JSC Kazakhstan Mortgage Company

Financial Statements for the year ended 31 December 2005

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KPMG

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Independent Auditors' Report

To the Shareholder of JSC Kazakhstan Mortgage Company

We have audited the accompanying balance sheet of JSC Kazakhstan Mortgage Company (the "Company") as at 31 December 2005 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 present fairly, in all material respects, the financial position of the Company as at 31 December 2005, 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
Licence #6 dated 1 November 1996
to conduct banking audits

20 March 2006

Wilson Mitchell
Audit Partner

KPMG Janat LLC

	Notes	2005 KZT'000	2004 KZT'000
Interest income			
Loans to customers		3,244,604	1,688,199
Investment securities at fair value through profit or loss		128,803	145,067
Bank placements		30,724	-
		3,404,131	1,833,266
Interest expense			
Debt securities issued		(2,141,386)	(1,266,602)
Net interest income		**1,262,745**	**566,664**
Fee and commission income		97,909	31,742
Fee and commission expense		(36,744)	(5,700)
Net fee and commission income		**61,165**	**26,042**
Net gain on investment securities at fair value through profit or loss	4	120,652	8,794
Other income		4	21
Operating income		**1,444,566**	**601,521**
General and administrative expenses	5	(596,481)	(247,716)
Income before income tax expense		**848,085**	**353,805**
Income tax expense	6	-	-
Net income		**848,085**	**353,805**

The financial statements as set out on pages 1 to 24 were approved on 20 March 2006.

Chairman of the Board of Directors — Ibadullayev A.

Chief Accountant — Absattarova R.K.

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

	Notes	2005 KZT'000	2004 KZT'000
ASSETS			
Cash and cash equivalents	7	1,343,306	519
Bank placements	8	1,818,440	-
Loans to customers	9	35,039,138	26,298,757
Investment securities at fair value through profit or loss			
- Unpledged	10	2,105,012	3,022,575
- Pledged under repurchase agreements	10	219,034	-
Intangible assets	11	44,784	39,066
Equipment	12	241,845	29,320
Other assets		8,338	2,733
Total assets		**40,819,897**	**29,392,970**
LIABILITIES AND SHAREHOLDER'S EQUITY			
Debt securities issued	13	30,336,062	26,216,954
Amounts payable under repurchase agreements	14	219,034	-
Other liabilities	15	80,334	62,731
Total liabilities		**30,635,430**	**26,279,685**
Shareholder's equity			
Share capital	16	8,900,000	2,500,000
Retained earnings		1,284,467	613,285
Total shareholder's equity		**10,184,467**	**3,113,285**
Total liabilities and shareholder's equity		**40,819,897**	**29,392,970**

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

	2005 KZT'000	2004 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	848,085	353,805
Adjustments for non-cash items:		
Net gain on investment securities	(120,652)	(8,794)
Depreciation and amortisation	30,134	13,370
Loss on disposal of equipment	17	333
Operating income before changes in working capital	**757,584**	**358,714**
Increase in loans to customers	(8,670,152)	(17,956,035)
Increase in accrued interest receivable on loans to customers	(70,229)	(164,467)
Decrease / (increase) in accrued interest receivable on investment securities	6,749	(11,799)
Increase in debt securities issued	4,193,000	18,438,600
(Decrease) / increase in accrued interest payable on debt securities issued	(73,857)	508,990
Increase in accrued interest on bank placements	(18,440)	-
Increase in other assets	(5,605)	(1,669)
Increase in amounts payable under repurchase agreements	219,034	-
Increase in other liabilities	17,603	23,164
Cash flows from (used in) operating activities	**(3,644,313)**	**1,195,498**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in bank placements	(1,800,000)	-
Purchase of investment securities	(766,976)	(5,241,614)
Proceeds from sale of investment securities	1,579,373	4,098,321
Purchase of equipment	(227,342)	(24,664)
Purchase of intangible assets	(21,052)	(27,143)
Cash flows used in investing activities	**(1,235,997)**	**(1,195,100)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	6,400,000	-
Dividends paid	(176,903)	-
Cash flows from financing activities	**6,223,097**	**-**
Net increase in cash and cash equivalents	**1,342,787**	**398**
Cash and cash equivalents at the beginning of the year	519	121
Cash and cash equivalents at the end of the year	**1,343,306**	**519**

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

	Share capital KZT'000	Retained earnings KZT'000	Total KZT'000
Balance at 1 January 2004	**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**
Net income for the year	-	848,085	848,085
Shares issued	6,400,000	-	6,400,000
Dividends paid	-	(176,903)	(176,903)
Balance at 31 December 2005	**8,900,000**	**1,284,467**	**10,184,467**

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

1 Background

a) Principal activities

JSC "Kazakhstan Mortgage Company" (the "Company") was established on 29 December 2000 in accordance with resolution number 469 of the National Bank of Kazakhstan ("NBK") dated 20 December 2000. The Company operates under a licence issued by the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations (the "FMSA") dated 27 April 2004 for lending in national currency, factoring and issuing its own securities (except shares). The principal activities of the Company are the purchase of mortgage loans from banks and credit institutions and the issue of mortgage backed securities.

The Company's official address is 98 Panfilova Avenue, Almaty, Kazakhstan. The Company has a representative office in Astana.

The number of persons employed by the Company as at 31 December 2005 was 125 (2004: 86).

On 5 March 2005 sole ownership of the Company was transferred from NBK to the Ministry of Finance ("MOF").

b) Kazakhstan business environment

The economic environment of Kazakhstan was assessed in 2004 and 2005 by international rating agencies. In 2005 Standard & Poor's confirmed the long-term foreign currency rating at "BBB-", and the long-term rating of borrowings in the national currency at "BBB"; the short-term ratings of borrowings in the national and foreign currencies were also confirmed at "A-3" (2004: "BBB-", "BBB", and "A-3", respectively). In 2005 Moody's Investors Service rated the long-term debts in foreign currency at "Baa3" and long-term debts in the national currency at "Baa1"(2004: "Baa3" and "Ba1", respectively). In 2005 Fitch rated the long-term borrowings in foreign currency at "BBB" and the long-term borrowings in the national currency at "BBB+" (2004: "BBB-" and "BBB", respectively).

The Company's operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the 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").

The Company maintains its records and prepares its financial statements in accordance with the requirements of the FMSA. The accompanying financial statements differ from financial statements prepared for statutory purposes in Kazakhstan in that they reflect certain adjustments which are appropriate to present the financial position, results of operations, and cash flows of the Company in accordance with IFRS:

	2005 KZT'000	2004 KZT'000
Statutory shareholder's equity at December 31	**10,042,087**	**3,113,285**
Statutory provision for losses	142,380	-
IFRS shareholder's equity at December 31	**10,184,467**	**3,113,285**

During the year ended 31 December 2005 the Company issued three loans to two customers which, unlike other loans to customers, were not guaranteed by the commercial banks. The balance of these loans as at 31 December 2005 was KZT 142,380 thousand. Under the statutory requirements of the FMSA, the Company was required to create a 100% provision for statutory reporting purposes for non-repayment of the loans. However, as the Company expects to recover the outstanding balances through the sale of collateral, the IFRS provision recognition criteria are not met and hence no provision has been made in the IFRS financial statements.

b) Basis of measurement

The financial statements are prepared on the historical cost basis, except that investment securities through profit or loss are stated at fair value.

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. It is also the presentation currency for the purposes preparation of these financial statements. The financial statements have been rounded to the nearest thousand KZT, unless otherwise indicated.

d) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in Note 9 – loan impairment.

3 Significant accounting policies

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

a) Cash and cash equivalents

Cash and cash equivalents comprise cash on current and short-term deposits in NBK with an original term of less than 3 months at the reporting date.

b) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- upon initial recognition, designated by the entity as at fair through the profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell immediately or in the near term, those that the Company upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. Loans to customers are mortgage loans purchased by the Company from major banks and credit organisations in Kazakhstan, are intended to be held, and the Company has the ability to hold them, to maturity. Third party expenses, such as legal fees, incurred on acquiring a loan are treated as part of the cost of the loan.

(ii) Recognition

Financial assets and liabilities are recognised in the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Loans to customers are recognised on the day they are transferred to or originated by the Company.

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition financial assets are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for loans and receivables which are measured at amortised cost using the effective interest method, and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

3 Significant accounting policies, continued

b) Financial instruments, continued

(iv) Fair value measurement principles

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

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

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments at fair value through profit or loss are recognised in the income statement, as net gains or losses on investment securities at fair value through profit or loss.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vi) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or when the Company transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognised separately as assets or liabilities. A financial liability is derecognised when it is extinguished.

(vii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability represented separately. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the terms of the repo agreements.

Securities purchased under agreements to resell ("reverse repo") are recorded as due from banks as appropriate. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the reverse repo agreement using the effective interest method.

c) Equipment

(i) Owned assets

Items of equipment are stated at cost less accumulated depreciation (refer below) and impairment losses. Where an item of equipment comprises major components having different useful lives, they are accounted for as separate items of equipment.

3 Significant accounting policies, continued

c) Equipment, continued

(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 at the date of acquisition. Land is not depreciated. The estimated useful lives are as follows:

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

d) Intangible assets

Intangible assets, which are acquired by the Company, are stated at cost less accumulated amortisation and impairment losses. The intangible assets are amortised over a period of 3 years.

e) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables ("loans and receivables"). The Company reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate.

Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. In such cases, the Company uses its experience and judgment to estimate the amount of any impairment loss.

3 Significant accounting policies, continued

e) Impairment, continued

i) Financial assets carried at amortised cost, continued

All impairment losses in respect of loans and receivables are recognised in the income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non financial assets

Non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell 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. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss revered 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) Provisions

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

g) Share capital

(i) Dividends

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 management agreement with NBK. Commissions paid for such services are shown as part of fee and commission expense in the income statement.

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3 Significant accounting policies, continued

i) Taxation

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

Current tax 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 realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

j) Interest income and interest expense

Interest income and expense are recognised 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 amortisation 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) Fee income

Fee income is recognised when received, as it relates to prepayment penalties incurred by customers.

l) Comparative information

Comparative information relating to fee and commission income and expense has been reclassified to conform to changes in presentation in the current year. In the year ended 31 December 2004 fee and commission income of KZT 31,742 thousand was included in the income statement within interest income from loans to customers, whereas in the year ended 31 December 2005 they are shown as separate line items.

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3 Significant accounting policies, continued

m) Change in accounting policy

Previously the Company recognised changes in the fair value of available-for-sale securities in the income statement. These investments, totalling KZT 3,022,575 thousand as at 31 December 2004, have now been designated at fair value through profit or loss.

In accordance with revised IAS 39 *Financial Instruments: Recognition and Measurement* the comparatives have been restated to reflect the revised classification, but there has been no effect on the Company's financial position or results of operations. In accordance with the specific transitional provisions in IAS 39, there was no requirement for the Company to have designated such investments at fair value through profit or loss at the date of initial recognition.

n) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company's operations. The Company plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.

  The new Standard will not have any impact on the Company's financial position or performance.

- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.

  The new Standard will not have any impact on the Company's financial position or performance.

- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The amendment restricts the designation of financial instruments as "at fair value through profit or loss".

  The new Standard will not have any impact on the Company's financial position or performance.

4 Net gain on investment securities at fair value through profit or loss

	2005 KZT'000	2004 KZT'000
Realised gains on investment securities designated at fair value through profit or loss	6,988	-
Unrealised gains on investment securities designated at fair value through profit or loss	153,761	45,540
Unrealised losses on investment securities designated at fair value through profit or loss	(40,097)	(36,746)
	120,652	8,794

5 General and administrative expenses

	2005 KZT'000	2004 KZT'000
Employee compensation	328,461	138,610
Advertising and marketing	89,310	12,151
Payroll related taxes	34,749	15,819
Professional services	31,181	21,219
Depreciation and amortisation	30,134	13,370
Occupancy	25,324	3,622
Office supplies	18,344	9,066
Taxes other than on income	8,488	7,027
Travel	9,601	8,609
Communication	7,805	6,761
Other	13,084	11,462
	596,481	247,716

6 Income tax expense

The Company's applicable tax rate for current and deferred tax is 30% (2004: 30%).

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 until 2007. If the combination of excluded income plus deductible expenses creates an operating loss, the loss can not be carried forward to future years.

Reconciliation of effective tax rate:

	2005 KZT'000	%	2004 KZT'000	%
Income before tax	848,085	100%	353,805	100%
Income tax using the applicable tax rate	254,426	30%	106,142	30%
Non-taxable items	(254,426)	(30%)	(106,142)	(30%)
Total income tax expense	-	-	-	-

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7 Cash and cash equivalents

	2005 KZT'000	2004 KZT'000
Current account with NBK	2,275	519
Term deposit at NBK	1,341,031	-
	1,343,306	**519**

8 Bank placements

	2005 KZT'000	2004 KZT'000
Deposit at "Temirbank"	303,117	-
Deposit at "KazInvestBank"	505,076	-
Deposit at "Alliance Bank"	1,010,247	-
	1,818,440	**-**

The above placements, denominated in KZT, were issued on 17 November 2005 and will mature on 17 November 2006. The interest rate for all deposits is 8.5%. The total balance includes accrued interest of KZT 18,440 thousand.

Subsequent to the year end it was revealed by the Committee for Financial Control under the Ministry of Finance that the Company had made the above placements without the necessary approval. As a consequence, the Company was required to transfer interest earned of KZT 18,440 thousand to the Government and to transfer the above placements to NBK. This amount has been excluded from interest income for the year ended 31 December 2005.

9 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 located within the Republic of Kazakhstan. All loans are secured by real estate collateral, and, except for three loans (see below) are guaranteed by commercial banks.

	2005 KZT'000	2004 KZT'000
Long-term loan balances	34,742,801	26,072,649
Accrued interest	296,337	226,108
	35,039,138	**26,298,757**

Loans to customers carry interest at rates ranging from 0% to 2.8% (2004: 2.5% to 3.2%) plus an inflation index ranging from 6.7% to 8.2% (2004: 6.4% to 7.7%). The inflation index published by the Statistics Agency of the Republic of Kazakhstan as at 31 December 2005 was 7.9% (2004: 6.8 %).

At 31 December 2005 the Company had three contractually overdue loan balances totalling KZT 142,380 thousand (2004: Nil) which are not secured by guarantees of commercial banks. However, the Company expects to recover the loans through the sale of collateral.

9 Loans to customers, continued

As described in Note 2, the Company uses its experience and judgment to estimate the amount of impairment loss for loans to customers. The Company has reviewed its current loan portfolio and has not identified any loans which display indicators of impairment, except for the loans mentioned in the previous paragraph. In addition, the Company historically has had no impaired loans. On this basis the Company determined that a provision for impairment is not necessary.

At 31 December 2005 the 10 largest customers accounted for 1% (KZT 489,674 thousand) of the total loan portfolio and 5% of shareholder's equity (2004: 1% (KZT 253,366 thousand) of the total loan portfolio, 8% of shareholder's equity).

The maturity of the Company's loan portfolio is presented in Note 22, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio.

10 Investment securities at fair value through profit or loss

	2005 KZT'000	2004 KZT'000
Unpledged debt instruments - quoted		
Treasury bills of the Ministry of Finance	2,105,012	1,940,454
NBK Notes	-	1,082,121
Pledged unde repurchase agreements- quoted		
Treasury bills of the Ministry of Finance	219,034	-
	2,324,046	**3,022,575**

The treasury bills of the Ministry of Finance are KZT denominated and fully guaranteed. These treasury bills were purchased at face value, have medium and long-term maturity periods and coupon rates ranging from 2.9% to 8.2% (2004: 5.6% to 8.2%), depending on the type of bond issue.

11 Intangible assets

KZT'000	**Software**
Cost	
At 1 January 2005	46,692
Additions	21,052
Disposals	(823)
At 31 December 2005	**66,921**
Amortisation	
At 1 January 2005	7,626
Amortisation charge	15,334
Disposals	(823)
At 31 December 2005	**22,137**
Carrying value	
At 31 December 2005	44,784
At 31 December 2004	39,066

12 Equipment

KZT'000	Equipment to be installed	Computer equipment	Vehicles	Office equipment	Other	Total
Cost						
At 1 January 2005	-	19,292	7,484	7,374	5,289	39,439
Additions	189,000	31,512	622	3,879	2,329	227,342
Disposals	-	(2,100)	-	-	-	(2,100)
At 31 December 2005	**189,000**	**48,704**	**8,106**	**11,253**	**7,618**	**264,681**
Depreciation						
At 1 January 2005	-	4,819	2,107	1,545	1,648	10,119
Depreciation charge	-	11,425	1,070	1,225	1,080	14,800
Disposals	-	(2,083)	-	-	-	(2,083)
At 31 December 2005	**-**	**14,161**	**3,177**	**2,770**	**2,728**	**22,836**
Carrying value						
At 31 December 2005	**189,000**	**34,543**	**4,929**	**8,483**	**4,890**	**241,845**
At 31 December 2004	-	14,473	5,377	5,829	3,641	29,320

The equipment to be installed relates to a computer server purchased in December 2005 which was not installed or operational until after 31 December 2005.

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13 Debt securities issued

Debt securities issued as at 31 December 2005 and 2004 comprised KZT denominated mortgage bonds.

Number of issue	Placement date	Maturity date	Coupon rate	2005 KZT'000	2004 KZT'000
1	18.11.2002-04.03.2004	10.11.2005	4.75% + floating inflation index	-	1,544,693
2	28.08.2003-27.11.2003	01.10.2013	1.80% + floating inflation index	2,458,224	2,764,152
3	04.12.2003-25.02.2004	01.04.2014	1.00% + floating inflation index	4,556,961	5,078,330
4	12.03.2004-01.07.2004	01.04.2014	0.50% + floating inflation index	4,596,951	5,105,844
5	28.09.2004-09.12.2004	01.04.2009	0.39% + floating inflation index	5,157,228	5,174,051
6	15.07.2004-23.09.2004	01.04.2011	0.39% + floating inflation index	5,103,612	5,101,152
7	23.12.2004-31.03.2004	01.10.2011	0.10% + floating inflation index	3,968,709	1,448,732
12	27.12.2005	10.04.2017	0.01% + floating inflation index (limited to 7.5%)	51,599	-
13	09.11.2005	15.05.2006	3.50% fixed rate	4,442,778	-
				30,336,062	26,216,954

These obligations are secured by the loan agreements with customers and the related real estate supporting these loans (Note 9). 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.

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14 Amounts payable under repurchase agreements

	2005 KZT'000	2004 KZT'000
Amounts due to banks	219,034	-
	219,034	-

Securities pledged

As at 31 December 2005 the Company had pledged certain securities as collateral under the repurchase agreements (2004: Nil). Refer to Note 10.

15 Other liabilities

	2005 KZT'000	2004 KZT'000
Employees	29,445	34,188
Taxes other than on income	22,318	5,407
Astana Finance on purchased loans	13,134	13,727
Professional services	5,500	4,347
Other payables	9,937	5,062
	80,334	62,731

Taxes other than on income include KZT 15,674 thousand relating to a payment due to the Government for the unauthorised opening of bank placements (being KZT 18,440 thousand interest earned less KZT 2,766 thousand withholding tax). Refer to Note 8.

16 Share capital

Issued capital

	2005	2004
Number of issued shares at par value of KZT 10,000	890,000	250,000
Issued and fully paid share capital as at 31 December (KZT'000)	8,900,000	2,500,000

In April 2005 the Company issued 640,000 shares at par value to the sole shareholder, the Ministry of finance, for cash.

Dividends

In accordance with the Government Decree, the amount of dividends declared for the year 2005 is required to be 10% (2004: 50%) of net income for the related period.

17 Risk management

Management of risk is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, which includes price and fair value interest rate risks, credit risk and liquidity risk. These risks are managed in the following manner:

Market risk

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. The Company manages this risk by using floating interest rates based on the inflation index published by the Statistics Agency of Kazakhstan.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Company's credit risk. Exposure to credit risk is primarily managed by obtaining collateral and bank guarantees, through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing lending limits where appropriate.

The Company's credit policy described in the "Main Requirements to the Mortgage Loans, the Claims on which are Acquired by the Company and Manual on their Distribution and Trust Management" is reviewed and approved by the Shareholders.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Company's risk management policy is reviewed and approved by the Management Board of the Company. For further information on the Company's exposure to liquidity risk at year end refer to Note 22.

18 Commitments and contingencies

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The 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 property or relating to the Company's 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.

Taxation contingencies

The taxation system in Kazakhstan is relatively new. It is characterised by numerous taxes and frequently changing legislation which is often unclear, contradictory, and subject to interpretation. 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.

Litigation

Company management is unaware of any significant actual, pending or threatened claims against the Company.

19 Related party transactions

Related parties are entities controlled by the National Bank of Kazakhstan and the Ministry of Finance, the two shareholders of the Company during 2005. Amounts included in the income statement in relation to transactions with related parties are as follows:

	2005 KZT'000	2004 KZT'000
Ministry Of Finance		
Interest income on investment securities	94,436	145,067
Fee and commission expense	(291)	-
National Bank of Kazakhstan		
Interest income on investment securities	34,366	66,180
Fee and commission expense	(2,510)	(1,050)
Subsidiaries of the National Bank of Kazakhstan		
General and administrative expenses	(34,264)	(45,268)
Fee and commission expense	-	(417)

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19 Related party transactions, continued

At 31 December related party balances consist of the following:

	2005 KZT'000	2004 KZT'000
Due to the National Bank of Kazakhstan	(219,379)	(596)
Due to subsidiaries of the National Bank of Kazakhstan	(998)	(3,384)
Treasury bills of the Ministry of Finance	2,324,046	1,940,454
Notes of the National Bank of the Republic of Kazakhstan	-	1,082,121

Transactions with members of the Board of Directors and Management Board

Members of the Board of Directors and Management Board of the Company and their immediate relatives do not control any of the voting shares of the Company. There were no loans to members of the Board of Directors and key management personnel during the period, nor any loan balances at the year end.

Total remuneration paid to members of the Board of Directors and Management Board during the period, included in employee compensation (refer Note 5), amounted to KZT 70,200 thousand (2004: KZT 19,197 thousand).

There were no non-cash benefits granted to members of the Board of Directors and key management personnel during the period.

20 Fair value of financial instruments

The Company has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation.*

KZT'000	2005 Book value	2005 Fair value	2004 Book value	2004 Fair value
Cash and cash equivalents	1,343,306	1,343,306	519	519
Bank placements	1,818,440	1,818,440	-	-
Loans to customers	35,039,138	36,669,894	26,298,757	27,165,822
Investment securities at fair value through profit or loss				
- Unpledged	2,105,012	2,105,012	3,022,575	3,022,575
- Pledged under repurchase agreements	219,034	219,034	-	-
Debt securities issued	(30,336,062)	(31,917,448)	(26,216,954)	(25,631,675)
Amounts payable under repurchase agreements	(219,034)	(219,034)	-	-
Other liabilities	(80,334)	(80,334)	(62,731)	(62,731)

The estimated fair value of loans to customers represents the discounted amount of estimated future cash flows expected to be received.

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20 Fair value of financial instruments, continued

The estimated fair values of investment securities at fair value through profit or loss and debt securities issued is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair value of all other financial assets and liabilities is their carrying value.

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

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

21 Average effective interest rates

The table below displays the Company's interest bearing assets and liabilities at 31 December 2005 and 2004 and their corresponding average effective interest rates as at those dates.

	2005		2004	
	Value KZT'000	Average effective interest rate %	Value KZT'000	Average effective interest rate %
Cash and cash equivalents	1,343,306	2.75%	-	-
Bank placements	1,818,440	8.50%	-	-
Loans to customers	35,039,138	13.41%	26,298,757	14,52%
Investment securities at fair value though profit or loss				
-Unpledged	2,105,012	5.04%	3,022,575	5,38%
-Pledged under repurchase agreements	219,034	5.04%	-	-
Debt securities issued	30,336,062	7.74%	26,216,954	7,17%
Amounts payable under repurchase agreements	219,034	5.04%	-	-

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22 Maturity analysis

The following table shows the Company's assets and liabilities by remaining contractual maturity dates as at 31 December 2005.

KZT'000	Less than 1 month	1 to 3 months	3 months to 1 year	1year to 5 years	More than 5 years	No maturity	Total
Assets							
Cash and cash equivalents	1,343,306	-	-	-	-	-	1,343,306
Bank placements	-	-	1,818,440	-	-	-	1,818,440
Loans to customers	298,286	84	19,468	1,479,228	33,242,072	-	35,039,138
Investment securities at fair value though profit or loss							
-Unpledged	374	28,422	520,650	1,140,484	415,082	-	2,105,012
-Pledged under repurchase agreements	-	-	219,034	-	-	-	219,034
Intangible assets	-	-	-	-	-	44,784	44,784
Equipment	-	-	-	-	-	241,845	241,845
Other assets	-	-	8,338	-	-	-	8,338
Total assets	**1,641,966**	**28,506**	**2,585,930**	**2,619,712**	**33,657,154**	**286,629**	**40,819,897**
Liabilities							
Debt securities issued	-	-	6,180,628	5,053,604	19,101,830	-	30,336,062
Amounts payable under repurchase agreements	219,034	-	-	-	-	-	219,034
Other liabilities	80,334	-	-	-	-	-	80,334
Total liabilities	**299,368**	**-**	**6,180,628**	**5,053,604**	**19,101,830**	**-**	**30,635,430**
Net position as at 31 December 2005	**1,342,598**	**28,506**	**(3,594,698)**	**(2,433,892)**	**14,555,324**	**286,629**	**10,184,467**
Net position as at 31 December 2004	165,189	-	606,625	(112,402)	593,451	1,860,422	3,113,285

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23 Concentration of assets and liabilities

The geographical concentration of assets and liabilities is as follows:

KZT'000	Government of the Republic of Kazakhstan	Other Kazakhstani enterprises / individuals	Other, not related to OECD	Total
Assets				
Cash and cash equivalents	1,343,306	-	-	1,343,306
Bank placements	-	1,818,440	-	1,818,440
Loans to customers	-	35,039,138	-	35,039,138
Investment securities at fair value though profit or loss				
-Unpledged	2,105,012	-	-	2,105,012
-Pledged under repurchase agreements	219,034	-	-	219,034
Intangible assets	-	-	44,784	44,784
Equipment	-	-	241,845	241,845
Other assets	-	8,338	-	8,338
Total assets	**3,667,352**	**36,865,916**	**286,629**	**40,819,897**
Liabilities				
Debt securities issued	-	30,336,062	-	30,336,062
Amounts payable under repurchase agreements	-	219,034	-	219,034
Other liabilities	-	80,334	-	80,334
Total liabilities	-	**30,635,430**	-	**30,635,430**
Net position as at 31 December 2005	**3,667,352**	**6,230,486**	**286,629**	**10,184,467**
Net position as at 31 December 2004	3,023,094	(26,278,392)	26,368,583	3,113,285

24 Segment information

The Company's operations are highly integrated and constitute a single industry segment for the purposes of IAS 14 *Segment reporting*. The Company's assets are concentrated primarily in the Republic of Kazakhstan, and the majority of the Company's revenues and net income is derived from its lending operations.

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