ASSURANCE AND ADVISORY BUSINESS SERVICES

CJSC KAZAKHSTAN MORTGAGE COMPANY

Financial Statements

December 31, 2003 and 2002
with Report of Independent Auditors

ERNST & YOUNG

CONTENTS

ERNST & YOUNG

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Independent Auditors' Report

To the Management Board and Shareholder
CJSC Kazakhstan Mortgage Company

We have audited the accompanying balance sheet of CJSC Kazakhstan Mortgage Company (the "Company") as of December 31, 2003, and the related statements of income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Kazakhstan

January 30, 2004

BALANCE SHEETS
December 31, 2003 and 2002

thousands of Kazakh Tenge	Notes	2003	2002
Assets			
Cash and cash equivalents	4	121	587
Loans to customers	5	8,178,255	1,025,562
Investment securities:			
Available-for-sale securities	6	1,858,689	–
Held-to-maturity securities	6	–	987,277
Due from another financial institution	7	–	100,975
Intangible assets	8	19,182	1,357
Equipment	9	11,100	11,117
Other assets		1,064	7,965
Total assets		10,068,411	2,134,840
Liabilities			
Debt securities issued	10	7,269,364	510,572
Other liabilities		39,567	7,565
Total liabilities		7,308,931	518,137
Shareholder's equity			
Share capital	11	2,500,000	1,500,000
Retained earnings		259,480	116,703
Total shareholder's equity		2,759,480	1,616,703
Total liabilities and shareholder's equity		10,068,411	2,134,840

Signed and authorized for release on behalf of the Board of the Company

Sagindykova M.O. Chairwoman of the Board

Absattarova R.K. Chief Accountant

January 30, 2004

The accompanying notes are an integral part of these financial statements.

INCOME STATEMENTS
For the years ended December 31, 2003 and 2002

thousands of Kazakh Tenge	Notes	2003	2002
Interest income			
Loans to customers		329,243	50,522
Securities		85,466	109,439
		414,709	159,961
Interest expense			
Debt securities issued		(162,833)	(7,836)
		(162,833)	(7,836)
Net interest income		251,876	152,125
Other operating income		8,503	3,051
Salaries and employment benefits	12	(77,270)	(42,269)
General and administrative expenses	13	(29,717)	(35,382)
Taxes other than income tax		(4,147)	(6,374)
Fees and commissions expenses		(3,831)	(2,560)
Depreciation and amortization		(2,637)	(1,888)
		(117,602)	(88,473)
Income before taxation		142,777	66,703
Taxation	14	–	–
Net income		142,777	66,703

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
For the years ended December 31, 2003 and 2002

thousands of Kazakh Tenge	Note	Share Capital	Retained Earnings	Total Shareholder's Equity
At January 1, 2002		1,000,000	55,450	1,055,450
Share capital contribution	11	500,000	–	500,000
Dividends paid	11	–	(5,450)	(5,450)
Net income		–	66,703	66,703
At December 31, 2002		**1,500,000**	**116,703**	**1,616,703**
Share capital contribution	11	**1,000,000**	–	**1,000,000**
Net income		–	**142,777**	**142,777**
At December 31, 2003		**2,500,000**	**259,480**	**2,759,480**

The accompanying notes are an integral part of these financial statements.

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STATEMENTS OF CASH FLOWS
For the years ended December 31, 2003 and 2002

thousands of Kazakh Tenge	2003	2002
Cash flows from operating activities		
Income before income tax	**142,777**	66,703
Adjustments for:		
Accrued interest income on securities	**(31,912)**	(31,935)
Depreciation and amortization	**2,637**	1,888
Operating income before changes in working capital	**113,502**	36,656
Increase in loans to customers	**(7,152,693)**	(964,601)
Decrease (increase) in other assets	**6,901**	(4,139)
Increase other liabilities	**32,002**	6,147
Cash used in operations	**(7,000,288)**	(925,937)
Interest paid	**(74,489)**	(221)
Net cash used in operating activities	**(7,074,777)**	(926,158)
Cash flows from investing activities		
Purchase of investment securities	**(3,340,096)**	(612,797)
Proceeds from investment securities	**2,407,217**	520,146
Interest received	**93,379**	118,769
Purchase of equipment	**(2,497)**	(4,709)
Proceeds from sale of equipment	**111**	713
Purchase of intangible assets	**(18,059)**	–
Loans granted	**100,975**	(100,975)
Net cash used in investing activities	**(758,970)**	(78,853)
Cash flows from financing activities		
Share capital contribution	**1,000,000**	500,000
Debt securities issued	**6,833,281**	510,793
Dividends paid	**–**	(5,450)
Net cash provided by financing activities	**7,833,281**	1,005,343
(Decrease) increase in cash and cash equivalents	**(466)**	332
Cash and cash equivalents at the beginning of the year	**587**	255
Cash and cash equivalents at the end of the year	**121**	587

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the years ended December 31, 2003 and 2002

(in thousands of Kazakh Tenge, unless otherwise stated)

1. DESCRIPTION OF BUSINESS

CJSC Kazakhstan Mortgage Company (the "Company") was established on December 29, 2000, as a closed joint stock company under the laws of the Republic of Kazakhstan in accordance with resolution number 469 of the National Bank of Kazakhstan ("NBK") dated December 20, 2000. The Company possesses a license from the NBK granted on September 23, 2002 to conduct lending, factoring and issue of securities.

The principal activities of the Company are the purchase of mortgage loans from banks and credit organizations and issue of mortgage backed securities in the Republic of Kazakhstan.

The Company' address is Microregion Koktem 3, Almaty, Kazakhstan. As of December 31, 2003 and 2002, the Company had 18 and 13 employees, respectively. As of December 31, 2003 and 2002, the sole shareholder of the Company was NBK (the "Shareholder").

2. BASIS OF PREPARATION

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Aceounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Kazakhstani Tenge ("KZT" or "Tenge"), unless otherwise indicated. The Tenge is utilized as the majority of the Company's transactions are denominated, measured, or funded in Kazakh Tenge. Transactions in other currencies are treated as transactions in foreign currencies.

In 2002, the Company maintained its records and prepared its financial statements for regulatory purposes in accordance with Kazakhstani accounting and banking legislation and related instructions (KAS). The financial statements for 2002 were based on the Company's statutory books and records, as adjusted and reclassified in order to comply with IFRS. Starting from January 1, 2003, the Company maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS.

The financial statements are prepared under the historical cost convention modified for the measurement at fair value of available-for-sale securities as required by IFRS 39 "Financial Instruments: Recognition and Measurement".

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recognition of Financial Instruments

The Company recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of Financial Instruments (continued)

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and Cash Equivalents

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

Investment Securities

The Company classifies its investment securities into two categories:

- Securities with fixed maturities and fixed or determinable payments that Management has both the positive intent and the ability to hold to maturity are classified as held-to-maturity; and
- Securities that are not classified by the Company as held-to-maturity or trading are included in the available-for-sale portfolio.

The Company classifies investment securities depending upon the intent of management at the time of the purchase. Investment securities are initially recognized in accordance with the policy stated above and subsequently re-measured using the following policies:

1. Held-to-maturity investment securities – at amortized cost using the effective interest method. Allowance for impairment is estimated on a case-by-case basis.
2. Available-for-sale securities are subsequently measured at fair value, which is equal to the market value as at each balance sheet date.

Gains and losses arising from changes in the fair value of available-for-sale securities are recognized in the statements of income within other operating income. When the securities are disposed of or impaired, the related accumulated fair value adjustment is included in the income statements within other operating income.

Loans to Customers

Loans purchased by the Company from major banks and credit organizations in Kazakhstan, are intended to be held, and the Company has the ability to hold them, to maturity. These loans are classified as held to maturity and are initially recognized in accordance with the recognition of financial instruments policy. Third party expenses, such as legal fees, incurred on acquiring a loan are treated as part of the cost of the transaction.

Loans to customers are subsequently measured at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment.

Equipment

Equipment is recorded at historical cost less accumulated depreciation. Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of an asset. The estimated useful lives of the assets are as follows:

	Years
Office equipment	10
Fixtures and fittings	10
Computers	3
Vehicles	7

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible Assets

Intangible assets comprise software costs and are recorded at historical cost less accumulated amortization. Amortization is provided to write off the cost or valuation on a straight-line basis over the estimated useful economic life of the asset. The economic live for software is six years.

Allowances for Impairment of Financial Assets

The Company establishes allowances for impairment of financial assets when it is probable that the Company will not be able to collect the principal and interest according to the contractual terms of the related loans and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument.

The allowances are based on the Company's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowance for impairment of financial assets is determined on the basis of existing economic and political conditions. The Company is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the income statement.

Debt Securities Issued

Debt securities issued represent bonds issued by the Company and are initially recognized in accordance with the recognition of financial instruments policy. Subsequently, debt securities issued are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. If the Company purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized in net interest income.

Operating Leases

The Company enters into operating lease agreements as a lessee. The total payments under operating leases are charged to general and administrative expenses on a straight-line basis over the period of the lease.

Income and Expense Recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Commissions and other income are recognized when the related transaction is completed.

The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Non-interest expenses are recognized at the time the transaction occurs.

Income Taxes

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

Deferred income taxes are accounted for under the balance sheet liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Kazakhstan also has various operating taxes, which are assessed on the Company's activities. These taxes are included as a component of administrative and operating expenses in the statements of income.

Trust Activities

In the normal course of business the Company conducts its securities operations through a trust arrangement with NBK. Commissions paid for such services are shown as part of fees and commissions paid in the income statements.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Retirement and Other Benefit Obligations

The Company does not have any pension arrangements separate from the State pension system of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share Capital

Share capital is recognized at the fair value of consideration received.

Dividends on ordinary shares are recognized as a reduction in shareholder's equity in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Related Parties

Related parties include the management of the Company and the Company's shareholder.

4. CASH AND CASH EQUIVALENTS

At December 31, 2003 and 2002, cash and cash equivalents consisted of a current account held with NBK.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. LOANS TO CUSTOMERS

Loans to customers carry interest at rates ranging from 3.0% to 7.0% plus inflation index (2002: from 7.0% to 8.6% plus inflation index). The inflation index published by the Statistics Agency of the Republic of Kazakhstan as of December 31, 2003 was 6.8% (2002: 6.6%).

The Company intends and has the ability to hold all loans to maturity. The Company's loans comprise only KZT denominated housing mortgage loans that have been purchased from prime Kazakh banks and are due from individuals based in Kazakhstan. All loans are secured by real estate collateral and bank guarantees. Loans are guaranteed by the issuing banks, who are obliged to take over any loan in the event of default by the borrower. Consequently, no allowance for losses was deemed necessary for the loan portfolio.

At December 31, 2003 and 2002, no loans were placed on non-accrual status.

At December 31, 2003, and 2002, the 10 largest customers accounted for 2% (KZT 195,986 thousand) and 13% (KZT 132,588 thousand) of the total loan portfolio and represented 7% and 8% of net shareholder's equity, respectively.

6. INVESTMENT SECURITIES

The Company's available-for-sale securities as of December 31, comprised the following:

	2003	2002
Treasury bills of the Ministry of Finance	526,802	–
NBK notes	1,331,887	–
	1,858,689	–

The Company's held-to-maturity securities as of December 31, comprised the following:

	2003	2002
Treasury bills of the Ministry of Finance	–	675,801
NBK notes	–	311,476
	–	987,277

The treasury bills of the Ministry of Finance ("Treasury bills") are KZT denominated treasury bills issued and guaranteed by the Ministry of Finance of the Republic of Kazakhstan. These Treasury bills are purchased at face value, have medium to long-term maturity periods and coupon rates ranging between 6% and 16% (2002: between 8% and 16%), depending on the type of bond issue. The NBK notes have short-term maturity periods and carry no interest and were issued at discounts ranging form 4.00% to 4.96%.

7. DUE FROM ANOTHER FINANCIAL INSTITUTION

As of December 31, 2002, due from another financial institution consisted of a balance due from BTA Ipoteka that carried 13.5% per annum and was repaid in 2003.

8. INTANGIBLE ASSETS

The movements on the Company's intangible assets during the year were as follows:

	Software
Cost:	
December 31, 2002	**1,491**
Additions	**18,059**
December 31, 2003	**19,550**
Accumulated amortization:	
December 31, 2002	**(134)**
Charge for the year	**(234)**
December 31, 2003	**(368)**
Net book value:	
December 31, 2003	**19,182**
December 31, 2002	**1,357**

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. EQUIPMENT

The movements on the Company's equipment during the year were as follows:

	Computers	Vehicles	Other	Total
Cost:				
December 31, 2002	**5,114**	**3,844**	**4,635**	**13,593**
Additions	1,827	–	670	2,497
Disposals	(114)	–	–	(114)
December 31, 2003	**6,827**	**3,844**	**5,305**	**15,976**
Accumulated depreciation:				
December 31, 2002	(1,358)	(493)	(625)	(2,476)
Charge for the year	(1,667)	(269)	(467)	(2,403)
Disposals	3	–	–	3
December 31, 2003	(3,022)	(762)	(1,092)	(4,876)
Net book value:				
December 31, 2003	**3,805**	**3,082**	**4,213**	**11,100**
December 31, 2002	**3,756**	**3,351**	**4,010**	**11,117**

10. DEBT SECURITIES ISSUED

Debt securities issued as of December 31, comprised the following:

	2003	2002
Kazakh bonds – 1st issue	**1,016,221**	510,572
Kazakh bonds – 2nd issue	**3,068,609**	–
Kazakh bonds – 3rd issue	**3,184,534**	–
	7,269,364	510,572

In June and July of 2003, the Company placed additional Kazakh bonds of the first issue amounting to KZT 500,000,000 that were issued in 2002. They mature in 2005, and bear interest at 4.75% per annum plus inflation based index revised semiannually in November and May of each year.

In August of 2003, the Company issued and placed its second issue of Kazakh bonds amounting to KZT 3,000,000,000. They mature in 2013, and bear interest at 1.8% per annum plus inflation based index revised semiannually in October and April of each year.

In December of 2003, the Company issued its third issue of Kazakh bonds amounting to KZT 5,000,000,000 and placed KZT 3,165,000,000 of that issue. They mature in 2013, and bear interest at 1.0% per annum plus inflation based index revised semiannually in October and April of each year.

Interest rates on the issued debt securities are floating based on the inflation index published by the Statistics Agency of the Republic of Kazakhstan for the prior 12 months.

These securities are obligations secured by a pledge over the Company's assets and have payment priority over other creditors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. SHAREHOLDER'S EQUITY

Authorized, issued and fully paid share capital at December 31, 2003 and 2002, consisted of 250,000 and 150,000 KZT denominated common shares, respectively, with nominal value KZT 10,000 each.

During 2003, the Company issued 100,000 common shares at nominal value (2002: 50,000 common shares) and recognized the newly issued share capital in these financial statements at the amount received, KZT 1,000,000 thousand (2002: KZT 500,000 thousand).

During 2003, the Company has not declared and paid any dividends to the Shareholder (2002: KZT 5,450 thousand, which constitute KZT 54.5 per share).

12. SALARIES AND EMPLOYMENT BENEFITS

Salaries and employment benefits for the years ended December 31 comprised:

	2003	2002
Salaries and bonuses	**65,302**	36,260
Retirement and other benefit obligations	**11,968**	6,009
	77,270	42,269

13. ADMINISTRATIVE EXPENSES

Administrative expenses for the years ended December 31 comprised:

	2003	2002
Advertising	**14,374**	12,505
Professional fees	**3,701**	6,575
Office expenses	**3,108**	1,194
Telecommunication	**1,527**	1,196
Rent	**1,476**	1,019
Other	**5,531**	12,893
	29,717	35,382

14. INCOME TAXES

The Republic of Kazakhstan was the only tax jurisdiction in which the Company's income is taxed. The Company had no current or deferred income tax liability at December 31, 2003 and 2002. The Company incurred no income tax expense during 2003 and 2002.

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

	2003	2002
Income tax computed at the statutory tax rate	**42,833**	20,011
Non-deductible expenses	**53**	90
Non-taxable income:		
Interest income on state securities	**(33,064)**	(32,832)
Interest income on mortgage loans	**(89,664)**	(15,132)
Tax effect of temporary differences not recognized	**79,842**	27,863
Provision for income taxes	**–**	–

14. INCOME TAXES (continued)

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

	2003	2002
Deferred tax assets:		
Tax loss carried forward	124,202	42,888
Equipment	(1,573)	(101)
Total deferred taxes	122,629	42,787
Deferred tax assets not recognized	(122,629)	(42,787)
	–	–

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

15. COMMITMENTS AND CONTINGENCIES

The Kazakhstani economy, while deemed to be of market status beginning in October 2001, continues to display certain characteristics consistent with that of a market in transition. These attributes have in the past included higher than normal historic inflation, lack of liquidity in capital markets, and the existence of currency controls that cause the national currency to be illiquid outside of Kazakhstan. The continued success and stability of the Kazakhstani economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The Company could be affected, for the foreseeable future, by these risks and their consequences. As a result, there are significant uncertainties that may affect future operations, the recoverability of the Company's assets, and the ability of the Company to maintain or pay its debts as they mature.

In the normal course of business, the Company enters into an operating lease agreement of premises for its office. Future minimum payments under non-cancelable operating leases in 2003 and 2002 are KZT 1,476 thousand and KZT 1,019 thousand respectively. The operating lease agreement matures within 12 months.

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

The Company has currently obtained insurance coverage related to equipment and vehicles. Motor insurance is required in accordance with the legislation of the Republic of Kazakhstan. Also the Company has no insurance for liabilities arising from errors or omissions. Errors or omissions insurance is generally not available in Kazakhstan at present.

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. MATURITY ANALYSIS

The maturity of monetary assets and liabilities represents the remaining terms until repayment in accordance with the underlying contractual agreements and terms of issuance of the monetary asset or liability at the respective balance sheet date. In practice, the actual maturity of monetary assets and liabilities may differ from the contractual terms based on both verbal agreements between the parties and addenda to the contracts, which may exist.

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

2003:

Monetary assets:	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	121	–	–	–	–	–	121
Loans to customers	–	–	–	5,502	745,388	7,427,365	8,178,255
Available-for-sale securities	–	–	–	1,858,689	–	–	1,858,689
	121	–	–	1,864,191	745,388	7,427,365	10,037,065
Monetary liabilities:							
Debt securities issued	–	–	–	104,364	1,000,000	6,165,000	7,269,364
Other liabilities	–	–	–	39,567	–	–	39,567
	–	–	–	143,931	1,000,000	6,165,000	7,308,931
Net position	121	–	–	1,720,260	(254,612)	1,262,365	2,728,134
Accumulated gap	121	121	121	1,720,381	1,465,769	2,728,134	

2002:

Monetary assets:	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	587	–	–	–	–	–	587
Loans to customers	–	9,993	–	15,282	251,815	748,472	1,025,562
Held-to-maturity securities	–	–	–	987,277	–	–	987,277
Due from another financial institution	–	–	100,975	–	–	–	100,975
	587	9,993	100,975	1,002,559	251,815	748,472	2,114,401
Monetary liabilities:							
Debt securities issued	–	–	–	10,572	500,000	–	510,572
Other liabilities	–	–	–	7,565	–	–	7,565
	–	–	–	18,137	500,000	–	518,137
Net position	587	9,993	100,975	984,422	(248,185)	748,472	1,596,264
Accumulated gap	587	10,580	111,555	1,095,977	847,792	1,596,264	

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. RISK MANAGEMENT POLICIES

Credit Risk

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Exposure to credit risk is primarily managed in part by obtaining collateral and bank guarantees.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers, potential borrowers and guarantors to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Market Risk

The Company takes on exposure to market risks. Market risks arise from open positions in interest rate products, which are exposed to general and specific market movements. The Company manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. The Company manages this risk by using floating interest rates based on the inflation index published by the Statistics Agency of the Republic of Kazakhstan for its assets and liabilities.

As of December 31, the effective average interest rates for interest generating/ bearing monetary financial instruments were as follows:

	2003	2002
	KZT	*KZT*
Assets:		
Loans to customers	**3.0%-7.0%+inflation index**	7.0%-8.6%+inflation index
Investment securities:		
Available-for-sale securities	**6.0%-16.0%**	–
Held-to-maturity securities	**–**	8.0%-16.0%
Liabilities:		
Debt securities issued	**1.0%-4.75%+inflation index**	4.75%+inflation index

The Company monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management have diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Note 16 analyses the assets and liabilities of the Company into relevant maturity groupings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. RISK MANAGEMENT POLICIES (continued)

Fair Values of Financial Assets and Liabilities

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

	2003		2002	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Loans to customers	**8,178,255**	**8,608,428**	1,025,562	1,081,636
Held-to-maturity securities	**–**	**–**	987,277	986,693
Debt securities issued	**7,269,364**	**7,464,306**	510,572	532,266

18. RELATED PARTY TRANSACTIONS

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

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

	2003	2002
Interest income	**788**	3,920
Commission on trust management	**977**	1,726
Administrative expenses	**5,087**	2,955