

JSC Kazakhstan Mortgage Company

**Financial Statements for the year ended
31 December 2004**

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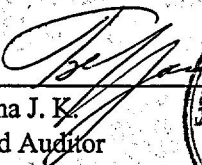
Independent Auditors' Report

To the Management Board and Shareholder of JSC Kazakhstan Mortgage Company

We have audited the accompanying balance sheet of JSC Kazakhstan Mortgage Company (the "Company") as of 31 December 2004 and the related statements of income, cash flows and changes in shareholder's equity 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. The Company's financial statements for the year ended December 31, 2003 were audited by other auditors, whose report, dated January 30, 2004 expressed an unqualified opinion on those financial statements.

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 presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

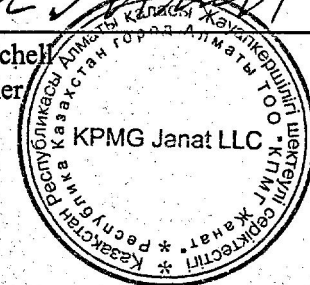
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Berdalina J. K.
Certified Auditor



Managing partner
KPMG Janat LLC
License #6 dated 1 November 1996
to conduct banking audits


Wilson Mitchell
Audit Partner



31 January 2005

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JSC Kazakhstan Mortgage Company
Balance Sheet as of 31 December 2004

ASSETS	Notes	2004 KZT'000	2003 KZT'000
Cash	6	519	121
Loans to customers	7	26,298,757	8,178,255
Available-for-sale securities	8	3,022,575	1,858,689
Equipment	9	29,320	11,100
Intangible assets	10	39,066	19,182
Other assets		2,733	1,064
Total assets		<u>29,392,970</u>	<u>10,068,411</u>
LIABILITIES AND SHAREHOLDER'S EQUITY			
Debt securities issued	11	26,216,954	7,269,364
Other liabilities	12	62,731	39,567
Total liabilities		<u>26,279,685</u>	<u>7,308,931</u>
Shareholder's equity			
Share capital	13	2,500,000	2,500,000
Retained earnings		613,285	259,480
Total shareholder's equity		<u>3,113,285</u>	<u>2,759,480</u>
Total liabilities and shareholder's equity		<u>29,392,970</u>	<u>10,068,411</u>

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

Chairwoman of the Board



M.O.

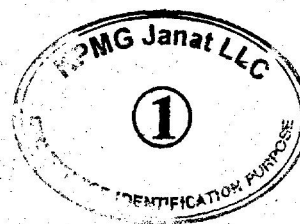
Sagindykova M.O.

Chief Accountant

R.K.

Absattarova R.K.

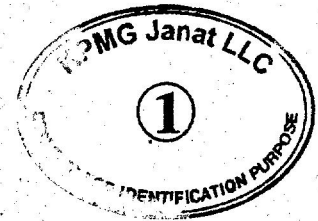
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The balance sheet is to be read in conjunction with the notes set out on pages 5 to 18 to, and forming part of, the financial statements.

JSC Kazakhstan Mortgage Company
Income Statement for the year ended 31 December 2004

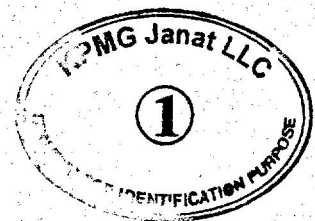
	Notes	2004 KZT'000	2003 KZT'000
Interest income			
Loans to customers		1,719,941	329,243
Securities		<u>145,067</u>	<u>85,466</u>
		1,865,008	414,709
Interest expense			
Debt securities issued		<u>(1,266,602)</u>	<u>(162,833)</u>
Net interest income		598,406	251,876
Gain from revaluation of available-for-sale securities		45,540	8,507
Loss from revaluation of available-for-sale securities		<u>(36,746)</u>	<u>(617)</u>
Net gain from revaluation of securities		8,794	7,890
Other income		<u>21</u>	<u>613</u>
Operating income		607,221	260,379
General and administrative expenses	4	(247,716)	(113,771)
Fee and commission expense		<u>(5,700)</u>	<u>(3,831)</u>
Operating expenses		(253,416)	(117,602)
Income before taxes		353,805	142,777
Income tax expense	5	-	-
Net income		<u>353,805</u>	<u>142,777</u>



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JSC Kazakhstan Mortgage Company
Statement of Cash Flows
for the year ended 31 December 2004

	Note	2004 KZT'000	2003 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		353,805	142,777
Adjustments for non-cash items:			
Net gain from revaluation of available-for-sale securities		(8,794)	(7,890)
Depreciation and amortization		13,370	2,637
Loss on disposal of equipment		333	111
Operating income before changes in operating assets		358,714	137,635
Increase in loans to customers		(17,956,035)	(7,000,070)
Increase in accrued interest receivable on loans to customers		(164,467)	(50,672)
(Increase)/decrease in accrued interest receivable on available-for-sale securities		(11,799)	11,179
Increase in debt securities issued		18,438,600	6,665,000
Increase in accrued interest payable on debt securities issued		508,990	96,749
(Increase)/decrease in other assets		(1,669)	6,901
Increase in other liabilities		23,164	32,002
Cash flows from (used in) operating activities		1,195,498	(101,276)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of available-for-sale securities		(5,241,614)	(5,173,359)
Proceeds from sale of available-for-sale securities		4,098,321	4,294,725
Purchase of equipment		(24,664)	(2,497)
Purchase of intangible assets		(27,143)	(18,059)
Cash flows used in investing activities		(1,195,100)	(899,190)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of share capital		-	1,000,000
Cash flows from financing activities		-	1,000,000
Net increase/(decrease) in cash		398	(466)
Cash at the beginning of the year		121	587
Cash at the end of the year	6	519	121

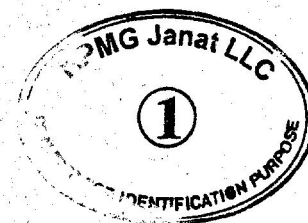


The statement of cash flows is to be read in conjunction with the notes set out on pages 5 to 18 to, and forming part of, the financial statements.

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*JSC Kazakhstan Mortgage Company
Statement of Changes in Shareholder's equity
for the year ended 31 December 2004*

	Share Capital	Retained earnings	Total
	KZT'000	KZT'000	KZT'000
Balance at 1 January 2003	1,500,000	116,703	1,616,703
Net income for the year	-	142,777	142,777
Shares issued	1,000,000	-	1,000,000
Balance at 31 December 2003	2,500,000	259,480	2,759,480
Net income for the year	-	353,805	353,805
Balance at 31 December 2004	2,500,000	613,285	3,113,285



The statement of changes in equity is to be read in conjunction with the notes set out on pages 5 to 18 to, and forming part of, the financial statements.

1 Background

a) Principal activities

JSC "Kazakhstan Mortgage Company" (the "Company") was established on December 29, 2000 in accordance with the laws of the Republic of Kazakhstan on the basis of the Resolution #469 of the Board of the National Bank of Kazakhstan ("NBK") dated December 20, 2000. Due to a change in legislation introduced in 2003, the Company was reregistered as a joint stock company on April 13, 2004. The Company operates under a license issued by the Agency of the Republic of Kazakhstan on regulation and supervision of financial markets and financial organizations dated April 27, 2004 to conduct banking operations in the national currency, in particular, lending operations such as granting credits in terms of money on the interest, fixed term and repayment basis, issuing its own securities (except of shares) and factoring. The principal activities of the Company are the purchase of mortgage loans from banks and credit institutions and the issue of mortgage backed securities in the Republic of Kazakhstan.

The Company's legal address is Panfilova Street, 98, Almaty, Kazakhstan.

The number of persons employed by the Company as of December 31, 2004 was 86 (2003: 18).

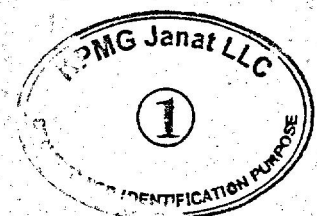
The sole shareholder of the Company is the NBK, which on 29 November 2004 transferred all shares of the Company to the trust management of the Ministry of Finance of the Republic of Kazakhstan under the Agreement #432 On the Transfer of the Shares of the Joint Stock Company "Kazakhstan Mortgage Company" to the Trust Management, that includes the right to represent the interests of the shareholder at the general shareholder's meeting on the matters which are within the competence of the general shareholder's meeting under Kazakhstan legislation and the Charter of the Company.

b) Kazakhstan business environment

The economic environment of Kazakhstan has been assessed in 2004 by international rating agencies. Standard & Poor's decreased the long-term currency rating to BBB- and the long-term rating of borrowings in the national currency was rated at BBB. Moody's Investors Service maintained the rating of long-term debentures of Kazakhstan in foreign currency at Baa3 and the promissory notes of Kazakhstan in the national currency at Ba1. Fitch decreased the rating of the long-term borrowings in foreign currency to BBB- and increased the rating of the long-term borrowings in the national currency to BBB.

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

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



2 Basis of preparation

a) Statement of compliance

The financial statements are prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretations Committee of the IASB.

b) Basis of measurement

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".

c) Functional and Presentation Currency

The national currency of the Republic of Kazakhstan is the Kazakhstan Tenge ("KZT"), which is the Company's functional currency as it reflects the economic substance of the underlying events and operations of the Company. The KZT is also the Company's presentation currency for the purposes preparation of these financial statements. The financial statements are presented in KZT, rounded to the nearest thousand KZT, unless otherwise indicated.

d) Convertibility of the Kazakhstan Tenge

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

e) Going concern

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

f) Estimates

The presentation 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 Significant accounting policies

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

a) **Cash**

Cash comprises current accounts with NBK.

b) **Financial instruments**

(i) *Classification*

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

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Company has the intent and ability to hold to maturity. These instruments include investments in debt instruments.

Loans to customers are mortgage 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 transactions.

Available-for-sale assets are financial assets that are not held to maturity or for trading purposes.

(ii) *Recognition*

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

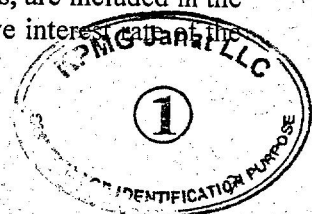
Held-to-maturity assets are recognized on the day they are transferred to or originated by the Company.

(iii) *Measurement*

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

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

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



(iv) **Gains and losses on subsequent measurement**

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

(v) **Derecognition**

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

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

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

(vi) **Offsetting**

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

c) **Equipment**

(i) **Owned assets**

Items of equipment are stated at cost less accumulated depreciation and impairment losses.

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

(ii) **Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition. The estimated useful lives are as follows:

Computer equipment	3 years
Vehicles	7 years
Office equipment	7 years
Other	5-10 years

d) **Intangible assets**

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortization and impairment losses. These assets are being amortized over three years.

e) **Impairment**

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



i) Calculation of recoverable amount

The recoverable amount of the Company's investments available-for-sale is their fair value.

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

ii) Reversals of impairment

An impairment loss in respect of other assets is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

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

f) 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 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 the income statement.

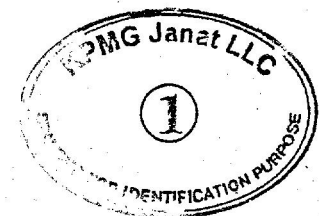
g) Dividends

The ability of the Company to declare and pay dividends is subject to the Kazakhstan legislation and rules and regulations of the NBK.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings as and when 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.

h) 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 statement.



i) Taxation

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, branches and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

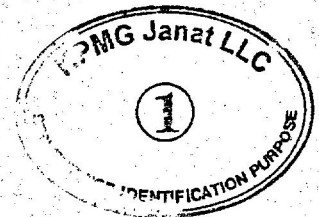
A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related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

j) Interest income and expense

Interest income and expense are recognized in the income statement as they accrue, taking into account the effective yield of the asset/liability or an applicable floating rate. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

k) Commission expense

Commission expense is recognized when the corresponding service is provided.



4 General and administrative expenses

	2004 KZT'000	2003 KZT'000
Employee compensation	138,610	65,302
Professional services	21,219	3,701
Payroll related taxes	15,819	11,968
Depreciation and amortization	13,370	2,637
Advertising and marketing	12,151	14,374
Office supplies	9,066	3,108
Travel	8,609	4,622
Taxes other than on income	7,027	4,147
Communication	6,761	1,527
Occupancy	3,622	1,476
Other	11,462	909
	<u>247,716</u>	<u>113,771</u>

5 Income tax expense

Interest earned on the mortgage loans issued to individuals for more than three years can be excluded from the Company's taxable income under the Law of 1995 *On Taxes and Other Mandatory Payments to the Budget*. This privilege is valid till 2006. If the combination of excluded income plus deductible expenses creates an operating loss, the loss can not be carried forward to future years.

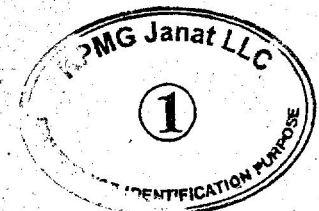
The Company's applicable tax rate for current and deferred tax is 30% (2003 : 30%).

Reconciliation of effective tax rate:

	2004 KZT'000	%	2003 KZT'000	%
Income before tax	<u>353,805</u>	100%	<u>142,777</u>	100%
Income tax using the applicable tax rate	106,142	30%	42,833	30%
Non-taxable items	<u>(106,142)</u>		<u>(42,833)</u>	
	-	-	-	-

6 Cash

At 31 December 2004 and 2003, cash consisted of a current account held with NBK.



7 Loans to customers

Loans to customers comprise loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan. The loans comprise only KZT denominated mortgage loans due from individuals, residents of the Republic of Kazakhstan. All loans are secured by real estate collateral. Loans are guaranteed by the issuing banks, who are obliged to take over any loan in the event of default by the borrower. Therefore, no allowance for loan losses is provided for the loan portfolio.

Loans to customers carry interest at rates ranging from 2.5% to 3.2% plus an inflation index (2003: 3.0% to 7.0% plus an inflation index). The inflation index published by the Statistics Agency of the Republic of Kazakhstan as of 31 December 2004 was 6.7% (2003: 6.8%).

At 31 December 2004 and 2003, no loans were placed on non-accrual basis.

At 31 December 2004 the 10 largest customers accounted for 1% (KZT 253,366 thousand) of the total loan portfolio and 8% of shareholder's equity.

At 31 December 2004 loans to customers include loans purchased from Astana Finance JSC under the pilot project amounting to KZT 13,727 thousand (2003: 19,377 KZT thousand) (Note 12).

At 31 December 2004 and 2003, all the loans to customers were pledged as collateral for debt securities issued (Note 11).

The maturity of the Company's loan portfolio is presented in note 19, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

8 Available for sale securities

Debt instruments – listed

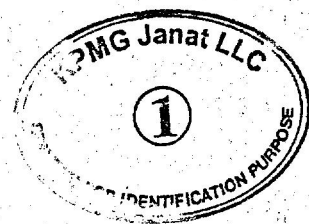
Treasury bills of the Ministry of Finance
Notes of the National Bank of the Republic of Kazakhstan

2004 KZT'000	2003 KZT'000
1,940,454	526,802
1,082,121	1,331,887
<u>3,022,575</u>	<u>1,858,689</u>

The treasury bills of the Ministry of Finance are KZT denominated treasury bills and guaranteed by the Ministry of Finance of the Republic of Kazakhstan. These treasury bills were purchased at face value, have medium and long-term maturity periods and coupon rates ranging between 5.6% to 8.2% (2003: 6.0% to 16.0%) depending on the type of bond issue.

The Notes of the National Bank of the Republic of Kazakhstan notes have short-term maturity periods and carry no interest and were issued at discounts ranging from 3.57% to 5.10% (2003: 4.00% to 4.96%).

At 31 December 2004 treasury bills of the Ministry of Finance of the Republic of Kazakhstan at face value KZT 1,000 thousand were pledged as collateral for debt securities issued (Note 11). At 31 December 2003 no securities were pledged.

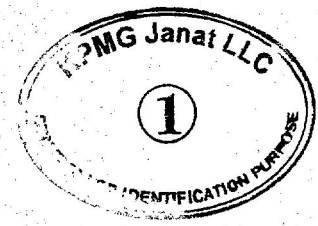


9 Equipment

KZT'000	Computer equipment	Vehicles	Office equipment	Other	Total
Cost					
At 1 January 2004	6,827	3,844	3,287	2,018	15,976
Additions	13,209	3,640	4,501	3,314	24,664
Disposals	(744)	-	(415)	(42)	(1,201)
At 31 December 2004	19,292	7,484	7,373	5,290	39,439
Depreciation					
At 1 January 2004	3,022	762	749	343	4,876
Depreciation charge	2,524	1,345	904	1,338	6,111
Disposals	(727)	-	(109)	(32)	(868)
At 31 December 2004	4,819	2,107	1,544	1,649	10,119
Carrying value					
At 31 December 2004	14,473	5,377	5,829	3,641	29,320
At 31 December 2003	3,805	3,082	2,538	1,675	11,100

10 Intangible assets

KZT'000	Software
Cost	
At 1 January 2004	19,550
Additions	27,143
At 31 December 2004	46,693
Amortisation	
At 1 January 2004	368
Amortisation charge	7,259
At 31 December 2004	7,627
Carrying value	
At 31 December 2004	39,066
At 31 December 2003	19,182



11 Debt securities issued

Debt securities issued as of December 31, 2004 and 2003 comprised KZT denominated mortgage bonds.

Num ber of issue	Placement date	Maturity date	Coupon rate	2004 KZT'000	2003 KZT'000
1	18.11.2002-04.03.2004	11.10.2005	4.75% + floating inflation index	1,544,693	1,016,221
2	08.28.2003-27.11.2003	10.01.2013	1.8% + floating inflation index	2,764,152	3,068,609
3	04.12.2003-25.02.2004	4.01.2014	1.0% + floating inflation index	5,078,330	3,184,534
4	12.03.2004-01.07.2004	4.01.2014	0.5% + floating inflation index	5,105,844	-
5	28.09.2004-09.12.2004	4.01.2009	0.39% + floating inflation index	5,174,051	-
6	15.07.2004-23.09.2004	4.01.2011	0.39% + floating inflation index	5,101,152	-
7	23.12.2004-29.12.2004	10.01.2011	0.1% + floating inflation index	1,448,732	-
				26,216,954	7,269,364

These obligations are secured by the loan agreements with customers and the related real estate supporting these loans, as well as by the available-for-sale securities (Notes 7, 8). The issued debt securities have payment priority over other creditors.

The floating inflation rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

12 Other liabilities

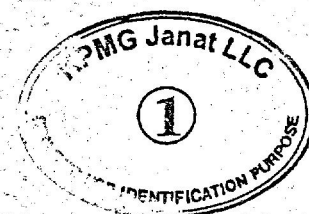
	2004	2003
Employees	34,188	12,877
Due to Astana Finance JSC for loans purchased (Note 7)	13,727	19,377
Professional services	4,347	3,777
Taxes payable	5,407	2,100
Other payables	5,062	1,436
	62,731	39,567

13 Share capital

At 31 December 2004 and 2003 the authorised, issued and paid share capital comprised of 250,000 KZT denominated ordinary shares with a par value of KZT 10,000.

During 2003 the Company issued 100,000 ordinary shares at nominal value and recognized the newly issued share capital in these financial statements at the amount of KZT 1,000,000 thousand.

The holders of ordinary shares are entitled to receive dividends as declared. During 2004 and 2003 no dividends were declared and paid to the shareholder.



14 Risk management

Risk management is an essential element of the Company's operations. The major risks faced by the Company are those related to credit exposures, liquidity and movements in interest rates. These risks are managed in the following manner:

Credit risk

Credit risk is the risk of default by a borrower or counterparty on their obligation to the Company. It arises principally from lending, treasury and leasing activities.

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 regular basis and subject to an annual or more frequent review. Exposure to credit risk is primarily managed in part by obtaining collateral.

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

Interest rate risk

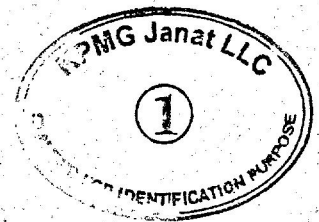
Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest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

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 the Company's assets and liabilities. See Note 18 "Average effective interest rates".

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

Note 19 "Maturity analysis" to these financial statements analyses the assets and liabilities into relevant maturity groupings.



15 Commitments and contingencies

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available in Kazakhstan. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to Company operations.

Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

Legal

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.

Taxation contingencies

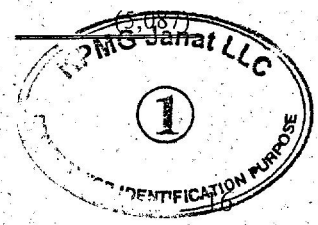
The taxation system in Kazakhstan is relatively new and is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are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

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

16 Related party transactions

Related parties are entities controlled by NBK, the sole shareholder of the Company. Amounts included in the income statement in relation to transactions with related parties are as follows:

	2004 KZT'000	2003 KZT'000
<i>National Bank of Kazakhstan</i>		
Interest income on available-for-sale securities	66,180	788
Gain from revaluation of available-for-sale securities	13,266	-
Fee and commission expense	(1,050)	(977)
<i>Subsidiaries of the National Bank of Kazakhstan</i>		
General and administrative expenses	(45,268)	
Fee and commission expense	(417)	



At 31 December related party balances consist of the following:

	<u>2004</u> <u>KZT'000</u>	<u>2003</u> <u>KZT'000</u>
Due to the National Bank of Kazakhstan	596	-
Due to subsidiaries of the National Bank of Kazakhstan	3,384	-
Treasury bills of the Ministry of Finance	1,940,454	526,802
Notes of the National Bank of the Republic of Kazakhstan	<u>1,082,121</u>	<u>1,331,887</u>

17 Fair value of financial instruments

The Company estimates the fair value of its financial assets at 31 December as follows:

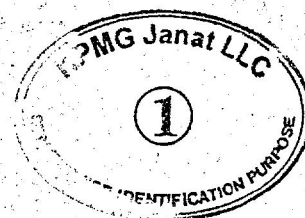
	2004		2003	
	Book value	Fair value	Book value	Fair value
Available-for-sale securities	3,022,575	3,022,575	1,858,689	1,858,689
Loans to customers	26,298,757	27,165,822	8,178,255	8,608,428
Debt securities issued	26,216,954	25,631,675	7,269,364	7,464,306

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

18 Average effective interest rates

The table below displays the Company's interest bearing assets and liabilities at 31 December 2004 and 2003 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2004		2003	
	Value KZT'000	Average effective interest rate %	Value KZT'000	Average effective interest rate %
<i>Available-for-sale securities</i>				
- KZT	3,022,575	5.38%	1,858,689	7.24%
<i>Loans to customers</i>				
- KZT	26,298,757	14.52%	8,178,255	13.85%
<i>Debt securities issued</i>				
- KZT	26,216,954	7.17%	7,269,364	8.49%



19 Maturity analysis

The following table shows Company's financial assets and liabilities by remaining contractual maturity dates as at 31 December 2004.

	Less than 1 month	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Assets					
Cash and cash equivalents	519	-	-	-	519
Loans to customers	226,108	-	1,375,598	24,697,051	26,298,757
Investment securities available-for-sale	-	1,134,493	12,000	1,876,082	3,022,575
Other assets	1,293	-	-	-	1,293
Total assets	227,920	1,134,493	1,387,598	26,573,133	29,323,144
Liabilities					
Debt securities issued	-	527,868	1,500,000	24,189,086	26,216,954
Other liabilities	62,731	-	-	-	62,731
Total liabilities	62,731	527,868	1,500,000	24,189,086	26,279,685
Net position as at 31 December 2004	165,189	606,625	(112,402)	2,384,047	3,043,459
Net position as at 31 December 2003	-	1,720,260	(254,612)	1,262,365	2,728,134

