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JSC Kazakhstan Mortgage Company

**Financial Statements for the year ended
31 December 2006**

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statement, statement of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Auditor's Responsibility for the Financial Statements
The auditor is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the presentation of financial statements that are free from material misstatements, whether due to fraud or error, relating and applying appropriate accounting policies, and disclosing the related estimates that are required by the circumstances.

Auditor's Responsibility
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. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those assessments, we consider the company's internal control relevant to the entity's preparation and the presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as performing other procedures as required by the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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Independent Auditors' Report

To the Board of Directors of JSC Kazakhstan Mortgage Company:

Report on the Financial Statements

We have audited the accompanying financial statements of JSC Kazakhstan Mortgage Company (the "Company"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility


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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Berdalina J. K.
Certified Auditor
Managing partner



KPMG Audit LLC
State license #0000021 dated December 06, 2006
for provision of audit services

15 February 2007




Wilson Mitchell
Audit Partner

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JSC Kazakhstan Mortgage Company
Income Statement for the year ended 31 December 2006

	Notes	2006 KZT'000	2005 KZT'000
Net interest income			
Loans to customers		4,222,383	3,244,604
Investment securities:			
- Trading		53,905	128,803
- Held to maturity		459,963	-
Bank placements		157,053	30,724
		<u>4,893,304</u>	<u>3,404,131</u>
Interest expense			
Debt securities issued		<u>(2,915,873)</u>	<u>(2,141,386)</u>
Net interest income		1,977,431	1,262,745
Fee and commission income		160,031	97,909
Fee and commission expense		<u>(78,151)</u>	<u>(36,744)</u>
Net fee and commission income		81,880	61,165
Net (loss)/gain on investment securities	4	(144,927)	120,652
Other income		<u>22,930</u>	<u>4</u>
Operating income		1,937,314	1,444,566
General and administrative expenses	5	(890,434)	(596,481)
Impairment losses	11	<u>(65,250)</u>	<u>-</u>
Income before income tax expense		981,630	848,085
Income tax expense	6	-	-
Net income		<u>981,630</u>	<u>848,085</u>

The financial statements as set out on pages 5 to 30 were approved on 15 February 2007.

Chairman of the Management Board
 Ibadullayev A. A.



Chief Accountant
 Absattarova R.K.



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

ASSETS	Notes	2006 KZT'000	2005 KZT'000
Cash and cash equivalents	7	189,146	1,343,306
Bank placements	8	2,530,205	1,818,440
Loans to customers	9	46,962,434	35,039,138
Investment securities:			
- Trading			
- Pledged under sale and repurchase agreements	10	-	219,034
- Unpledged	10	1,821,903	2,105,012
- Held to maturity	10	11,153,566	-
Property and equipment	11	1,176,481	241,845
Intangible assets	12	61,246	44,784
Other assets		11,981	8,338
Total assets		63,906,962	40,819,897
 LIABILITIES AND SHAREHOLDER'S EQUITY			
Debt securities issued	13	43,700,709	30,336,062
Amounts payable under repurchase agreements		-	219,034
Other liabilities	14	203,128	80,334
Total liabilities		43,903,837	30,635,430
 Shareholder's equity			
Share capital	15	17,920,000	8,900,000
Retained earnings		2,083,125	1,284,467
Total shareholder's equity		20,003,125	10,184,467
Total liabilities and shareholder's equity		63,906,962	40,819,897



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

JSC Kazakhstan Mortgage Company
Statement of Cash Flows for the year ended 31 December 2006

	<u>2006</u> <u>KZT'000</u>	<u>2005</u> <u>KZT'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	981,630	848,085
Adjustments for non-cash items:		
Net loss/(gain) on investment securities	144,923	(120,652)
Depreciation and amortisation	45,647	30,134
Net loss on disposal of equipment	-	17
Impairment losses	65,250	-
Operating income before changes in working capital	<u>1,237,450</u>	<u>757,584</u>
Decrease/(increase) in operating assets		
Increase in loans to customers	(11,923,296)	(8,740,381)
Increase in bank placements	(711,766)	(1,818,440)
Increase in other assets	(3,642)	(5,605)
Increase/(decrease) in operating liabilities		
(Decrease)/increase in amounts payable under repurchase agreements	(219,034)	219,034
Increase in other liabilities	106,648	17,603
Net cash flows used in operating activities	<u>(11,513,640)</u>	<u>(9,570,205)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(11,016,088)	(760,227)
Proceeds from sale of investment securities	-	1,579,373
Purchase of property and equipment	(1,022,606)	(227,342)
Purchase of intangible assets	(39,390)	(21,052)
Net cash (used in)/from investing activities	<u>(12,078,084)</u>	<u>570,752</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	9,020,000	6,400,000
Proceeds from debt securities issued	20,576,972	4,119,143
Repurchase/redemption of debt securities issued	(7,088,900)	-
Dividends paid	(70,508)	(176,903)
Net cash from financing activities	<u>22,437,564</u>	<u>10,342,240</u>
Net (decrease) / increase in cash and cash equivalents	<u>(1,154,160)</u>	<u>1,342,787</u>
Cash and cash equivalents at the beginning of the year	1,343,306	519
Cash and cash equivalents at the end of the year (Note 7)	<u>189,146</u>	<u>1,343,306</u>



The Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

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JSC Kazakhstan Mortgage Company
Statement of Changes in Equity for the year ended 31 December 2006

Background

	Share capital KZT'000	Retained earnings KZT'000	Total KZT'000
Balance as of 1 January 2005	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 declared	-	(176,903)	(176,903)
Balance as of 31 December 2005	8,900,000	1,284,467	10,184,467
Net income for the year	-	981,630	981,630
Shares issued	9,020,000	-	9,020,000
Dividends declared	-	(182,972)	(182,972)
Balance as of 31 December 2006	17,920,000	2,083,125	20,003,125



The Statement of Changes in 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. 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 Panphilov Street, Almaty, Kazakhstan. The Company has a representative office in Astana.

The number of persons employed by the Company as at 31 December 2006 was 138 (2005: 122).

On 15 February 2006 sole ownership of the Company was transferred from NBK to the Ministry of Finance ("MOF").

In 2006 Moody's Investors Service upgraded JSC Kazakhstan Mortgage Company's long-term local currency issuer rating to Baa1.

b) Kazakhstan business environment

The economic environment of Kazakhstan was assessed in 2005 and 2006 by international rating agencies. In 2006 Standard & Poor's Ratings Services raised its long-term foreign currency sovereign credit rating on the Republic of Kazakhstan to 'BBB' from 'BBB-' and its long-term local currency sovereign credit rating to 'BBB+' from 'BBB' the short-term ratings of borrowings in the national and foreign currencies were also raised to "A-2" from "A-3". In 2006 Fitch rated the long-term borrowings in foreign currency at "BB+" and the long-term borrowings in the national currency at "BBB-" (2005: "BB" and "BB+", respectively). In 2006 Moody's Investors Service also raised rating of the long-term debts in foreign currency up to "Baa2" (from "Baa3") and Kazakhstan debts in the national currency up to "A2"(from "Baa1").

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:

	2006	2005
	<u>KZT'000</u>	<u>KZT'000</u>
Statutory shareholder's equity at December 31	19,858,426	10,042,087
Statutory provision for losses	<u>160,847</u>	<u>142,380</u>
IFRS shareholder's equity at December 31	<u><u>20,019,273</u></u>	<u><u>10,184,467</u></u>

Under the statutory requirements of the FMSA the Company created 100% provision for statutory reporting purposes for non-repayment of overdue mortgage loans purchased without recourse in the amount of KZT 160,847 thousand and KZT 142,380 thousand at 31 December 2006 and 2005, respectively. 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) 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 of preparation of these financial statements. The financial statements have been rounded to the nearest thousand KZT, unless otherwise indicated.

c) 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 and critical judgments in applying accounting policies are described in the Notes 9 and 11.



3 Significant accounting policies

The following significant accounting policies have been consistently 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.

b) **Financial instruments**

(i) **Classification**

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading, financial instruments designated at fair value through profit or loss at initial recognition, and derivative financial assets or liabilities.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or it is a part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking, or it is a derivative.

The Company designates financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed and evaluated on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets and liabilities at fair value through profit or loss are not reclassified subsequent to initial recognition. Financial instruments at fair value through profit or loss include trading securities, other financial instruments at fair value through profit or loss, and derivative financial instruments.

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.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity, other than those that:

- the Company upon initial recognition designates as at fair value through profit or loss;
- the Company designates as available-for-sale; or
- meet the definition of loans and receivables.

Available-for-sale assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.



3 Significant accounting policies, continued

b) Financial instruments, continued

(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. All regular way purchases of financial assets are accounted for at the settlement date.

(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, including derivatives that are 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;
- held to maturity investments 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.

(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.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Company would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.



3 Significant accounting policies, continued

b) Financial instruments, continued

(v) *Gains and losses on subsequent measurement, continued*

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the income statement.

- a gain or loss on an available-for-sale financial asset is recognised directly in equity through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest in relation to an available-for-sale financial asset is recognised as earned in the income statement calculated using the effective interest method.

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) Property and equipment

(i) *Owned assets*

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



3 Significant accounting policies, continued

c) Property and 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:

Building	40 years
Computer equipment	3 years
Vehicles	7 years
Other assets	5-10 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, other receivables and unquoted available-for-sale debt securities. 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's 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.



3 Significant accounting policies, continued

e) Impairment, continued

(i) Financial assets carried at amortised cost, continued

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 is little available historical data relating to similar borrowers. In such cases, the Company uses its experience and judgement to estimate the amount of any impairment loss.

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) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale assets that are not carried at fair value because their fair value can not reliably measured. If there is objective evidence that such investments are impaired the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the income statement and can not be reversed.

(iii) Non-financial assets

Non-financial assets, except for deferred taxes, are assessed at each reporting date for any indication 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 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.



3 Significant accounting policies, continued

f) Interest bearing borrowings

Interest-bearing borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

g) 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.

h) 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. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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.



3 Significant accounting policies, continued

i) **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

j) **Fee income**

The Company charges a monthly fee for the maintenance of client accounts. This commission income is accrued and recognised on a monthly basis. Fees related to prepayment penalties incurred by customers are recognised when received.

k) **Change in accounting policy**

As at 31 December 2006, the Company adopted the amendment to International Financial Reporting Standard IAS 39 "Financial Instruments: Recognition and Measurement" – "The Fair Value Option". Upon application of this amendment, the Company may designate a financial instrument at fair value through profit or loss only if certain conditions are met. Application of this amendment did not have any impact on the financial statements of the Company.

l) **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 2006, 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. The Company has not yet analysed the likely impact of the new Standards on its financial statements.

- 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.
- 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.



4 Net (loss)/gain on investment securities

	2006 KZT'000	2005 KZT'000
Net realised (loss)/gain on investment securities	(4)	6,988
Net unrealised (loss)/gain on revaluation of investment securities	(144,923)	113,664
	(144,927)	120,652

5 General and administrative expenses

	2006 KZT'000	2005 KZT'000
Employee compensation	463,611	328,461
Advertising and marketing	101,054	89,310
Withholding taxes	83,455	8,488
Payroll related taxes	51,207	34,749
Occupancy	50,927	25,324
Depreciation and amortisation	45,648	30,134
Communication	11,988	7,805
Professional services	11,565	31,181
Travel expenses	6,171	9,601
Office supplies	1,144	18,344
Other	63,664	13,084
	890,434	596,481

6 Income tax expense

The Company's applicable tax rate for current and deferred tax is 30% (2005: 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 1 January 2008. If the combination of excluded income plus deductible expenses creates an operating loss, the loss can not be carried forward to future years.



6 Income tax expense, continued

Reconciliation of effective tax rate:

	2006		2005	
	KZT'000	%	KZT'000	%
Income before tax	981,630	100%	848,085	100%
Income tax using the applicable tax rate	294,489	30%	254,426	30%
Non-taxable items	(294,489)	(30%)	(254,426)	(30%)
Total income tax expense	-	-	-	-

7 Cash and cash equivalents

	2006	2005
	KZT'000	KZT'000
Current account with NBK	189,146	2,275
Term deposit at NBK	-	1,341,031
	189,146	1,343,306

8 Bank placements

	2006	2005
	KZT'000	KZT'000
JSC Alliance Bank	1,500,000	1,000,000
JSC Tsesna Bank	500,000	-
JSC KazInvest Bank	500,000	500,000
Accrued interest	30,205	18,440
JSC Temir Bank	-	300,000
	2,530,205	1,818,440



9 Loans to customers

Loans to customers comprise mortgage 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. Approximately 80% of loans are purchased from commercial banks with recourse. All loans are secured by real estate collateral.

	2006	2005
	<u>KZT'000</u>	<u>KZT'000</u>
Mortgage loans with recourse	37,227,479	34,344,000
Mortgage loans without recourse	9,377,080	396,895
Accrued interest	<u>357,875</u>	<u>298,243</u>
	<u>46,962,434</u>	<u>35,039,138</u>

Loans to customers carry interest at rates ranging from 0% to 0.9% (2005: 0% to 2.8%) plus an inflation index ranging from 7.5% to 9.0% (2005: 6.7% to 8.2%). The inflation index published by the Statistics Agency of the Republic of Kazakhstan as at 31 December 2006 was 8.4% (2005: 7.9%).

At 31 December 2006 the Company had contractually overdue loan balances totalling KZT 160,847 thousand (2005: KZT 142,380 thousand) which are not secured by guarantees of commercial banks. However, the Company expects to recover the loans through the sale of collateral

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 loans written off. On this basis the Company determined that a provision for impairment is not necessary.



10 Investment securities

	<u>2006</u> <u>KZT'000</u>	<u>2005</u> <u>KZT'000</u>
Trading		
<i>Unpledged debt instruments – quoted</i>		
Treasury bills of the Ministry of Finance	1,821,903	2,105,012
<i>Pledged under repurchase agreements- quoted</i>		
Treasury bills of the Ministry of Finance	-	219,034
	<u>1,821,903</u>	<u>2,324,046</u>
Held to maturity		
<i>Unpledged debt instruments – quoted</i>		
Treasury bills of the Ministry of Finance	2,258,545	-
JSC Bank Kaspiyskiy	2,254,315	-
JSC Bank CenterCredit	1,687,310	-
JSC Tsesna Bank	1,392,852	-
JSC Kazakhstan Kagazy	740,354	-
JSC Doszhan Temir Zholy	718,073	-
JSC ELMEKS	504,847	-
JSC ROSA	422,172	-
JSC Kazinvest Bank	315,371	-
JSC Alliance Bank	283,125	-
JSC Halyk Bank	226,638	-
JSC Bank Turan Alem	179,675	-
JSC Karzhanbasmunai	170,289	-
	<u>11,153,566</u>	<u>-</u>



Property and equipment

JSC Kazakhstan Mortgage Company
Notes to, and forming part of, the financial statements
for the year ended 31 December 2006

KZT'000	Land	Building	Computer equipment	Vehicles	Other fixed assets	Equipment to be installed	Total
Cost							
At 1 January 2005	-	-	19,292	8,875	12,663	-	40,830
Additions	-	-	31,512	622	6,208	189,000	227,342
Disposal	-	-	(2,100)	-	-	-	(2,100)
At 31 December 2005	-	-	48,704	9,497	18,871	189,000	266,072
At 1 January 2006	-	-	48,704	9,497	18,871	189,000	266,072
Additions	121,958	541,061	31,685	-	10,702	317,200	1,022,606
At 31 December 2006	121,958	541,061	80,389	9,497	29,573	506,200	1,288,678
Depreciation							
At 1 January 2005	-	-	4,819	3,498	3,193	-	11,510
Depreciation charge	-	-	11,425	1,070	2,305	-	14,800
Disposal	-	-	(2,083)	-	-	-	(2,083)
At 31 December 2005	-	-	14,161	4,568	5,498	-	24,227
At 1 January 2006	-	-	14,161	4,568	5,498	-	24,227
Depreciation charge	-	2,098	16,154	1,358	3,110	-	22,720
Impairment loss	-	-	-	-	-	65,250	65,250
At 31 December 2006	-	2,098	30,315	5,926	8,608	65,250	112,197
Carrying value							
At 31 December 2005	-	-	34,543	4,929	13,373	189,000	241,485
At 31 December 2006	121,958	538,963	50,074	3,571	20,965	440,950	1,176,481

An amount of KZT 189,000 thousand was paid in advance under a contract for the purchase of server equipment. The delivery has not been completed and the supplier is in financial difficulties. The Company has written down the value of the delivered equipment by KZT 65,250 thousand to its estimated recoverable value.



12 Intangible assets

KZT'000	<u>Software</u>
Cost	
At 1 January 2005	46,692
Additions	21,052
Disposal	(824)
At 31 December 2005	<u>66,920</u>
At 1 January 2006	66,920
Additions	39,390
At 31 December 2006	<u>106,310</u>
Amortisation	
At 1 January 2005	7,626
Amortisation charge	15,334
Disposal	(824)
At 31 December 2005	<u>22,136</u>
At 1 January 2006	22,136
Amortisation charge	22,928
At 31 December 2006	<u>45,064</u>
Carrying value	
At 31 December 2005	<u><u>44,784</u></u>
At 31 December 2006	<u><u>61,246</u></u>



13 Debt securities issued

Debt securities issued as at 31 December 2006 and 2005 comprised KZT denominated mortgage bonds.

Placement date	Maturity date	Coupon rate	2006 KZT'000	2005 KZT'000
15.10.2005	15.05.2006	0%	-	4,442,778
01.05.2006	01.05.2007	0%	4,918,046	-
01.03.2005	01.03.2008	4.90% fixed rate	3,105,076	-
01.06.2004	01.04.2009	0.39% +floating inflation index	5,121,843	5,157,228
01.03.2005	01.03.2010	5.69% fixed rate	664,971	-
01.06.2004	01.04.2011	0.39%+floating inflation index	4,231,442	5,103,612
01.10.2004	01.10.2011	0.10%+floating inflation index	5,163,756	3,968,709
11.08.2003	01.10.2013	0.80%+floating inflation index	2,148,845	2,458,224
01.12.2003	01.04.2014	1.00%+floating inflation index	4,111,692	4,556,961
01.02.2004	01.04.2014	0.50%+floating inflation index	4,146,257	4,596,951
10.04.2005	10.04.2015	6.90% fixed rate	4,973,219	-
10.04.2005	10.04.2017	0.01%+floating inflation index (limited to 7.50%)	5,115,562	51,599
			43,700,709	30,336,062

These obligations are secured by 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.

14 Other liabilities

	2006 KZT'000	2005 KZT'000
Dividends payable	112,964	-
Employees	41,436	29,445
Taxes other than on income	13,057	22,318
Professional services	8,415	5,500
Other payables	27,256	23,071
	203,128	80,334



15 Share capital

a) Issued Capital

Share capital for 31 December of 2006 and 2005 was KZT 17,920,000 thousand and KZT 8,900,000 thousand, respectively. The owner of the Company is the State through the Committee of State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan.

	<u>2006</u>	<u>2005</u>
Number of issued shares at par value of KZT 10,000 per 1 share	1,792,000	890,000
Issued and fully paid share capital as at 31 December (KZT'000)	<u>17,920,000</u>	<u>8,900,000</u>

In 2006 the Company issued 902,000 shares at KZT 10,000 par value to the sole shareholder, the Ministry of Finance, for cash.

b) Dividends

In accordance with Government Regulation № 404 dated 25 April 2003 "On dividends on Governmental shares and income on Governmental interest in organisations" the Company should distribute 10% of its net income, for the related period to the state budget in the form of dividends.

16 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:

a) Market risk

(i) 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.

(ii) 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.



16 Risk management, continued

a) Market risk, continued

The Company manages its market risk by setting open position limits in relation to financial instrument and interest rate maturity which are monitored on a regular basis and reviewed and approved by the Management Board.

b) 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.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments. 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 liquidity policy is reviewed and approved by the Board of Directors. For further information on the Company's exposure to liquidity risk at year end refer to Note 21.

17 Commitments and contingencies

a) 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.

b) 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.



18 Related party transactions

The government of the Republic of Kazakhstan is the ultimate controlling party.

Related parties are the State and state-owned entities. As at 31 December 2006 and 2005 the amounts included in the balance sheet and income statement in relation to transactions with related parties are as follows:

	2006 KZT'000		2005 KZT'000	
	Ministry of Finance	Other state organisations	Ministry of Finance	Other state organisations
Interest income on investment securities	167,532	9,088	94,436	34,366
Fee and commission expense	-	2,241	(291)	(2,510)
General and administrative expenses	-	-	-	(34,264)

At 31 December 2006 and 2005 related party balances consist of the following:

	2006 KZT'000		2005 KZT'000	
	Ministry of Finance	Other state organisations	Ministry of Finance	Other state organisations
Cash and cash equivalents	-	189,146	-	1,343,306
Investment securities	4,080,448	-	2,324,046	-

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 Management Board and to key management personnel during the period, nor any loan balances at the year end.

Total remuneration paid to members of the Management Board during the period, included in employee compensation, amounted to KZT 39,030 thousand (2005: KZT 70,200 thousand).



19 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".

The estimated fair value of cash, current account with NBK, term deposits at NBK and with other banks and other floating rate placements is their carrying value.

The estimated fair value of investment securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. For securities not traded in an active market, the fair value is estimated by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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

The estimated fair value of debt securities in issue 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 instruments represents the discounted amount of estimated future cash flows expected to be received.

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.

Management of the Company believes that fair value of financial instruments does not differ significantly from their carrying value.

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.



20 Average effective interest rates

The table below displays the Company's interest bearing assets and liabilities at 31 December 2006 and 2005 and their corresponding average effective interest rates as at those dates.

	2006		2005	
	Value KZT'000	Average effective interest rate %	Value KZT'000	Average effective interest rate %
Cash and cash equivalents	189,146	0.00%	1,343,306	2.75%
Bank placements	2,530,205	6.80%	1,818,440	8.50%
Loans to customers	46,962,434	10.82%	35,039,138	13.41%
Investment securities:				
- Trading	1,821,903	5.24%	2,324,046	5.04%
- Held to maturity	11,153,566	7.93%	-	-
Debt securities issued	43,700,709	8.11%	30,336,062	7.74%
Amounts payable under repurchase agreements	-	-	219,034	5.04%



21 Maturity analysis

The following table shows the Company's assets and liabilities by remaining contractual maturity dates as at 31 December 2006.

KZT'000	<u>Less than 1 month</u>	<u>1 to 3 months</u>	<u>3 months to 1 year</u>	<u>1 year to 5 years</u>	<u>More than 5 years</u>	<u>No maturity</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	-	-	-	-	-	189,146	189,146
Bank placements	30,205	1,500,000	1,000,000	-	-	-	2,530,205
Loans to customers	365,474	705	28,876	1,397,312	45,170,067	-	46,962,434
Investment securities:							
- Trading	-	-	9,631	1,607,697	204,575	-	1,821,903
- Held to maturity	-	-	-	3,990,203	7,163,363	-	11,153,566
Property and equipment	-	-	-	-	-	1,176,481	1,176,481
Intangible assets	-	-	-	-	-	61,246	61,246
Other assets	3,542	681	4,311	3,447	-	-	11,981
Total assets	<u><u>399,221</u></u>	<u><u>1,501,386</u></u>	<u><u>1,042,818</u></u>	<u><u>6,998,659</u></u>	<u><u>52,538,005</u></u>	<u><u>1,426,873</u></u>	<u><u>63,906,962</u></u>
LIABILITIES							
Debt securities issued	-	1,418,342	5,377,267	21,522,131	15,382,969	-	43,700,709
Other liabilities	74,861	35,872	72,900	3,347	-	-	186,980
Total liabilities	<u><u>74,861</u></u>	<u><u>1,454,214</u></u>	<u><u>5,450,167</u></u>	<u><u>21,525,478</u></u>	<u><u>15,382,969</u></u>	<u><u>-</u></u>	<u><u>43,887,689</u></u>
Net position as at 31 December 2006	<u><u>324,360</u></u>	<u><u>47,172</u></u>	<u><u>(4,407,349)</u></u>	<u><u>(14,526,819)</u></u>	<u><u>37,155,036</u></u>	<u><u>1,426,873</u></u>	<u><u>20,019,273</u></u>
Net position as at 31 December 2005	<u><u>1,342,598</u></u>	<u><u>28,506</u></u>	<u><u>(3,594,698)</u></u>	<u><u>(2,433,892)</u></u>	<u><u>14,555,324</u></u>	<u><u>286,629</u></u>	<u><u>10,184,467</u></u>

