agencies to approve the license has been reduced. License-granting credentials are transferred to the territorial branches of the National Bank.

The previous requirement of mandatory record of certificate for forex transactions made by exchange offices has exhausted its major goal to improve accounting and control of foreign exchange operations. Today the record from certificates is issued optionally. A requirement was approved to register information about the client involved in

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buy/sell forex transactions for the amount exceeding the equivalent of 10 thousand USD. Such transactions need to be recorded for the purposes of foreign exchange and taxation control of the government over foreign currency in circulation.

To comply with instructions set by the President relating to automation of export-import forex control (EIFC), the National Bank continued its activities to develop a software product in order to implement new arrangements of export-import forex control.

Activities pursued by the National Bank in consultation with other bodies and agents of forex control enabled to set information exchange with the authorized banks and Customs Committee of the Ministry of State Revenues. Automated Information Sub-system (AIS) "Collection and analysis of ex-im forex control results" was commissioned in commercial operation on July 31, 2002.

Improvement of licensing and administrative procedures ensured a comprehensive approach to reveal rule-breakers in forex licensing which particularly contributed to improvement of obedience to external-economy agreements and returning of funds to the country as a consequence.

With Administrative Code of Kazakhstan effective on February 25, 2001 which provides

administrative responsibility of legal and physical persons for breaching the norms of foreign exchange regulation, the National Bank took an active part in revelation and suppression of administrative infractions in the field of foreign exchange regulations and statistical recording. One of the outcomes of the National Bank and its territorial branches associated with administrative suits was imposition of penalties for the amount over 38.5 million KZT.

Follow-up activities have been carried out for liberalization of foreign exchange limitations in view to improve efficient use of foreign currencies through enhancing the residents' investment opportunities and simplifying the procedure of foreign exchange transactions.

Resolution of Economic Policy Council ref. 20-50/005-416 dated May 15, 2002 and Decree of the Board of National Bank ref. 369 dated September 11, 2002 have approved the Concept Paper for liberalization of foreign exchange arrangements in Kazakhstan.

Exchange Liberalization Program for 2003–2004 was developed in Kazakhstan alongside with the draft law "On Amendments to Legal Documents of Kazakhstan Relating to Banking, Foreign Exchange Regulation and Control".



### III. Cash management

**Issuance and cash flows.** In 2002 the total amount of cash currency in circulation (M0) increased by 23.2% making 161,7 billion KZT as of January 1, 2003.

In 2002 cash currency in the amount of 288.4 billion KZT out of reserves of the National Bank were issued including emission of 108.4 billion KZT worth and withdrawal of 256 billion KZT worth out of circulation. Cash emission in 2002 was positive making (+)32.5 billion KZT i. e. increased by 3.4 billion Tenge compared to the previous year (cf. 29.1 billion Tenge).

Cash received by the banks in 2000 increased by 29% and amounted to 1 663 billion Tenge, paid out cash rose by 24.3% amounting to 1 652.4 billion Tenge (see Annex 1 to Section II, Figure 3.1, Table 3.1).

An increase of cash emission from reserve funds of the National Bank (by 22,5%) and the growth in cash flows in the secondtier banks resulted from the growing demand of economy in cash. In turn, the growth of demand for cash is determined by the growth of GDP, retail turnover, nominal wages and cash income of people.

In 2002 just as in 2001 most dramatic changes in the issuance and withdrawal of cash which affected the amount of cash in circulation were seen in January, June, October and December. In January cash withdrawal from circulation amounted to 18 billion Tenge which is equivalent to practically 100% withdrawal of cash issued in December 2001 (18.4 billion Tenge). In June the growth of net issuance was (+)7.8 billion Tenge which is associated with a vacation season and vacation pays particularly to education system personnel. In October active operations at the market of agriculture resulted in growth of net issuance up to (+)8.4 billion Tenge. In December as a result of payments, primarily budgetary payments, issuance of cash in circulation reached its peak amount: excess

of issuance against withdrawals was (+)16.2 billion Tenge.

Positive issuance was reported in all regions except for Almaty City.

**Withdrawal of banknotes, destruction of worn banknotes and forgery prevention.** During 2002 worn banknotes were destroyed for the amount of 79.6 billion Tenge. Active destruction of worn banknotes determined 21% reduction of worn banknotes held by the National Bank.

The amount of withdrawn 1–50 Tenge banknotes from circulation was 26.9 million Tenge during the year. As of January 1, 2003 banknotes of the specified nominal value were circulated for the amount of 527.8 million Tenge (i. e. 3.8% total amount of the banknotes of similar nominal value). Withdrawal rates of such banknotes visibly dropped during the year of 2002 (cf. 827.9 million Tenge have been withdrawn in 2001). This factor may witness completion of withdrawal of such banknotes from cash circulation due to natural fall and physical depreciation of the banknotes.

To ensure cash flow of small nominal, the National Bank timely furnished secondtier banks with change coins. In 2002 the amount of circulated coins increased by 1.5 billion Tenge and reached 4.3 billion Tenge.

II withdrawal stage of old banknotes "200 Tenge" and "500 Tenge" and their acceptance by secondtier banks expired on September 1, 2002. During 10 years branches of the National Bank will accept the old banknotes from legal and physical persons and exchange them for the current banknotes after examination of their identity. As of January 1, 2003 residual of old banknotes in circulation accounts for 0.7% total amount of those newly produced.

The period of simultaneous circulation of new and old banknotes "1000 Tenge" and "2000 Tenge" expired on November 1, 2002. During 12

months since the expiration of simultaneous circulation second-tier banks will accept and exchange old banknotes to physical and legal entities for other types of banknotes in circulation. As of January 1, 2003 residual of such old banknotes in circulation was 3,1% total amount of newly produced.

To improve prevention and control of forgery branches of the National Bank were equipped with modern expert video sets to identify authenticity and fitness of banknotes to be used as currency.

To improve the practices of national currency protection, "200 Tenge" and "500 Tenge" banknotes nominal of 1999 format were put in circulation with minor changes in some elements.

**Issuance of jubilee, memorial and circulation coins.** To improve a banknote structure of cash

circulation a "100 Tenge" nominal coin of 2002 was put in circulation in July 1, 2002. The coin is made in two colors (inner disk is made of nickel silver white alloy, outer disk is made of yellow brass alloy).

Pursuant to the concept of jubilee and memorial coins for 2000–2005, memorial silver coins of "500 Tenge" nominal value (925/1 000) have been made in 2005, 3000 coins in each series:

"Dombyra", Applied Art series

"Belgi", Petroglyphs of Kazakhstan series

"Argali", Red Book of Kazakhstan series

"Babaji-Khatun", Architectural and historical monuments.

Memorial jubilee coins were also put in circulation for 100th anniversary of G. Musrepov ("50 Tenge" nominal value, nickel silver alloy).

## IV. Financial market

### 4.1. Foreign exchange market

Domestic foreign exchange market in 2002 was marked with a considerable growth of transactions in exchange market and relatively high stability of the national currency against US dollar. In 2002 the National Bank participated in domestic foreign exchange market primarily as a buyer of foreign currency which contributed to replenishment of the country's gold and foreign exchange reserves.

As of the end of 2002 the exchange rate of Tenge to dollar was 155.85 Tenge per 1 USD and the weighted-average rate was 153.86 Tenge per 1 USD. Fluctuations of exchange rate in Kazakhstan Stock Exchange did not exceed the rational expectations and the average monthly changes in Tenge/US dollar rates ranged between 0.1% and 0.7%. Strengthening of nominal exchange rate of Tenge seen in October 2002 (0.16%) was mainly determined by increased supply of foreign currency at domestic exchange market resulted from redemption of Kazakhstan's Eurobonds issued in 1997 which was in October 2002.

Quarterly volatility of the rate and its quarterly distribution was close to even. So, the nominal depreciation of Tenge vis-a-vis dollar did not exceed 1% during 4 quarters of 2002: in quarter I 2002 depreciation was 0.99%, in quarter II – 0.54%, quarter III – 0.95%, quarter IV – 0.73%.

### 4.2. Interbank Money Market

In 2002 interbank money market functioned steadily. Within continuous growth of the banks' resource base the role of such market segment has been strengthened in distribution of current liquidity of banks.

At the interbank money market of borrowings in Tenge the banks actively raised and placed short-term deposits while interbank loans have been issued only in the second half of 2002 and the amounts were inconsiderable. So, in 2002 total placement of interbank Tenge deposits rose by 15.1% and made 277.9 billion Tenge.

US dollar is the main currency used in conversion transactions. In 2002 dollar was traded at the exchange for the amount of 2 944.7 million USD with a 50.9% excess compared to 2001.

Interbank market turnover considerably surpassed exchange turnovers: the volume of transactions between resident banks at interbank foreign exchange market reached the amount equivalent to 4 238.2 million USD with a 16.2% increase during the year.

The shares of operations on Russian Rouble and Euro were inconsiderable in the exchange and interbank turnovers.

Like in previous years US dollar was a preferable cash foreign currency and, accordingly, purchases of this foreign currency dominated in this segment of the market. In 2002 cash forex offices sold USD 2 390.8 million USD showing an increase of 0.9% as compared to the previous year.

So, the national currency remains stable. Since circulation of the national currency the lowest level of depreciation was reported only in 1997. This proves strengthening of trust to Tenge and the confidence in stability of exchange rate for the national currency by population, domestic and foreign investors.

Retention of high liquidity of banks in 2002 contributed to a considerable lowering of yield on interbank deposits. Weighted-average interest rate for placed deposits went down from 7.11% in December 2001 to 4.90% in December 2002.

Banks were active also at the interbank market of foreign exchange instruments. Like Tenge deposits, dollar deposits remained the main type of short-term forex operations employed by the banks in this market segment. In 2002 dollar deposits placed by the banks amounted to 24.5 billion USD showing the rise of 42.8% compared to previous year.

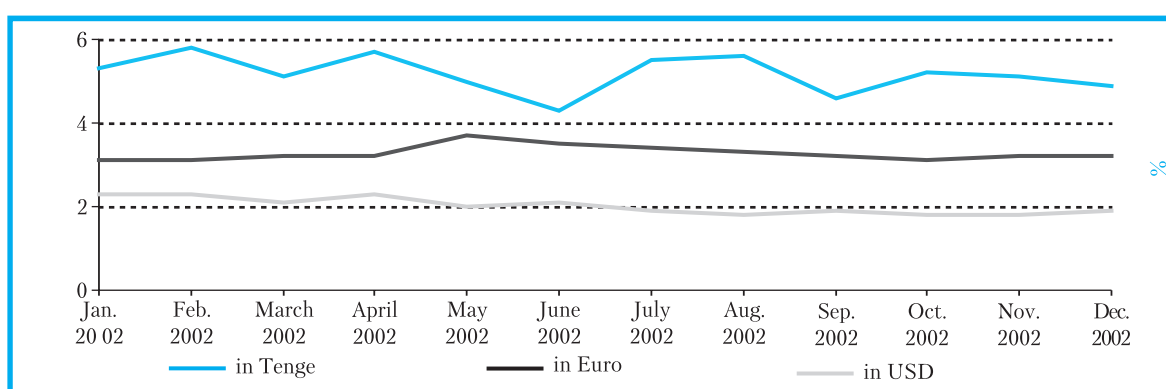
For other types of interbank borrowings in foreign currency amounts of transactions were inconsiderable.

Dynamics of the rates applied to interbank dollar deposits showed a stable tendency of decline while

in Euro deposits the rate of return changed inconsiderably. Weighted-average interest rate on placed deposits in USD was 1.93% as of December 2002 (cf. 3.10% as of December 2001), in Euro – 3.25% (3.01%) (see Fig. 4.2.1).

**Figure 4.2.1**

### Rate of return on the placed interbank deposits



### 4.3. Deposit market

On the whole situation in deposit market was stable in 2002. The banks' resource base was successively growing alongside with their drawing potential due to the inflow of domestic savings. During the year deposits of residents in the banking system grew up by 35.6% and reached 603.3 billion Tenge (foreign currency equivalent – about 3.9 billion USD) accounting for 16.1% GDP (in 2001 – 13.7%).

Positive changes are seen in deposit structure by currency deposits in foreign currency rose by 27.1% and reached 361.7 billion Tenge while deposits in national currency increased by 50.7% and reached 241.5 billion Tenge. As a result, the share of deposits in foreign currency in total deposits of residents was leveled down from 64.0% to 60.0%.

Corporate deposits increased by 35.6% and reached 352.6 billion Tenge by the end of 2002 i. e. 58.4% total deposits. During the year dynamics of corporate deposits was uneven. In January, February and November 2002 corporate deposits showed certain decline due to outflow of funds for payment transactions. Like in 2001, a considerable inflow of corporate deposits to the banking sector was shown in December. In December 2002 the growth of corporate deposits was 15.3% (cf. in December 2001 – 12.8%).

During 2002 banks retained a stable tendency of growing households' deposits. On the whole, house-

holds' deposits in 2002 (including nonresidents) rose by 38.3% and made 257.4 billion Tenge (equivalent to 1.65 billion USD). Thus, an average size of deposit per capita rose from 84 to 112 USD during 2002.

The average monthly households' deposits in 2002 went down to 5.9 billion Tenge as compared with 7.9 billion Tenge in 2001. Although in 2001 most of deposits were made during the capital legalization campaign while in 2002 the growth of deposits was even.

A positive feature in the structure of households' deposits showed a growth of share of time deposits from 78.9% to 82.4%. Time deposits rose by 44.4% during the year and reached 212.1 billion Tenge while call deposits (including current accounts) dropped by 15.4% down to 45.2 billion Tenge.

Extension of deposit terms and growth of deposits in the national currency witness the rise of public trust to the banking system and improvement of public expectations of financial system development.

As inflation and devaluation of Tenge decreased dynamics of the rates on bank deposit tended to go down. In 2002 weighted-average rate on time households' deposits in Tenge reduced from 12.8% to 11.0%, deposits in foreign currency – from 7.3% to 6.9%. Gradual decline in the rates on deposits contributes to lowering the rates on bank loans.

## 4.4. Credit market

**4.4.1. Credit market.** On the background of continuous growth of resource base, lending activities became priority transactions for the banks. During 2002 new loans have been issued for the amount of 1950.2 billion Tenge (cf. in 2001 – 1 083.8 billion Tenge). Total amount of bank loans to the country's economy rose by 37.3% during 2002 and reached 672.4 billion Tenge (equivalent to over 4.3 billion USD) i. e. 17.9% GDP (cf. in 2001 – 15.1%).

The growth of loans in the national currency outpaced the loans in foreign currency. Loans in the national currency in 2002 rose by 50.0% and made 211.9 billion Tenge, in foreign currency – by 32.1% making 460.5 billion Tenge (i. e. 2.96 billion USD). As a result, the share of loans in Tenge increased from 28.8% to 31.5%.

Positive changes were seen in the structure of loans in terms of time, where medium-term and long-term loans were outstripping as compared with short-term. Medium-term and short-term loans rose by 54.2% making 383.4 billion Tenge, short-term – by 19.9% making 289.0 billion Tenge. The share of medium-term and long-term loans in 2002 rose from 50.8% to 57.0%.

Major borrowers at the credit market are represented by corporate clients such as enterprises and organizations. However, the share of such loans during 2002 dropped from 93.7% down to 91.3% contrary to loans issued to physical persons where the share increased from 6.3% to 8.7%. This feature witnesses expansion of the banks' loan facilities offered to public. So, by the end of 2002 as compared to the same period in the previous year, the major debt on the bank loans issued for construction and housing purposes to individuals increased by 93.4%, debt on the bank loans issued for consumer purposes has more than doubled.

During 2002 bank loans to small businesses rose by 20.1% and made 146.5 billion Tenge i. e. 21.8% total loans in economy.

The National Bank reduced refinancing rate which generally contributed to decrease of interest on bank loans. Weighted-average interest rate on corporate loans in Tenge reduced from 15.3% to 14.1%, on loans in foreign currency – from 13.1% to

12.3%. As a result such interest rates reached the minimum level in this market segment. Interest rates on the loans issued to physical persons and small businesses have also decreased witnessing a better access to credit resources for all economic entities.

In addition to decrease of official interest rate and the norm of minimal reserve requirements in 2002 the National Bank took other indirect measures contributing to the fall of interest rates on the loans. New recommendations for more deliberate interest policy adequate to economic environment have been delivered for all banks.

### 4.4.2. Mortgage lending

The system of mortgage lending is developed and implemented by Kazakhstan Mortgage Company CJSC (KMC) which under the license granted by the National Bank ref. 28 dated September 28, 2002 works in the field of lending transactions, issuance of securities and factoring.

Kazakhstan Mortgage Company provides refinancing of mortgage loans for purchase (both at the primary and secondary markets) and refurbishment of housing. From June 2002 to January 2003 KMC refinanced mortgage loans in 14 cities of Kazakhstan.

As of January 1, 2003 total refinancing exceeded 1 billion Tenge for over 790 households' loans. During 2001–2002 mortgage loan portfolio increased by 955 million Tenge.

Kazakhstan is the first country in CIS to issue and place mortgage bonds. The difference of mortgage loans is a highliquidity pledge as the accounts receivable on mortgage loans. Emergence of a principally new instrument at domestic stock market will give an additional impetus to its development.

In November 2002 the bonds were enlisted in official A Category list, pursuant to the resolution made by the Board of Kazakhstan Stock Exchange. In November the first issue of bonds for the amount of 300 million Tenge were placed at the primary market, in December the second issue was placed for the amount of 200 million Tenge.

In addition to Kazakhstan Mortgage Company mortgage loans are issued by majority of banks.

## 4.5. Securities market

**4.5.1. Market of government securities (GS).** In 2002 operation of the market of government

securities was on the background of low demand of the Ministry of Finance for debt financing. Place-

ment of government securities was mainly targeted to refinancing of redeemable domestic borrowings and eurobonds. All types of short-term and a wide range of medium-term and index-linked treasury bonds were issued.

In 2002 traded treasury bonds reached the amount of 51.8 billion Tenge where the actual demand for such securities 1.4 times exceeded the approved offer.

Double increase of traded GS during one year accompanied with a considerable drop of the number of auctions (from 103 to 51). It was determined not only by the rise of treasury bonds traded in one auction. The Ministry of Finance sporadically issued GS and canceled a number of previously declared auctions which negatively affected the overall financial market. In addition, in December 2002 the Ministry of Finance did not place any GS which is seen for the first time since the stock market was made operational.

In 2002 the Ministry of Finance issued primarily medium-term GS gradually refusing to issue index-linked bonds which was last issued in May 2002. In the issuance structure of governmental treasury bonds the share of short-term securities dropped to 7.4% (cf. in 2001 – 11.8%) and indexlinked securities – to 9.9% (cf. in 2001 – 10.5%) while increasing the share of medium-term GS up to 82.7% (cf. in 2001 – 77.7%).

Excess of GS issuance (the Ministry of Finance) over redemption in 2002 (net issuance of 29.1 billion Tenge) resulted in a 53.6% increase (up to 108.5 billion Tenge) of traded securities. As of the end of 2002 the structure of GS of the Ministry of Finance (excluding special 10-year bonds MEAKAM) had the following features: 3 and 4-months' maturity T-bills were withdrawn from circulation giving rise to reduction of the share of short-term securities to 3.1%. The share of mid-term securities was 86.9%, index-linked bonds – 9.9%.

The yield on GS in 2002 fell down practically on all types of bonds. The yield of 3-months' securities (following the last auction) dropped from 5.30% in 2001 to 5.20% in 2002, 3-year security – from 8.00% to 7.40%, 4-years' securities – from 8.30% to 8.00%. Considerable fall in yield was seen on 3-years' index-linked securities from 7.60% to 4.00% (following the last auction). The rest GS retained the yield on the level of 2001 or had some minor changes in the yield.

**4.5.2. Market of corporate securities.** Lately a considerable shift was seen at the market of non-government securities. In 2002 registered issued shares and issued bonds have increased as compared to the year of 2001 by 157.1% and 69.3% respectively.

Key factors to increase issuance activity lie in the lack of high-liquidity financial instruments on the background of continuous growth of pension assets and redemption of sovereign euronotes of Kazakhstan in October 2002.

One of the most significant events at the market of securities in 2002 was the issuance of first mortgage bonds. In addition to the issuance of mortgage bonds of Kazakhstan Mortgage Company CJSC (500 million Tenge out of registered 1.5 billion Tenge), the previous issue of bonds of "LARIBA-BANK Joint Bank" was recognized to be mortgage bonds (156 million Tenge).

In 2002 the number of Kazakhstani issuers whose securities are traded in KASE tended to grow continuously witnessing their qualitative improvement. As of January 1, 2003, 124 issues of securities including those issued by unlisted companies are admitted to trades in KASE. In 2002 the number of issuers was 78. Purchase-sale transactions on non-government securities increased by 49.6% in the reported period. The share of purchase/sale of non-government securities enlisted in A Category listing of KASE was 93.5% total KASE transactions. Continuous growth of the number and amount of transactions on securities enlisted in A Category listing of KASE is still affected by the growth of investment of pension assets management companies.

With a continuous growth of the amount of transactions at the stock exchange the share of transactions on corporate bonds tends to rise. Based on the figures of 2002 the share of bond transactions has doubled and made 68.5% total transactions with non-government securities.

During 2002 the list of securities enlisted in official KASE listing tended to expand continuously which resulted in 49.8% increase of KASE capitalization. Capitalization on shares increased by 15.1% and reached 209 billion Tenge, on bonds – 2.2 times and reached 189.8 billion Tenge.

Brokerage transactions made in interbank market amounted to 9.5 billion Tenge where primary placement amounted to 7.0 billion Tenge.

## V. Supervision of financial institutions and liquidation process

### 5.1. Market of financial services and financial institutions

**Banking sector.** Strengthening of banking sector continued in 2002<sup>3</sup> including improvements in key qualitative and quantitative indices of banking operation which is seen in the growth of bank capitalization, increase amount and range of transactions handled by the banks. Transparency of operations handled by second-tier banks increased which is proved by increased number of commercial banks which have an independent paying capacity appraisal from international rating agencies rose from 8 to 9. The share of assets owned by such banks in

total banking assets rose from 75.9% to 78.9% in 2002.

In 2002 foreign participation in the banking market of Kazakhstan expanded. The number of banks with foreign share rose from 16 to 17<sup>4</sup>. Due to increased number of banks with foreign participation the share of such banks in total banking assets raised from 17.3% to 34.3%.

**Capital.** As of January 1, 2003 total equity of second-tier banks rose by 32.0% and reached 161.2 billion Tenge (equivalent to 1 036 million USD) (see Table 5.1.1).

#### Dynamics of equity held by banking sector

Table 5.1.1

	As of January 1, 2002	As of January 1, 2003	Growth, %
First-level capital	91.1	110.6	21.4
Authorized capital	76.8	77	0.3
Additional capital	8.7	11.2	28.7
Retained profits	8.7	15.0	72.4
Second-level capital	36	55.7	54.7
Current profit	7.4	20.6	178.4
Subordinated debt	15.3	30.1	96.7
Total equity	122.1	161.2	32.0

Adequacy of banking assets is maintained on a high level. In particular, the aggregate k1 ratio

for 2002 reduced from 0.11 to 0.09 (with the norm of at least 0.06), k2 dropped from 0.19 to

<sup>3</sup> – Data as of January 1, 2002 exclude Development Bank of Kazakhstan CJSC, data as of January 1, 2003 exclude Development Bank of Kazakhstan CJSC and Eximbank Kazakhstan OJSC.

<sup>4</sup> – as referring Bank TuranAlem to the banks with foreign participation since foreign investors own a share package of this bank.

0.17 (with the norm of at least 0.12) determined by dramatic rise in the growth rate of aggregate assets of banking system against its capitalization.

**Assets.** In 2002 the size of total banking assets inclusive of provisions (re-reserves) increased by 40.2% and reached 1 145 billion Tenge worth (equivalent to 7 359 million USD) (cf. as of January 1, 2002 – 5 437 million USD) (see Table 5.1.2).

### Dynamics and structure of total banking assets

Table 5.1.2

	As of January 1, 2002		As of January 1, 2003		Growth, %
	Billion Tenge	% total	Billion Tenge	% total	
Cash	27.0	3.3	33.3	2.9	23.3
Interbank deposits	88.7	10.9	142.7	12.5	60.9
Securities	135.5	16.6	194.5	17.0	43.5
Interbank borrowings	9.9	1.2	6.5	0.6	-34.3
Loans other than interbank	492.2	60.3	689.1	60.2	40.0
Capital investments and subordinated debt	5.0	0.6	6.9	0.6	38.0
Fixed assets and intangible assets	22.9	2.8	28.4	2.5	24.0
Other bank's debtors	16.6	2	28.7	2.5	72.9
Other assets	18.8	2.3	14.9	1.3	-20.7
<b>Total assets</b>	<b>816.6</b>	<b>100</b>	<b>1 145</b>	<b>100</b>	<b>40.2</b>

The share of assets denominated in foreign currency decreased inconsiderably from 67.5% to 67.1% affected by decreased share of liabilities in foreign currency.

A great share in the structure of banking assets accounts for corporate loans (60.2%), securities portfolio (17%), interbank deposits (12.5%). During 2002 the growth of assets was mainly determined by the growth of loans by 40%, securities portfolio – by 43.5%, interbank deposits – by 60.9%.

In 2002 the size of assets and contingent liabilities to be classified has grown by 44.5% and made 1 041.8 billion Tenge including loan portfolio – by 38.9% up to 717.4 billion Tenge.

On the whole, improvement in quality of assets and contingent liabilities was seen in 2002 (see Table 5.1.3). The share of standard assets and contingent liabilities rose from 75.6% to 78.8%.

The share of standard loans in the loan portfolio rose from 69% to 71.3%.

### Dynamics of quality of assets and contingent liabilities

Table 5.1.3

	As of January 1, 2002		As of January 1, 2003	
	Billion Tenge	% total	Billion Tenge	% total
Total assets and classifiable contingent liabilities	721.1	100	1 041.8	100
Standard	545.3	75.6	821.5	78.8
Doubtful	162.2	22.5	204.8	19.7
Substandard	142.4	19.7	151.9	14.6
Unsatisfactory	12.5	1.7	38.1	3.7
Doubtful with high risk	7.2	1.0	14.8	1.4
Bad	13.6	1.9	15.5	1.5
Total classifiable loan portfolio	516.5	100	717.4	100
Standard	356.2	69.0	511.2	71.3
Doubtful	149.5	28.9	191.7	26.7
Substandard	131.6	25.5	139.3	19.4
Unsatisfactory	10.8	2.1	37.8	5.3
Doubtful with high risk	7.0	1.4	14.7	2.0
Bad	10.9	2.1	14.4	2.0



**Liabilities.** In 2002 total liabilities of the second-tier banks incremented by 47.7% and reached 1 010.4 billion Tenge i. e. 6 494 million USD (cf. as of beginning of 2002 – 4 553 million USD).

Positive dynamics was seen in all types of liabilities (see Table 5.1.4). The highest consi-

derable impact on the growth of liabilities was made by increase in the banking deposit base. So, liabilities vis-a-vis clients increased by 46.2% and reached 713.4 billion Tenge, the share of raised deposits in total bank liabilities reduced from 71.3% to 70.6% in 2002.

### Dynamics of bank liabilities

Table 5.1.4

	As of January 1, 2002		As of January 1, 2003		Growth, %
	Billion Tenge	% total	Billion Tenge	% total	
Liabilities vis-a-vis clients	487.8	71.3	713.4	70.6	46.2
Interbank deposits	45.1	6.6	30.7	3.0	-31.9
Government loans	8.1	1.2	8.2	0.8	1.2
Interbank loans	49.3	7.2	89.5	8.9	81.5
Other loans	29.7	4.3	33.8	3.3	13.8
Subordinated debt	15.3	2.2	30.1	3.0	96.7
Traded securities	20.9	3.1	22.6	2.2	8.1
Other creditors	18.0	2.6	31.0	3.1	72.2
Other liabilities	9.7	1.4	51.1	5.1	426.8
Total liabilities	683.9	100	1 010.4	100	47.7

**Liquidity.** In 2002 banks had an excessive level of liquidity. Consolidated current liquidity ratio remained on approximately the same level (0.83–0.92) during the year of 2002 and was 0.92 as of January 1, 2003 with a minimal norm of 0.3 for one bank. Under new edition of the Rules of prudential norms since August 1, 2002 an additional norm was established for the banks – short-term liquidity ratio (minimal norm – 0.4). Consolidated ratio of short-term liquidity was 0.87 as of January 1, 2003.

The share of liquid assets in total bank assets fell down during 2002 (from 19.1% to 16.7%) and

the share of call liabilities in consolidated liabilities reduced from 27.5% to 24.2%.

The ratio of total bank loans to raised clients' deposits was 1.07 as of January 1, 2003 (cf. in January 1, 2002 – 1.06).

**Income.** In 2002 consolidated net income of second-tier banks after taxes amounted to 20.6 billion (cf. in 2001 – 7.4 billion Tenge). Consolidated income was 249.5 billion Tenge (163.2 billion Tenge), expenses – 228.9 billion Tenge (155.8 billion Tenge) (see Table 5.1.5).

### Bank income

Table 5.1.5

	Billion Tenge	
	As of January 1, 2002	As of January 1, 2003
Net interest income	43.2	60.6
Allocations for provisions	28.7	39.9
Net income from key bank operations	14.5	20.6
Net commissions	14.7	17.4
Net income from financial (dealing) operations	9.1	6.7
Net income from other bank operations	25.3	30.5
Management expenses	25.6	30.7
Bank taxes (exclusive of income tax)	3.5	3.1
Net income	8.2	22.4
Net income after income tax	7.4	20.6

Net income from key bank operations raised by 42.1% and made 20.6 billion Tenge as of January 1, 2003.

The income from interest on loans issued to the clients amounted to 87.7 billion Tenge as of January 1, 2003 (cf. 58.5 billion Tenge as of January 1, 2002). The biggest portion of net interest income accounts for short-term (34.9 billion Tenge) and long-term (43.9 billion Tenge) loans. Expenses associated with interests on the client deposits amounted to 30.8 billion Tenge (cf. 20.5 billion Tenge as of January 1, 2002).

In the structure of income other than interest the largest share accounts for such items as income from dealing operations (18.0 billion Tenge), commissions (23.9 billion Tenge), bank income from reevaluation of foreign currency (81.7 billion Tenge).

Net income from other bank operations rose from 25.3 billion Tenge in 2001 to 30.5 billion Tenge in 2002.

Net commissions amounted to 17.4 billion Tenge (cf. in 2001 – 14.7 billion Tenge). The biggest share in the structure of net commissions accounts for the following items of commissions:

Transfers – 38.5%,

Operations on cash – 28.2%.

Net income from dealing operations amounted to 6.7 billion Tenge (cf. as of January 1, 2002 – 9.1 billion Tenge). Net income from dealing operations was primarily earned from foreign currency purchase and sale transactions (6.3 billion Tenge).

As of January 1, 2003 compared to the same period of previous year the bank earning ratio has doubled. The ratio of current net income to consolidated assets (ROA) was 1.8% (cf. as of January 1, 2002 – 0.9%), the ratio of net current income to equity (ROE) was 12.8% (6.1%).

**Sector of organizations performing some of the bank operations. Capital.** Total equity of the organizations which perform some of the bank operations (herein-after referred to as non-banking organizations) was 9 398 million Tenge as of January 1, 2003 having grown during 2002 by 37.4%. The main reason of growth was increase in the amount of paid authorized capital in 2002 by 1 932 million Tenge due to placement of additionally issued shares of Kazpochta OJSC and Kazakhstan Mortgage Company CJSC, and establishment of the new rural credit partnerships pursuant to Decree of the Government ref. 137 of January 25, 2001 "On Credit Facilities to Agricultural Sector".

In 2002 the earning power of equity was 7.6% against 8.6% in 2001.

**Assets.** Total assets of non-banking organizations were 74 608 million Tenge, of which 94% account for other non-banking organizations. During the year increase was 17.5% which is seen for all groups of non-banking organizations and types of assets. However, the highest growth by 27.2% i. e. 6 532 million Tenge was seen in the loan portfolio accounting to 41% in the structure of assets. In consolidated assets accounts receivable make 33.6%.

**Insurance sector.** Total amount of insurance premium in 2002 increased by 68.7% and reached 22.6 billion Tenge as compared to 13.4 billion Tenge collected in 2001 primarily due to considerable growth (by 81.3%) of insurance premium from voluntary property insurance. The average amount of insurance premium per capita made about 1 506.6 Tenge (cf. in 2001 – 893.3 Tenge, in 2000 – 543.7 Tenge). In 2002 the share of insurance premium to GDP was about 0.67% (cf. in 2001 – 0.4%, in 2000 – 0.32%).

Concentration of insurance risk remains high. About 79% consolidated insurance premium in Kazakhstan account for 6 insurance companies.

As of January 1, 2003 insurance organizations of Kazakhstan transferred 16.8 billion Tenge for re-insurance i.e. 77% higher as compared to 2001. 68% consolidated insurance premium were transferred to reinsurance for non-residents of Kazakhstan.

In the total share of re-insurance premium transferred outside Kazakhstan, a major portion is made by premium for voluntary property insurance (primarily for the risks of oil and gas, metal and transport industries) transferred by the top six (in terms of insurance premium collection) insurance organizations.

The existing situation is determined by still insufficient capitalization of domestic insurers, considerable amount of undertaken risk and requirements set by insurers and their clients. Possible solutions to address such problems is to raise the size of net retention of domestic insurance organizations and develop re-insurance system in the country.

In 2002 consolidated amount of insurance payments rose by 4.5% and reached 2.3 billion Tenge as compared with 2.2 billion Tenge in 2001. The average insurance payment per capita in 2002 was about 153.3 Tenge (cf. in 2001 – 146.6 Tenge, in 2000 – 74.7 Tenge) (see Table 5.1.6).

## Insurance payments

Table 5.1.6

	1998	1999	2000	2001	2002	2001/2002, %
Total, including:	1.2	1.0	1.1	2.2	2.3	4.5
Mandatory insurance	0.5	0.5	0.5	0.6	0.7	16.7
Voluntary life insurance	0.4	0.3	0.3	0.6	0.6	0
Voluntary property insurance	0.3	0.2	0.3	1.0	1.0	0

*Billion Tenge*

The size of equity of insurance organizations in Kazakhstan estimated with allowance for the quality and liquidity of assets as of January 1, 2003 was 6.1 billion Tenge having increased by 15.1% during the year of 2002.

In 2002 insurance organizations formed insurance reserves for the amount of 12.6 billion Tenge worth (59.5% increase as compared to the previous year).

Consolidated assets of insurance organizations as of January 1, 2003 was 22.4 billion Tenge (51.4% growth during the year).

Despite the considerable growth rates of key performance factors of insurance companies, insurance market of Kazakhstan has a number of objective reasons to be insufficiently developed and faces some pending problems including:

Low interest in insurance by the reason of insufficient paying capacity of people primarily due to relatively low number of "middle class";

Lack of sufficient government control of exclusion by large exporters with foreign participation of their risks in Kazakhstan from insurance agreements;

Long-term life insurance is not well developed (only one insurance organization);

Insufficient capitalization of domestic insurance organizations;

Large amount of insurance premium transferred outside Kazakhstan via re-insurance channels (reasoned by restricted capabilities of domestic insurance and re-insurance markets).

**Accumulative pension funds.** As of January 1, 2003 pension assets in the accumulative pension funds amounted to 269.8 billion Tenge of which 28.1% – in the State Accumulative Pension Fund (SAPF). In 2002 consolidated assets in accumulative pension funds rose by 87.4 billion Tenge including those in SAPF – by 19.2% the growth of total pension accumulations.

In 2002 the number of contributors of mandatory pension contributions increased by 769.1 thousand and reached 5.4 million, the number

of contributors of voluntary pension contributions increased by 3 thousand and reached 25 thousand people.

From the outset of accumulative pension system pension contributions were collected for the amount of 195.5 billion Tenge. During 2002 total contributions were 65.9 billion Tenge worth including to SAPF – 15.9 billion Tenge i. e. 24.1% accumulative pension funds.

Investment income allocated on individual pension accounts of beneficiaries was 86.5 billion Tenge worth as of January 1, 2003 (31.5% growth in 2002) including in SAPF – 38.0 billion Tenge (10.2% growth in 2002) i. e. 43.9% total amount of consolidated investment income.

Pension and other payments from pension assets since commencement of accumulative pension system made 14.6 billion Tenge as of January 1, 2003. During 2002 pension payments have been made from accumulative pension funds in the amount of 6.5 billion Tenge including in SAPF – 1.5 billion Tenge i.e. 23.1%.

As of January 1, 2003 amount of penalty for late deduction and payment of mandatory pension contributions amounted to 416.0 thousand Tenge including for SAPF – 97.3 thousand Tenge i. e. 23.4%. For the period under review penalty amount was 251.9 thousand Tenge including for SAPF – 41.3 thousand Tenge i.e. 16.4%.

In 2002 commissions from pension contributions were 0.7 billion Tenge worth and from accrued investment income – 3.1 billion Tenge, in SAPF – 0.2 billion Tenge of pension contributions paid and 1.0 billion Tenge of the amount of investment income accrued.

**Infrastructure of securities market.** Stability of institutional infrastructure for more than one year serves an indicator of qualitative development of stock market. During 2002 with an inconsiderable fall of the number of brokers and dealers, the actual capitalization indices continuously tended to rise. (see Table 5.1.7).

## Actual capitalization of dealers-brokers<sup>5</sup>

Table 5.1.7

	<i>Billion Tenge</i>	
	As of January 1, 2002	As of January 1, 2003
Total authorized capital including:	57.5	71.0
Banks	53.4	68.9
I category brokers and dealers	53.8	67.8
Total equity including:	108.5	144.3
Banks	103.5	140.6
I category brokers and dealers	102.7	139.6

In 2002 criteria of financial sustainability were first introduced for the organizations which maintained the register of security holders, namely "adequacy of equity" (K1) and "Absolute assets liquidity" (K2). Criteria of financial sustainability envision inverse proportion between K1 (adequacy of equity) and the number of serviced issuers

which will enable to consolidate registrars of securities market. During 2002 actual capitalization indices tended to grow successively. Consolidated authorized capital increased from 428.2 million Tenge to 901.9 million Tenge and total equity – from 621.1 million Tenge to 806.2 million Tenge.

## 5.2. Licensing

**Bank licensing.** In 2002 consolidation and improvement of banking sector were continued. As a result the total number of second-tier banks was reduced from 44 to 38.

3 banks have been withdrawn licenses for banking operations for violation of requirements set by the banking legislation and 3 banks have been reorganized into credit partnerships.

24 banks have a branch network comprising of 368 branches. In 2002 consents were issued for opening 15 and closing 45 branches of the banks and 2 branches were closed due to liquidation of 2 banks (see Table 5.2.1).

As of January 1, 2003 off-site cash departments exist in 18 banks. In 2002 138 newly opened cash departments of the banks were registered, the same number refers to closed cash departments.

## The structure of bank sector

Table 5.2.1

	As of January 1, 2002	As of January 1, 2003
Number of banks including	44	38
– interstate banks	1	-
– 100% government participation in the authorized capital	2	2
– banks with foreign participation	16	17
Number of branches to the second-tier banks	400	368
Number of cash divisions of the second-tier banks	1 020	1 020
Number of representative offices of the second-tier banks in foreign countries	8	8
Number of representative offices of the banks being non-residents in Kazakhstan	12	14

<sup>5</sup> Consolidated equity and authorized capital of dealers and brokers is given without capitalization of the National Bank.

**Licensing of the organizations performing certain bank operations.** As of January 1, 2003 36 organizations which perform certain bank operations provided by banking regulations, 29 credit partnerships and 52 pawnshops had licenses of the National Bank.

In 2002 permits were issued for opening 18 credit partnerships and 9 pawn-shops, licenses for operations in Tenge provided by the banking regulations were issued to 3 organizations dealing with some bank operations and 13 credit partnerships including 9 rural partnerships established under Agricultural Loan Corporation CJSC and 8 pawnshops.

Licenses were extended for 2 non-banking organizations, 1 credit partnership and 6 pawnshops. An additional license was issued to Kazakhstan Mortgage Company CJSC for a new type of operation.

1 credit partnership and 1 pawnshop have been revoked the licenses for systematic breach of normative and legal documents of the National Bank, permits for opening 3 credit partnerships and 1 pawnshops have been revoked due to the failure to obtain the licenses within established deadlines for such type of operations.

**Licensing of insurance companies.** As of January 1, 2003 licenses for insurance activities were issued to 33 insurance companies in Kazakhstan (cf. in 2001 – 38 companies) including 1 company for life insurance and 3 companies dealing with insurance for non-residents in Kazakhstan.

As of January 1, 2003 licenses for insurance brokerage activities are issued to 5 insurance brokers, licenses for actuary activities have been issued to 26 actuaries.

In 2002 the National Bank has extended the licenses for 7 insurance organizations. 3 insurance organizations were extended permits for the voluntary reorganization under established procedure.

The license was revoked from insurance organization "West-Kazakhstan Insurance Firm". The National Bank laid a sue of forced liquidation of Kazagropolice insurance organization.

As of January 1, 2003 licenses of 2 insurance companies have been suspended.

In 2002 the National Bank extended 2 licenses for insurance brokerage activities.

11 actuaries have been awarded licenses for actuary activities in insurance market of Kazakhstan.

**Licensing of accumulative pension funds.** In 2002 one general license has been issued to Capital APF CJSC for raising pension contributions and pension payments. As a result So, as of January 1, 2003 16 accumulative pension funds including 1 state fund were active in Kazakhstan.

In the period under review permits have been issued for opening 26 branches and 58 representative offices of accumulative pension funds. 17 representative offices of accumulative pension funds have been closed. Regional APF network was represented by 72 branches and 70 representative offices (see Table 5.2.2).

## The structure of accumulative pension system

Table 5.2.2

	As of January 1, 2002	As of January 1, 2003
Accumulative pension funds including:	15	16
Open	13	14
Corporate	2	2
Branches of accumulative pension funds	46	72
Representation offices of accumulative pension funds	29	70
Pension assets management companies	8	9
Custodian banks	11	10

**Licensing of the organizations performing operations at securities market.** As of January 1, 2003 50 brokers and dealers were registered in

Kazakhstan, 21 registrars, 4 securities portfolio managers, 9 pension assets management companies (PAMC), 10 custodian banks and 2

licensed self-regulated organizations. As of January 1, 2003 8 PAMC's managing pension assets for non-governmental APF and SAPF which manages its own pension assets have licenses for investment management of pension assets.

During 2002 5 licenses have been issued for professional activities at securities market and 3 licenses have been revoked.

In 2002 455 professional were issued qualification certificates which provide admission to professional activities in pursuance to the category of qualification.

As of January 1, 2003, 2 650 qualification certificates are effective including 1 785 refer to category I, 740 – category II and 125 – category II.

**Audit licensing.** As of January 1, 2003, 26 audit companies have licenses for audit of banks including 5 international audit firms, 21 domestic firms and 45 independent auditors. 28 audit organizations of Kazakhstan and 57 auditors are entitled to audit insurance companies.

In 2002 licenses for bank audit activities have been granted to 4 individuals and 3 legal entities; 36 individuals and 28 legal entities were entitled to perform audit of insurance activities.

### 5.3. Inspection

**Bank inspection.** In 2002 21 inspections have been performed for second-tier banks including 11 complex inspections and 10 sampling inspections.

Following inspections of capital adequacy the size of banks' equity was cut due to over-classification of assets and increase in the amounts of provisions for losses from active operations. In some cases banks did not submit petitions to the National Bank to obtain the status of major participant with direct or indirect ownership of 10 or more percent of the bank's stock, or prudential norms were not followed relating to adequacy of equity and formation of the authorized capital from loan funds in the event of insufficient equity of the bank's shareholders.

Analysis of assets quality showed that some major adjustments have been made in classification of loan portfolio which adversely affected financial performance of certain banks. Not all the banks give an objective assessment of the quality of loan portfolio, financial standing of borrowers is not always monitored, the borrowers' credit files are not always created. Inspections showed some cases of non-compliance with the norm of maximal risk per one borrower, granting privileged terms for persons which have special relations with the bank, and submission of invalid information to the National Bank.

A number of bank management shortfalls have been revealed by inspections seen in violations of effective legal documents of Kazakhstan, normative and legal documents of

the National Bank, accounting standards and internal policies and regulations within the banks. Some cases showed invalidity of regular financial statements submitted to the National Bank.

Risk management systems are not well developed in the banks, some draw-backs are seen the internal control system including inefficient performance of internal audit services.

Following results of inspections, limited measures have been applied to the banks for violation of banking legislation including prudential norms and submission of invalid information.

**Inspection of the organizations performing certain bank operations.** During supervisory activities and inspections of non-banking organizations violations have been found relating to provisions of banking legislation. To preclude violations, a number of limited measures have been applied to non-banking organizations pursuant to the current law.

**Inspection of insurance companies.** In 2002 15 inspections have been made for insurance organizations including 7 complex and 8 sampling inspections. Inspections showed that in some insurance companies the level of equity adequacy did not comply with requirements set by the authorized authority. Analysis of compliance to the norms of insurance legislation showed violations of prudential norms which are mandatory for any party of insurance market place.

When analyzing the quality of assets and liabilities of insurance companies, most of their items were exposed to considerable adjustments which finally affected the level of capitalization and financial performance which had to be lowered. Practically none of insurance organizations take measures to write doubtful and bad debts off the balance, to make inventory of accounts receivable and their terms.

In re-insurance operations some organizations transferred the risks to foreign companies which had no relevant rating of financial reliability whereby the norm of police-holder retention was not followed.

Insurance agreements did not comply with provisions of Civil Law of Kazakhstan, Insurance Rules and Instructions regulating handling and production of insurance police, agreed with the authorized authority. Moreover, certain insurance companies granted privileges to police-holders such as discounts on insurance payments in the absence of discount rates agreed by the National Bank, and such discounts were not accounted in policy reserves.

In addition inspections showed some management problems faced by insurance companies seen in violations of effective legal documents of Kazakhstan, normative and legal documents of the National Bank, accounting standards and internal policies and regulations applied by insurance companies. In many instances financial statements submitted to the National Bank were invalid.

**Inspection of accumulative pension funds.** In 2002 the National Bank as a supervisory body for pension funds inspected 2 non-governmental

accumulative pension funds and 5 pension assets management companies. Inspections showed a number of incompliances to effective law. Accounting standards are not adequately followed in terms of valid information about assets and liabilities of pension accounts, deadlines to transfer erroneous entries of pension contributions were not followed, pension agreements were inadequate, pension accounts were opened and pension contributions were placed on such accounts without agreements signed with contributors. In addition, some violations of exchange regulation of Kazakhstan, the Law of Kazakhstan "On Joint-stock Companies" have been revealed by inspections. Some PAMC's allowed transactions on pension assets which under market evaluation may result in considerable reduction of pension assets of pension funds.

**Inspection of the organizations operating at securities market.** In 2002 in-spection was made for 21 operators of securities market and issuers<sup>6</sup>, 10 of which are planned and 12 – off-schedule. The inspection covered 13 dealers and brokers, 4 registrars, 4 custodians, 5 PAMC's, 2 securities portfolio managers and 1 issuer.

Inspections showed a number of shortfalls including:

- invalid information in quarterly performance reports submitted to the National Bank which is associated with noncompliance of operators to the principles of true and valid records and document circulation;
- noncompliance of performance of operators with requirements of internal regulations agreed with the authorized body.

### 5.4. Remote supervision

**Remote supervision of banks.** As of January 1, 2003, 1 bank was registered to violate prudential norms (cf. in 2001 – 6 banks).

Letters of commitment to remedial action have been requested in 35 cases, letters of instruction which specified remedial measures have been sent in 51 cases, warning letters – in 18 cases, 6 penalties have been imposed.

In 2002 consents were issued for the status of bank holding participant to 16 physical and legal persons, 4 individuals received consent for the participant status. In addition, 18 permits have been issued for ownership, establishment and acquisition of subsidiary organizations of the banks.

Resolutions of the Board of the National Bank ref. 106 of January 1, 2003 and ref. 401 of September 18,

<sup>6</sup> The final number of inspections reflects the number of securities market players with no allowance for combining several types of professional activities.

2002 approved opening representation office of Baltic Transit Bank JS commercial bank (Latvia) in Kazakhstan and representation office of Arab Bank plc.

Resolution of the National Bank ref. 493 of December 23, 2002 permitted re-organization of Kazakhstan Ziraat International Bank CJSC and Turkish-Kazakhstan International Bank CJSC by incorporation of and Turkish-Kazakhstan International Bank CJSC to Kazakhstan Ziraat International Bank CJSC.

Resolutions of the Board of the National Bank ref. 531 of December 29, 2002 permitted to reorganize "Apogei Bank Subsidiary to ATFBank OJSC" and "ATFBank OJSC" by integration of "Apogei Bank Subsidiary to ATFBank OJSC" to "ATFBank OJSC".

Resolutions of the Board of the National Bank consented opening of representative offices for "Khalyk Savings Bank of Kazakhstan" in Russia (Moscow) (ref. 542 of December 09, 2002) and in Uzbekistan (Tashkent) (ref. 541 of December 09, 2002).

**Remote supervision of the organizations which perform certain banking operations.** In 20 cases limited measures have been applied to non-banking organizations provided by effective law including issuance of instruction letters and request for letters of commitment. In particular, 11 letters of commitment to remedial actions have been requested and 11 instruction letters for remedial action have been issued to non-banking institutions.

**Remote supervision of insurance companies.** During 2002 and authorized government body issued 70 written instructions to 31 insurance companies to under-take remedial actions for violation of the law on insurance and insurance activities.

In addition, 26 protocols of administrative infraction were developed and penalty sanctions have been imposed on 18 of those protocols for the total amount of 841 270 Tenge.

Introduction of Rules of permit issuance for the right to control of insurance organization by legal and physical persons, enabled to provide the relevant package of documents to for this right.

The following decisions have been made upon review of documents submitted by legal and physical persons:

- 1 legal person was rejected by the reason of financial imbalance of the applicant;
- 7 legal and 3 physical persons were issued permits for the right to control of insurance organizations.

**Remote supervision of securities market operators.** In 2002 18 letters of instruction have been issued to professional operators at securities market by the National Bank in relation with violations of effective legislation which have been re-vealed in review of performance reports including the information of compliance to financial sustainability criteria and other documents submitted to the National Bank.

### 5.5. Liquidation

**Liquidation of banks liquidated upon decision of the National Bank.** In 2002 non-judicial liquidation of banks was completed and the Board of the National Bank approved liquidation statements and liquidation balance-sheets of 14 banks. During the recent 5 years 83 banks were under non-judicial mandatory liquidation by decision and under supervision of the National Bank. Claims of individual investors were 93.2% satisfied.

**Control of the National Bank over voluntary and mandatory liquidation of banks and insurance (re-insurance) organizations.** As of January 1, 2003, 21 banks and 18 insurance organizations are passing the process of liquidation including liquidation by court of 20 banks and 18 insurance companies and voluntary liquidation of 1 bank.

Liabilities of liquidated banks total to 2 378.6 million Tenge. During the year creditors' claims have been met for the amount of 18.1 million Tenge and recurring debts accrued during operation of liquidation commission have been repaid for the amount of 14.2 million Tenge.

Total assets of liquidated banks were 2 450.0 million Tenge including 49.2% accounting for red ink loan debt. Assets were reduced by 200.6 million Tenge (7.6%) mainly by writing off due to illiquidity and inability to recover.

Liabilities of insurance organizations amounted to 63.4 million Tenge, assets – 289.4 million including accounts receivable – 116.2 million Tenge and investments to affiliated organizations – 123.0 million Tenge.



Due to a number of normative and legal documents made effective in 2002 which regulate procedure and features of liquidation of banks, insurance (re-insurance) organizations, the National Bank was targeted to improve control functions in the framework of effective legislation.

Measures are taken to regulate and ensure quality of reports submitted by liquidation commissions, consolidated statements of conditions of liquidated operations and improve accounting of liquidated objects. Analytic work was regularly carried out for each aspect of liquidated operations of banks and insurance organizations. Such measures enabled to reveal

and remedy shortfalls and omissions in the operation of liquidation commissions, to identify the prospects of liquidation completion of certain objects and to plan efficiently the activities of controlling body.

In 2002 the National Bank made 15 inspections of liquidation commissions within banks and insurance organizations. Inspections have shown facts of over-statements of administrative expenses for liquidation commissions, failure to take measures to exact receivables and sell the property as well as non-payment of current charges to the budget part of which were incurred in the time of judicial review.

## VI. Payment systems

Payment system of Kazakhstan meets key requirements of world financial institutions (International Monetary Fund, Bank for International Settlements) and was highly evaluated by international experts. To share the experience in building the national payment systems in 2002 the National Bank organized the second workshop for CIS countries attended by representatives of central European banks.

In 2002 the number of payments in the payment system increased by 5.6% and reached 11.7 million transaction; the amount of payments rose by 50.3% and made 15.5 trillion Tenge. 28% payments accounting for 96% total amount of payments have been made through interbank money transfer system (IMTS). The share of interbank clearing in total amount of payments is low while the number of interbank clearing transactions accounts for more than a half total payment transactions and is still growing.

**Interbank money transfer system (IMTS).** As of January 1, 2003, 72 IMTS users have been registered including 40 second-tier banks. Treasury Committee of the Ministry of Finance and its 16 regional (city) departments, 13 organizations engaged in certain banking operations, the National Bank and custodian bank (Monetary Operations Department of the National Bank).

In 2002 3.2 million transactions have been made through IMTS for the total amount of 14.8 trillion Tenge. As compared to 2001 the number of transactions fell by 13.9% and the amount of payments rose by 52.3%.

IMTS being a vehicle of high-priority payments, transfers budget payments of the Ministry of Finance and its regional treasury departments. As compared to 2001 the number of handled transactions in the regional treasury departments increased by 3.7% and reached 746.4 thousand transactions, amount of payments – by 9.5% and made 1 501.2 billion Tenge.

**Interbank clearing.** RSE "Kazakhstan Center for Interbank Settlements of the National Bank" and the clearing house "TIMEI Financial and Industrial Company LLP" carried out interbank clearing in 2002.

50 participants are reported for KCIS interbank clearing including 28 second-tier banks, Treasury Committee of the Ministry of Finance and its 16 regional departments, the National Bank, State Center for Pension Payments, Custodian Bank, TAT Credit and Depository Partnership, and Kazpochta OJSC.

TIMEI Financial and Industrial Company covered 5 participants including 3 branches of second-tier banks, 1 regional treasury department and TIMEI FIC LLP.

As compared to 2001 the number of payments in the interbank clearing rose by 15.5% and reached 8.5 million documents and the amount of payments increased by 17.5% and made 685.7 billion Tenge.

The growth of cash flows in interbank clearing is determined by the following two factors: the first one relates to considerable lowering of rates as compared to IMTS; the second factor relates to the growth of budgetary and pension payments (increment of payments made by treasury departments of the Ministry of Finance by 33.9 billion Tenge (33.2% total amount of growth) and the State Center for Pension Payments – by 21.9 billion Tenge (21.4% total amount respectively)).

For the reviewed period the number and amount of payments made by regional treasury departments through interbank clearing increased by 10.8% and 20.8% respectively compared to the year of 2001 and made 2139.8 thousand documents amounting to 196.9 billion Tenge.

**Payment cards.** 19 second-tier banks were extended licenses to issue payment cards.

As of the beginning of 2003, 1495.9 thousand payment cards are operational including 235.7

thousand local cards and 1260.2 thousand international cards.

In 2002 transactions through payment cards amounted to 251 billion Tenge including 3.8% transactions in the point-of-sale terminals (others – encashment). In 2002 21.0 million transactions were made including 2.8% – in the point-of-sale terminals (others – encashment).

Although the number of payment cards from Kazakhstan banks issuing payment cards tend to grow, they are used mainly for cash withdrawal. The main reason constraining rapid development of non-cash payments in retail trade lies in insufficient number of trade and service enterprises receiving payment cards as a means of payment for products and services.

To reduce cash payments and expand the use of payment cards in Kazakhstan the Government by its Decree ref. 713 of July 02, 2002 approved the Program of National Interbank System of Payment Cards on the basis of microprocessor cards.

**Other payment instruments.** Payment orders were the main vehicle of non-cash payments made by second-tier banks in 2002. 15.8 million documents were processed for the amount of 18.9 trillion Tenge accounting for 93.1% and 96.7% total number and amount of all payment instruments. Other means of payment included collection orders – 1.8% and 2.3%, payment cards – 3.4% and 0.05%, payment claims-orders – 0.7% and 0.2%, direct debit of bank account – 1.1% and 0.8% respectively.

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## VII. Regulatory activity

In 2002 the National Bank continued improvement of normative and legal documents in the field of monetary regulation and control, payments and money transfers, crediting, banking and insurance activities, securities market and accumulative pension funds. 23 draft law and 4 draft Decrees of the Presidents have been developed in 2002 including:

- The draft law "On Joint-stock Companies" (a new edition). Adoption of this law will enable to simplify circulation of shares at the secondary market of securities, regulate the procedure of dividend payment and improve the payment discipline of joint-stock companies and the state registration procedure of share issuance, and protect the rights and interests of investors at securities market and enhance the operation of joint-stock companies;
- The draft law "On Amendments to Legal Documents of Kazakhstan in the Field of Securities Market and Joint-stock Companies". The draft law envisions amendments to registration and re-registration of legal persons;
- The draft law "On Securities Market" (a new edition). The draft law is developed in view to improve the system of regulation of securities market operators;
- The draft law "On State Regulation and Supervision of Financial Services" and "On Amendments to Legal Documents in the Field of Establishing a Unified State Regulation System of Financial Market and Supervision of Relations at Financial Market". Under these draft laws state regulation and supervision of financial services will be performed by the authorized state body for regulation and supervision of financial services which will be appointed by the President;
- The draft law "On Amendments to the Law of Kazakhstan "On Insurance Activities";
- The draft law "On Insurance Payment Guarantee Fund";
- The draft Decree of the President "Establishing a Unified System of State Regulation and Control of Financial Market of Kazakhstan" (already approved);

73 normative documents have been registered with the Ministry of Justice in the field of monetary regulation, regulation and control of financial market participants, improvement of accounting, safety of payment system, trust management of the National Fund and other issues.

# VIII. International cooperation and Outlook on the National Bank activities

## 8.1. International cooperation

The National Bank took part in a number of interstate commissions and joint task forces, took part in organization of official events associated with receiving international delegations.

The Conference "Reform of Banking System in CIS and Baltic Countries" was organized.

Under executive board of central (national) banks in the countries being parties to EurAsEC Agreement, a task force of experts has been established under initiative of the National Bank to deal with monetary control and regulation, a survey scheme has been developed for monetary policy and financial markets of the states being parties to EurAsEC Agreement, information about default in payments between economic entities of the countries being parties to EurAsEC Agreement.

The National Bank took part in the sessions of EurAsEC Inter-parliamentary Assembly, CIS Executive Committee, Interstate Bank, Interstate

Monetary Committee, Central Asian Bank for Cooperation and Development.

The National Bank continues its involvement in debt settlement on frozen accounts of legal and physical persons, residents in Kazakhstan, in Vnesheconombank of the USSR, settlement of debts and claims of Kazakhstan with the countries of former Soviet Union.

In consultation with the Ministry of Finance the National Bank developed the Agreement for Restructuring of State Loan Issued by the Government of Tajikistan to the Government of Kazakhstan (ratified on December 02, 2002) between the Government of Kazakhstan and the Government of Tajikistan.

In 2002 the National Bank was involved in the planned service of IBRD loan LN3642 KZ. In addition, IBRD loans 3867-KZ and 3642-KZ were closed in 2002. Final audit of IBRD loan LN3867 KZ was made, the draft framework agreement for ADB operations in the private sector of Kazakhstan was discussed.

## 8.2. Outlook on the National Bank activities

In 2002 coverage of the National Bank's activities was more extensive in media of Kazakhstan and foreign countries as compared to the year of 2001.

During 2002 the National Bank published such periodic issues as "Kazakhstan Ulitik Bankinin Khabarshisi", "Herald of the National Bank", "Statistical Bulletin", "Balance of Payments", "Economic Review", Annual Report (in the Kazakh, Russian and English languages), "Collection of Normative and Legal Documents of the National Bank".

489 presentations have been made by executives and personnel of the National Bank in mass media. 12 special columns in "Kazakhstanskaya Pravda" newspaper entitled "The National Bank: Comments, Explanations and Answers" were published which contained 61 articles and interviews with executives and personnel of the bank. 851 reports in mass media

have been initiated which covered various activities of the National Bank. 16 press-conferences have been organized and 1 briefings for journalists. 38 press-releases have been disseminated, 9 reports have been prepared by the National Bank.

In 2002 PR-campaigns have been organized: new coins were presented, "Umai", "Dombyra", a seminar for journalists was organized, the project "House on the Quay".

Meetings have been organized for the Governor of the National Bank with students from University of International Business, Turan University, Kazakh State University named after Al-Farabi, International Business Academy. Memento products have been made including CD's "National Bank Presents Kazakhstan", "Photo-album" "National Bank Presents Kazakhstan", wall calendars "Compliments from the National Bank".

## IX. Improvement of accounting and financial statements

In 2002 the National Bank handled the work to bring accounting system in compliance with international standards of financial statements (hereinafter referred to as ISFS). In the framework of this work the National Bank in consultation with the Ministry of Finance made amendments to the law of Kazakhstan relating to accounting and financial statements.

In consultation with the Ministry of Finance the National Bank developed Decree of the Government "On Approval of Rules to Identify the Organizations Whose Financial Statements Comply with ISFS since January 1, 2003". The National Bank was actively involved in the task force to carry out expert examination of official ISFS translation in the state and Russian languages especially for Kazakhstan.

The Board of the National Bank approved and registered with the Ministry of Justice standard chart of accounts in the second-tier banks in Kazakhstan and standard plan of accounts with accounts details to be used for compiling the General Ledger of second-tier banks. Amendments were made to Methodological Recommendations "Accounting in Insurance Organizations". Resolution "On the Procedure to Determine Market Exchange Rate" was developed by the National Bank jointly with the Ministry of Finance.

In 2002 a number of financial leasing accounting recommendations for second-tier banks have been developed and distributed on the basis of ISFS. Those include recommendations to reflect mortgage bank loans for housing in accounting statements, operations with corporate payment cards, changes in the size of declared authorized capital, application of weighted-average exchange rate of Tenge against foreign currencies and other issues.

To improve financial, regular and statistical reporting the number of forms for financial (regular) reporting has been halved and the content of existing forms has been reviewed to bring them in compliance with ISFS. Draft recommendations were elaborated to develop a accounting policy of accumulative pension funds and pension assets management companies as well as draft standard accounting records to account equities of accumulative pension funds and pension assets management companies and draft standard forms of accounting records for pension assets of accumulative pension funds.

In addition, due to transition of financial market participants to ISFS-based financial statements, lecture materials were developed for application of ISFS.

In 2002 banking computer systems (BCS) of the banks were inspected and conclusions were issued by the Standing Commission of the National Bank which issues conclusions for banking computer systems (BCS) to be included in the State Register of models of fiscal memory cash machines permitted in Kazakhstan.

Accounting methods applied in the National Bank, normative documents for account of dealing transactions with foreign exchange and precious metals, deposit and lending operations, securities and trust management of the assets held by domestic were finalized.

A normative document which regulates procedures of trust management operations on the assets of National Fund, was elaborated and approved.

Development of consolidated statements of the National Bank was automated including consolidated statements of NBK organizations.

## X. Services delivered to financial institutions

### 10.1. Management of the National Fund

Net assets of the National Fund rose by 57.5% during 2002 and made 298.9 billion Tenge as of the end of 2002. The growth of net assets was generated by proceeds from the Ministry of Finance.

Total market value of forex portfolio of the National Fund was 1 919.2 million USD worth as of December 31, 2002 including equalization portfolio accounts for 33.35% and savings portfolio – 66.65%.

As per the Rules, maximum 80% fixed-income securities portfolio and minimum 80% share portfolio of the National Fund may be managed externally. Market value of assets of the National Fund managed by a single external manager may not exceed 150 million USD. First of all it refers to the management of savings portfolio: shares (Global Equities) and fixed-income securities (Global Fixed Income).

In 2002 the National Bank declared tenders to select additional external managers of Global Fixed Income mandate. 2 external managers have been selected: Union Bank Privee and ABN AMRO Asset Management. A tender has been organized for management of a portion of NF assets (equalization portfolio) of US Cash Management Mandate. Citigroup Asset Management company was selected.

To bring the portfolio in compliance with amendments to the Rules of investment transactions of the National Fund, securities were transferred from equalization to savings portfolio:

August 19 – for the amount of 149.9 million USD, transferred to Union Bank Privee management;

August 30 – for the amount of 210.4 million USD including 150.0 million USD to be transferred under management of ABN AMRO Asset Management.

As at the end of 2002, savings portfolio of the National Fund was divided in fixed-income securities portfolio (75%) and share portfolio (25%). Standard portfolio for the savings one shall be Salomon World Government Bond Index 80% USD hedged (SWGBI 80% USD hedged) and Morgan Stanley Capital International World Index excluding Energy" (MSCI World Index ex. Energy).

Since September 1, 2002 a new index, Merrill Lynch 6-month US Treasury Bill Index, was introduced to replace Salomon 6-month US Treasury Bill Index. In addition, the standard index for savings portfolio composed by SWGB Index 80% USD hedged (60%) and MSCI World Index excluding Energy (40%), the ratio between shares and bonds had the following changes:

Bonds (SWGB Index 80% USD hedged) rose from 60% to 75%;

Shares (MSCI World Index excluding Energy) dropped from 40% to 25%.

Requirements to the clients' consolidated assets managed externally, dropped from 100 billion USD to the amount equivalent to 50 billion USD.

The yield of equalization portfolio (from January 1 to December 31, 2002) was 2.46% which was 0.42% higher than the yield of standard portfolio (Salomon 6-month US Treasury Bill Index from January 1 to August 31 and Merrill Lynch 6-month US Treasury Bill Index from September 1 to December 31, 2002).

The yield on savings portfolio from January 7 to December 31, 2002 was (-)1,84%. The yield on standard portfolio from January 7 to December 31, 2002 was (-)2,04% (60%-Salomon World Government Bonds Index 80% USD hedged and 40%

MSCI World excluding Energy from January 7 to August 31 and 75%-Salomon World Government Bonds Index 80% USD hedged and 25% MSCI World excluding Energy from September 1 to December 31, 2002). Super-yield of savings portfolio in 2002 was positive and made 0.20%.

The yield on standard portfolio from August 7 to December 31 for the bonds made 9.97%, for shares – (-)21.68%.

The yield of the National Fund's portfolio was evaluated through the daily reevaluation method.

Methodology to calculate the yield is based on evaluation of yield as a daily change in the market value of principal. Portfolio is evaluated on the basis of the market value in the beginning and at the end of period. Market value of portfolio includes income, accrued interest and depreciation of fixed capital. All the inflows and outflows are to be included in the market value as of the next day opening.

Total NF management expenses in 2002 were 367.6 million Tenge.

### 10.2. Custodian, brokerage and other services for the clients of the National Bank

As per the agreements the National Bank handled the following activities:

- Custodian services for State Accumulative Pension Fund CJSC (SAPF), Central Securities Depository CJSC;
- Broker services for Development Bank of Kazakhstan CJSC;
- Trust management for Kazakhstan Deposit Guarantee Fund CJSC, Kazakhstan Mortgage Company CJSC, Processing Center CJSC.

In addition, since 2002 the National Bank provided custody of corporate bonds for Kazakhstan Development Bank under custodian agreement ref. 106 of March 05, 2002.

Funds accepted for trust management were invested in the state securities issued by the Government and the National Bank. Serviced assets have the following indicators:

241.4 billion Tenge were entered and 241.9 billion Tenge were written off the custodian account of SAPF. SAPF's assets in custody increased by 34.7% per year and reached 73.2 billion Tenge.

Pursuant to orders of Central Securities Depository CJSC, the National Bank transfers/retrieves securities nominated in foreign currency to/from the nominal holding. Securities in the nominal holding of the National Bank rose by 112.5% and made 11.2 billion Tenge.

During 2002 brokers' bids of Kazakhstan Development Bank for purchase of state securities traded in domestic market, were satisfied. As a result of active independent portfolio management by Kazakhstan Development Bank CJSC, brokers' bids reduced 2 times and made 150.5 million Tenge.

In 2002, 1 392.6 million Tenge of Kazakhstan Deposit Guarantee Fund CJSC were transferred for the trust management and 16.7 million Tenge were withdrawn from trust management. As of January 1, 2003 the amount of assets under trust management of the National Bank made 3 657.6 million Tenge, i. e. 60.3% higher compared to the previous year.

In 2002 Kazakhstan Mortgage Company CJSC transferred 441.5 million Tenge to the National Bank and withdrew 402.6 million Tenge. As of January 1, 2003 the amount of assets owned by Kazakhstan Mortgage Company under trust management was 950.8 million Tenge i. e. 1.2% higher compared to 2001.

In 2002 111.2 million Tenge were transferred to the trust management by Processing Center CJSC and 67.8 million Tenge were withdrawn. As of January 1, 2003 assets owned by Processing Center CJSC under trust management of the National Bank amounted to 532.8 million Tenge, i. e. 8.8 million exceeding the amount in 2001.

Income and expenses from trust management, custodian and broker services have the following structure: Income from custodian services made 74.5 million Tenge, the amount of cost recovery was 22.0 million Tenge.

Income from trust management services amounts to 5.0 million Tenge, cost recovery was 2.6 million Tenge.

Income from broker services dropped almost two times as compared to the previous year and made 1.5 million Tenge. This was reasoned by the Resolution made by Kazakhstan Development Bank CJSC on independent investment of funds since the list of financial instruments acquired by the National Bank was limited only by state securities.



# XI. Organization and internal activities

## 11.1. Organizational structure

The structure and total staff (4000) of the National Bank are approved by Decree of the President of Kazakhstan ref. 188 of 11/08/99 "On Approving Provisions and Structure of the National Bank".

Organizational structure of the National Bank includes central headquarters, 16 regional branches, 2 branches in Almaty City (Banknote Factory and Cash Operations and valuable storage unit), Representative office of the National Bank in Russia, 4 subordinate organizations (Kazakhstan Center for Interbank Settlements RSE, Banking Service Bureau, Kazakhstan Mint, Motor Depot of the National Bank of Kazakhstan). The structure of headquarters includes 9 departments, 11 independent divisions and 1 independent subdivision (see Annex 1 to Section XI Subsection 11.1).

In 2002 organizational structure of the National Bank was considerably changed due to redundancy

within headquarters and cash personnel and organization of a unified state regulation system for financial market (the National Bank was delegated functions of Supervisory Committee for Accumulative Pension Funds of RK Ministry of Labor and Social Protection; Financial Supervision Department was established by merger of bank and insurance supervision departments, securities market regulation department and department of accumulative pension fund regulation).

The National Bank is the founder (100% shareholder) of 3 closed joint-stock companies "Kazakhstan Deposit Insurance Fund", "Kazakhstan Mortgage Company" and "Kazakhstan Actuary Center" (operational since January 2002) and one of the founders for closed joint-stock companies "National Information Technologies" (71.8% shares in the authorized capital), "Processing Center" (68.6% shares).

## 11.2. Human Resources policy and personnel training

In 2002 the staff number in the National Bank reduced by 6.1%, in joint-stock companies – increased by 40.0% due to establishment of Kazakhstan Actuary Center CJSC and increased number of staff in National Information Technologies CJSC.

Actual staff in the National Bank reduced by 3.4%, in joint-stock companies – increased by 26.0% (see Annex 1 to Section XI Subsection 11.2, Table 11.2.1).

Personnel turnover reduced by 3% as compared to 2001. In the joint-stock companies turnover increased by 6.7%.

On the whole personnel turnover in the National Bank is 11%, in joint-stock companies – 25.4%.

In 2002 the National Bank announced 3 tenders for 107 vacant state administrative positions.

The amount of funds spent for training, retraining and professional development made 52 455.7 thousand Tenge.

Reserve for managerial staff (247 persons) of the National Bank was approved for 2002. About 10% reserve were nominated for the vacant top management positions.

The National Bank continues its active support to Kazakhstan universities in training financial specialists.

**Wages and social layouts.** As compared to the previous year in 2002 the actual wage expenses in the National Bank inconsiderably increased (1%) and made 3 266.4 million Tenge. In the joint-stock companies wage expenses were 276.7 million worth and increased by 55.1% due to growth of staff (see Annex 1 to Section XI Subsection 11.2, Table 11.2.2).

The average monthly wage of one employee for the National Bank in 2002 was 66 513 Tenge, in the joint-stock companies – 67 494 Tenge.

To motivate the staff and meet their needs, the National Bank issues loans, internal housing loans, provides medical insurance and health and accident insurance.

For social provision purposes targeted to former employees, the National Bank organized support for non-working pensioners (1 241 persons, i. e. 45.1% total staff as of reported period). The Bank has established Council of Veterans and Council of the National Bank's Museum actively represented by pensioners.

In addition, the Bank organized solemn events in honor of Victory Day on May 9 and Old People Day on October 1, 2002. Charity support was provided for the festive days for the total amount of 30 647.8 thousand Tenge.

Council of Young Professionals exists in the National Bank, its goal is to associate young and promising employees and develop a corporate culture of the National Bank.

Self-adaptation activities are organized for newly-hired personnel including lectures in history of the National Bank, wage conditions, social package, personnel training, corporate working regulations, interaction and ethics.

In 2002 the National Bank improved normative and legal documents of internal regulation, labor evaluation, personnel training and wages, travel expenses, leave allowance, structural optimization. In addition the National Bank developed and approved the Manual of qualification requirements for maintenance and operational staff, recommendations for qualification requirements applied to technical personnel of the branches of the National Bank, Rules of compensation package for organizations of the National Bank. Manual of qualification requirements applied to the government official positions was developed and submitted for approval to the Agency of State Service.

In consultation with Banking Service Bureau RSE the National Bank developed a software "Track of working hours" and is working on development and implementation of the automated information sub-system "Staff management".

### 11.3. Development of Information Technologies

Research and design works were carried out for the following directions:

Development of "KUBAZH-3II" automation system for account and operational activities within the National Bank due to introduction of a unified payment classifier (UPC), automated operations for the National Fund and centralization of accounting for income/expense operations, operations on inventory and mineral valuables and accounts payable and receivable for all branches of the National Bank;

Development of subsystem "Accounting of precious metals" for automation of operations on receiving, control, appraisalment, sorting and consolidation, storage and handling over precious metals;

Replication of subsystem "Electronic document circulation" in the headquarters of the National Bank;

Development of subsystem "Collection and analysis of export-import foreign exchange control" (1 step);

Development of subsystem "monitoring of real sector of economy" (2 step);

Development of subsystem "Staff management and wage calculation" (1 step);

Development of subsystem "Statistics";

Information server upgrade for the National Bank in Internet;

Development of internal information server of the National Bank (Intranet systems).

In 2002 10 new subsystems were tested and 6 IAIS subsystems were exposed to industrial operation.

Maintenance was provided for the current operated subsystems, DBMS, structured cable system.

Operation of "KUBAZH-3II" system of the National Bank and related works were carried out

under schedule without delays and wrecking. Subsystems "Balance of payments", "Monitoring of enterprises in the real sector", "Insurance supervision", "STB Statistics" were migrated to HP 9000 Superdome platform (HP-UX 11i).

3 204 computers were serviced in the headquarters and branches including 107 servers, 2 144 personal computers (including 140 lap-tops), 887 printers, 66 scanners.

To upgrade physically and morally depreciated telecommunications facilities, modern technical equipment was installed in the Bank, structured cable system, telephone stations and cellular communications, technical support of related and telecommunications equipment were expanded and developed. Service maintenance was improved through Alkatel 4 400 telephone exchange. Addi-

tional two Alkatel 4 400 telephone exchanges were procured and installed for Almaty regional and Kokshetau branches of the National Bank. 20 fax machines have been procured, tested and installed in the branches of the National Bank.

To upgrade the fleet of computers and communications facilities tenders were held for procurement, distribution and commissioning of below-enlisted new technical equipment both in the headquarters and branches of the National Bank:

- 6 Dell servers;

- RISC – server (HP) (one cluster node), operational system, consumables for reserve center of the National Bank;

- 228 A3 and A4 laser printers;

- 150 PC (Compaq);

- 50 laptops (HP Omnibook).

### 11.4. Internal audit

In 2002, subdivisions of the National Bank were audited in line with the plan of audit. 10 audits were carried out in headquarter subdivisions, 15 audits were made in the branches and organizations, 11 audits were made for information systems of the National Bank.

Results of audits made during 2002, showed good performance of functions and tasks by the branches of the National Bank. At the same time, a number of violations were revealed which are mainly related to non-compliance with provisions of the law of Kazakhstan and normative and legal documents of the National Bank or to the lack of regulating documents.

Each audit included assessment of internal control system in inspected divisions with relevant recommendations where necessary. Internal control assessment showed that structural divisions of the National Bank most often lacked rational organization of labor, inefficiently segregated responsibilities among divisions, unevenly segregated duties among the personnel of the same rank and had inadequately developed regulations and ToRs.

Inspections carried out in 2002 showed decrease of violations, drawbacks and problems as compared to the years of 2000 and 2001. 300 recommendations have been provided for the divisions of the National Bank in the process of inspection.

During 2002 methodological base for internal audit was upgraded.

To enhance the methods and procedures of internal audit, the following methodologies have been developed in put in practice in 2002: *Methodology* of information flow charting for planning and audit purposes and identification of critical points of control; *Methodology* of identifying significance of error for audit purposes of operations and processes; *Methodology* of timing sampling for audit structural divisions and organizations of the National Bank; and *Methodology* of quality and performance assessment of Internal Audit Department of the National Bank.

In 2002 Ernst & Young LLP developed a risk assessment methodology and risk assessment software for the purposes of internal audit within the National Bank. Risk assessment methodology was used in developing the Plan of internal audit of the National Bank's divisions for 2003 and for planning audit inspections in 2002 to identify risk levels of audited objects.

In 2002 the National Bank maintained cooperation with foreign central banks to share the experience in the field of internal audit organization. Audit service personnel from the Bank of Netherlands and the Bank of France as well as Central Bank of Armenia, Azerbaijan and Kyrgyzstan visited the National Bank of Kazakhstan. The National Bank took part in the session internal audit executives for the central banks of CIS and Baltic countries held in May 2002 in Minsk. Advisory

Board of CIS Internal Audit Services was established during the session upon the relevant agreements reached.

In 2002 coordination was made for chief inspectors in the branches of the National Bank. Chief inspectors were supervised for the full compliance to the plans of internal audit. Reports prepared by chief inspectors were reviewed on a quarterly basis. Results of review and the relevant recommendations and com-

ments were submitted to executives and chief inspectors of the branches.

In 2002 the general coordination was focused on external auditors from Arthur & Andersen LLP, and PriceWaterhouseCoopers who pursued external audit of the National Bank in 2001 and 2002, and on interaction between external auditors and divisions of the National Bank. In the audit process external auditors were consulted and briefed by heads of divisions of the National Bank.

### 11.5. Financial and economic activity

In 2002 income and spending of the National Bank were 34 666.2 million Tenge worth and 24 958.3 million Tenge respectively; the net profit made 9 715.1 million Tenge including 148.6 million Tenge – net profit of republican state enterprises of the National Bank (see Annex 1 to Section XI Sub-section 11.5, Table 11.5.1).

As compared to the previous year, income of the National Bank dropped by 24.3% and made 32 866.8 million Tenge, spendings rode by 0.7% and reached 23 382.9 million Tenge, net retained profit was 9 566.5 million Tenge worth (including re-appraisal of withdrawn fixed assets and annulment of general provisions).

Despite the increase of gold and foreign exchange reserves of the National Bank by 25.1%, the income and expenses on operations with gold and foreign exchange reserves reduced by 29.2% (see Annex 1 to Section XI Subsection 11.5, Table 11.5.2). The main reason of decreased income from gold and foreign exchange reserves of the National Bank – low yield on securities at the world market.

Income and spending for operations on securities reduced by 22% and 38.2% and made 15 822.2 million Tenge and 3327.4 million Tenge respectively due to the fall of average yield on securities in US dollars for the long-term portfolio from 8.65% to 6.00%, short-term portfolio – from 5.21% to 2.77% and the interest rate on reverse REPO operations from 4.41% to 1.65%.

Income and spending for externally managed assets of the National Bank reduced by 24.4% and 50.8% due to the fall of yield on securities, changes in the amount of externally managed assets during the year, fluctuations of prices for securities, and made 4582.6 million Tenge and 842.6 million Tenge respectively.

Income of 6013.5 million Tenge was made on forex transactions which is 44.6% lower than in 2001 due to decrease in the amount of operations at domestic market, fall of interest rates on time deposits from 3.5% to 1.3% (in US dollars). Spending increased 2.6 times and made 848.0 million Tenge mainly due to increase of forward and arbitrage transactions.

With increase of gold and foreign exchange reserves of the National Bank by 14.7%, the income from operations with affined gold reduced by 41.2% and made 333.0 million Tenge mainly due to decline of the average interest rate on metal deposit from 0.938% to 0.266% per annum.

As a result, the income from transactions on gold and foreign exchange reserves was 21 459.5 million Tenge i. e. 29.2% lower as compared to 2001.

Transactions on state securities with internal financial system and non-finance organizations were made at domestic market (see Annex 2 to Section XI Sub-section 11.5, Table 11.5.3).

Income from operations on state securities rode by 53.5% and made 4 200.6 million Tenge due to rise in the market value of securities. Spending of the National Bank for service of state securities increased 2.2 times and made 4 047.3 million Tenge mainly due to issuance of NBK notes and REPO transactions.

In transactions with the Government spending of the National Bank reduced by 59.2% due to the drop of deposit rate.

Spending on transactions within internal financial system rose by 159.5 million Tenge and made 292.2 million Tenge worth due to increased banking liquidity more than 2.2 times.

As a result NBK's income on domestic market operations grew up by 48.9% and amounted to 4

315.1 million Tenge, spending reduced by 2.1% and amounted to 6073.6 million Tenge.

Other income reduced by 33.9% and amounted to 1 800.4 million Tenge as compared to 2001, due to existence of contingent gains in 2001 from annulled bank provisions in the amount of 1 930.5 million Tenge (See Annex 2 to Section XI Sub-section 11.5, Table 11.5.4).

Other spending rose by 25.5% mainly due to additional provisions on MEAKAM-10 in the amount of 5 665.8 million Tenge. Total spending was 12 017.5 million Tenge worth including:

- cost of issuance of national currency in circulation – 1 119.0 million Tenge;
- cost of transactions on fixed assets, intangible assets and inventory – 1 321.1 million Tenge;
- labor cost – 2 519.0 million Tenge;
- charity – 48.1 million Tenge;
- administration cost – 746.6 million Tenge;
- taxes and other payments – 6 263.7 million Tenge (including provisions for MEAKAM-10).

Capital outlays amounted to 1 238.3 million Tenge i. e. 63.7% lower than in 2001 (see Annex 3 to Section XI Sub-section 11.5, Table 11.5.5). In 2002 the National Bank acquired fixed assets and intangible assets for the amount of 595.8 million Tenge: 112.5 million Tenge were used for construction, reconstruction and repair of fixed assets, 500 million Tenge and 25.0 million Tenge were transferred for replenishment of authorized capital of "Kazakhstan Mortgage Company CJSC" and Kazakhstan Actuary Center CJSC respectively, 5.0 million Tenge were spend for shares of Central Securities Depository.

#### **Subsidiary organizations of the National Bank**

Revenues of republican state enterprises of the National Bank from sale of products (works, services) were 1 799.4 million Tenge worth in 2002, the cost of products (works, services) were 1 575.4 million Tenge. Net income after income tax of 75.4 million USD, made 148.6 million Tenge i. e.

increased by 3.1 million Tenge against 2001 (see Annex 3 to Section XI Sub-section 11.5, Table 11.5.6).

In 2002 performance of republican state enterprises of the National Bank is determined by certification of management quality system under international standard ISO 9001:2000 in Kazakhstan Mint and Bank Service Bureau, by the drop of rates on services of Kazakhstan Interbank Settlement Center by 5% and 15% respectively.

#### **Closed joint-stock companies**

Revenues of closed-joint stock companies (100% participation of National Bank) were 514.6 million Tenge worth in 2002, expenses – 179.8 million Tenge. Net income amounted to 334.8 million Tenge and rose by 93.7 million Tenge as compared to 2001 (Annex 3 to Section XI Sub-section 11.5, Table 11.5.6).

Performance of the closed joint-stock companies is characterized by the issuance of mortgage bonds of Kazakhstan Mortgage Company and commissioning of Kazakhstan Actuary Center.

In 2002 performance of the closed joint-stock companies with other shareholder (Committee of State Property and Privatization of the Ministry of Finance, second-tier banks) are characterized by the following parameters:

National Information Technologies (71.8% share of National Bank%): revenues – 557,9 million Tenge, spending – 871.6 million Tenge, loss – 313.7 million Tenge;

Processing Center (68.7% share of the National Bank): revenues – 95.5 million Tenge, spending – 51.9 million Tenge, net income – 43.6 million Tenge including the share of National Bank – 29.9 million Tenge.

Total revenues for closed joint-stock companies made 1 618 million Tenge worth, spending – 1 103.3 million Tenge, net income – 64.7 million Tenge including the share of National Bank – 51.0 million Tenge.

# Statistical Annexes

## ANNEX 1 TO SECTION I SUBSECTION 1.3

### Dynamics of world prices for export staple goods of Kazakhstan

Table 1.3.1

	1 quarter 2001	2 quarter 2001	3 quarter 2001	4 quarter 2001	2001	1 quarter 2002	2 quarter 2002	3 quarter 2002	4 quarter 2002	2002
Oil (\$\bar{barrel})	26.07	26.75	25.28	19.31	24.5	20.9	25.2	26.9	26.7	24.9
Copper (\$\backslashm. ton)	1 764	1 652	1 472	1 426	1 578.5	1 381	1 356	1 516	1 554	1 559
Zinc (\$\backslashm. ton)	1 020	934	826	763	885.8	795	782	766	773	779
Lead (\$\backslashm. ton)	493	463	470	479	476.3	491	455	430	435	453
Aluminum (\$\backslashm. ton)	1 576	1 501	1 379	1 318	1 443.5	1 557	1 611	1 310	1 350	1 353
Silver (cent\tray ounce)	455.8	439.9	428.5	430.3	438.6	450.7	475.4	470.1	454	462.5
Gold (\$\tray ounce)	263.5	267.7	274.5	278.4	271	290.4	312.8	314.2	322.5	310
<i>Change of average indices, % previous period</i>										
<b>Export world prices index</b>	-4.6	-0.9	-5.7	-13.7	-10.2	5.1	12.3	5.0	1.6	2.4
<b>Terms of trade index</b>	-5.7	1.4	-5.0	-11.0	-5.3	6.6	7.7	1.2	1.8	1.9

### Key indices of trade balance

Table 1.3.2

	2000 r.	2001 r.	2002 r.
Current operations account stated (mln. USD)	675	-1 093	-596
- % GDP	3.7	-4.9	-2.4
Export of goods, FOB (mln. USD for the period)	9 288	8 928	10 066
- % GDP	50.8	40.4	41.2
Import of goods, FOB (mln. USD for the period)	-6848	-7607	-7646
- % GDP	-37.4	-34.4	-31.3
Export of oil and gas condensate (mln. ton)	27.7	32.4	39.3
World prices for crude oil (spot USD/barrel, average per year)	28.2	24.5	24.9
Net inflow of foreign direct investments (mln. USD)	1 278.2	2 796.4	2 138.1
- % GDP	7.0	12.6	8.8

## ANNEX 2 TO SECTION I SUBSECTION 1.3

## Key indices of current balance of payments of Kazakhstan

Table 1.3.3

	1997	1998	1999	2000	2001	2002
<i>(mln. USD)</i>						
Balance of trade	-276	-801	340	2 440	1 321	2 420
Export	6 899	5 871	5 989	9 288	8 928	10 066
CIS	3 377	2 596	1 883	2 805	2 924	2 566
Other countries	3 522	3 275	4 105	6 483	6 004	7 500
Import	-7 176	-6 672	-5 648	-6 848	-7 607	-7 646
CIS	-3 460	-3 466	-3 014	-4 126	-4 376	-4 171
Other countries	-3 715	-3 206	-2 634	-2 722	-3 231	-3 475
Services, income and transfers, net	-523	-435	-576	-2008	-2 413	-3 016
Current account	-799	-1236	-236	432	-1 092	-596
<i>(% GDP)</i>	-3.6	-5.6	-1.4	2.4	-4.9	-2.4
<i>(change to previous period, %)</i>						
Export of goods	9.7	-14.9	2.0	55.1	-3.8	12.7
Import of goods	8.3	-7.0	-15.3	21.2	11.0	0.5
Terms of trade	2.7	-16.0	8.2	20.2	-5.3	1.9
Real effective exchange rate <i>(December in % to December)<sup>1</sup></i>	8.9	16.2	-26.4	2.8	-1.6	-7.1

<sup>1</sup> Real effective exchange rate is calculated as the weighted-average change of Tenge exchange rates against currencies of 20 countries, the main trade partners covering 87% official turnover of Kazakhstan, and relative change in prices. Increase/drop of the index indicate real appreciation of/depreciation of the national currency vis-a-vis foreign currencies.

## ANNEX 3 TO SECTION I SUBSECTION 1.3

## Dynamics of gross foreign debt (as at the end of period)

Table 1.3.4

	1998	1999	2000	2001	2002
State and state-guaranteed foreign debt	4 007.0	4 055.6	3 929.5	3 799.9	3 481.0
% total	40.3	33.6	31.0	25.2	19.3
Foreign debt unsecured by the government	5 925.2	8 025.3	8 755.1	11 301.4	14 561.4
% total	59.7	66.4	69.0	74.8	80.7
including inter-company debt	3 371.9	6 162.8	6 931.3	8 771.6	10 546.8
% total	33.9	51.0	54.6	58.1	58.5
Total:	9 932.2	12 080.9	12 684.6	15 101.4	18 042.4

mln. USD

## Absolute and relative parameters of foreign debt of Kazakhstan

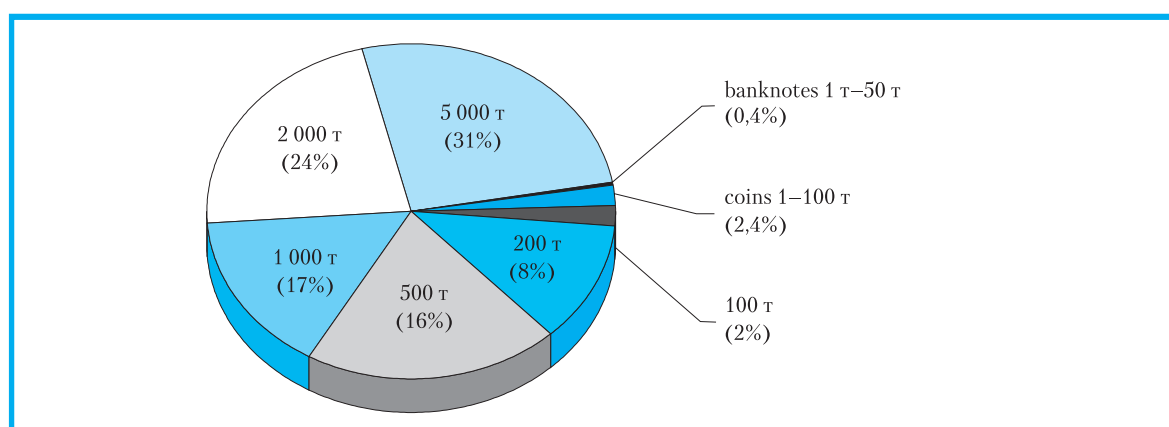
Table 1.3.5

	2000	2001	2002
<b>A. Absolute parameters, mln. USD</b>			
1. Gross foreign debt as of the end of the period including inter-company debt	12 684.6	15 101.4	18 042.4
2. Consolidated payment charged for debt services: including inter-company debt	5 294.9	6 403.2	7 852.2
	1 808.2	2 052.8	1 858.5
<b>B. Relative parameters</b>			
1. Gross foreign debt per capita, mln. USD	853.5	1 017.5	1 214.3
2. Gross foreign debt, % GDP	69.3	68.3	73.9
3. Gross foreign debt, % export of goods and services	122.1	147.6	154.8
4. Debt services payment, % export of goods and services	51.0	62.6	67.4
5. Interest, % export of goods and services	6.9	6.8	5.8

### ANNEX 1 TO SECTION III, FIG. 3.1

#### Banknote by denomination outside the NBK as at 01.01.03

Figure 3.1





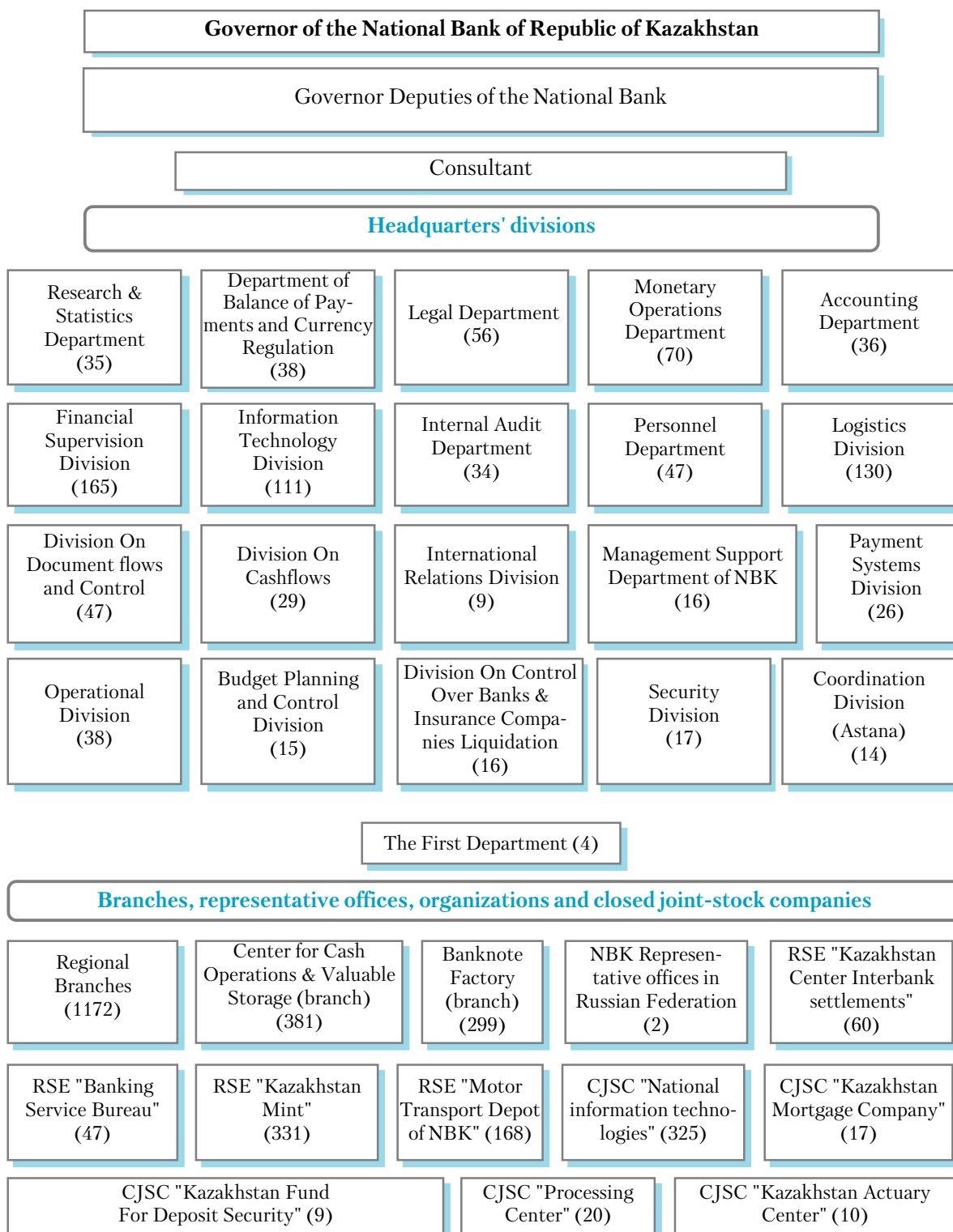
## Cash turn over in second-tier banks

Table 3.1

Cash flows	2002 mln. Tenge	2001 mln. Tenge	Change mln. Tenge	Change %
<b>Cash inflows in STB</b>	<b>1 662 944</b>	<b>1 289 568</b>	<b>373 376</b>	<b>29.0</b>
Sales of goods, services and works	563 186	459 831	103 355	22.5
Payment for communal utilities	52 899	42 451	10 448	24.6
Transport organizations	31 840	29 089	2 751	9.5
Communication enterprises	32 600	22 057	10 543	47.8
Sales of foreign currency	475 678	400 915	74 762	18.6
Households' deposits	117 015	73 598	43 418	59.0
Debt repayment by households and corporate clients	19 234	13 340	5 894	44.2
Taxes, charges and custom payments	40 978	33 817	7 161	21.2
Cash withdrawn from ATM	54 415	29 985	24 430	81.5
Other receipts	275 098	184 485	90 613	49.1
<i>Received from the National Bank</i>	<i>268 781</i>	<i>239 874</i>	<i>28 907</i>	<i>12.1</i>
<b>Total inflow</b>	<b>1 931 725</b>	<b>1 529 442</b>	<b>402 283</b>	<b>26.3</b>
<b>Cash outflows in STB</b>	<b>1 652 396</b>	<b>1 328 991</b>	<b>323 405</b>	<b>24.3</b>
Payment for goods, services and works	398 680	340 682	57 998	17.0
Labor payment	217 565	206 840	10 725	5.2
Payments for agricultural products	103 617	94 523	9 094	9.6
Support of communication enterprises	3 706	5 248	-1 542	-29.4
Foreign currency purchases	162 441	115 994	46 446	40.0
Withdrawals from households' accounts	209 642	164 490	45 152	27.4
Loans to households and corporations	6 566	6 456	111	1.7
Payments of pensions and allowances	124 538	124 844	-307	-0.2
Cash supply of ATM	214 116	114 098	100 018	87.7
Other expenditures	211 524	155 815	55 709	35.8
<i>Transferred to the National Bank</i>	<i>264 463</i>	<i>217 625</i>	<i>46 838</i>	<i>21.5</i>
<b>Total outflow</b>	<b>1 916 859</b>	<b>1 546 616</b>	<b>370 243</b>	<b>23.9</b>

**ANNEX 1 TO SECTION XI SUBSECTION 11.1**

**Organizational structure of the National Bank  
on January 01, 2003 (3801)**



## ANNEX 1 TO SECTION XI SUBSECTION 11.2

## Staff Number of National Bank System

Table 11.2.1

	Staff as of the beginning of reporting period				Turnover in 2002, %
	staff		payroll staff		
	2002	2003	2002	2003	
Headquarters	1 083	962	956	917	12.0
Regional branches	1 950	1 852	1 915	1 837	11.8
<b>Total</b>	<b>3 033</b>	<b>2 814</b>	<b>2 871</b>	<b>2 754</b>	<b>11.9</b>
NBK's organizations (RSE)	608	606	600	598	6.9
<b>Total for NBK's system</b>	<b>3 641</b>	<b>3 420</b>	<b>3 471</b>	<b>3 352</b>	<b>11.0</b>
CJSC	272	381	223	281	25.4
<b>Gross total</b>	<b>3 913</b>	<b>3 801</b>	<b>3 694</b>	<b>3 633</b>	<b>12.0</b>

Expenses relating to wage fund and average monthly wage for one employee,  
The system of National Bank of Kazakhstan

Table 11.2.2

	actual expenses, relating to wage fund, mln. Tenge			average monthly wage for one employee, Tenge		
	2001	2002	% 2001	2001	2002	% 2001
Headquarters	1 366.2	1 333.2	97.6	92 829	103 183	111.2
Regional branches	1 373.5	1 368.9	99.7	46 192	4 981	108.0
<b>Total</b>	<b>2 739.7</b>	<b>2 702.1</b>	<b>98.6*</b>	<b>61 346</b>	<b>67 445</b>	<b>109.9</b>
NBK's organizations (RSE)	494.7	564.3	114.1	54 622	62 281	114.0
<b>Total for NBK's system</b>	<b>3 234.4</b>	<b>3 266.4</b>	<b>101.0</b>	<b>60 161</b>	<b>66 513</b>	<b>110.6</b>
CJSC	178.5	276.7	155.1	56 654	67 494	119.1
<b>Gross total</b>	<b>3 412.9</b>	<b>3 543.1</b>	<b>103.8</b>	<b>59 954</b>	<b>66 586</b>	<b>111.1</b>

**Note:** Reduction of the actual wage fund expenses within NBK system is determined by decrease of social tax expenses due to reduction of taxable wage fund for the amount of mandatory pension contributions withheld from medical allowances, social payments and lump-sum bonus (since January 1, 2002 the Rules of calculation, deduction, and transfer of mandatory pension contributions to accumulative pension funds have been amended).

**ANNEX 1 TO SECTION XI SUBSECTION 11.5**
**Performance of the National Bank of Kazakhstan**
**Table 11.5.1**
*mln. Tenge*

	2001			2002			Deviations	
	NBK	RSE	Total	NBK	RSE	Total	+, -	%
Income	43 396.4	1976.7	45 373.1	32 866.8	1799.4	34 666.2	-10 706.9	-23.6
Expenditures	23 225.7	1679.1	24 904.8	23 382.9	1 575.4	24 958.3	53.5	0.2
Retained earnings	20 170.7	297.6	20 468.3	9 483.9	224.0	9 707.9	-10 760.4	-52.6
Income on nullified provisions				74.2		74.2	74.2	
Income form re-evaluation of withdrawn FA and IA				8.4		8.4	8.4	
Income tax		152.1	152.1		75.4	75.4	-76.7	-50.4
Total balance of retained earnings	20170.7	145.5	20316.2	9 566.5	148.6	9 715.1	-10 601.1	-52.2

**Income and Costs of Operations on Gold and Foreign Exchange Assets**
**Table 11.5.2**
*mln. Tenge*

	2001	2002	Deviation	
			Absolute, (+,-)	Relative, %
Income on refined gold operations	565.9	333.0	-232.9	-41.2
Income on foreign currency operations	10 859.0	6 013.5	-4 845.5	-44.6
Income on externally managed assets	6 060.3	4 582.6	-1477.7	-24.4
Income on foreign currency securities operations	20 289.1	15 822.2	-44 66.9	-22.0
<i>Total income on GFE assets</i>	<i>37 774.3</i>	<i>26 751.3</i>	<i>-11 023.0</i>	<i>-29.2</i>
Costs of refined gold operations	27.1	273.8	246.7	910.3
Costs of foreign currency operations	323.9	848.0	524.1	161.8
Costs of externally managed assets	1 713.7	842.6	-871.1	-50.8
Costs of foreign currency securities operations	5 383.8	3 327.4	-2 056.4	-38.2
<i>Total costs of GFE assets</i>	<i>7 448.5</i>	<i>5 291.8</i>	<i>-2 156.7</i>	<i>-29.0</i>
Operations outcome	30 325.8	21 459.5	-8 866.3	-29.2

## ANNEX 2 TO SECTION XI SUBSECTION 11.5

## Income and Costs in Domestic Market

Table 11.5.3

mln. Tenge

	2001	2002	Deviation	
			Absolute, (+,-)	Relative, %
Income on government securities operations	2 736.6	4 200.6	1 464.0	53.5
Income on operations with banks and financial organizations	145.9	85.1	-60.8	-41.7
Income on operations with non-financial organizations and households	14.8	29.4	14.6	98.6
<i>Total income on domestic market operations</i>	<i>2 897.3</i>	<i>4 315.1</i>	<i>1 417.8</i>	<i>48.9</i>
Costs of government securities operations	1 827.7	4 047.3	2 219.6	121.4
Costs of operations with Government	4 235.0	1 727.7	-2 507.3	-59.2
Costs of operations with banks and financial organizations	132.7	292.2	159.5	120.2
Costs of operations with non-financial organizations and households	6.1	6.4	0.3	
<i>Total costs of domestic market operations</i>	<i>6 201.5</i>	<i>6 073.6</i>	<i>-127.9</i>	<i>-2.1</i>
Operations outcome	-3 304.2	-1 758.5	1 545.7	-46.8

## Other Income and Costs

Table 11.5.4

mln. Tenge

	2001	2002	Deviation	
			Absolute, (+,-)	Relative, %
<b>Other income</b>				
Reimbursed expenditures	169.2	422.3	253.1	149.6
Nullified provisions	18.7	25.0	6.3	33.7
Other income	403.2	751.7	348.5	86.4
Windfall income	2 133.7	601.4	-1 532.3	-71.8
<i>Total other income</i>	<i>2 724.8</i>	<i>1 800.4</i>	<i>-924.4</i>	<i>-33.9</i>
<b>Other costs</b>				
Costs of national currency issue and delivery	1 118.6	1 119.0	0.4	0.04
Costs of operations on fixed and intangible assets and tangible valuables	982.1	1 321.1	339.0	34.5
Costs of personnel	2 533.6	2 519.0	-14.6	-0.6
– of which social tax	428.6	381.9	-46.7	-10.9
Costs on unrequited transfers	46.0	48.1	2.1	4.6
Administrative costs	590.1	746.6	156.5	26.5
Tax expenses	311.0	208.4	-102.6	-33.0
– of which taxes paid to budget	21.0	51.6	30.6	145.7
Other costs	3 994.3	6 055.3	2 061.0	51.6
– of which costs of provisions	3 674.3	5 681	2 006.7	54.6
<i>Total other costs</i>	<i>9 575.7</i>	<i>12 017.5</i>	<i>2 441.8</i>	<i>25.5</i>

**ANNEX 3 TO SECTION XI SUBSECTION 11.5**
**Capital outlays**
**Table 11.5.5**
*mln. Tenge*

	2001	2002	Rates, %
Total capital outlays	3 409.1	1 238.3	-63.7
Construction	2.2	70.7	B 32.1 p.
Cost of construction, expansion	0.0	0.9	
Major repairs raising the value of fixed assets	786.5	40.9	-94.8
Purchase of fixed assets	1 351.7	429.6	-68.2
Purchase of intangible assets	310.8	166.1	-46.6
Other outlays	958.0	530.0	-44.7

**Performance of subsidiary organizations of the National Bank of Kazakhstan**
**Table 11.5.6**
*mln. Tenge*

name	revenues				spending				Net income after taxes			
	2001	2002	Rates of growth (decline)		2001	2002	Rates of growth (decline)		2001	2002	Rates of growth (decline)	
			+, -	%			+, -	%			+, -	%
<b>RSE-tototal</b>	<b>1 976.7</b>	<b>1 799.4</b>	<b>-177.3</b>	<b>-9.0</b>	<b>1 679.1</b>	<b>1 575.4</b>	<b>-103.7</b>	<b>-6.2</b>	<b>145.5</b>	<b>148.6</b>	<b>3.1</b>	<b>2.1</b>
Mint	999.7	913.4	-86.3	-8.6 *	890.3	783.2	-107.1	-12.0	47.1	100.4	53.3	113.2 *
KCIS	674.3	540.9	-133.4	-19.8 **	413.7	440.3	26.6	6.4	180.0	69.1	-110.9	-61.6 **
BSB	128.9	128.9	0.0	0.0	125.8	129.2	3.4	2.7	1.6	-5.9 ***	-7.5	
Motor depot	173.8	216.2	42.4	24.4	249.3	222.7	-26.6	-10.7	-83.2	-15.0****	68.2	
<b>CJSC-total</b>	<b>885.0</b>	<b>1168.0</b>	<b>283.0</b>	<b>32.0</b>	<b>639.1</b>	<b>1103.3</b>	<b>464.2</b>	<b>72.6</b>	<b>245.9</b>	<b>64.7</b>	<b>-181.2</b>	<b>-73.7</b>
<b>CJSC (100% share of NBK):</b>	<b>371.6</b>	<b>514.6</b>	<b>143.0</b>	<b>38.5</b>	<b>130.5</b>	<b>179.8</b>	<b>49.3</b>	<b>37.8</b>	<b>241.1</b>	<b>334.8</b>	<b>93.7</b>	<b>38.9</b>
KDSF	265.0	350.7	85.7	32.3	79.4	72.2	-7.2	-9.1	185.6	278.5	92.9	50.1
KMC	106.6	163.0	56.4	52.9	51.1	96.3	45.2	88.5	55.5	66.7	11.2	20.2
KAC	0.0	0.9	0.9		0.0	11.3			0.0	-10.4	-10.4	
<b>CJSC (71.8% share of NBK):</b>												
NIT	485.1	557.9	72.8	15.0	483.6	871.6	388.0	80.2	1.5	-313.7	-312.2	
<b>CJSC (68.7% share of NBK):</b>												
PC	28.3	95.5	67.2	237.5	25.0	51.9	26.9	107.6	3.3	43.6	40.3	1221.2

\* – part of the coin production program will be implemented in 2003 (Resolution of the Board of the National Bank of 24.10.02. ref. 423)

\*\* – fall of rates in 2002 (against 2001)

\*\*\* – deadlines for certain contracts are put off till 2003

\*\*\*\* – off-schedule re-evaluation of fixed assets in 2002.

# Consolidated Financial Statements

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## Financial statements

### Consolidated Balance Sheet as at 31 December 2002

(in thousands of Kazakhstani Tenge)

	Note	2002	2001
<b>ASSETS</b>			
Gold	4	91 407 284	77 211 754
Due from banks and other financial institutions	5	51 659 493	71 079 013
Investment securities available for sale	6	356 942 852	251 056 266
Premises and equipment, net	7	14 018 379	13 259 358
Other assets	8	7 514 724	7 820 238
<b>Total assets</b>		<b>521 542 732</b>	<b>420 426 629</b>
<b>LIABILITIES</b>			
Currency in circulation	9	177 897 525	145 476 532
Due to banks and other financial institutions	10	49 939 376	49 076 678
Due to National Fund of the Republic of Kazakhstan	11	140 862	2 622 784
Due to Ministry of Finance of the Republic of Kazakhstan	12	55 936 227	64 572 586
Due to Kazakhstani Deposit Insurance Fund	13	2 771 741	1 359 748
Customer accounts	14	234 276	1 232 825
Debt securities in issue	15	63 552 132	17 480 480
Provisions	16	0	6 594 987
Other liabilities	17	1 710 402	3 266 048
<b>Total liabilities</b>		<b>352 182 541</b>	<b>291 682 668</b>
<b>Minority interest</b>		<b>423 335</b>	<b>179 109</b>
<b>EQUITY CAPITAL</b>			
Share capital	18	20 000 000	15 465 643
Reserve capital	19	6 413 801	2 266 760
Reserves and retained earnings	19	142 523 055	110 832 449
<b>Total equity</b>		<b>168 936 856</b>	<b>128 564 852</b>
<b>Total liabilities and equity</b>		<b>521 542 732</b>	<b>420 426 629</b>

Chairman

G. A. Marchenko

Chief Accountant

N. T. Shalgimbaeva

\_\_\_\_\_ 2003

Almaty, Republic of Kazakhstan

*The notes set out on pages 56 to 83 form an integral part of these consolidated financial statements. Translated from Russian original*





## Consolidated Statement of Income as at 31 December 2002

(in thousands of Kazakhstani Tenge)

	Notes	2002	2001
Interest income	20	19 266 479	29 373 248
Interest expenses	20	(6 448 330)	(11 452 858)
<b>Net interest income</b>		<b>12 818 149</b>	<b>17 920 390</b>
Provision for impairment	21	(9 766 340)	(2 970 500)
<b>Net interest income after provision for impairment</b>		<b>3 051 809</b>	<b>14 949 890</b>
Dealing income, net	22	719 234	661 153
Gains less losses from revaluation of investment securities		2 722 730	6 082 599
Foreign exchange translation gains less losses	23	44 657 976	11 727 280
Operating income from subsidiaries' activity, net	24	820 489	1 147 457
Other operating income, net		948 590	132 066
<b>Total non-interest income</b>		<b>49 869 019</b>	<b>19 750 555</b>
Staff costs	25	(2 878 471)	(2 766 298)
Administrative expenses	26	(2 661 510)	(2 588 440)
Fee and commission expense		(32 648)	(35 672)
Amortisation and depreciation		(1 028 357)	(664 141)
Other provisions	16, 21	3 962 464	(6 790 367)
<b>Total non-interest expense</b>		<b>(2 638 522)</b>	<b>(12 844 918)</b>
<b>Profit before taxation</b>		<b>50 282 306</b>	<b>21 855 527</b>
Income tax expense of subsidiaries		(75 410)	(152 152)
<b>Profit after taxation</b>		<b>50 206 896</b>	<b>21 703 375</b>
Minority interest		(13 715)	(423)
<b>Net profit for the year</b>		<b>50 193 181</b>	<b>21 702 952</b>
Unrealised translation gain, net	23	(40 509 644)	(3 045 050)
<b>Net realised profit for the year</b>		<b>9 683 537</b>	<b>18 657 902</b>

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**Consolidated Statement of Cash Flows as at 31 December 2002**

*(in thousands of Kazakhstani Tenge)*

	Note	2002	2001
<b>Cash flows from operating activities</b>			
Net profit		50 193 181	21 702 952
Adjustments to net profit:			
Provision for impairment		5 803 876	7 714 307
Other non-monetary items		(93 507)	0
Income from revaluation of foreign currency and gold, net		(44 657 976)	(11 727 280)
Amortisation and depreciation		1 028 357	735 008
Accounts receivable		(737 487)	(353 048)
Accounts payable		3 044 317	587 871
<b>Operating income before changes in net operating assets</b>		<b>14 580 761</b>	<b>18 659 810</b>
<i>(Increase) decrease in operating assets</i>			
Gold		(14 195 530)	(4 634 156)
Due from banks and other financial institutions		(15 917 239)	45 454 186
Investment securities available for sale		(111 553 912)	(61 056 545)
Other assets		1 963 853	(2 745 117)
<i>(Increase) decrease in operating liabilities</i>			
Currency in circulation		32 420 993	29 135 019
Due to banks and other financial institutions		862 697	20 803 936
Due to National Fund of the Republic of Kazakhstan		(2 481 922)	2 622 784
Due to Ministry of Finance of the Republic of Kazakhstan		(8 636 358)	19 294 447
Due to Kazakhstani Deposit Insurance Fund		1 115 266	930 859
Customer accounts		(998 549)	(2 736 519)
Other liabilities		33 611 312	4 668 387
<b>Net cash (used in)/from operating activities</b>		<b>(69 228 628)</b>	<b>70 397 091</b>
<b>Cash flows from investing activities</b>			
Movements in premises and equipment and intangible assets		(1 391 526)	(2 981 484)
Other		(69 548)	(1 400)
<b>Net cash used in investing activities</b>		<b>(1 461 074)</b>	<b>(2 982 884)</b>
<b>Cash flows from financing activities</b>			
Debt securities in issue		46 071 652	(31 327 293)
Transfers to the Government and local budget		(10 519 267)	(6 081 660)
<b>Net cash from/(used in) financing activities</b>		<b>35 552 385</b>	<b>(37 408 953)</b>
<b>Net change in cash and cash equivalents</b>		<b>(35 137 317)</b>	<b>30 005 254</b>
Cash and cash equivalents at beginning of the year	33	45 540 493	15 535 239
<b>Cash and cash equivalents at end of the year</b>	<b>33</b>	<b>10 403 176</b>	<b>45 540 493</b>

*The notes set out on pages 56 to 83 form an integral part of these consolidated financial statements. Translated from Russian original*

## Consolidated Statement of Changes in Equity 31 December 2002

*(in thousands of Kazakhstani Tenge)*

	Share capital	Reserve capital	General reserves	Special reserve funds	Retained earnings	Total equity
<b>Balance at 31 December</b>	<b>10 000 000</b>	<b>2 266 760</b>	<b>2 001 507</b>	<b>87 127 009</b>	<b>11 669 928</b>	<b>113 065 204</b>
Net profit					21 702 952	21 702 952
Transfer to Government					(6 081 660)	(6 081 660)
Capitalisation of previous year net profit	5 465 643				(5 465 643)	0
Unrealised gold and foreign exchange translation gain, net				3 045 050	(3 045 050)	0
Transfers			(839 259)		839 259	0
Effect of consolidation				18 161	(139 805)	(121 644)
<b>Balance at 31 December</b>	<b>15 465 643</b>	<b>2 266 760</b>	<b>1 162 248</b>	<b>90 190 220</b>	<b>19 479 981</b>	<b>128 564 852</b>
Net profit					50 193 181	50 193 181
Transfer to Government					(10 519 267)	(10 519 267)
Capitalisation of previous year net profit	4 534 357				(4 534 357)	0
Transfer to reserve capital		4 147 041			(4 147 041)	0
Unrealised gold and foreign exchange translation gain, net				40 509 644	(40 509 644)	0
Transfers			14 149	782 320	84 225	880 694
Transfer to deposit insurance reserve					(185 604)	(185 604)
Other movements					3 000	3 000
<b>Balance at 31 December</b>	<b>20 000 000</b>	<b>6 413 801</b>	<b>1 176 397</b>	<b>131 482 184</b>	<b>9 864 474</b>	<b>168 936 856</b>

*The notes set out on pages 56 to 83 form an integral part of these consolidated financial statements. Translated from Russian original*

# Notes to the Consolidated Financial Statements

## Note 1 – Principal Activities

The National Bank of the Republic of Kazakhstan (the "National Bank") was established by the Resolution of the Supreme Council of the Republic of Kazakhstan No. 2134-XII dated 13 April 1993. In accordance with the Resolution the State Bank of Kazakh SSR was re-named into the National Bank of the Republic of Kazakhstan (the "National Bank").

The National Bank carries out monetary and credit policy through managing the monetary base and reserves as well as regulating and supervising functions over the commercial banks of the Republic of Kazakhstan and organisations engaged in certain types of financial transactions.

The National Bank performs its functions as a bank, financial advisor and agent to the Government and other state authorities on the basis of the agreements signed with them.

In connection with the acceptance of Edict No. 654 dated 11 July 2001, of President of the Republic of Kazakhstan "Concerning the arrangements to organize a unified system of the state financial market regulation" the National Bank ensures policy in the area of the state regulation and control over relations developed at the security market, protection of rights and interests of investors safeguarded by the legislative acts at the security market and participation in its realisation.

The head office of the National Bank is located in Almaty. The National Bank operates through 18 branches and

9 subsidiaries throughout Kazakhstan. In 2001, pursuant to Resolution No. 1501 dated 5 October 2000, of the Government of the Republic of Kazakhstan "Concerning Organisation of the State Bodies", Inter-bank & Financial Telecommunication Centre CJSC has been incorporated to National Information Technologies CJSC. In 2002 pursuant to Resolution of the Government of the Republic of Kazakhstan No. 921 dated 5 October 2000 "Concerning certain issues of the National Information Technologies Closed Joint Stock Company", the shareholding in National Information Technologies CJSC, which belonged to the National Bank has been transferred for trust management to the Administration of Chancellery of Prime Minister of the Republic of Kazakhstan with the right of further redemption.

The average number of employees of the National Bank, including its subsidiaries, in 2002 was 3 388 (2001: 3 538) and 3 352 as at 2002 year-end (2001: 3 695).

As at 31 December 2002 the National Bank had investments in the following companies, which allowed it to exercise control over and exert significant influence upon them:

Name of organisation	Establishment date	Primary activities	Share, %
RGP Kazakhstan Mint	1998	Coin production	100%
RGP Kazakhstan Center of Interbank Settlements (KCIS)	1996	Electronic money transfers	100%
RGP Transportation Center of the Republic of Kazakhstan (Transportation Center)	1999	Transportation services	100%
RGP Banking Service Bureau (BSB)	1996	Banking software services	100%
National Information Technologies CJSC	2001	Telecommunication services	71.8%
Kazakhstani Deposit Insurance Fund CJSC	1999	Public deposit insurance	100%
Kazakhstan Mortgage Company CJSC (KMC)	2000	Mortgage lending development	100%
Processing Center CJSC (PC)	2000	Payment card transaction processing	68.7%
Actuary Center CJSC	2001	Development of actuarial activities in the Republic of Kazakhstan	100%

As at 31 December 2002 and 2001 the financial statements of the above companies were consolidated with the financial statements of the National

Bank for proper disclosure of the consolidated position. The enterprises were consolidated on the line-to-line basis.

## Note 2 – Current Economic Situation

Whilst there have been improvements in recent years in the economic situation in the Republic of Kazakhstan, the economy of the Republic of Kazakhstan continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, and a low level of liquidity in the public and private debt and equity markets.

The activities of the National Bank undertaken jointly with the Government of the Republic of Kazakhstan in 2002, further strengthened the positive macroeconomic tendencies achieved in 2001. The National Bank focused its efforts in the following main directions: building confidence in the banking system, and strengthening the credit activities of commercial banks in the real sector.

The prospects for future economic stability in the Republic of Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the Government and the National Bank, together with legal, regulatory and political developments in the Republic of Kazakhstan.

In addition, economic conditions continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market. The National Bank has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

## Note 3 – Basis of Presentation and Summary of Significant Accounting Policies

### ***Basis of presentation***

The consolidated financial statements of the National Bank are prepared in accordance with the accounting policy of the National Bank based on provisions of International Financial Reporting Standards ("IFRS") and presented in thousands of Kazakhstani Tenge ("KZT").

The National Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the accounting policy and procedures developed and approved by the Board of the National Bank. The accompanying financial statements are prepared based on the National Bank accounting records, which are maintained under the historical cost convention adjusted based on the results of revaluation of certain assets and liabilities.

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

### ***Significant Accounting Policies***

#### ***1) Consolidation principles***

The consolidated financial statements of the National Bank include financial statements of the National Bank and the companies under its control (subsidiaries). Subsidiaries are those companies and other entities in which the National Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over financial and operating policies.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated.

Minority interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the National Bank. Minority interest in the consolidated balance sheet is recorded separate from liabilities and equity. Minority interest related to operational results of the current year is recorded in the consolidated statement of income.

#### ***2) Gold and other non-refined precious metals***

Refined gold is recorded at market price at the balance sheet date. Market price is determined by reference to the London Bullion Market Association ("LBMA") AM fixings. Changes in the market value of gold are recorded in the consolidated statement of income within foreign exchange translation gains

less losses in the period in which the change occurs. Non-refined precious metals are recorded at cost, and are included within other assets.

### *3) Originated loans and advances and provisions for loan impairment*

Loans originated by the National Bank by providing money directly to the borrower or to a sub-participation agent at draw down are categorised as originated loans and are carried at amortised cost less provision for impairment. Originated loans also include deposits placed with other banks.

Originated loans and advances are recognised when cash is advanced to borrowers.

A credit risk provision for loan impairment is established if there is objective evidence that the National Bank will not be able to collect the amounts due according to original contractual terms. The amount of the provision is the difference between the carrying amount and estimated recoverable amount, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the instrument's original effective interest rate.

The provision for loan impairment also covers losses where there is objective evidence that probable losses are present in components of the portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings assigned to the borrowers and reflect the current economic environment in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

If the amount of the provision for loan impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for loan impairment in the consolidated statement of income.

### *4) Membership in International Financial Organisations*

The National Bank acts as a fiscal agent to the Government of the Republic of Kazakhstan in respect of transactions related to the membership of the Republic of Kazakhstan in international financial organisations, including payment of membership fees to such organisations. Membership fees payable are denominated in US Dollars or SDR and are re-valued into KZT using the exchange rate effective at the year-end.

The amounts payable to IMF and other international financial organisations and the appropriate li-

abilities of the Government related to the membership in the international financial organisations accounted for in the National Bank, are excluded from the accompanying balance sheet since they do not represent assets and liabilities of the National Bank.

### *5) Investment securities available for sale*

Investment securities which Management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as investment securities available for sale.

Investment securities available for sale are initially recognised at cost (which includes transaction costs) and subsequently remeasured to fair value based on quoted bid prices. Certain investments available for sale for which there is no available external independent quotation have been fair valued by Management on the basis of consideration of relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Realised and unrealised gains and losses arising from changes in the fair value of investment securities available for sale are included in the consolidated statement of income in the period in which they arise. Interest earned on investment securities available for sale are reflected in the consolidated statement of income as interest income on investment securities available for sale.

Impairment and reversal of impairment of investment securities available for sale is recorded in the consolidated statement of income.

All regular way purchases and sales of investment securities available for sale are recognised at trade date, which is the date that the National Bank commits to purchase or sell the asset. All other purchases and sales are recognised as derivative forward transactions until settlement.

### *6) REPO and reverse REPO transactions*

REPO transactions are treated as financing transactions. Securities sold under sale and repurchase agreements are included in the National Bank's accounts, and the corresponding liability is presented within due to banks and other financial institutions. The difference between sale and repurchase price of these securities is recorded as interest expense in the period the transaction was made. Reverse REPO transactions are recorded as due from banks and other financial institutions.

### *7) Derivative financial instruments*

In the course of its operations the National Bank enters into derivative financial instruments for trading purposes. Derivative financial instru-

ments including forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices (if available), discounted cash flow models or using the spot rate at the year-end as the basis as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Changes in the fair value of derivatives held for trading are included within dealing income.

#### 8) Premises and equipment

Premises and equipment are stated at cost or re-valued amounts less accumulated depreciation. Depreciation is applied on a units-of-production method for production equipment and on a straight-line basis for other premises and equipment over the following estimated useful lives of the assets:

Buildings	5–40 years
Office equipment	1–28 years
Appliances and fixtures	2–50 years
Vehicles	5–28 years

As at 31 December 2002 and 2001 the exchange rates were as follows:

Currency	31 December 2002	31 December 2001
US Dollars	155.85	150.94
SDR	210.62	189.35
Deutsche Marks	-	68.09
Euro	162.46	133.17
Japanese Yen	13.05	11.50

#### 11) Income and expense recognition

Interest income and expenses are recognised on an accrual basis. Commissions and other income are credited to income when the related transactions are completed. Non-interest expenses are recognised at the transaction date.

#### 12) Offsetting

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

#### 13) Provisions

Provisions are recorded when the National Bank has a present legal or constructive obliga-

Construction in progress is carried at cost. Construction in progress is not depreciated until the asset is available for use.

Premises and equipment and intangible assets are re-valued during the financial year except for the following items, which are re-valued as follows: passenger cars, vehicles, power aggregates and equipment – every three years; railway transport facilities, buildings, constructions and dwellings – every five years.

#### 9) Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is applied on a straight-line basis over the following estimated useful lives of the assets:

Software	1–5 years
Licenses	3–10 years

#### 10) Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into Kazakhstan Tenge at the weighted average stock exchange rates at the balance sheet date. Transactions denominated in foreign currencies are recorded at the exchange rate ruling on the transaction date. Foreign currency gains and losses arising from changes in stock exchange rates are reflected in the consolidated statement of income as foreign exchange translation gains less losses.

tion as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### 14) Pension and post-employment benefits

The National Bank has no independent pension scheme separate from the pension system of the Republic of Kazakhstan. In accordance with the Law of the Republic of Kazakhstan No. 136-1 dated 20.06.97, "On pension provision", the National Bank transfers pension contributions from employee salaries in the amount of 10% of their income to pension funds within period prescribed by the legal requirements. Once the contributions have been paid, the National Bank has no further payment obligations.

Upon retirement of employees, all pension payments are administered by the pension funds directly.

### 15) Banknotes and coins in circulation

The National Bank produces banknotes and coins at its banknote plant and Kazakhstani Mint RGP. Banknotes and coins in circulation are recorded in the balance sheet at their nominal value. Costs of issue of banknotes and coins into circulation include security, transportation, insurance and other expenses and are recognised on issue date.

### 16) Due to banks and other financial institutions, customer accounts

Amounts due to banks and other financial institutions and customer accounts are recognised initially at 'cost', being their issue proceeds net of transaction costs incurred. Subsequently these liabilities are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the amounts due using the effective yield method.

### 17) Income tax

In accordance with the Kazakhstani legislation the National Bank is exempt from income tax. Income taxes of certain subsidiaries are recorded in the consolidated financial statements of the National Bank.

### 18) Debt securities in issue

Debt securities issued by the National Bank carry a fixed date of repayment and are recognised initially at cost. Subsequently, debt securities in issue are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the statement of income over the period of the security issue.

### 19) Statement of cash flows

For the purposes of the preparation of the consolidated statement of cash flows, cash and cash equivalents are considered to be items which can be converted into cash within a day. All short term interbank placements, beyond overnight placements, are included in due from other banks.

## Note 4 – Gold

	2002	2001
Gold in stock	28 192 078	21 739 559
Gold deposited at foreign banks	63 066 652	55 344 758
Gold coins in stock	148 554	127 437
<b>Total gold</b>	<b>91 407 284</b>	<b>77 211 754</b>

At 31 December 2002, the LBMA gold AM fixing was USD 342.75 per troy ounce (2001: USD 277.60 per troy ounce).

## Note 5 – Due from Banks and Other Financial Institutions

	2002	2001
<b>Due from foreign banks and other financial institutions</b>		
Securities purchased under agreements to re-sell	40 084 620	22 671 188
Term deposits	7 793 972	43 123 474
Correspondent accounts	2 239 517	1 967 116
Current accounts with IMF	160 537	13 016
Assets with external asset managers	31 980	1 155 928
Less: provision for impairment	(98 539)	(17 229)
<b>Total due from foreign banks and other financial institutions</b>	<b>50 212 087</b>	<b>68 913 493</b>
<b>Due from local banks</b>		
Loans to local banks	3 757 686	1 810 046
Current accounts	152 574	355 474
Less: provision for impairment	(2 462 854)	-
<b>Total due from local banks</b>	<b>1 447 406</b>	<b>2 165 520</b>
<b>Total due from banks and other financial institutions</b>	<b>51 659 493</b>	<b>71 079 013</b>



In 2002, 4 agreements for external management of the National Bank's assets were in effect. The portfolio yield varied from 1.22% to 6.59% per annum.

Term deposits at foreign banks include short-term and overnight deposits with average interest rates varying from 1.63% to 4.34% per annum (in 2001 – from 3.17% to 4.68% per annum).

Securities purchased under agreements to re-sell are US government treasury bills bearing average interest rate of 1.2% per annum.

Included in loans to local banks is a non-interest bearing loan of KZT 2 462 854 thousand made in 2002, which has been fully provided for. The loan relates to certain obligations of the National Bank as at 31 December 2001 to cover deposits of a failed local bank (Note 16).

Changes in provisions for impairment are presented in Note 21. Geographical and currency analysis and maturity structure of due from banks and other financial institutions are disclosed in Note 28.

## Note 6 – Investment Securities Available for Sale

	2002		2001	
	Nominal value	Carrying value	Nominal value	Carrying value
<b>Foreign investment securities</b>				
US government treasury bills	118 001 828	122 142 520	17 257 121	17 900 150
Securities held by external asset managers	-	97 058 900	-	91 230 264
Debt securities of international financial organisations and foreign state financial organisations государственных финансовых организаций	44 386 350	44 592 794	51 066 680	56 280 483
German government treasury bills	67 485 884	71 281 024	29 110 962	29 950 807
British government treasury bills	10 505 352	11 074 018	8 609 386	9 120 818
Austrian government treasury bills	-	-	10 986 525	11 131 047
French government treasury bills	-	-	8 522 880	8 980 724
Dutch government treasury bills	-	-	5 593 140	6 099 046
Other	215 498	197 918	757 018	697 408
Less: provision for impairment	-	(47 067)	-	(45 735)
<b>Total foreign investment securities</b>		<b>346 300 107</b>		<b>231 345 012</b>
<b>Government securities</b>				
Ministry of Finance bonds				
Long-term	19 090 764	19 885 950	23 673 140	22 434 708
Medium-term	2 947 700	3 105 378	-	-
Short-term	241 637	237 170	180 469	180 469
Less: provision for impairment	-	(12 585 753)	-	(2 903 923)
<b>Total government securities</b>		<b>10 642 745</b>		<b>19 711 254</b>
<b>Total investment securities available for sale</b>		<b>356 942 852</b>		<b>251 056 266</b>

Provision for impairment of government securities portfolio represents a provision for MEAKAM-10 long-term government securities with nominal value of KZT 15 135 000 thousand with a fixed interest rate of 9.75 percent per annum and maturity date in 2007. These securities have been fair valued using a discounted cash flow model (Note 21).

The medium-term bonds of the Ministry of Finance were issued in 2000 and mature in February 2005 and August 2006. These bonds bear coupon at the rate of 8.13% per annum.

Changes in provisions for impairment are presented in Note 21. Geographical and currency analysis and maturity structure of investment securities available for sale are disclosed in Note 28.

## Note 7 – Premises and Equipment, Net

	Buildings	Equipment and fixtures	Construction in progress	Revaluation	Total
<b>Cost</b>					
<b>31 December 2001</b>	<b>8 994 276</b>	<b>9 143 049</b>	<b>113 435</b>	<b>-</b>	<b>18 250 760</b>
including:					
The National Bank	8 880 618	7 258 735	110 400	-	16 249 753
Subsidiaries	113 658	1 884 314	3 035	-	2 001 007
<b>Additions</b>	<b>244 741</b>	<b>2 393 158</b>	<b>699 997</b>	<b>795 320</b>	<b>4 133 216</b>
including:					
The National Bank	239 288	1 242 592	633 357	782 818	2 898 055
Subsidiaries	5 453	1 150 566	66 640	12 502	1 235 161
<b>Disposals</b>	<b>46 608</b>	<b>1 740 112</b>	<b>696 808</b>	<b>-</b>	<b>2 483 528</b>
including:					
The National Bank	21 041	962 176	696 808	-	1 680 025
Subsidiaries	25 567	777 936	-	-	803 503
<b>31 December 2002</b>	<b>9 192 409</b>	<b>9 796 095</b>	<b>116 624</b>	<b>795 320</b>	<b>19 900 448</b>
including:					
The National Bank	9 098 864	7 539 151	46 949	782 818	17 467 782
Subsidiaries	93 545	2 256 944	69 675	12 502	2 432 666
<b>Accumulated depreciation</b>					
<b>31 December 2001</b>	<b>1 395 842</b>	<b>3 595 560</b>	<b>-</b>	<b>-</b>	<b>4 991 402</b>
including:					
The National Bank	1 392 754	2 943 540	-	-	4 336 294
Subsidiaries	3 088	652 020	-	-	655 108
<b>Depreciation charge</b>	<b>350 804</b>	<b>1 002 911</b>	<b>-</b>	<b>356 048</b>	<b>1 709 763</b>
including:					
The National Bank	347 456	739 584	-	349 526	1 436 566
Subsidiaries	3 348	263 327	-	6 522	273 197
<b>Disposals</b>	<b>37 448</b>	<b>340 226</b>	<b>-</b>	<b>441 422</b>	<b>819 096</b>
including:					
The National Bank	33 429	333 130	-	349 526	716 085
Subsidiaries	4 019	7 096	-	91 896	103 011
<b>31 December 2002</b>	<b>1 709 198</b>	<b>4 258 245</b>	<b>-</b>	<b>(85 374)</b>	<b>5 882 069</b>
including:					
The National Bank	1 706 781	3 349 994	-	-	5 056 775
Subsidiaries	2 417	908 251	-	(85 374)	825 294
<b>Net book amount</b>					
<b>31 December 2001</b>	<b>7 598 434</b>	<b>5 547 489</b>	<b>113 435</b>	<b>-</b>	<b>13 259 358</b>
including:					
The National Bank	7 487 864	4 315 195	110 400	-	11 913 459
Subsidiaries	110 570	1 232 294	3 035	-	1 345 899
<b>31 December 2002</b>	<b>7 483 211</b>	<b>5 537 850</b>	<b>116 624</b>	<b>880 694</b>	<b>14 018 379</b>
including:					
The National Bank	7 392 083	4 189 157	46 949	782 818	12 411 007
Subsidiaries	91 128	1 348 693	69 675	97 876	1 607 372

The amount of KZT 880 694 thousand in Revaluation column is as follows:

1) the National Bank – revaluation of cost of office buildings for KZT 782 818 thousand,

including: Almaty branch – KZT 145 254 thousand; National Commission – KZT 637 564 thousand.

2) subsidiaries of the National Bank – revaluation of premises and equipment for KZT 97 876

thousand, including: a) office buildings for KZT 1 230 thousand, including: RGP Transportation Center – KZT 866 thousand; NIT CJSC – KZT 364 thousand; b) equipment and vehicles of NIT CJSC – KZT 11 212 thousand and other premises and equipment of NIT CJSC – KZT 60 thousand; c) increase of depreciation amount by KZT 85 374 thousand.

### Note 8 – Other Assets, Net

	2002	2001
Banknotes and coins in stock	1 629 091	1 610 282
Receivables relating to external asset management	1 522 649	3 498 141
Mortgage loans issued by subsidiary	1 015 569	60 293
Inventories	930 574	959 142
Intangible assets	787 158	558 171
Trade debtors and other loans	804 198	576 658
Other assets	1 003 725	1 015 634
Less: provision for impairment	(178 240)	(458 083)
<b>Total other assets</b>	<b>7 514 724</b>	<b>7 820 238</b>

Provision for impairment as at 31 December 2002 of KZT 178 240 thousand includes provision for impairment of loans to individuals in the amount of KZT 5 793 thousand and provision for non-monetary activities in the amount of KZT 172 447 thousand. Movements in the provision for impairment are presented in Note 21.

### Note 9 – Currency in Circulation

	2002	2001
Banknotes and coins in circulation	178 450 898	145 988 257
Less: banknotes and coins on hand	(553 373)	(511 725)
<b>Total currency in circulation</b>	<b>177 897 525</b>	<b>145 476 532</b>

The movements in banknotes and coins in circulation during 2002 and 2001 are as follows:

	Banknotes	Coins	Total
<b>At 31 December 2000</b>	<b>115 249 380</b>	<b>1 626 171</b>	<b>116 875 551</b>
Issued into circulation	232 963 050	2 417 350	235 380 400
Withdrawn from circulation	(205 166 966)	(1 100 728)	(206 267 694)
<b>At 31 December 2001</b>	<b>143 045 464</b>	<b>2 942 793</b>	<b>145 988 257</b>
Issued into circulation	284 546 163	3 888 767	288 434 930
Withdrawn from circulation	(253 570 587)	(2 401 702)	(255 972 289)
<b>At 31 December 2002</b>	<b>174 021 040</b>	<b>4 429 858</b>	<b>178 450 898</b>

## Note 10 – Due to Banks and Other Financial Institutions

	2002	2001
<b>Due to foreign banks and other financial institutions</b>		
Balances with IBRD	18 276	137 315
Other	-	287 196
<b>Total due to foreign banks and other financial institutions</b>	<b>18 276</b>	<b>424 511</b>
<b>Due to local banks and other financial institutions</b>		
<i>In foreign currency</i>		
Correspondent accounts and demand deposits	6 900 011	3 996 617
Term deposits	1 910 127	7 007 124
Other	102 317	99 093
<i>In local currency</i>		
Securities sold under agreements to repurchase	17 675 096	17 155 665
Correspondent accounts	15 624 962	16 471 985
Term deposits	7 384 730	3 839 575
Obligatory reserves	323 857	82 108
<b>Total due to local banks and other financial institutions</b>	<b>49 921 100</b>	<b>48 652 167</b>
<b>Total due to banks and other financial institutions</b>	<b>49 939 376</b>	<b>49 076 678</b>

Securities sold under sale and repurchase agreements are MEAKAM-10 long-term government securities with a fair value of KZT 3 320 125 thousand at 31 December 2002. As at 31 December 2002 these securities were recorded in the consolidated balance sheet within investment securities available for sale.

In accordance with Kazakhstani legislation commercial banks are obliged to maintain mandatory reserves on a pro rata basis to certain liabilities. Such reserves should be kept either as interest free deposits with the National Bank or in cash.

Geographical and currency analysis and maturity structure of due to banks and other financial institutions are disclosed in Note 28.

## Note 11 – Due to National Fund of the Republic of Kazakhstan

	2002	2001
<i>In foreign currency</i>		
Due to National Fund	140 862	37 001
<i>In local currency</i>		
Due to National Fund	-	2 585 783
<b>Total due to National Fund of the Republic of Kazakhstan</b>	<b>140 862</b>	<b>2 622 784</b>

In 2002 the National Bank was engaged in trust management of assets of the National Fund of the Republic of Kazakhstan: assets of the Fund were

invested into bank deposits and operations with foreign securities (REPO and reverse REPO transactions) and foreign currencies.

## Note 12 – Due to Ministry of Finance of the Republic of Kazakhstan

	2002	2001
<i>In foreign currency</i>		
Current accounts	14 414 664	1 551 421
Term deposits	1 905 388	21 610 210
<i>In local currency</i>		
Current accounts	39 616 175	41 410 955
<b>Total due to Ministry of Finance of the Republic of Kazakhstan</b>	<b>55 936 227</b>	<b>64 572 586</b>

## Note 13 – Due to Kazakhstani Deposit Insurance Fund

Due to Kazakhstani Deposit Insurance Fund represents the accumulated obligatory payments made by local banks, who are participants in the Kazakhstani Deposit Insurance Fund. The Deposits

Insurance Fund was established in 1999 by the National Bank in order to provide a deposit insurance scheme for the purposes of protecting the interests of individual customers of the second-tier banks.

## Note 14 – Customer Accounts

	2002	2001
Current accounts in foreign currency	138 420	749 935
Current accounts in local currency	464 934	945 329
Less: current accounts of subsidiaries	(369 078)	(462 439)
<b>Total customer accounts</b>	<b>234 276</b>	<b>1 232 825</b>

## Note 15 – Debt Securities in Issue

At 31 December 2002, the National Bank had debt instruments in the amount of KZT 63 552 132 thousand with maturities of 7 to 84 days, shown net of discount of KZT 442 381 thousand.

At 31 December 2001, debt securities in issue represent debt instruments in the amount of KZT 17 480 480 with maturities of 7 to 84 days, shown net of discount of KZT 77 118 thousand.

### Note 16 – Provisions

	Repurchase of MEAKAM 10	Repayment of deposit	Total
<b>At 31 December 2000</b>	-	-	-
Increase in provision	4 015 987	2 579 000	6 594 987
<b>At 31 December 2001</b>	<b>4 015 987</b>	<b>2 579 000</b>	<b>6 594 987</b>
Reversal of provision	(4 015 987)	-	(4 015 987)
Utilized during the year	-	(2 579 000)	(2 579 000)
<b>At 31 December 2002</b>	-	-	-

At 31 December 2001 the National Bank had provided for potential losses in the amount of KZT 6 594 987 thousand relating to:

- a contingent liability of KZT 2 579 000 thousand related to a commitment made in 2001 to provide a loan to a local bank for the repayment of deposit obligations of a local insolvent bank; and
- a liability of KZT 4 015 987 thousand relating to a commitment to purchase long-term treasury bonds (MEAKAM-10) issued by the Ministry of Finance of the Republic of Kazakhstan.

During 2002 the National Bank provided the loan to the local bank. The provision relating to this commitment was reversed in 2002 and the loan has been recognised and fully provided for and is included within due from banks and other financial institutions (Note 6). Also during 2002 the National Bank came to an agreement with the Ministry of Finance and was released of its obligation to purchase the long-term treasury bonds. Accordingly the provision relating to this commitment was released during 2002.

### Note 17 – Other Liabilities

	2002	2001
Mortgage bonds in issue	500 000	-
Balances with employees	405 553	310 095
Payables relating to external asset management	-	2 422 066
Trade and other creditors	804 849	533 887
<b>Total other liabilities</b>	<b>1 710 402</b>	<b>3 266 048</b>

### Note 18 – Share Capital

The formation of share capital of the National Bank is regulated by the Decree of the President of the Republic of Kazakhstan dated 30 March 1995 and its subsequent amendments. In accordance with the amendments to the Decree dated 18 December 2000 share capital was approved in the amount of

KZT 20 000 000 thousand, which should be formed from allocations of the net profit of the National Bank and the state budget of the Republic of Kazakhstan. As at 31 December 2002 the paid-in share capital of the National Bank was KZT 20 000 000 thousand.

## Note 19 – Reserve Capital and Other Funds

The reserve capital is allocated from the net profit in the amount approved by the President of the Republic of Kazakhstan. Reserve capital is required to be formed in the amount equal to the approved share capital.

General reserves are formed through annual allocations of retained earnings in the amount of 0.5% of the long-term assets of the National Bank. General reserves are not available for distribution.

Special reserve funds are comprised of unrealised gains from revaluation of gold and assets and liabilities denominated in foreign currency. Once such gains are realised, they are transferred to retained earnings. Special reserve funds also include premises and equipment revaluation reserve and reserve capital of subsidiaries of the National Bank.

## Note 20 – Net Interest Income

	2002	2001
<b>Interest income</b>		
Investment securities	18 477 833	27 340 341
Due from banks and other financial institutions	775 484	2 018 072
Other	13 162	14 835
<b>Total interest income</b>	<b>19 266 479</b>	<b>29 373 248</b>
<b>Interest expense</b>		
Debt securities in issue	1 978 697	6 268 060
Due to Ministry of Finance	1 727 671	4 205 976
Due to foreign banks and other financial institutions	419 194	244 383
Due to local banks and other financial institutions	2 322 768	734 439
<b>Total interest expense</b>	<b>6 448 330</b>	<b>11 452 858</b>
<b>Total net interest income</b>	<b>12 818 149</b>	<b>17 920 390</b>

## Note 21 – Provision for Impairment

	Due from foreign banks and other financial institutions	Due from local banks and other financial institutions	Foreign investment securities	Government securities	Other assets	Total
<b>At 31 December 2000</b>	-	-	-	-	273 030	273 030
Charge for the year	17 229	-	45 735	2 903 923	355 869	3 322 756
Write off during the year	-	-	-	-	(170 816)	(170 816)
<b>At 31 December 2001</b>	<b>17 229</b>	<b>-</b>	<b>45 735</b>	<b>2 903 923</b>	<b>458 083</b>	<b>3 424 970</b>
Transfers (Note 16)	-	2 579 000	-	-	-	2 579 000
Charge for the year	83 027	-	1 483	9 681 830	53 523	9 819 863
Write off during the year	(1 717)	(116 146)	(151)	-	(333 366)	(451 380)
<b>At 31 December 2002</b>	<b>98 539</b>	<b>2 462 854</b>	<b>47 067</b>	<b>12 585 753</b>	<b>178 240</b>	<b>15 372 453</b>

Provision amounts charged for the year in respect of government securities represents Management's estimate of the recoverable amount of MEAKAM-10 securities (Note 6).

Provision for impairment of other assets is recorded within other provisions in the consolidated statement of income.

### Note 22 – Dealing Income, Net

	2002	2001
<b>Dealing income</b>		
Income from operations with foreign currency	1 333 752	786 310
Income from operations with precious metals	140 118	54 977
Income from operations with the National Fund	357 377	-
Income from trust activities	7 610	-
Income from custodian services	79 686	-
Income from brokerage services	18 395	-
<b>Total dealing income</b>	<b>1 936 938</b>	<b>841 287</b>
<b>Dealing loss</b>		
Losses on operations with foreign currency	846 756	153 032
Losses on operations with precious metals	273 847	27 102
Losses on operations with the National Fund	64 027	-
Losses on trust activities	9 767	-
Losses on custodian services	22 500	-
Losses on brokerage services	807	-
<b>Total dealing losses</b>	<b>1 217 704</b>	<b>180 134</b>
<b>Total dealing income, net</b>	<b>719 234</b>	<b>661 153</b>

### Note 23 – Foreign exchange translation gains less losses

	2002	2001
Unrealised gains less losses from translation of foreign currency and gold	40 509 644	3 045 050
Realised gains less losses from translation of foreign currency and gold	4 148 332	8 682 230
<b>Total foreign exchange translation gains less losses</b>	<b>44 657 976</b>	<b>11 727 280</b>

### Note 24 – Operating Income of Subsidiaries, Net

	2002	2001
<b>Gross revenue from production</b>		
Revenue	2 378 579	3 107 508
Cost of goods sold	(1 677 584)	(2 393 873)
<b>Gross revenue from services</b>		
Revenue	968 851	1 151 458
Cost of services provided	(849 357)	(717 636)
<b>Total operating income of subsidiaries, net</b>	<b>820 489</b>	<b>1 147 457</b>



### Note 25 – Staff Costs

	2002	2001
Salaries	1 626 981	1 481 308
Bonuses	480 959	546 539
Social tax	432 047	465 737
Training	57 917	-
Other	280 567	272 714
<b>Total staff costs</b>	<b>2 878 471</b>	<b>2 766 298</b>

### Note 26 – Administrative Expenses

	2002	2001
Cost of production of banknotes and coins	1 118 359	1 118 632
Taxes other than on income	298 177	370 537
Repairs and maintenance	294 690	183 658
Materials	158 989	157 321
Security	128 035	101 663
Communication	120 721	134 468
Business trip expense	77 732	63 757
Utilities	66 967	56 964
Other	397 840	401 440
<b>Total administrative expenses</b>	<b>2 661 510</b>	<b>2 588 440</b>

### Note 27 – International Monetary Fund and Other International Financial Institutions

Assets and liabilities related to the membership of the Republic of Kazakhstan in the IMF, and other international financial institutions are analysed below. In accordance with its functions as an agent of the Government of the Republic of

Kazakhstan, these amounts are excluded from the balance sheet of the National Bank.

#### **International Monetary Fund**

Payment of membership of the Republic of Kazakhstan in IMF was as follows:

	2002		2001	
	SDR ('000)	KZT ('000)	SDR ('000)	KZT ('000)
IMF quota	365 700	77 023 734	365 700	69 245 295
	<b>365 700</b>	<b>77 023 734</b>	<b>365 700</b>	<b>69 245 295</b>

Each member of the IMF is assigned a quota, which is expressed in Special Drawing Rights ("SDRs"). A member's quota determines its maximum financial commitment to the IMF, its voting power, and is the basis for determining access to IMF financing.

The National Bank acts as a depository of the Republic of Kazakhstan. The quota subscription was made through the issuance of securities by the Ministry

of Finance. The securities are held by the National Bank as a custodian and are payable to the IMF on demand.

**Other international financial institutions**

The Republic of Kazakhstan is a member of IBRD and EBRD and other international financial institutions. In accordance with the terms of subscription to these organisations, the members pay contributions in freely convertible currency and securities, issued by the member states.

	2002		2001	
	USD ('000)	KZT ('000)	USD ('000)	KZT ('000)
IBRD	-	2 406 903	-	2 442 903
EBRD	987	153 803	987	148 958
IAGI	283	44 055	283	42 667
Other	-	716 512	-	751 512
		<b>3 321 273</b>		<b>3 386 040</b>

## Note 28 – Financial Risk Management

Through its normal operations, the National Bank is exposed to a number of risks, the most significant of which are currency, operating, credit, interest rate, and liquidity risks. The structure of the National Bank's assets and liabilities is primarily determined by the nature of the National Bank's statutory functions, rather than commercial considerations. The National Bank permanently manages its exposure to risk, through a variety of risk management techniques. Risk management of the National Bank is regulated by its internal instructions, and is closely monitored by the Board of the National Bank, as well as Committees and Commissions of the National Bank. The Board, Committees, Commissions and related workgroups consider matters related to the monetary, investment and foreign exchange policy of the National Bank, and set limits for volumes of operations, as well as the requirements for assessing counter-parties of the National Bank.

Operating risk is the risk of loss arising from the breakdown of internal controls. The National Bank manages this risk through the Internal Audit Department of the National Bank, which exercises control over accounting policies and procedures and the effective function-

ing of the system of internal controls of the National Bank. Operating risk relating to operations with currency reserves is controlled by a number of internal instructions of the National Bank. Segregation of duties between the different departments of the National Bank is also considered as one of the mechanisms of managing operating risk.

Subsidiaries of the National Bank of the Republic of Kazakhstan are exposed to a number of risks, the most significant of which are currency, operating, credit, interest rate and liquidity risks. Risk management procedures at the subsidiaries are regulated by internal instructions, and are monitored by various bodies including board of directors of the subsidiaries, credit committees and internal control departments.

**Credit risk.** The National Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The National Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counter-party, or groups of counter-parties, and to geographical and industry segments. Such risks are monitored on a revol-

ving basis and subject to frequent review. Limits on the level of credit risk by product, counterparty and industry sector are approved regularly 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 principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate guarantees.

The National Bank's maximum exposure to credit risk is primary reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

**Geographical analysis.** The geographical analysis of the National Bank's monetary assets and liabilities is set out below:

	2002			2001		
	OECD	Non-OECD	Total	OECD	Non-OECD	Total
<b>ASSETS</b>						
Gold	63 068 417	28 338 867	91 407 284	55 344 758	21 866 996	77 211 754
Due from foreign banks and other financial institutions	50 137 400	74 687	50 212 087	68 905 434	8 060	68 913 494
Due from local banks and other financial institutions	-	1 447 406	1 447 406	-	2 165 519	2 165 519
Foreign investment securities	346 300 107	-	346 300 107	231 292 807	52 206	231 345 013
Government securities	-	10 642 745	10 642 745	-	19 711 253	19 711 253
Foreign currency on hand	-	218 585	218 585	-	105 091	105 091
<b>Total monetary assets</b>	<b>459 505 924</b>	<b>40 722 290</b>	<b>500 228 214</b>	<b>355 542 999</b>	<b>43 909 125</b>	<b>399 452 124</b>
<b>LIABILITIES</b>						
Currency in circulation	-	177 897 525	177 897 525	-	145 476 532	145 476 532
Due to foreign banks and other financial institutions	18 276	-	18 276	137 315	287 196	424 511
Due to local banks and other financial institutions	102 317	49 818 783	49 921 100	-	48 652 167	48 652 167
Due to National Fund	-	140 862	140 862	-	2 622 784	2 622 784
Due to Ministry of Finance	15 739	55 920 488	55 936 227	-	64 572 586	64 572 586
Due to Deposits Insurance Fund	-	2 771 741	2 771 741	-	1 359 748	1 359 748
Customer accounts	-	234 276	234 276	-	1 232 825	1 232 825
Debt securities in issue	-	63 552 132	63 552 132	-	17 480 480	17 480 480
<b>Total monetary liabilities</b>	<b>136 332</b>	<b>350 335 807</b>	<b>350 472 139</b>	<b>137 315</b>	<b>281 684 318</b>	<b>281 821 633</b>
<b>Net position</b>	<b>459 369 592</b>	<b>(309 613 517)</b>	<b>149 756 075</b>	<b>355 405 684</b>	<b>(237 775 193)</b>	<b>117 630 491</b>

**Currency analysis.** The National Bank 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, which are monitored daily.

At 31 December 2002, the National Bank has the following positions in currencies:

## Financial Statements

	KZT	US\$ \$1 = 155,85 KZT	EUR 1 EUR = 162,46 KZT	JPY 10 JPY = 13,05 KZT	SDR 1 SDR = 210,62 KZT	GBP 1 GBP = 249,83 KZT	Other	Total
<b>ASSETS</b>								
Gold	91 407 284	-	-	-	-	-	-	91 407 284
Due from foreign banks and other financial institutions	(98 539)	48 099 068	783 373	393 252	160 537	629 654	244 742	50 212 087
Due from local banks and other financial institutions	152 574	1 294 832	-	-	-	-	-	1 447 406
Foreign investment securities	(47 067)	237 435 115	95 873 313	1 964 728	-	11 074 018	-	346 300 107
Government securities	10 642 745	-	-	-	-	-	-	10 642 745
Premises and equipment	14 018 379	-	-	-	-	-	-	14 018 379
Other assets, net	5 758 775	1 671 758	81 122	-	538	2 296	235	7 514 724
<b>Total assets</b>	<b>121 834 151</b>	<b>288 500 773</b>	<b>96 737 808</b>	<b>2 357 980</b>	<b>161 075</b>	<b>11 705 968</b>	<b>244 977</b>	<b>521 542 732</b>
<b>LIABILITIES</b>								
Currency in circulation	177 897 525	-	-	-	-	-	-	177 897 525
Due to foreign banks and other financial institutions	18 035	242	-	-	-	-	-	18 277
Due to local banks and other financial institutions	41 008 644	8 912 439	16	-	-	-	-	49 921 099
Due to National Fund	-	1 532	31 548	31 842	-	46 452	29 488	140 862
Due to Ministry of Finance	39 616 175	16 259 864	14 863	-	-	-	45 325	55 936 227
Due to Deposit Insurance Fund	2 771 741	-	-	-	-	-	-	2 771 741
Customer accounts	95 857	113 663	24 393	-	-	-	363	234 276
Debt securities in issue	63 552 132	-	-	-	-	-	-	63 552 132
Other liabilities	1 438 135	253 280	17 396	-	-	1 579	12	1 710 402
<b>Total liabilities</b>	<b>326 398 244</b>	<b>25 541 020</b>	<b>88 216</b>	<b>31 842</b>	<b>-</b>	<b>48 031</b>	<b>75 188</b>	<b>352 182 541</b>
<b>Net position</b>	<b>(204 564 093)</b>	<b>262 959 753</b>	<b>96 649 592</b>	<b>2 326 138</b>	<b>161 075</b>	<b>11 657 937</b>	<b>169 789</b>	<b>169 360 191</b>

At 31 December 2001, the National Bank had the following positions in currencies:

	KZT	US\$ \$1 = 150,94 KZT	EUR 1 EUR = 133,17 KZT	JPY 10 JPY = 11,50 KZT	SDR 1 SDR = 189,35 KZT	GBP 1 GBP = 218,79 KZT	Other	Total
<b>ASSETS</b>								
Gold	77 211 754	-	-	-	-	-	-	77 211 754
Due from foreign banks and other financial institutions	(31 859)	67 164 171	1 269 572	199 272	13 016	246 629	52 693	68 913 494
Due from local banks and other financial institutions	1 581 481	584 038	-	-	-	-	-	2 165 519
Foreign investment securities	(45 735)	163 713 628	56 806 826	1 749 475	-	9 120 819	-	231 345 013
Government securities	19 711 253	-	-	-	-	-	-	19 711 253
Premises and equipment	13 259 358	-	-	-	-	-	-	13 259 358
Other assets, net	7 715 148	103 416	-	-	-	-	1 674	7 820 238
<b>Total assets</b>	<b>119 401 400</b>	<b>231 565 253</b>	<b>58 076 398</b>	<b>1 948 747</b>	<b>13 016</b>	<b>9 367 448</b>	<b>54 367</b>	<b>420 426 629</b>
<b>LIABILITIES</b>								
Currency in circulation	145 476 532	-	-	-	-	-	-	145 476 532
Due to foreign banks and other financial institutions	28 940	395 571	-	-	-	-	-	424 511
Due to local banks and other financial institutions	37 550 026	10 527 038	-	575 000	-	-	103	48 652 167
Due to National Fund	2 585 783	37 001	-	-	-	-	-	2 622 784
Due to Ministry of Finance	41 418 619	23 077 335	72 868	-	-	-	3 764	64 572 586
Due to Deposit Insurance Fund	1 359 748	-	-	-	-	-	-	1 359 748
Customer accounts	482 891	360 348	388 812	-	-	-	774	1 232 825
Debt securities in issue	17 480 480	-	-	-	-	-	-	17 480 480
Provisions	6 594 987	-	-	-	-	-	-	6 594 987
Other liabilities	3 266 048	-	-	-	-	-	-	3 266 048
<b>Total liabilities</b>	<b>256 244 054</b>	<b>34 397 293</b>	<b>461 680</b>	<b>575 000</b>	<b>-</b>	<b>-</b>	<b>4 641</b>	<b>291 682 668</b>
<b>Net position</b>	<b>(136 842 654)</b>	<b>197 167 960</b>	<b>57 614 718</b>	<b>1 373 747</b>	<b>13 016</b>	<b>9 367 448</b>	<b>49 726</b>	<b>128 743 961</b>

**Liquidity risk.** Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities and the ability to replace, at an acceptable

cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the National Bank and its exposure to changes in interest and exchange rates.

## Financial Statements

The table below details assets and liabilities of the National Bank as at 31 December 2002 by their remaining contractual maturity.

	On demand	Less than 1 months	From 1 to 6months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
<b>ASSETS</b>							
Gold	28 340 632	44 888 170	18 178 482	-	-	-	91 407 284
Due from foreign banks and other financial institutions	2 334 967	47 877 120	-	-	-	-	50 212 087
Due from local banks and other financial institutions	152 574	16 832	100 962	1 114 698	62 340	-	1 447 406
Foreign investment securities	97 058 900	-	48 599 826	15 717 251	184 692 846	231 284	346 300 107
Government securities	-	-	195 533	126 471	22 753 737	(12 432 996)	10 642 745
Foreign currency on hand	218 585	-	-	-	-	-	218 585
<b>Total monetary assets</b>	<b>128 105 658</b>	<b>92 782 122</b>	<b>67 074 803</b>	<b>16 958 420</b>	<b>207 508 923</b>	<b>(12 201 712)</b>	<b>500 228 214</b>
<b>LIABILITIES</b>							
Currency in circulation	177 897 525	-	-	-	-	-	177 897 525
Due to foreign banks and other financial institutions	18 276	-	-	-	-	-	18 276
Due to local banks and other financial institutions	25 505 225	8 080 875	1 200 000	-	14 025 000	1 110 000	49 921 100
Due to National Fund	140 862	-	-	-	-	-	140 862
Due to Ministry of Finance	54 233 168	-	1 697 032	3 826	2 201	-	55 936 227
Due to Deposit Insurance Fund	2 771 741	-	-	-	-	-	2 771 741
Customer accounts	234 276	-	-	-	-	-	234 276
Debt securities in issue	-	19 296 306	44 255 826	-	-	-	63 552 132
<b>Total monetary liabilities</b>	<b>260 801 073</b>	<b>27 377 181</b>	<b>47 152 858</b>	<b>3 826</b>	<b>14 027 201</b>	<b>1 110 000</b>	<b>350 472 139</b>
<b>Net position</b>	<b>(132 695 415)</b>	<b>65 404 941</b>	<b>19 921 945</b>	<b>16 954 594</b>	<b>193 481 722</b>	<b>(13 311 712)</b>	<b>149 756 075</b>
<b>Cumulative liquidity gap</b>	<b>(132 695 415)</b>	<b>(67 290 474)</b>	<b>(47 368 529)</b>	<b>(30 413 935)</b>	<b>163 067 787</b>	<b>149 756 075</b>	

The table below details assets and liabilities of the National Bank as at 31 December 2001 by their remaining contractual maturity.

	On demand	Less than 1 months	From 1 to 6months	From 6 months to 1 year	From 1 year to 5 years	Over 5 years	Total
<b>ASSETS</b>							
Gold	21 862 547	24 108 982	31 240 225	-	-	-	77 211 754
Due from foreign banks and other financial institutions	1 937 611	65 794 662	-	1 181 220	-	-	68 913 493
Due from local banks and other financial institutions	505 863	31 121	1 370 353	12 496	245 687	-	2 165 520
Foreign investment securities	91 184 529	-	11 455 092	13 493 789	113 577 896	1 633 706	231 345 012
Government securities	(2 854 988)	-	20 140	160 330	3 200 632	19 185 140	19 711 254
Foreign currency in hand	105 091	-	-	-	-	-	105 091
<b>Total monetary assets</b>	<b>112 740 653</b>	<b>89 934 765</b>	<b>44 085 810</b>	<b>14 847 835</b>	<b>117 024 215</b>	<b>20 818 846</b>	<b>399 452 124</b>
<b>LIABILITIES</b>							
Currency in circulation	145 476 532	-	-	-	-	-	145 476 532
Due to foreign banks and other financial institutions	316 252	86 482	3 267	3 267	15 243	-	424 511
Due to local banks and other financial institutions	21 245 158	12 061 009	-	-	14 236 000	1 110 000	48 652 167
Due to National Fund	2 622 784	-	-	-	-	-	2 622 784
Due to Ministry of Finance	42 889 508	21 610 210	15 584	57 284	-	-	64 572 586
Due to Deposit Insurance Fund	1 359 748	-	-	-	-	-	1 359 748
Customer accounts	1 232 825	-	-	-	-	-	1 232 825
Debt securities in issue	-	11 490 947	5 989 533	-	-	-	17 480 480
<b>Total monetary liabilities</b>	<b>215 142 807</b>	<b>45 248 648</b>	<b>6 008 384</b>	<b>60 551</b>	<b>14 251 243</b>	<b>1 110 000</b>	<b>281 821 633</b>
<b>Net position</b>	<b>(102 402 154)</b>	<b>44 686 117</b>	<b>38 077 426</b>	<b>14 787 284</b>	<b>102 772 972</b>	<b>19 708 846</b>	<b>117 630 491</b>
<b>Cumulative liquidity gap</b>	<b>(102 402 154)</b>	<b>(57 716 037)</b>	<b>(19 638 611)</b>	<b>(4 851 327)</b>	<b>97 921 645</b>	<b>117 630 491</b>	

**Interest rate risk.** The National Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily. These limits restrict the potential effect of movements in interest rates on interest margins and on the value of interest-sensitive assets and liabilities.

The table below summarises the effective interest rates by major currencies for major monetary financial instruments.

	2002			2001		
	KZT	USD	Other currencies	KZT	USD	Other currencies
<b>Assets</b>						
Gold	-	-	0.27%	-	-	0.6%
Due from foreign banks and other financial institutions	-	1.2%	1.9%	-	1.95%	1.95%
Due from local banks and other financial institutions	8.2%	4.22%	-	9%	5.79-7%	-
Foreign investment securities	-	2.02-3.26%	0.36-7.42%	-	4.75-5.88%	3.19-7.25%
Government securities	8.13-9.75%	-	-	4-16.3%	-	-
<b>Liabilities</b>						
Due to Ministry of Finance	4.42%	1.16%	-	3.94%	3.09%	-
Due to local banks and other financial institutions	4.82%	0.81%	-	4-12%	1-3%	-
Debt securities in issue	5.8%	-	-	5-6%	-	-

## Note 29 – Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The National Bank provides financing and other banking services to the Ministry of Finance and Government of the Republic of Kazakhstan, local government bodies and state non-budgetary funds.

Below are the balances at the year-end, interest expense and income and other transactions for the year with such related parties.

	2002	2001
<b>Investment securities available for sale</b>		
Government securities	23 228 498	22 566 241
Less: provision for impairment	(12 585 753)	(2 903 923)
<b>Other assets</b>		
Loans to employees	258 456	265 529
Due to Ministry of Finance		
Current accounts and term deposits	55 936 227	64 564 921
<b>Interest income</b>		
Government securities	2 482 050	3 000 082
Loans to employees	13 162	14 835
<b>Interest expense</b>		
Due to Ministry of Finance	1 727 671	4 234 994



## Note 30 – Contingencies, Commitments and Derivative Financial Instruments

Legal proceedings. From time to time and in the normal course of business, claims against the National Bank are received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Credit related commitments. Credit related commitments comprise loan commitments, letters of credit and guarantees. The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. Outstanding credit related commitments are as follows:

	2002	2001
Undrawn loan commitments	-	2 579 000
Guarantees issued	-	-
Less: provision for losses on credit related commitments (Note 16)	-	(2 579 000)
<b>Total credit related commitments</b>	<b>-</b>	<b>-</b>

**Derivative financial instruments.** Foreign exchange and other derivative financial instruments are generally traded in an over-the-counter market with professional market counter-parties on standardised contractual terms and conditions.

The principal amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the National Bank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign

exchange rates relative to their terms. The aggregate contractual or principal amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of derivative instruments held are set out in the following table. This table reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2002. These contracts were entered into in October–December 2002 and are short-term in nature.

	Principal or agreed amount	Domestic Negative fair value	Positive fair value	Principal or agreed amount	Foreign Negative fair value	Positive fair value
<i>Deals entered into in 2002:</i>						
<b>Foreign exchange derivatives</b>						
Currency forwards	1 198	-	-	4 559 754	-	-
<b>Interest rate derivatives</b>						
Forward rate agreements	-	-	-	55 701 273	-	62 823
<b>Total</b>	<b>1 198</b>	<b>-</b>	<b>-</b>	<b>60 261 027</b>	<b>-</b>	<b>62 82</b>

## Note 31 – Currency Reserves Management

In accordance with the Investment Strategy, as approved by the National Bank's Governing Board, the tasks of maintaining the safety and liquidity of reserve assets, as well as the profitability of reserve assets management transactions, are achieved by applying the portfolio theory of investments management, through active diversification of investment and hedging risks by entering into transactions in international capital and money markets. Analysis of risks, applied by the National Bank in the process of managing its currency reserves is maintained by comparing factual risks level with set limits. Credit risks are additionally limited by the minimum acceptable credit ratings and operational limits.

For these purposes the National Bank's reserve assets are grouped into portfolios – an operational portfolio and an investment portfolio. The National Bank Investment Strategy and internal instructions determine the parameters of the currency reserves operational and investment portfolios, as well as the procedure for calculating and applying the profitability benchmark.

The investment portfolio is essentially formed from medium-term and long-term instruments,

which ensure an increase in the yield from the placement of reserve assets. Part of the investment portfolio resources (investment portfolio cash) is invested in highly liquid money market instruments. The National Bank practices the active management of its investment portfolio and regularly carries out operations for the purchase and sale of securities that make up the investment portfolio.

The operational portfolio comprises investments in highly liquid money market instruments less the National Bank's foreign currency denominated short-term liabilities and the balance of funds in the investment portfolio's cash desk. The operational portfolio supports the National Bank's short-term liquidity and the continuity of its current currency operations, including currency intervention of the National Bank.

The main objective of currency reserves management activity is to ensure the optimal combination of safety, liquidity and profitability for reserve assets. In this regard, the maximisation of the reserves' profitability is a secondary priority in relation to ensuring their safety and liquidity.

## Note 32 – Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the National Bank using available market information, where it exists, and appropriate valuation methodologies including the discounted cash flow method. However, judgement is necessarily required to interpret market data to determine the estimated fair value. While the National Bank has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

**Financial instruments carried at fair value.**  
Cash and cash equivalents, gold and investment

securities available for sale are carried on the balance sheet at their fair value. The fair value of certain investment securities available for sale were determined by Management using discounted cash flows.

**Due from banks and other financial institutions.** The fair value of floating rate placements is their carrying amount. The estimated fair value of fixed interest bearing placement is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and remaining maturity. Management has estimated that as at 31 December 2002 and as at 31 December 2001 the fair value of due from banks and other financial institutions was not materially different from respective carrying value. This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions and, therefore, a majority of balances

carry interest at rates approximating market interest rates.

**Financial liabilities.** The fair value of currency in circulation and correspondent accounts of credit institutions is assumed to be the carrying amount

(nominal amount). As a result of the general market conditions, the National Bank does not believe it is practical to estimate the fair value of these instruments.

For other financial liabilities, Management estimates that fair value approximates the carrying value.

### Note 33 – Cash and Cash Equivalents

	2002	2001
Correspondent accounts and deposits with foreign banks	10 032 017	45 079 928
Current accounts with local banks	152 574	355 474
Cash in foreign currency on hand	218 585	105 091
<b>Total cash and cash equivalents</b>	<b>10 403 176</b>	<b>45 540 493</b>

## Auditors' report

# Pricewaterhouse Coopers

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### PricewaterhouseCoopers

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March 27, 2003

### To the Governing Board of Directors of the National Bank of the Republic of Kazakhstan:

We have audited the accompanying consolidated balance sheet of the National Bank of the Republic of Kazakhstan and its subsidiaries (together – the "National Bank") as at 31 December 2002, and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These consolidated financial statements are the responsibility of the National Bank's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the National Bank as at 31 December 2002 and the consolidated results of its operations and its cash flows for the year then ended in accordance with the accounting policy developed and approved by the National Bank's Governing Board.

**Approved:**

**Bekenov Zh. T.**

**Director**

**PricewaterhouseCoopers LLP (Kazakhstan)**

(General state license of the Ministry of Finance  
No.0000005 dated 21 October 1999;

NBRK license for bank audit No.12 dated 22 July 1998)

**Bekenov N. K.**

**Auditor in charge**

(NBRK license No.18 dated 10 April 1997)