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JSC BTA Ipoteka

Financial Statements

*For the year ended December 31, 2005
together with Report of Independent Auditors*

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REPORT OF INDEPENDENT AUDITORS

To the Management Board and Shareholders of JSC BTA Ipoteka –

We have audited the accompanying balance sheet of JSC BTA Ipoteka (“the Company”) as of December 31, 2005, and the related statements of income, changes in shareholders’ 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, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

April 11, 2005

Almaty, Kazakhstan

BALANCE SHEET

As at December 31, 2005

(Thousands of Kazakhstani Tenge)

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Assets			
Cash and cash equivalents	4	314,105	175,251
Due from financial institutions	5	100,254	62,174
Loans to customers	6	33,329,239	9,267,562
Property and equipment	8	94,895	64,814
Intangible assets	9	12,101	7,703
Other assets	10	144,229	117,312
Total assets		33,994,823	9,694,816
Liabilities			
Loans due to financial institutions	11	11,661,347	4,958,344
Other amounts due to financial institutions	12	176,685	202,210
Debt securities issued	13	19,337,159	2,679,792
Provisions	7	109,523	109,523
Other liabilities		11,359	8,487
Total liabilities		31,296,073	7,958,356
Shareholders' equity			
Share capital	14	1,500,000	1,269,992
Treasury Shares		(230,008)	—
Retained earnings		1,428,758	466,468
Total shareholders' equity		2,698,750	1,736,460
Total liabilities and shareholders' equity		33,994,823	9,694,816
Financial Commitments and contingencies	21		

Signed and authorized for release on behalf of the Board of JSC BTA Ipoteka

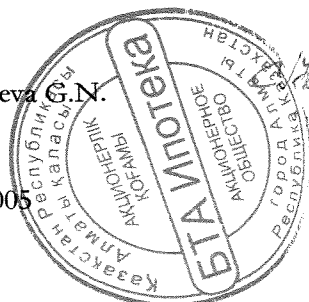
Kussainov S.A.

President

Kozhanbayeva G.N.

Chief Accountant

April 11, 2005

*The accompanying notes on pages 5 to 20 are an integral part of these financial statements.*

STATEMENT OF INCOME**For the Year Ended December 31, 2005***(Thousands of Kazakhstani Tenge)*

	<i>Notes</i>	<i>2005</i>	<i>2004</i>
Interest income			
Loans to customers		2,918,320	992,811
		<u>2,918,320</u>	<u>992,811</u>
Interest expense			
Amounts due to financial institutions		(812,706)	(619,750)
Debt securities issued		(888,208)	(67,963)
		<u>1,217,406</u>	<u>305,098</u>
Net interest income			
Impairment charge	7	(168,315)	(239,455)
Net interest income after impairment		<u>1,049,091</u>	<u>65,643</u>
Fee and commission income	15	745,945	497,241
Fee and commission expense	16	(96,557)	(46,964)
Net Fee and commission income		<u>649,388</u>	<u>450,277</u>
Net gain on disposal of subsidiary		-	128,493
Gains less losses from foreign currencies		3,735	95,360
Other operating income	17	28,399	36,038
Non interest income		<u>32,134</u>	<u>259,891</u>
Salary and salary related expenses	18	(299,610)	(152,759)
Administrative and operating expenses	19	(401,482)	(197,651)
Other provisions	7	-	(79,955)
Taxes other than income tax		(51,267)	(21,940)
Depreciation and amortization		(15,964)	(10,520)
Non interest expense		<u>(768,323)</u>	<u>(462,825)</u>
Income before income tax expense		<u>962,290</u>	<u>312,986</u>
Income tax expense	20	-	(1,647)
Net income		<u><u>962,290</u></u>	<u><u>311,339</u></u>

The accompanying notes on pages 5 to 20 are an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Year Ended December 31, 2005

(Thousands of Kazakhstani Tenge)

	<i>Share Capital</i>	<i>Additional Paid-in Capital</i>	<i>Treasury Shares</i>	<i>Retained Earnings</i>	<i>Total Shareholders' Equity</i>
December 31, 2003	40,000	–	–	155,129	195,129
Capital contributions	1,229,992	–	–	–	1,229,992
Net income	–	–	–	311,339	311,339
December 31, 2004	1,269,992	–	–	466,468	1,736,460
Capital contributions	230,008	115,004	–	–	345,012
Net income	–	–	–	962,290	962,290
Purchase of treasury shares	–	(115,004)	(230,008)	–	(345,012)
December 31, 2005	1,500,000	–	(230,008)	1,428,758	2,698,750

The accompanying notes on pages 5 to 20 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2005

(Thousands of Kazakhstani Tenge)

	<i>2005</i>	<i>2004</i>
Cash flows from operating activities		
Income before income tax	962,290	312,986
Adjustments for:		
Impairment charge and other provisions	168,315	319,410
Gain on disposal of subsidiary	-	(128,493)
Loss on disposal of property and equipment	893	(21,261)
Unrealized foreign exchange gain	(620,559)	(94,968)
Other operating expenses	2,784	-
Depreciation and amortization	15,964	10,520
Operating cash flows before changes in net operating assets and liabilities	529,687	398,194
<i>Net (increase)/ decrease in operating assets</i>		
Increase in due from financial institutions	(38,080)	(21,502)
Increase in loans to customers	(23,644,657)	(5,154,939)
Increase in other assets	22,640	3,350
<i>Net (increase)/ decrease in operating liabilities</i>		
Increase in loans due to financial institutions	6,702,868	1,218,768
Long-term loans received from other financial institutions	(14,198)	700,268
Decrease (increase) in other amounts due to financial institutions	(25,525)	167,608
Increase in other liabilities	2,871	4,599
Net cash flows from operating activities before income taxes	(16,464,394)	(2,683,654)
Income tax paid	-	(1,647)
Net cash flows from operating activities	(16,464,394)	(2,685,301)
Cash flows from investing activities		
Purchase of property and equipment	(46,884)	(66,440)
Proceeds from sale of property and equipment	2,126	89,942
Purchase of intangible assets	(6,578)	(4,531)
Net cash flows from investing activities	(51,336)	18,971
Cash flows from financing activities		
Debt securities issued	16,657,367	2,679,792
Proceeds from shares issue	345,012	5,950
Purchase of Treasury shares	(347,795)	-
Net cash flows from financing activities	16,654,584	2,685,742
Increase in cash and cash equivalents	138,854	19,412
Cash and cash equivalents at the beginning of the year	175,251	155,839
Cash and cash equivalents at the end of the year	314,105	175,251
Supplementary information:		
Interest received	2,797,500	969,394
Interest paid	1,299,115	655,263

The accompanying notes on pages 5 to 20 are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

(Tabular amounts are expressed in thousands of Kazakhstani Tenge)

1. Principal Activities

JSC BTA Ipoteka (the "Company") provides mortgage lending and related support services. The Company was formed on November 20, 2000 as an open joint stock company under the laws of the Republic of Kazakhstan and was reregistered as a joint stock company on December 18, 2003. The Company operates under a license issued by the National Bank of the Republic of Kazakhstan ("NBK") on February 2, 2005 to conduct mortgage lending, factoring and trust services.

The Company's main office is in Almaty and it has 14 representative offices (December 31, 2004 - 12). Its registered legal address is Microregion Samal 2, Bld 16, Almaty, Republic of Kazakhstan.

As of December 31, 2005, and December 31, 2004, the Company had 347 and 220 employees, respectively.

The financial statements of the Company as of December 31, 2003 and for the year then ended included the financial position and results of operations of the wholly owned subsidiary of the Company - DomService LLP (the "Subsidiary"). On July 1, 2004, the Company sold its Subsidiary resulting in a net gain of KZT 128,493 thousands. Results of operations of the subsidiary from January 1, 2004 to the date of disposal are included in the 2004 financial statements. DomService LLP is a limited liability partnership registered in the Republic of Kazakhstan on July 8, 2002. Its primary activity is leasing operations. The registered legal address of DomService LLP is: 11 office, 237, Turgut Ozala str, Almaty, the Republic of Kazakhstan.

As of December 31, 2005, shareholders of the Company were as follows:

	2005	2004
Bank TuranAlem	96.38%	96.38%
TuranAlem Securities (100% subsidiary of Bank TuranAlem)	3.62%	3.62%
	<u>100.00%</u>	<u>100.00%</u>

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 Accounting 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 Kazakh Tenge ("KZT"), except per share amounts and unless otherwise indicated. The KZT is utilized as the shareholders, the managers and the regulators measure the Company's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Company. Transactions in other currencies are treated as transactions in foreign currencies.

The Company maintains its records and prepares its financial statements for regulatory purposes in accordance with IFRS.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. The most significant estimates with regards to those financial statements relate to the allowances for impairment of assets, income taxes, fair values of securities and properties, and other provisions. These estimates are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 "Share-Based Payment";
- IFRS 3 "Business Combinations", IAS 36 (revised) "Impairment of Assets" and IAS 38 (revised) "Intangible Assets";
- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations";
- IAS 1 (revised) "Presentation of Financial Statements";
- IAS 2 (revised) "Inventories";
- IAS 8 (revised) "Accounting Policies, Changes in Accounting Estimates and Errors";
- IAS 10 (revised) "Events after the Balance Sheet Date";
- IAS 16 (revised) "Property, Plant and Equipment";

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

(Tabular amounts are expressed in thousands of Kazakhstani Tenge)

2. Basis of Preparation (continued)

Changes in accounting policies (continued)

IAS 17 (revised) "Leases";
IAS 21 (revised) "The Effects of Changes in Foreign Exchange Rates";
IAS 24 (revised) "Related Party Disclosures";
IAS 27 (revised) "Consolidated and Separate Financial Statements";
IAS 28 (revised) "Investments in Associates";
IAS 31 (revised) "Interests in Joint Ventures";
IAS 32 (revised) "Financial Instruments: Presentation and Disclosure";
IAS 33 (revised) "Earnings per Share";
IAS 39 (revised) "Financial Instruments: Recognition and Measurement"; and
IAS 40 (revised) "Investment property".

The standards are to be applied retrospectively, with the exception of portions of the guidance relating to de-recognition of financial assets and liabilities, which is to be applied prospectively. The Company has adopted the above revised standards starting from January 1, 2005. Adoption of revised standards does not have any effect on equity as at 1 January 2004.

IFRSs and IFRIC interpretations not yet effective

The Company has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IAS 19 (amended 2004) "Employee Benefits";
IAS 21 (amended 2005) "The Effects of Changes in Foreign Exchange Rates";
IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
IFRS 6 "Exploration for and Evaluation of Mineral Resources";
IFRS 7 "Financial Instruments: Disclosures";
IFRIC 4 "Determining whether an Arrangement contains a Lease";
IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds";
IFRIC 6 "Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment";
IFRIC 7 "Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies".

The Company expects that the adoption of the pronouncements listed above will have no significant impact on the Company's financial statements in the period of initial application.

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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

(Tabular amounts are expressed in thousands of Kazakhstani Tenge)

3. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Loans to Customers

Loans granted by the Company by providing funds directly to the borrower are categorized as loans originated by the Company and are initially recognized in accordance with the recognition of financial instruments policy. The difference between the nominal amount of consideration given and the fair value of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition of loans to customers at fair value. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment.

Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation and any accumulated impairment for diminution in value. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture and fixtures	10
Transportation	5
Computers and equipment	7
Land	-

Intangible Assets

Intangible assets are recorded at historical cost less accumulated amortization. Amortization is provided so as to write down the cost of an asset on a straight-line basis over its estimated useful economic life. The useful life is seven years.

Inventories

Inventories, which comprise collateral seized on bad loans, are stated at the lower of cost and net realizable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

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.

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***3. Summary of Significant Accounting Policies (continued)****Allowances for Impairment of Financial Assets (continued)**

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 statement of income.

Amounts Due to Financial Institutions

Amounts due to financial institutions and to customers are initially recognized in accordance with recognition of financial instruments policy. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

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.

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.

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 the Republic 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.

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

(Tabular amounts are expressed in thousands of Kazakhstani Tenge)

3. Summary of Significant Accounting Policies (continued)

Social Costs

The Company contributes 21% of its employees' salaries as a social tax to the Government of the Republic of Kazakhstan. Social tax and related staff costs are expensed as incurred.

Foreign Currency Translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the market exchange rates quoted by KASE at the balance sheet date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the statements of income as gains less losses from foreign currencies.

Differences between the contractual exchange rate of a certain transaction and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at December 31, 2005 and 2004 were 133.98 KZT and 130.00 KZT to 1 USD, respectively.

Share Capital

Share capital is recognized at their fair value at the date of contribution.

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 shareholders.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Allowance for impairment of loans and receivables

The Company regularly reviews its loans and receivables to assess impairment. The Company uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available historical data relating to similar borrowers. The Company uses NBK guidance to adjust observable data for a group of loans or receivables to reflect current circumstances.

Taxation

Kazakh tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2005 management believes that its interpretation of the relevant legislation is appropriate and that the Company's tax, currency and customs positions will be sustained.

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***3. Summary of Significant Accounting Policies (continued)****Amortization of loan issuance fees**

In accordance with the accounting policy, the Company capitalizes its loan issuance fees and amortizes them over the expected life of a loan. In assessing the amortization period, the Company uses the portfolio approach, whereby calculating the expected loan life based on actual loan portfolio repayment data, using scheduled and beforehand loan repayments made during the year. This approach results in shorter loan life and a greater amount of loan issuance fees amortization for each year, as compared to the one calculated using the expected scheduled loan repayments data.

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	<i>2005</i>	<i>2004</i>
Current accounts with financial institutions	313,741	174,886
Cash on hand	364	365
	314,105	175,251

5. Due from Financial Institutions

Due from financial institutions include the minimum restricted cash balance held by the Company with JSC Bank TuranAlem, which represents collateral for loans received from the European Bank for Reconstruction and Development (EBRD).

6. Loans to Customers

Loans to customers comprise:

	<i>2005</i>	<i>2004</i>
Loans to customers	33,776,814	9,554,004
Less - Allowance for impairment	(337,313)	(218,564)
	33,439,501	9,335,440
Unamortized issuance fees	(110,262)	(67,878)
	33,329,239	9,267,562

As of December 31, 2005, the Company had a concentration of loans represented by KZT 886,524 thousands due from the ten largest borrowers that comprised 3% of the total gross loan portfolio (2004 – KZT 473,552 thousands or 5%) and represented 33% of the Company's total shareholders' equity (2004 – 27%). Allowances amounting to KZT 4,790 thousands were made against these loans as at December 31, 2005 (2004 – KZT 4,736 thousands).

As of December 31, 2005 loans to customers include loans of KZT 1,442,668 thousands, which are pledged as collateral for the EBRD credit facility (December 31, 2004 – KZT 746,197 thousands) (Note 11).

As of December 31, 2005 loans to customers include loans of KZT 15,216,033 thousands, which are pledged as collateral for the mortgage-backed KZT denominated bonds (December 31, 2004 – KZT 4,304,877 thousands).

As of December 31, 2004, loans to customers include loans of KZT 173,082 thousands, which are pledged as collateral for the Temir Bank credit facility. On February 14, 2005 the loan from Temir Bank was repaid at maturity.

Interest rates for the loans were as follows:

	<i>2005</i>	<i>2004</i>
Loans in USD	10.81% – 17.00%	–
Loans in KZT	9.50% – 15.20%	11.60% – 17.40%
Loans indexed in USD	9.70% – 19.50%	12.40% – 21.00%

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***6. Loans to Customers (continued)**

Loans have been extended to the following types of customers:

	<i>2005</i>	<i>2004</i>
Individuals	32,820,413	9,044,962
Legal entities	956,401	509,042
	33,776,814	9,554,004

7. Allowances for Impairment and Other Provisions

The movements on the allowance for impairment of loans to customers were as follows:

	<i>Loans to customers</i>
December 31, 2003	72,572
Charge	239,455
Write-offs	(197,869)
Recoveries	104,406
December 31, 2004	218,564
Charge	168,315
Write-offs	(322,810)
Recoveries	273,244
December 31, 2005	337,313

The movements on the provision for off-balance sheet exposures were as follows:

	<i>Guarantees</i>
December 31, 2003	29,568
Charge	79,955
December 31, 2004	109,523
Charge	-
December 31, 2005	109,523

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

*(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***8. Property and Equipment**

The movements on property and equipment were as follows:

	<i>Land and buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and equipment</i>	<i>Vehicles</i>	<i>Total</i>
Cost					
December 31, 2003	64,874	5,560	13,692	-	84,126
Additions	31,500	9,419	21,754	3,767	66,440
Disposals	(70,537)	(787)	(4,304)	-	(75,628)
December 31, 2004	25,837	14,192	31,142	3,767	74,938
Additions	4,013	12,961	25,590	4,320	46,884
Disposals	(1,981)	(457)	(1,538)	-	(3,976)
December 31, 2005	27,869	26,696	55,194	8,087	117,846
Accumulated depreciation					
December 31, 2003	(4,024)	(485)	(3,016)	-	(7,525)
Charge for the year	(3,532)	(967)	(4,733)	(314)	(9,546)
Disposals	5,331	84	1,532	-	6,947
December 31, 2004	(2,225)	(1,368)	(6,217)	(314)	(10,124)
Charge for the year	(1,762)	(2,038)	(9,427)	(557)	(13,784)
Disposals	19	92	846	-	957
December 31, 2005	(3,968)	(3,314)	(14,798)	(871)	(22,951)
Net book value:					
December 31, 2003	60,850	5,075	10,676	-	76,601
December 31, 2004	23,612	12,824	24,925	3,453	64,814
December 31, 2005	23,901	23,382	40,396	7,216	94,895

9. Intangible Assets

The movements on intangible assets, were as follows:

	<i>Software</i>
Cost:	
December 31, 2003	4,497
Additions	4,531
December 31, 2004	9,028
Additions	6,578
December 31, 2005	15,606
Accumulated amortization:	
December 31, 2003	(351)
Charge for the year	(974)
December 31, 2004	(1,325)
Charge for the year	(2,180)
December 31, 2005	(3,505)
Book value:	
December 31, 2003	4,146
December 31, 2004	7,703
December 31, 2005	12,101

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

*(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***10. Other Assets**

Other assets comprise:

	<i>2005</i>	<i>2004</i>
Inventory	49,556	95,606
Prepayments to rating companies	23,112	2,691
Prepaid income taxes	13,646	8,793
Prepayment for securitization	12,086	–
Prepayments for marketing and advertising services	11,622	315
Prepayments for rent	7,844	3,514
Other prepayments and receivables	26,363	6,393
	144,229	117,312

11. Loans Due to Financial Institutions

Loans due to financial institutions comprise:

	<i>2005</i>	<i>2004</i>
Bank TuranAlem	7,794,062	3 584 368
Dresdner Bank	2,704,160	–
EBRD	1,214,752	603 977
Alfa-bank	–	650 000
TemirBank	–	130 948
	11,712,974	4 969 293
Unamortized cost of issuance	(51,627)	(10,949)
	11,661,347	4,958,344

Non-compliance with the Terms of Agreements with the European Bank for Reconstruction and Development

On May 27, 2003 and September 5, 2005 the Company signed loan agreements with the European Bank for Reconstruction and Development (“the Bank”) for opening credit lines for the amounts of USD 5 million and USD 10 million, respectively. As of December 31, 2005 the Company’s outstanding debt to the Bank amounted to KZT 1,214,752 thousand which was equivalent to USD 9,067 thousand.

In accordance with the pledge agreement entered into, between the Bank and the Company, the latter has secured these loans with mortgage certificates for the amount of KZT 1,442,668 thousand (Note 6). Furthermore, in accordance with the agreements the Company has deposited cash for the amount of KZT 100,254 thousand in a specially opened currency account with BTA as additional security (Note 5). The minimum account balance required as of December 31, 2005 is USD 425 thousand. In addition, in accordance with the contractual terms the Company is required to maintain certain financial ratios. As of December 31, 2005 the Company was not in compliance with three of the specified ratios as follows:

	<i>Ratio as of December 31, 2005</i>	<i>Loan agreement requirements</i>
Capital Adequacy ratio	13%	Minimum 15%
Tier I capital to risk-weighted assets ratio	8%	Minimum 10%
Net assets to equity ratio	485%	Maximum 30%

The non-compliances have been agreed with EBRD and do not hinder further collaboration.

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

*(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***11. Loans Due to Financial Institutions (continued)**

Interest rates and maturity of loans due to financial institutions are as follows:

	2005		2004	
	%	Maturity	%	Maturity
Bank TuranAlem	10.76% - 11.41%	2015	14.00% - 12.00%	2015
Dresdner Bank	7.83%	2007	-	-
EBRD	8.81% - 9.15%	2010 - 2015	9.31%	2010
Temir Bank	-	-	12.5%	2005
Alfa Bank	-	-	8.75%	2005

12. Other Amounts Due to Financial Institutions

Other amounts due to financial institutions represent loan repayments received from customers on loans sold to Kazakhstan Mortgage Company ("KMC") but not yet remitted to them (Note 15).

13. Debt Securities Issued

Debt securities issued comprised:

	2005	2004
Mortgage-backed KZT denominated bonds	13,906,271	2,686,236
Unsecured KZT denominated bonds	5,439,896	-
Less unamortized cost of issuance	(9,008)	(6,444)
	19,337,159	2,679,792

Interest rates and maturities of these securities are as follows:

	2005		2004	
	Interest rates	Maturity	Interest rates	Maturity
Mortgage-backed KZT denominated bonds	8.50% - 10.00%	2010 - 2015	8.50% - 10.00%	2010 - 2014
Unsecured KZT denominated bonds	8.90% - 9.90%	2010 - 2012	-	-

14. Shareholders' Equity

Authorised capital at December 31, 2005, and December 31, 2004, consisted of 15,000,000 KZT-denominated common shares with nominal value KZT 100 each. During 2005 the Company issued additional common shares for the nominal amount of KZT 230,008 thousands and in June 2005 repurchased these shares.

The movements in share capital during the year were as follows:

	Number of common shares	Nominal Amount
December 31, 2003	400,000	40,000
Loans due to Bank TuranAlem converted into common shares	8,367,790	836,779
Subordinated debt of Bank TuranAlem converted into common shares	3,872,630	387,263
Capital contributions from TuranAlem Securities, paid in cash	59,500	5,950
December 31, 2004	12,699,920	1,269,992
Capital contributions from clients of TuranAlem Securities, paid in cash	2,300,080	230,008
December 31, 2005	15,000,000	1,500,000
Treasury Shares	(2,300,080)	(230,008)

During 2005 and 2004, the Company has not declared or paid any dividends.

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***15. Fee and Commission Income**

Fee and commission income during the year ended December 31 comprised:

	<i>2005</i>	<i>2004</i>
Mortgage service fees	368,040	266,752
Support services' fees	346,829	214,039
Other	31,076	16,450
	<u>745,945</u>	<u>497,241</u>

Mortgage service fees represent fees earned by the Company for management services provided in connection with mortgage loans sold to KMC and Bank TuranAlem. These fees are collected in the form of approximately 1.63% – 7.90% spread between the interest charged to the borrowers and the interest paid to KMC and Bank TuranAlem (Note 12).

Support services' fees represent income earned on services provided to its clients in connection with registration and other real estate related services.

Other commission income derives from agency services provided to insurance companies.

16. Fee and Commission Expense

Fee and commission expense during the year ended December 31 comprised:

	<i>2005</i>	<i>2004</i>
Registration fees	39,413	30,401
Real estate center services	21,467	16,103
Commissions to Banks	31,560	460
Others	4,117	–
	<u>96,557</u>	<u>46,964</u>

17. Other Operating Income

Other operating income during the year ended December 31 comprised:

	<i>2005</i>	<i>2004</i>
Gain from Sale of apartments	14,769	116
Agency fees from Insurance companies	11,334	4 875
Rent	299	3 305
Gain/(Loss) on disposal of property and equipment	(893)	21 260
Consulting	–	2 520
Fines and penalties	–	2 117
Other	2,890	1 845
	<u>28,399</u>	<u>36 038</u>

18. Salary and Salary Related Expenses

Salary and salary related expenses during the year ended December 31 comprised:

	<i>2005</i>	<i>2004</i>
Salaries and bonuses	267,980	135,860
Social tax	31,630	16,899
	<u>299,610</u>	<u>152,759</u>

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***19. Administrative and operating expenses**

Administrative and operating expenses during the year ended December 31 comprised:

	<u>2005</u>	<u>2004</u>
Rent	72,475	39,629
Bank charges	64,035	42,712
Advertising	54,153	24,150
Information services	41,597	8,137
Communication	40,387	20,598
Business travel	30,957	9,443
Repair and maintenance of property and equipment	22,204	10,538
Office expenses	20,514	10,951
Entertainment	13,154	6,614
Professional fees	8,504	7,386
Personnel training	7,534	3,234
Insurance	7,529	1,032
Security	3,925	1,920
Penalties incurred	1,387	1,585
Other	13,127	9,722
	<u>401,482</u>	<u>197,651</u>

20. Income Taxes

The Republic of Kazakhstan was the only tax jurisdiction in which the Company's income is taxed.

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:

	<u>2005</u>	<u>2004</u>
Income before income tax	962,290	312,986
Income tax computed at the statutory tax rate	288,687	93,896
Non-deductible expenses:		
Provisions	-	23,987
Interest expense	5,293	11,950
Other	9,255	2,820
Non-taxable income on mortgage loans	(277,382)	(220,681)
Tax effect of temporary differences as measured by the change in unrecognised deferred tax assets	(25,853)	89,675
Provision for income taxes	<u>-</u>	<u>1,647</u>

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***20. 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:

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Tax loss carried forward	-	-
Unamortized loan origination fees	12,716	11,163
Reserves	30,529	7,789
Total deferred tax assets	<u>43,245</u>	<u>18,952</u>
Deferred tax liabilities:		
Unamortized cost of funding	-	(1,226)
Discount on bonds	-	(3,296)
Commission expense	(824)	-
Property and equipment	(4,331)	(2,193)
Total deferred tax liabilities	<u>(5,155)</u>	<u>(6,715)</u>
Net deferred tax assets	<u>38,090</u>	<u>12,237</u>
Deferred tax assets not recognized	(38,090)	(12,237)
	<u>-</u>	<u>-</u>

The Company did not recognise deferred tax assets as it expects, based on current legislation, its future non-taxable income on mortgage loans to be significant enough to allow the Company to reduce its tax charges to nil and, thus, those deferred tax assets are not expected to be realised.

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.

21. Commitments and Contingencies**Financial Commitments and Contingencies**

As of December 31, the Company's financial commitments and contingencies comprised the following:

	<u>2005</u>	<u>2004</u>
Guarantees of loans sold to other financial institutions	7,985,129	11,147,221
Less: cash collateral	(176,686)	(202,210)
Less: provisions	(109,523)	(109,523)
Financial commitments and contingencies	<u>7,698,920</u>	<u>10,835,488</u>

The Company requires mortgage collateral to support guarantees of loans issued to individuals and sold to other financial institutions. The Company is obliged to take over any loan in the event of default by the borrower.

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***21. Commitments and Contingencies (continued)****Trust Activities**

The Company provides trust services to third parties which involve the Company services in relation to mortgage loans. Those mortgage loans are not included in these financial statements. As at December 31, 2005 such mortgage loans not reported in the balance sheet amounted to KZT 7,985,129 thousands (December 31, 2004 – KZT 11,147,221 thousands).

22. Currency Risk

The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies (primarily USD). The Company's exposure to foreign currency risk follows:

	2005				2004			
	<i>KZT</i>	<i>Freely convertible</i>	<i>Indexed to the devaluation of the KZT against the USD</i>	<i>Total</i>	<i>KZT</i>	<i>Freely convertible</i>	<i>Indexed to the devaluation of the KZT against the USD</i>	<i>Total</i>
Assets:								
Cash and cash equivalents	313,917	188	—	314,105	175,251	—	—	175,251
Due from other financial institutions	100,254	—	—	100,254	62,174	—	—	62,174
Loans to customers	7,633,432	—	26, 143,382	33,776,814	2,117,447	—	7,436,557	9,554,004
Other assets	109,031	35,198	—	144,229	117,312	—	—	117,312
	8,156,634	35,386	26, 143,382	34,335,402	2,472,184	—	7,436,557	9,908,741
Liabilities:								
Loans due to financial institutions	—	3,867,285	7,794,062	11,661,347	—	1,373,976	3,584,368	4,958,344
Other amounts due to financial institutions	176,685	—	—	176,685	202,210	—	—	202,210
Debt securities issued	19,337,159	—	—	19,337,159	2,679,792	—	—	2,679,792
Other liabilities	11,359	—	—	11,359	8,487	—	—	8,487
	19,525,203	3,867,285	7,794,062	31,186,550	2,890,489	1,373,976	3,584,368	7,848,833
Net balance sheet position	(11,368,569)	(3,831,899)	18,349,320	3,148,852	(418,305)	(1,373,976)	3,852,189	2,059,908

The above tables do not include the effect of allowances for loans losses, which total KZT 337,313 thousands and KZT 218,564 thousands as of December 31, 2005 and 2004, respectively.

Freely convertible currencies represent mainly USD amounts, but also include currencies from other OECD countries.

NOTES TO FINANCIAL STATEMENTS (continued)**For the Year Ended December 31, 2005***(Tabular amounts are expressed in thousands of Kazakhstani Tenge)***23. 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.

The maturity of monetary assets and liabilities was as follows:

<i>2005</i>							
	<i>On demand</i>	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Monetary assets:							
Cash and cash equivalents	314,105	—	—	—	—	—	314,105
Due from financial institutions	100,254	—	—	—	—	—	100,254
Loans to customers	—	—	501,801	120,931	7,628,981	25,525,101	33,776,814
Other assets	—	94,553	—	49,676	—	—	144,229
	<u>414,359</u>	<u>94,553</u>	<u>501,801</u>	<u>170,607</u>	<u>7,628,981</u>	<u>25,525,101</u>	<u>34,335,402</u>
Monetary liabilities:							
Loans due to financial institutions	—	106,107	3,839	—	3,150,734	8,400,667	11,661,347
Other amounts due to financial institutions	—	176,685	—	—	—	—	176,685
Debt securities issued	—	—	238,834	119,277	4,451,279	14,527,769	19,337,159
Other liabilities	—	5,200	—	6,159	—	—	11,359
	<u>—</u>	<u>287,992</u>	<u>242,673</u>	<u>125,436</u>	<u>7,602,013</u>	<u>22,928,436</u>	<u>31,186,550</u>
Net position	<u>414,359</u>	<u>(193,439)</u>	<u>259,128</u>	<u>45,171</u>	<u>26,968</u>	<u>2,596,665</u>	<u>3,148,852</u>
Accumulated gap	<u>414,359</u>	<u>220,920</u>	<u>480,048</u>	<u>525,219</u>	<u>552,187</u>	<u>3,148,852</u>	
<i>2004</i>							
	<i>On demand</i>	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Monetary assets:							
Cash and cash equivalents	175,251	—	—	—	—	—	175,251
Due from financial institutions	—	—	—	—	—	62,174	62,174
Loans to customers	—	—	—	462,430	2,752,173	6,339,401	9,554,004
Other assets	93,003	24,309	—	—	—	—	117,312
	<u>268,254</u>	<u>24,309</u>	<u>—</u>	<u>462,430</u>	<u>2,752,173</u>	<u>6,401,575</u>	<u>9,908,741</u>
Monetary liabilities:							
Loans due to financial institutions	—	25,386	9,004	769,051	—	4,154,903	4,958,344
Other amounts due to financial institutions	—	202,210	—	—	—	—	202,210
Debt securities issued	—	—	—	—	—	2,679,792	2,679,792
Other liabilities	—	8,487	—	—	—	—	8,487
	<u>—</u>	<u>236,083</u>	<u>9,004</u>	<u>769,051</u>	<u>—</u>	<u>6,834,695</u>	<u>7,848,833</u>
Net position	<u>268,254</u>	<u>(211,774)</u>	<u>(9,004)</u>	<u>(306,621)</u>	<u>2,752,173</u>	<u>(433,120)</u>	<u>2,059,908</u>
Accumulated gap	<u>268,254</u>	<u>56,480</u>	<u>47,476</u>	<u>(259,145)</u>	<u>2,493,028</u>	<u>2,059,908</u>	

NOTES TO FINANCIAL STATEMENTS (continued)

For the Year Ended December 31, 2005

(Tabular amounts are expressed in thousands of Kazakhstani Tenge)

23. Maturity Analysis (continued)

The above tables do not include the effect of allowances for loans losses, which total KZT 337,313 thousands and KZT 218,564 thousands as of December 31, 2005 and 2004, respectively.

24. 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 Company had the following transactions with related parties:

	2005			2004		
	Related party transactions	Percent on normal conditions	Total category	Related party transactions	Percent on normal conditions	Total category
<i>Balance Sheet</i>						
Cash and cash equivalents	313,529	100%	314,105	174,886	100%	175,251
Due from financial institutions	100,254	100%	100,254	62,174	100%	62,174
Other assets	4,234	100%	144,229	—	100%	117,312
Loans due to financial institutions	7,794,062	100%	11,661,347	3,584,368	100%	4,958,344
Amounts due to other financial institutions	7,170	100%	176,685	23,507	100%	202,210
Debt Securities issued	394,858	100%	19,337,159	196,207	100%	2,679,792
<i>Off-balance Sheet</i>						
Loans managed on behalf of Bank TuranAlem	—	100%	7,985,129	3,100,744	100%	11,147,221
<i>Income Statement</i>						
Interest expense	671,670	100%	812,706	489,738	100%	619,750
Commission income	98,742	100%	649,388	123,036	100%	450,277
Administrative expenses	102,285	100%	401,482	62,166	100%	197,651

Compensation of key management personnel was comprised of the following:

	2005	2004
Salaries and other short-term benefits	109,075	63,759
Social tax	14,180	13,389
Total key management compensation	123,255	77,148

25. Subsequent events

On February 21, 2006 the Company has issued additional 40,000,000 debt securities at nominal of KZT 100, for the total amount of KZT 4,000,000 thousands with the following characteristics:

	Interest rate	Maturity
Mortgage-backed KZT denominated bonds 9th issuance	8,5%	2016

On January 20, 2006 the Company signed an agreement with ABN AMRO Bank for the securitization funding. According to the agreement the Company is to sell during one year period its mortgage loans for the amount of 150 millions USD. On February 17, 2006, the Company sold, under this agreement, its mortgage loans for the total amount of 23 millions USD. However, the Company will continue managing these loans under a trust agreement, and will charge a commission for this.