

**SMALL
ENTREPRENEURSHIP
DEVELOPMENT FUND JSC**

Independent Auditors' Report

Financial Statements
For the Year Ended 31 December 2006

SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION
AND APPROVAL OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Small Entrepreneurship Development Fund JSC (the "Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company at 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2006 were authorised for issue on September 1, 2007 by the Management Board.

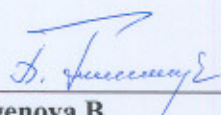
On behalf of the Management Board:



Amrin G.K.
Chairman

September 7, 2007





Tulegenova B.
Chief Accountant

September 7, 2007

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of the Small Entrepreneurship Development Fund JSC:

Report on the Financial Statements

We have audited the accompanying financial statements of Small Entrepreneurship Development Fund JSC (the "Company") which comprise the balance sheet as at 31 December 2006, the profit and loss account, and the statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The previous financial statements for the year ended 31 December 2005 were audited by other auditors and an unqualified opinion was issued on 25 August 2006.

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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 policies used and the 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 audit opinion.

Opinion

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

Without qualifying our opinion we draw attention to Note 4 of the financial statements. As described therein, certain prior year adjustments and reclassifications have been made to the financial statements for the year ended 31 December 2005.

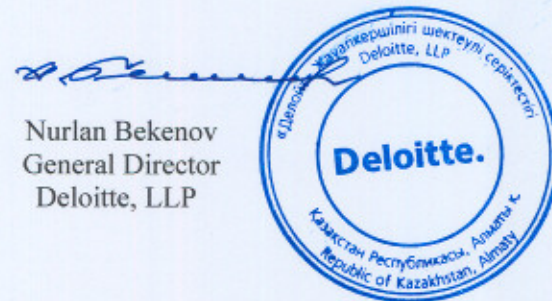
Deloitte, LLP

Deloitte, LLP
Audit license for Republic of Kazakhstan
№0000015, type MFU - 2, issued by the Ministry of
Finance of the Republic of Kazakhstan dated
13 September 2006

7 September 2007



Arman Chingilbayev
Engagement Partner
Qualified auditor
Qualification certificate №0000487,
Republic of Kazakhstan



Nurlan Bekenov
General Director
Deloitte, LLP

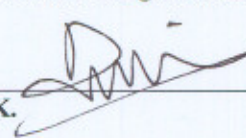
SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of Tenge)

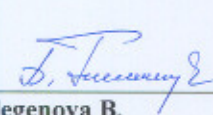
	Notes	Year ended 31 December 2006	Year ended 31 December 2005 (restated)
Interest income	5	2,487,394	1,455,644
Interest expense	5	(404,340)	(249,700)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		2,083,054	1,205,944
Provision for impairment losses on interest bearing assets	6	(5,571,240)	(331,291)
NET INTEREST INCOME		(3,488,186)	874,653
Net gain on foreign exchange operations	8	(108,336)	4,056
Net realized gain/(loss) on derecognition of investments available for sale		42,161	(4,566)
Net gain on investments in associates		7,002	-
Net gain on debt securities issued		9,980	-
Other income	9	28,769	1,397
NET NON-INTEREST INCOME		(20,424)	887
OPERATING (LOSS)/INCOME		(3,508,610)	875,540
OPERATING EXPENSES	10	(1,075,929)	(701,553)
OPERATING PROFIT/(LOSS)		(4,584,539)	173,987
Provision for impairment losses on other transactions	7	(43,741)	(51,616)
(LOSS)/PROFIT BEFORE INCOME TAX		(4,628,280)	122,371
Income tax benefit/(expense)	11	661,688	(81,031)
NET (LOSS)/PROFIT		(3,966,592)	41,340

On behalf of the Management Board:


Amrin G.K.
Chairman

September 1, 2007




Tulgenova B.
Chief Accountant

September 1, 2007

The notes on pages 9-30 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2-3.

SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

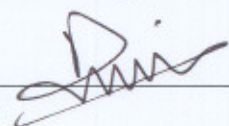
BALANCE SHEET

AS AT 31 DECEMBER 2006

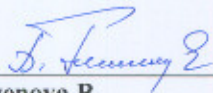
(in thousands of Tenge)

	Notes	31 December 2006	31 December 2005 (restated)
ASSETS:			
Cash and cash equivalents	12	1,195,801	1,256,296
Notes purchased under agreement to resell	13	1,879,832	2,016,025
Loans and advances to banks, less allowance for impairment losses	14	2,044,081	3,935,554
Loans to customers, less allowance for impairment losses	15	13,121,001	11,259,309
Investments available for sale, less allowance for impairment losses	16	8,951,114	3,560,987
Investments in associates	17	22,154	38,287
Property, equipment and intangible assets, less accumulated depreciation and amortization	18	587,605	524,676
Deferred income tax asset	11	657,888	-
Current income tax assets	11	151,615	-
Other assets, less allowance for impairment losses	19	319,750	546,212
TOTAL ASSETS		28,930,841	23,137,346
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans from banks and other financial institutions	20	1,687,089	3,650,622
Debt securities issued	21	3,128,785	-
Notes sold under agreement to repurchase		-	1,001,306
Dividends payable	23	-	66,305
Deferred income tax liabilities	11	-	3,800
Other liabilities	22	227,211	72,165
Total liabilities		5,043,085	4,794,198
EQUITY:			
Share capital	23	28,120,273	18,120,273
Revaluation reserve of fair value of investments available-for-sale		(493,944)	(5,144)
Fixed assets revaluation reserve		61,217	61,897
Other reserves		316,430	207,676
Accumulated deficit		(4,116,220)	(41,554)
Total equity		23,887,756	18,343,148
TOTAL LIABILITIES AND EQUITY		28,930,841	23,137,346

On behalf of the Management Board:


Amrin G.K.
Chairman




Tulegenova B.
Chief Accountant

September 1, 2007

September 1, 2007

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SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of Tenge)

	Share capital	Revaluation reserve of fair value of investments available for sale	Fixed assets revaluation reserve	Other reserves	Retained earnings/ (accumulated deficit)	Total
31 December 2004	<u>4,740,495</u>	<u>-</u>	<u>63,257</u>	<u>141,371</u>	<u>48,356</u>	<u>4,993,479</u>
Share capital increase of ordinary shares	13,379,778	-	-	-	-	13,379,778
Losses on revaluation of investments available-for-sale	-	(72,558)	-	-	-	(72,558)
Losses transferred to profit and loss account from disposal of investments available-for-sale	-	-	(1,360)	-	1,360	-
Dividends declared	-	-	-	-	(66,305)	(66,305)
Transfers	-	-	-	66,305	(66,305)	-
Net profit	-	-	-	-	108,754	108,754
31 December 2005 (before restatement)	18,120,273	(72,558)	61,897	207,676	25,860	18,275,734
Restatement (Note 4)	-	67,414	-	-	(67,414)	-
31 December 2005 (restated)	<u>18,120,273</u>	<u>(5,144)</u>	<u>61,897</u>	<u>207,676</u>	<u>(41,554)</u>	<u>18,343,148</u>
Share capital increase of ordinary shares	10,000,000	-	-	-	-	10,000,000
Losses on revaluation of investments available-for-sale	-	(493,065)	-	-	-	(493,065)
Losses transferred to profit and loss account from disposal of investments available-for-sale	-	4,265	-	-	-	4,265
Write-off of fixed assets revaluation reserve	-	-	(680)	-	680	-
Transfers	-	-	-	108,754	(108,754)	-
Net profit	-	-	-	-	(3,966,592)	(3,966,592)
31 December 2006	<u>28,120,273</u>	<u>(493,944)</u>	<u>61,217</u>	<u>316,430</u>	<u>(4,116,220)</u>	<u>23,887,756</u>

On behalf of the Management Board

Amrin G.K.
Chairman

September 1, 2007



Tulegenova B.
Chief Accountant

September 1, 2007

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SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of Tenge)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 <i>(restated)</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss)/Profit before income tax		(4,628,280)	122,371
Adjustments for:			
Provision for impairment losses on loans to customers		2,231,574	309,444
Provision for impairment losses on investments available-for-sale		1,621,243	-
Provision for impairment losses on loans to banks		1,798,065	21,847
Provision for impairment on other transactions		43,741	51,616
(Gain)/loss on fixed assets disposal		(1,945)	3,595
Amortization of premium on debt securities issued		(9,980)	-
Depreciation and amortisation expense		42,620	13,343
Net change in interest accruals		(196,735)	(67,957)
Cash inflows from operating activities before changes in operating assets and liabilities		900,303	454,259
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans and advances to banks		140,416	3,077,466
Loans to customers		(4,169,800)	(5,778,188)
Notes purchased under agreements to resell		198,016	(2,135,492)
Other assets		173,124	39,663
Increase/(decrease) in operating liabilities			
Loans and advances from banks		(1,941,659)	(4,186,235)
Notes sold under agreement to repurchase		(1,001,306)	(993,570)
Other liabilities		155,046	(108,129)
Cash outflow from operating activities before taxation		(5,545,860)	(9,977,428)
Income tax paid		(142,018)	(50,663)
Net cash outflow from operating activities		(5,687,878)	(10,028,091)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(109,499)	(335,912)
Disposal of fixed assets		5,895	4,770
Purchases of investments available for sale		(7,278,856)	(3,390,964)
Investments in associates		(15,055)	(38,287)
Proceeds from sale of investments in associates		31,188	-
Net cash outflow from investing activities		(7,366,327)	(3,760,393)

SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006 *(in thousands of Tenge)*

	Notes	Year ended 31 December 2006	Year ended 31 December 2005 <i>(restated)</i>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		10,000,000	13,379,778
Proceeds from sale of debt securities issued		3,060,015	-
Other proceeds		-	10,923
Dividends paid		(66,305)	(26,254)
Net cash inflow from financing activities		<u>12,993,710</u>	<u>13,353,524</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(60,495)	(434,960)
CASH AND CASH EQUIVALENTS, beginning of year	12	<u>1,256,296</u>	<u>1,691,256</u>
CASH AND CASH EQUIVALENTS, end of year	12	<u>1,195,801</u>	<u>1,256,296</u>


Interest paid and received by the Company during the year ended 31 December 2006 amounted to KZT 356,242 thousand and KZT 155,284 thousand, respectively.

On behalf of the Management Board:


Amrin G.K.
Chairman

September 1, 2007




Tulegenova B.
Chief Accountant

September 1, 2007

The notes on pages 9-30 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2-3.

SMALL ENTREPRENEURSHIP DEVELOPMENT FUND JSC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of Tenge, unless otherwise stated)

1. ORGANISATION

JSC Small Entrepreneurship Development Fund (the "Company") was established under the act of the Government of the Republic of Kazakhstan #665 dated 26 April 1997 with the view of stimulation and formation of economic growth of small entrepreneurship in the Republic of Kazakhstan (the "RK"), as well as to increase efficient use of state funds aimed to support small entrepreneurship and to implement the Decree of the Republic of Kazakhstan #3398 dated 6 March 1997 "On measurements on reinforcement of state support and development of small entrepreneurship".

The Company is registered as legal entity (registration certificate #12840-1910-AO dated 16 October 2003) in the form of Joint Stock Company and provides financial services.

The registered office of the Company is located at: Gogol str, 111, Almaty, Republic of Kazakhstan.

The legal status of the Company is Joint Stock Company with one shareholder JSC "Sustainable Development Fund "Kazyna".

After 15 April 2006, according to Decision of Government of Kazakhstan Republic # 186 the Company became a wholly owned subsidiary of State Development Company "Kazyna". In 2005 the sole shareholder was the Government of Republic of Kazakhstan represented by the Ministry of Industry and Trade of the RK as owner and controlling body and by the State Property and Privatization Committee of the Ministry of Finance of the RK as managing body.

The Company conducts its business under the license #4 issued on 5 April 1994 by the Agency of the Republic of Kazakhstan on regulation and supervisory of financial market and financial institutions conducting operations under banking legislation of the Republic of Kazakhstan in local and foreign currency. The license gives the right to conduct the following activities:

- banking transactions in local and foreign currency;
- lending operations.

The Company has 15 branches in all regions of the RK.

As of 31 December 2006, the number of the Company's employees was 359 (2005: 242).

2. BASIS OF PRESENTATION

Accounting basis

The Company maintains its accounting records in accordance with the legislation of the RK. The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Kazakhstani Tenge ("KZT"), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except for the measurement at fair value of investments available-for-sale.

The preparation of the financial statements in conformity with IFRS requires that the Company's management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates that are particularly susceptible to change relate to the provisions for losses, provisions for impairment of investments and determination of the fair value of financial instruments.

Functional currency

The functional currency of the accompanying financial statements is the KZT.

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

The Company recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at 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 acquisition or issue of the financial asset or liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances on correspondent and time deposit accounts with the National Bank of Republic of Kazakhstan with a maturity of less than 3 months.

Loans and advances to banks

In the normal course of business, the Company maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

Originated loans to customers

Loans originated by the Company to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Company with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the profit and loss account according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses in case when deemed uncollectible, including through the repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Company and after the Company has sold all available collateral. The decision on writing off bad debt against the allowance for impairment losses for all major, preferential, unsecured and insider loans should be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid/partially repaid with the debtor's funds.

Allowance for impairment losses

The Company establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset is impaired. The allowance for impairment losses is measured 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 financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed an adjustment to the allowance account. For financial assets carried at cost, the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of the risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the profit and loss and the total of the allowance for impairment losses is deducted from the respective asset. Factors that the Company considers in determining whether it has objective evidence that an impairment loss has been incurred include: information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or cumulatively, provide sufficient objective evidence that an impairment loss has been incurred in respect to a financial asset or a group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Company may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Finance leases

Finance lease are leases that transfer substantially all the risks and rewards of ownership of an asset. Title may or may not eventually be transferred. The determination of whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

Company as lessor

The Company presents leased assets as loans equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are recognized as expenses when incurred.

Investments in associates

Investments include share holdings in micro-credit organizations and one consulting organization (Training Centre). Investments in associates are held at the cost of investments plus the share of the current year profit and loss of the associated company.

Investments available for sale

Investments available-for-sale represent equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the profit and loss account, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the profit and loss account. The Company uses quoted market prices to determine the fair value for the Company's investments available-for-sale. If the market for investments is not active, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Non-marketable equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the profit and loss account for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the profit and loss account for the period. Reversals of such impairment losses on equity instruments are not recognized in the profit and loss account.

Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost less accumulated depreciation and impairment loss, if any.

Depreciation of property, equipment and intangible assets is designed in order to write off assets over their useful economic lives, and is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	1%
Machinery and equipment	15%
Vehicle	12%
Other fixed assets	10%
Intangible assets	15%

Depreciation of assets under construction commences when the assets are put in use.

The carrying amounts of property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts.

An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Kazakhstan where the Company operates also have various other taxes, which are assessed on the Company's activities. These taxes are included as a component of operating expenses in the profit and loss account.

Loans and advances from banks

Company deposits are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued consist of promissory notes issued by the Company. They are accounted in accordance with the principles used for Company deposits.

Provisions

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Company are credit insurance that provide for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make a payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital

Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" ("IAS 10") and are disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Kazakhstan pension system provides for the calculation of current payments by the employer as a percentage of current total disbursements to staff. This expense is charged in the period the related salaries are earned. Upon retirement, all retirement benefit payments are made by pension funds selected by employees. In addition, the Company has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingent liabilities

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. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a Company of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income also includes income earned on investments in securities. Other income is credited to the profit and loss account when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. Commission incomes/expenses are recognized on an accrual basis.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into KZT at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

The exchange rates at the year-end used by the Company in the preparation of the financial statements are as follows:

	31 December 2006	31 December 2005
Tenge/USD	127.00	133.77
Tenge/EUR	167.12	158.54

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Company has a legally enforceable right to offset the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Company does not offset the transferred asset and the associated liability.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board («IASB») and the International Financial Reporting Interpretations Committee («IFRIC») of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations have not resulted in changes to the Company's accounting policies that have affected the amounts reported for the current or prior years.

At the date of issue of these financial statements the following Standards and Interpretations applicable to the Company were issued but not yet effective for these financial statements:

The IASB issued IFRS 7 'Financial Instruments: Disclosures' in August 2005. The standard replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure provisions in IAS 32. IFRS 7 requires disclosure of the significance of financial instruments for the Company's financial position and performance and of qualitative and quantitative information about exposure to risks arising from financial instruments. The standard is effective for annual periods beginning on or after 1 January 2007.

In August 2005, the IASB issued an amendment, 'Capital Disclosures', to IAS 1 'Presentation of Financial Statements'. It requires disclosures about a company's capital and the way it is managed. This amendment is also effective for annual periods beginning on or after 1 January 2007.

Currently the Company is estimating the effect of these new and amended Standards on its financial statements and developing an action plan to modify its accounting and reporting systems to provide reliable disclosure of the required information. The Company anticipates that the adoption of other issued Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

4. RECLASSIFICATIONS AND PRIOR PERIOD ADJUSTMENTS

Prior period adjustments

During 2006 the Company's management discovered errors in the balance sheet as at 31 December 2005. Realized income from investments available for sale as the derecognition from the equity to the income statement was not properly recorded. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" the correction of the errors was done retrospectively. Comparative amounts were restated and the corrections were made to the earliest prior period presented.

The effect of the adjustments made to the balance sheet as at 31 December 2005 are as follows:

Type of adjustment	Amount of adjustments	Financial statements item	As previously reported at 31 December 2005	As restated at 31 December 2005
Fair value revaluation reserve on investments available-for-sale adjusted for written-off revaluation of investments sold in 2005	67,414	Fair value revaluation reserve on investments available-for-sale/Accumulated deficit	(72,558)	(5,144)

Reclassifications

Certain reclassifications have been made to the financial statements as at 31 December 2005 and for the year then ended to conform to the presentation as at 31 December 2006. These reclassifications do not have a material impact on the financial results of the Company.

Nature of reclassification	Amount	Balance sheet/Profit and loss account line as per the previous report	Balance sheet/Profit and loss account line as per current report
Deposit with bank is reclassified from Loans to customers to Loans to banks	165,100	Loans to customers	Loans and advances to banks
Loans to banks is extracted from Loans to customers	3,935,554	Loans to customers	Loans and advances to banks
Accrued interest on investments available for sale added to Investments available for sale less allowance for impairment losses line	55,701	Other debtors	Investments available for sale
Accrued interest on loans to customers added to Loans to customers less allowance for impairment losses line	216,893	Other debtors	Loans to customers
Notes sold under agreement to repurchase extracted from Cash and cash equivalents	1,001,306	Accounts payable	Notes sold under agreement to repurchase
Accrued interest expense on due from banks extracted from other liabilities	38,683	Other liabilities	Loans from banks and other financial institution
Net realized income from investments available for sale reclassified from other income	62,848	Other income	Investments available for sale

5. NET INTEREST INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest on loans to customers	1,234,796	918,544
Interest on investments available for sale	728,471	158,668
Interest on loans and advances to banks	337,285	378,432
Interest on reverse repurchase agreements	186,842	-
Total interest income	<u>2,487,394</u>	<u>1,455,644</u>
Interest expense		
Interest on debt securities issued	(213,750)	-
Interest on loans and advances from banks	(105,840)	(247,769)
Interest on repurchase transactions	(75,674)	(1,931)
Other interest expenses	(9,076)	-
Total interest expense	<u>(404,340)</u>	<u>(249,700)</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>2,083,054</u>	<u>1,205,944</u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans and advances to banks	Loans to customers	Investments available for sale	Total
31 December 2004	169,000	155,185	-	324,185
Provision	21,847	309,444	-	331,291
Write-off of assets	-	(79,642)	-	(79,642)
31 December 2005	190,847	384,987	-	575,834
Provision	1,798,065	2,151,932	1,621,243	5,571,240
Write-off of assets	(21,241)	-	-	(21,241)
Recovery of assets previously written off	-	79,642	-	79,642
31 December 2006	<u>1,967,671</u>	<u>2,616,561</u>	<u>1,621,243</u>	<u>6,205,475</u>

7. ALLOWANCE FOR IMPAIRMENT LOSSES ON OTHER TRANSACTIONS

The movements in allowance for impairment losses on other transactions were as follows:

	Total
31 December 2004	24,038
Provision	51,616
Write-off of assets	(24,556)
31 December 2005	51,098
Provision	43,741
Write-off of assets	(43,754)
31 December 2006	<u>51,085</u>

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations is presented as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Dealing, net	108,466	9,523
Translation differences, net	<u>(131)</u>	<u>(5,467)</u>
Total net gain on foreign exchange operations	<u>108,336</u>	<u>4,056</u>

9. OTHER INCOME

	Year ended 31 December 2006	Year ended 31 December 2005
Rent income	14,717	-
Subsidy from State budget	5,600	10,923
Investment income	200	-
Other	<u>8,251</u>	<u>(9,526)</u>
Total other income	<u>28,768</u>	<u>1,397</u>

10. OPERATING EXPENSES

	Year ended 31 December 2006	Year ended 31 December 2005
Payroll and related expenses	671,838	438,973
Social tax expense	77,590	53,294
Fixed assets maintenance (buildings, intangibles, etc.)	60,619	-
Depreciation and amortization	42,620	13,343
Communications expenses	31,131	21,608
Office expenses	29,263	7,526
Rent expenses	28,758	23,061
Training	21,562	1,967
Business trip costs	12,157	10,973
Professional services	10,000	16,505
Bank charges	7,498	5,724
Taxes (other than income tax)	6,997	3,193
Insurance expenses	4,724	-
Other expenses	<u>71,172</u>	<u>105,386</u>
	<u>1,075,929</u>	<u>701,553</u>

11. INCOME TAXES

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of country where the Company and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Company is subject to certain permanent tax differences due to certain non-deductible for tax purpose expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2006 and 2005 comprise:

	31 December 2006	31 December 2005
Deferred assets:		
Loss carryforward	2,297,131	-
Other assets	<u>377,537</u>	<u>59,017</u>
Total deferred assets	<u>2,674,668</u>	<u>59,017</u>
Deferred liabilities:		
Property, equipment and intangible assets	(312,447)	(71,683)
Notes purchased under agreement to resell	(61,824)	-
Investments available-for-sale	(57,403)	-
Debt securities issued	<u>(50,035)</u>	<u>-</u>
Total deferred liabilities	<u>(481,709)</u>	<u>(71,683)</u>
Net deferred asset/(liability)	<u>2,192,959</u>	<u>(12,666)</u>
Net deferred tax asset/(liability) at the statutory tax rate (30%)	<u>657,888</u>	<u>(3,800)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Loss before income tax and minority interest	<u>(4,628,280)</u>	<u>122,371</u>
Tax at the statutory tax rate	(1,388,484)	36,711
Tax effect of permanent differences	<u>726,796</u>	<u>44,320</u>
Income tax (benefit)/expense	<u>(661,688)</u>	<u>81,031</u>
Current income tax expense	-	78,676
(Recovery)/Provision for deferred tax liabilities	<u>(661,688)</u>	<u>2,355</u>
Income tax (benefit)/expense	<u>(661,688)</u>	<u>81,031</u>
Deferred income tax assets/(liabilities)	2006	2005
1 January	(3,800)	(1,445)
Changes in income tax assets /(liabilities) for the year	<u>661,688</u>	<u>(2,355)</u>
31 December	<u>657,888</u>	<u>(3,800)</u>

12. CASH AND CASH EQUIVALENTS

	31 December 2006	31 December 2005
Cash and balances with the National Bank of Kazakhstan and other banks	1,195,755	1,254,237
Cash on hand	46	2,059
Total cash and cash equivalents	1,195,801	1,256,296

13. NOTES PURCHASED UNDER AGREEMENT TO RESELL

	31 December 2006	31 December 2005
Notes purchased under agreement to resell	1,818,009	2,016,025
Accrued interest	61,823	-
Total notes purchased under agreement to resell	1,879,832	2,016,025

Notes purchased under agreement to resell as at 31 December 2006 and 2005 are represented by corporate shares (KZT 1,466,009 thousand) and corporate debt securities (KZT 352,000 thousand).

14. LOANS AND ADVANCES TO BANKS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	31 December 2006	31 December 2005
Loans and advances to banks	3,705,796	4,070,653
Deposits with banks	203,200	-
Accrued interest income on loans and advances to banks	102,756	55,748
	<u>4,011,752</u>	<u>4,126,401</u>
Less allowance for impairment losses	(1,967,671)	(190,847)
Total loans and advances to banks, less allowance for impairment losses	2,044,081	3,935,554

Movements in allowances for impairment losses and advances to banks for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

As at 31 December 2006 and 2005 the maximum credit risk exposure on loans and advances to banks amounted to KZT 2,044,081 thousand and KZT 3,935,554 thousand respectively.

15. LOANS TO CUSTOMERS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	31 December 2006	31 December 2005
Loans to customers	15,737,562	11,644,296
Less allowance for impairment losses	(2,616,561)	(384,987)
Total loans to customers, less allowance for impairment losses	13,121,001	11,259,309

As at 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to KZT 140,359 thousand and KZT 216,893 thousand respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

	31 December 2006	31 December 2005
Loans collateralized by real estate	10,213,795	9,431,559
Loans collateralized by equipment	527,253	1,390,206
Loans collateralized by guarantees of financial institutions	417,600	253,588
Loans collateralized by guarantees of enterprises	51,365	-
Loans collateralized by cash	33,188	-
Other collateral	1,311,849	183,956
Unsecured loans	565,951	-
Total loans to customers, less allowance for impairment losses	<u>13,121,001</u>	<u>11,259,309</u>

	31 December 2006	31 December 2005
Analysis by sector:		
Construction	2,917,330	674,758
Manufacture	2,468,631	2,909,020
Individuals	2,423,070	3,335,675
Trade	1,730,565	137,008
Agriculture	1,089,224	1,241,890
Services	1,038,339	2,116,792
Other	1,453,842	844,161
Total loans to customers, less allowance for impairment losses	<u>13,121,001</u>	<u>11,259,309</u>

Loans to customers represent following products:

	31 December 2006	31 December 2005
Finance lease	953,225	483,134
Loans to customers	12,167,776	10,776,175
Total loans to customers, less allowance for impairment losses	<u>13,121,001</u>	<u>11,259,309</u>

Finance lease present as of 31 December 2006 as follows:

Up to one year	1,238,836
From one to five years	<u>174,527</u>
Minimum rent payments	1,413,363
Less uncollected interest income	<u>(460,138)</u>
Net investments in finance lease	<u>953,225</u>

16. INVESTMENTS AVAILABLE-FOR-SALE

	Interest to nominal %	31 December 2006	Interest to nominal %	31 December 2005
Debt securities				
Local banks securities	7.50% - 10.90%	7,942,252	7.50% - 10.90%	3,505,286
Corporate securities	8.00% - 10.00%	2,353,091		-
Accrued interest income on investments available for sale		277,014		55,701
		<u>10,572,357</u>		<u>3,560,987</u>
Less allowance for impairment losses		<u>(1,621,243)</u>		<u>-</u>
		<u>8,951,114</u>		<u>3,560,987</u>

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 6.

17. INVESTMENTS IN ASSOCIATES

The following companies were shown in the financial statements under the equity method:

	31 December 2006		31 December 2005	
	Equity share %	Amount	Equity share %	Amount
“Arkalyksky kreditniy dom”	49%	5,099	49%	5,099
“Adal Invest”	28.50%	2,000	28.50%	2,000
Zhaynar	36%	2,000	-	-
Best-Finance	40%	2,000	-	-
Credit-Region	16%	2,000	-	-
Econom	17%	2,000	-	-
Kamkor	16%	2,000	-	-
LLC “Kenes-Credit”	16%	2,000	-	-
“Esylskiy trade house”	16%	2,000	-	-
Training Centre	100%	1,000	80%	800
“Dos-S” LLC	6.06%	55	22.22%	2,016
Aktobe	-	-	49%	1,438
Shymkent	-	-	49%	1,970
Taldykorgan	-	-	49%	1,595
Almaty	-	-	49%	2,706
Astana	-	-	49%	1,344
Uralsk	-	-	49%	1,113
Zheskazgan	-	-	49%	1,655
Kokshetau	-	-	49%	1,772
Petpropavlovsk	-	-	49%	1,339
Pavlodar	-	-	49%	1,190
Kyzylorda	-	-	49%	1,315
Kostanay	-	-	49%	1,858
Atyrau	-	-	49%	1,286
Taraz	-	-	49%	1,575
Semey	-	-	49%	1,612
Karaganda	-	-	49%	1,417
Ust-Kamenogorsk	-	-	49%	1,575
Aktau	-	-	49%	1,612
		<u>22,154</u>		<u>38,287</u>

The Training Centre’s financial statements were not consolidated due to the insignificance of its balance sheet numbers and financial results to those of the Company.

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS LESS ACCUMULATED DEPRECIATION AND AMORTIZATION

	Buildings	Land	Construction in progress	Intangible assets	Machinery and equipment	Vehicles	Other	Total
Original/revalued cost								
31 December 2004	82,777	-	61,357	3,676	41,067	31,112	22,082	242,071
Additions	-	3,529	135,280	2,420	157,443	10,214	28,385	337,271
Disposals	(2,290)	-	-	(85)	(6,704)	(5,527)	(2,836)	(17,442)
31 December 2005	80,487	3,529	196,637	6,011	191,806	35,799	47,631	561,900
Additions	-	-	-	77,425	20,685	-	11,389	109,499
Disposals	-	-	-	-	(731)	(2,665)	(2,499)	(5,895)
31 December 2006	80,487	3,529	196,637	83,436	211,760	33,134	56,521	665,504
Accumulated depreciation								
31 December 2004	8,219	-	-	632	9,247	7,292	6,209	31,599
Charge for the year	816	-	-	558	5,469	4,035	2,465	13,343
Disposals	(49)	-	-	(54)	(3,791)	(2,042)	(1,836)	(7,772)
31 December 2005	8,986	-	-	1,136	10,979	9,285	6,838	37,224
Additions	805	-	-	10,482	21,668	4,802	4,863	42,620
Disposals	-	-	-	-	(528)	(350)	(1,067)	(1,945)
31 December 2006	9,791	-	-	11,618	32,119	13,737	10,634	77,899
Net book value								
31 December 2006	70,696	3,529	196,637	71,818	179,641	19,397	45,887	587,605
31 December 2005	71,501	3,529	196,637	4,875	180,827	26,514	40,793	524,676

19. OTHER ASSETS, LESS ALLOWANCE FOR IMPAIRMENT LOSSES

	31 December 2006	31 December 2005
Prepaid expenses	330,279	582,292
Advances paid	4,621	729
Fuel and goods	3,610	4,580
Other receivables	32,324	9,709
	<u>370,834</u>	<u>597,310</u>
Less allowance for impairment losses on other assets	<u>(51,085)</u>	<u>(51,098)</u>
Total other assets, less allowance for impairment losses	<u><u>319,749</u></u>	<u><u>546,212</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 7.

20. LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2006	31 December 2005
Accounts in other banks		
Loans from banks and other financial institutions, including:		
Syndicated loan from EBRD	795,820	2,694,476
Tranche 1 interest rate 3.20 – 4.10%	760,730	2,620,554
Tranche 2 interest rate 4.97 – 6.42%	35,090	73,922
Syndicated loan from ADB	371,569	432,984
Loans from State Budget	106,738	81,315
Loans from other banks and financial institutions	396,198	403,209
Accrued interest expense on loans from banks	16,764	38,638
Total loans from banks and other financial institutions	1,687,089	3,650,622

The loans from financial institutions (EBRD, ABR) are syndicated in US dollars. All other loans are issued in KZT.

21. DEBT SECURITIES ISSUED

	Maturity date month / year	Annual coupon rate %	31 December 2006	31 December 2005
Promissory notes of SEDF issued at price of 100% (KZT)	16/03/2011	9%	3,000,000	-
Including:				
Premium on debt securities issued			50,035	-
Amounts of accrued interest on debt securities issued			78,750	-
Total debt securities issued			3,128,785	-

22. OTHER LIABILITIES

	31 December 2006	31 December 2005
Advances received and settlements with suppliers	108,536	43,808
Taxes payable, other than income tax	69,852	20,162
Payables to staff	28,889	1,070
Accrued unused vacation	10,812	1,470
Payable to Pension Fund	9,122	5,655
Total other liabilities	227,211	72,165

23. SHARE CAPITAL

As at 31 December 2006 the Company's share capital amounted KZT 28,120,273 thousand (2005: KZT 18,120,273 thousand). During 2006, per an act of the Ministry of Industry and Trade a contribution of KZT 10,000,000 thousand was made to the share capital of the Company by the shareholder.

No dividends were declared or paid subsequent to 31 December 2006. Declared dividends for the year ended 31 December 2005 were paid in 2006 amounting to KZT 66,305 thousand.

24. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Company's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Company uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying a credit conversion factor and counterparty risk weighting according to the principles employed by the Basel Committee on Companying Supervision.

As of 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Guarantees issued and similar commitments	411,348	-	-	-
Total contingent liabilities and credit commitments	411,348	-	-	-

There was no provision against commitments on credits and unused credit lines as at 31 December 2006.

Legal proceedings

From time to time and in the normal course of business, claims against the Company are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxes

Due to the presence in the Kazakhstani commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice, developed by the tax authorities in a generally unstable environment, of making arbitrary judgments of business activities, should a particular treatment, based on Management's judgment of the Company's business activities, be challenged by the tax authorities, the Company could be assessed additional taxes, penalties and interest. The management of the Company believes that it has already made all tax payments, and therefore no allowance was made in the financial statements. Tax years remain open to review by the tax authorities for five years.

Pensions and retirement plans

The Company's employees receive pension benefits in accordance with the legislation of the Republic of Kazakhstan. As of 31 December 2006 and 2005, the Company was not liable for any supplementary pensions, post-retirement health care or other social payments to its current or former employees.

Operating environment

The Company's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting the business environment in the Republic of Kazakhstan are subject to rapid changes, and the Company's assets and operations could be at risk due to negative changes in the political and business environment.

25. TRANSACTIONS WITH RELATED PARTIES

Key management personnel comprise 14 people and include all members of Board of Directors and Management Board, and also the direct reports' of the Managing Director. Total compensation to key management personnel for the year ended 31 December 2006 amounted to KZT 74,460 thousand (2005: KZT 58,687 thousand).

At 31 December 2006 and 31 December 2005, key management personnel had advances outstanding with the Company amounting to KZT 2,050 thousand and KZT 385 thousand, respectively.

At 31 December 2006 and 31 December 2005, key management personnel had no loans outstanding with the Company.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Company is presented below:

	31 December 2006		31 December 2005	
	Current value	Fair value	Current value	Fair value
Cash and cash equivalents	1,195,801	1,195,801	1,256,296	1,256,296
Notes purchased under agreement to resell	1,879,833	1,879,833	2,016,025	2,016,025
Loans and advances to banks, less allowance for impairment losses	2,044,081	2,044,081	3,935,554	3,935,554
Investments available for sale, less allowance for impairment losses	8,951,114	8,951,114	3,560,987	3,560,987
Loans and advances from banks	1,687,089	1,687,089	3,650,622	3,650,622
Debt securities issued	3,128,785	3,217,878	-	-

The fair value of loans to customers as at 31 December 2006 and 2005 in the amount of KZT 13,121,001 thousand (2005: KZT 11,259,309 thousand) can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

The fair value of investments in associates as at 31 December 2006 amounting to KZT 22,154 thousand (2005: KZT 38,287 thousand) can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

27. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of Kazakhstan
0%	State debt securities in Kazakhstani Tenge
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees issued
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2006 the Company's total capital amount for Capital Adequacy purposes was KZT 23,887,756 thousand and tier 1 capital amount was KZT 24,320,483 thousand with ratios of 87% and 89%, respectively.

As at 31 December 2006 the Company included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Company, repayment of this debt is subordinate to the repayments of the Company's liabilities to all other creditors.

28. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Company's banking business and is an essential element of the Company's operations. The main risks inherent to the Company's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Company's risk management policies in relation to those risks follows.

The Company manages the following risks:

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

In order to manage liquidity risk, the Company performs daily monitoring of expected future cash flows on clients' and other operations, which is a part of the assets/liabilities management process. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Company performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Cash flow interest rate risk

Cash flow interest rate risk – the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The following table presents an analysis of interest rate risk and thus the potential of the Company for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Company.

	KZT	2006 USD	Other currencies	KZT	2005 USD	Other currencies
ASSETS						
Cash and cash equivalents	1.5 – 8%	0.5 – 0.75%	-	1.5 – 8%	0.5 – 0.75%	-
Notes purchased under agreement to resell	7 – 10%	-	-	7 – 10%	-	-
Loans and advances to banks, less allowance for impairment losses	4.1 – 7%	-	-	6 – 7.3%	-	-
Loans to customers, less allowance for impairment losses	10 – 12%	-	-	6 – 12%	-	-
Investments available for sale, less allowance for impairment losses	7.5 – 10.9%	-	-	7.5 – 10.9%	-	-
LIABILITIES						
Loans and advances from banks	3.2 – 6.42%	-	-	4.8 – 7%	-	-
Debt securities issued	6 – 9%	-	-	-	-	-

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2006 Total
ASSETS								
Notes purchased under agreement to resell	1,879,832	-	-	-	-	-	-	1,879,832
Loans and advances to banks, less allowance for impairment losses	847,369	-	38,100	1,142,429	-	-	16,183	2,044,081
Loans to customers, less allowance for impairment losses	118,575	6,806	146,258	12,175,890	116,000	557,472	-	13,121,001
Investments available for sale, less allowance for impairment losses	98,298	9,598	79,637	2,394,820	6,368,761	-	-	8,951,114
Total interest bearing assets	2,944,074	16,404	263,995	15,713,139	6,484,761	557,472	16,183	25,996,028
Cash and cash equivalents	1,195,801	-	-	-	-	-	-	1,195,801
Investments in associates	-	-	-	-	-	-	22,154	22,154
Property, equipment and intangible assets, less accumulated depreciation	-	-	-	-	-	-	587,605	587,605
Deferred income tax assets	-	-	-	-	-	-	657,888	680,581
Current income tax assets	-	151,615	-	-	-	-	-	151,615
Other assets, less allowance for impairment losses	37,630	-	278,509	-	-	-	3,610	319,750
TOTAL ASSETS	4,177,505	168,019	542,504	15,713,139	6,484,761	557,472	1,287,440	28,930,841
LIABILITIES								
Loans and advances from banks and other financial institutions	16,674	-	795,820	502,936	-	-	371,569	1,687,089
Debt securities issued	-	78,750	-	3,050,035	-	-	-	3,128,785
Total interest bearing liabilities	16,674	78,750	795,820	3,552,972	-	-	371,569	4,815,874
Other liabilities	125,636	78,975	22,601	-	-	-	-	227,211
TOTAL LIABILITIES	142,400	157,725	818,421	3,552,972	-	-	371,569	4,440,686
Liquidity gap	4,035,105	10,295	(275,918)	12,160,527	6,113,192	-	-	-
Interest sensitivity gap	2,927,310	(62,346)	(531,825)	12,160,167	6,113,192	-	-	-
Cumulative interest sensitivity gap	2,927,310	2,864,965	2,333,139	14,493,306	20,606,498	-	-	-
Cumulative interest sensitivity gap as a percentage of total assets	10%	10%	8%	50%	71%	-	-	-

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 Total
ASSETS								
Notes purchased under agreement to resell	922,023	-	1,094,002	-	-	-	-	2,016,025
Loans and advances to banks, less allowance for impairment losses	-	-	1,819,272	2,116,282	-	-	-	3,935,554
Loans to customers, less allowance for impairment losses	210,147	81,806	213,554	10,441,657	21,000	287,580	3,565	11,259,309
Investments available for sale, less allowance for impairment losses	55,701	-	-	1,643,367	1,861,919	-	-	3,560,987
Total interest bearing assets	1,187,871	81,806	3,126,828	14,201,306	1,882,919	287,580	3,565	20,771,875
Cash and cash equivalents	1,256,296	-	-	-	-	-	-	1,256,296
Investments in associates	-	-	16,133	22,154	-	-	-	38,287
Property, equipment and intangible assets, less accumulated depreciation	-	-	-	-	-	-	524,676	524,676
Other assets, less allowance for impairment losses	107,744	428,237	629	9,602	-	-	-	546,212
TOTAL ASSETS	2,551,911	510,043	3,143,590	14,233,062	1,882,919	287,580	528,241	23,137,346
LIABILITIES								
Loans and advances from banks and other financial institutions	8,955	15,681	1,833,274	1,278,412	-	-	514,300	3,650,622
Notes sold under agreement to repurchase	999,836	1,470	-	-	-	-	-	1,001,306
Total interest bearing liabilities	1,008,791	17,151	1,833,274	1,278,412	-	-	514,300	4,651,928
Dividends payable	66,305	-	-	-	-	-	-	66,305
Deferred income tax liabilities	-	-	-	-	-	-	3,800	3,800
Other liabilities	56,749	13,090	2,326	-	-	-	-	72,165
TOTAL LIABILITIES	1,131,845	30,241	1,835,600	1,278,412	514,300	-	518,100	4,794,198
Liquidity gap	1,420,066	479,802	1,307,990	12,954,650	1,368,619	-	-	-
Interest sensitivity gap	179,800	64,655	1,293,554	12,922,894	1,368,619	-	-	-
Cumulative interest sensitivity gap	179,080	243,735	1,537,289	14,460,183	15,828,802	-	-	-
Cumulative interest sensitivity gap as a percentage of total assets	1%	1%	7%	62%	71%	-	-	-

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. During the normal course of business, the Company is exposed to foreign exchange rates, predominately with the US dollar. The Company mitigates the risk exposure by holding both assets and liabilities denominated in US dollars. As a result the impact of fluctuations in the US dollar exchange rate is minimal to the Company.

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 security or its issuer or factors affecting all securities traded in the market. The Company is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Company manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Company is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Company manage fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Company's current financial performance, estimates the Company's sensitivity to changes in fair value interest rates and its influence on the Company's profitability.

Credit risk

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Geographical concentration

The ALMC exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Company's activity. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The Company's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

As at 31 December 2006 and 2005 all assets and liabilities of the Company were concentrated in the Republic of Kazakhstan.