JSC BTA Ipoteka

Consolidated Financial Statements

For the year ended December 31, 2004
Together with Report of Independent Auditors

CONTENTS

■ **Ernst & Young Kazakhstan**
Furmanov Street, 240 G
Almaty 480099, Kazakhstan
Tel.: 7 (3272) 58-5960
Fax: 7 (3272) 58-5961
www.ey.com/kazakhstan

■ **Эрнст энд Янг Казахстан**
Казахстан, 480099 Алматы
ул. Фурманова, 240 Г
Тел.: 7 (3272) 58-5960
Факс: 7 (3272) 58-5961

REPORT OF INDEPENDENT AUDITORS

To the Management Board and Shareholders of JSC BTA Ipoteka –

We have audited the accompanying consolidated balance sheet of JSC BTA Ipoteka ("the Company") as of December 31, 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

February 23, 2005

CONSOLIDATED BALANCE SHEETS

(Thousands of Kazakhstani Tenge)

	Notes	*December 31, 2004*	*December 31, 2003*
Assets			
Cash and cash equivalents	**4**	**175,251**	155,839
Due from financial institutions	**5**	**62,174**	40,672
Loans to customers	**6**	**9,267,562**	4,319,191
Property and equipment	**8**	**64,814**	76,601
Intangible assets	**9**	**7,703**	4,146
Other assets	**10**	**117,312**	25,056
Total assets		**9,694,816**	4,621,505
Liabilities			
Loans due to financial institutions	**11**	**4,958,344**	3,971,055
Other amounts due to financial institutions	**12**	**202,210**	34,602
Subordinated debt	**13**	–	387,263
Debt securities issued	**14**	**2,679,792**	–
Provisions	**7**	**109,523**	29,568
Other liabilities		**8,487**	3,888
Total liabilities		**7,958,356**	4,426,376
Shareholders' equity			
Share capital	**15**	**1,269,992**	40,000
Retained earnings		**466,468**	155,129
Total shareholders' equity		**1,736,460**	195,129
Total liabilities and shareholders' equity		**9,694,816**	4,621,505
Financial Commitments and contingencies	**23**		

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

Yuldashev M.M. President

Kozhanbayeva G.N. Chief Accountant

February 23, 2005

The accompanying notes on pages 5 to 18 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Kazakhstani Tenge)

		Years ended December 31,	
	Notes	***2004***	***2003***
Interest income			
Loans to customers		**992,811**	527,529
Other		**–**	361
		992,811	527,890
Interest expense			
Amounts due to financial institutions, including subordinated debt		**(619,750)**	(403,310)
Debt securities issued		**(67,963)**	–
Net interest income		**305,098**	124,580
Impairment charge	**7**	**(239,455)**	(64,205)
		65,643	60,375
Fee and commission income	**16**	**497,241**	285,857
Fee and commission expense	**17**	**(46,964)**	(29,167)
Fees and commissions, net		**450,277**	256,690
Net gain on disposal of subsidiary	**22**	**128,493**	–
Other operating income	**18**	**36,038**	27,462
Gains less losses from foreign currencies		**95,360**	(10,975)
Non interest income		**259,891**	16,487
Salary and salary related expenses	**19**	**(152,759)**	(83,333)
Administrative and operating expenses	**20**	**(197,651)**	(79,490)
Other provisions	**7**	**(79,955)**	(23,568)
Taxes other than income tax		**(21,940)**	(6,504)
Depreciation and amortization		**(10,520)**	(6,230)
Non interest expense		**(462,825)**	(199,125)
Income before income tax expense		**312,986**	134,427
Income tax expense	**21**	**(1,647)**	–
Net income		**311,339**	134,427

The accompanying notes on pages 5 to 18 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Kazakhstani Tenge)

	Share Capital	*Retained earnings*	*Total shareholders' equity*
December 31, 2002 (unaudited)	**40,000**	**20,702**	**60,702**
Net income	-	108,954	108,954
September 30, 2003	**40,000**	**129,656**	**169,656**
Net income	-	25,473	25,473
December 31, 2003	**40,000**	**155,129**	**195,129**
Capital contributions	**1,229,992**	–	**1,229,992**
Net income	–	**311,339**	**311,339**
December 31, 2004	**1,269,992**	**466,468**	**1,736,460**

The accompanying notes on pages 5 to 18 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Kazakhstani Tenge)

	Years ended December 31,	
	2004	*2003*
Cash flows from operating activities		
Income before income tax	**312,986**	134,427
Adjustments for:		
Impairment charge and other provisions	**319,410**	87,773
Gain on disposal of subsidiary	**(128,493)**	–
Gain on disposal of property and equipment	**(21,261)**	–
Unrealized foreign exchange gain	**(94,968)**	(36,939)
Depreciation and amortization	**10,520**	6,231
Operating cash flows before changes in net operating assets and liabilities	**398,194**	191,492
Increase in due from financial institutions	**(21,502)**	(40,672)
Increase in loans to customers	**(5,154,939)**	(3,065,481)
Decrease in derivative financial assets	–	78,334
Decrease in other assets	**3,350**	28,427
Increase in loans due to financial institutions	**1,218,768**	471,874
Decrease in derivative financial liabilities	–	(17,786)
Increase in other amounts due to financial institutions	**167,608**	33,521
Decrease in advances received	–	(462,846)
Increase (decrease) in other liabilities	**4,599**	(4,628)
Net cash flows from operating activities before income taxes	**(3,383,922)**	(2,787,765)
Income tax paid	**(1,647)**	(16,580)
Net cash flows from operating activities	**(3,385,569)**	(2,804,345)
Cash flows from investing activities		
Purchase of property and equipment	**(66,440)**	(39,396)
Proceeds from sale of property and equipment	**89,942**	4
Purchase of intangible assets	**(4,531)**	(2,658)
Net cash flows from investing activities	**18,971**	(42,050)
Cash flows from financing activities		
Debt securities issued	**2,679,792**	–
Long-term loans received from other financial institutions	**700,268**	2,283,669
Proceeds from shares issue	**5,950**	–
Increase in subordinated debt	–	387,263
Net cash flows from financing activities	**3,386,010**	2,670,932
Increase (decrease) in cash and cash equivalents	**19,412**	(175,463)
Cash and cash equivalents at the beginning of the year	**155,839**	331,302
Cash and cash equivalents at the end of the year	**175,251**	155,839
Supplementary information:		
Interest received	**969,394**	517,096
Interest paid	**655,263**	383,240

The accompanying notes on pages 5 to 18 are an integral part of these consolidated financial statements.

(Thousands of Kazakhstani Tenge)

1. Principal Activities

JSC BTA Ipoteka (the "Company") provides mortgage lending and related support services. The Company was formed on November 20, 2000, as an open joint stock company under the laws of the Republic of Kazakhstan and was reregistered as a joint stock company on December 18, 2003. The Company operates under a license issued by the National Bank of the Republic of Kazakhstan ("NBK") on December 20, 2001, to conduct mortgage lending, factoring and trust services.

The Company's main office is in Almaty and it has 12 representative offices (December 31, 2003 – 9). Its registered legal address is Microregion Samal 2, Bld 16, Almaty, Republic of Kazakhstan.

As of December 31, 2004, and December 31, 2003, the Company had 220 and 103 employees, respectively.

The financial statements of the Company as of December 31, 2003 and for the year then ended included the financial position and results of operations of the wholly owned subsidiary of the Company – DomService LLP (the "Subsidiary"). On July 1, 2004, the Company sold its Subsidiary resulting in a net gain of KZT 128,493 (Note 22). Results of operations of the subsidiary from January 1, 2004 to the date of disposal are included in the 2004 consolidated financial statements. DomService LLP is a limited liability partnership registered in the Republic of Kazakhstan on July 8, 2002. Its primary activity is leasing operations. The registered legal address of DomService LLP is: 11office, 237, Turgut Ozala str, Almaty, the Republic of Kazakhstan.

Shareholders of the Company are as follows:

	% of total common shares	
	December 31, 2004	**December 31, 2003**
Bank TuranAlem	**96.38%**	–
TuranAlem Securities (100% subsidiary of Bank TuranAlem)	**3.62%**	100.00%
	100.00%	100.00%

2. Basis of Preparation

The accompanying financial statements have been prepared in accordance with IFRS which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("SIC") approved by the International Accounting Standards Committee that remain in effect. These financial statements are presented in thousands of Kazakh Tenge ("KZT"). The KZT is utilized as the shareholders, the managers and the regulators measure the Group's performance in KZT. In addition, the KZT, being the national currency of the Republic of Kazakhstan, is the currency that reflects the economic substance of the underlying events and circumstances relevant to the Group. Transactions in other currencies are treated as transactions in foreign currencies.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates, which primarily comprise unearned premium reserves, reserves for claims and claims adjustment expenses, the allowance for doubtful debts and the fair value of the Company's financial instruments, are based on information available as of the date of the financial statements. Actual results, therefore, could differ from these estimates.

(Thousands of Kazakhstani Tenge)

3. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used in preparing these financial statements:

Principles of Consolidation

The consolidated financial statements of the Group include BTA Ipoteka and the company that it controls (subsidiary). This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up or liabilities assumed at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Intercompany transactions, balances, and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, the accounting policies used by subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Recognition of Financial Instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized using trade date accounting.

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

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. Any gain or loss at initial recognition is recognized in the current period's income statement. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and Cash Equivalents

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

Loans to Customers

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

Derivative Financial Instruments

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealised gains and losses reported in income. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. At December 31, 2002, embedded derivatives held by the Group were not material. Gains arising from changes in the value of derivatives are included in the statement of income as gains less losses from foreign currencies.

(Thousands of Kazakhstani Tenge)

Property and Equipment

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

	Years
Buildings	13
Furniture and fixtures	10
Transportation	5
Computers and equipment	4
Land	–

Intangible Assets

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

Allowances for Impairment of Financial Assets

The Group establishes allowances for impairment of financial assets when it is probable that the Group will not be able to collect the principal and interest according to the contractual terms of the related loans, and other financial assets, which are carried at cost and amortized cost. The allowances for impairment of financial assets are defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial instrument.

The allowances are based on the Group's own loss experience and management's judgment as to the level of losses that will most likely be recognized from assets in each credit risk category by reference to the debt service capability and repayment history of the borrower. The allowance for impairment of financial assets is determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in Kazakhstan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Changes in allowances are reported in the statement of income of the related period. When a loan is not collectable, it is written off against the related allowance for impairment; if the amount of the impairment subsequently decreases due to an event occurring after the write-down, the reversal of the related allowance is credited to the related impairment of financial assets in the statement of income.

Amounts Due to Financial Institutions

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

Income and expense recognition

Interest income and expense are recognized on an accrual basis calculated using the effective interest method. Commissions and other income are recognized when the related transaction is completed.

The recognition of contractual interest income is suspended when loans become overdue by more than thirty days. Non-interest expenses are recognized at the time the transaction occurs.

(Thousands of Kazakhstani Tenge)

Income Taxes

Income taxes payable on profits, based on the applicable tax laws in Kazakhstan, is recognized as an expense in the period in which profits arise.

Deferred income taxes are accounted for under the balance sheet liability method and reflect the tax effect of all significant temporary differences between the tax basis of assets and liabilities and their reported amounts in the accompanying financial statements. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply when the asset is realized or the liability settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

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

Kazakhstan also has various operating taxes, which are assessed on the Group's activities. These taxes are included as a component of administrative and operating expenses in the statements of income.

Provisions

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

Retirement and Other Benefit Obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Social Costs

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

Foreign Currency Translation

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

Differences between the contractual exchange rate of a certain transaction and the market exchange rate on the date of the transaction are included in gains less losses from foreign currencies. The market exchange rates at December 31, 2004 and 2003, were 130.00 KZT and 144.22 KZT to 1 USD, respectively.

Share Capital

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

Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Related Parties

Related parties include the management of the Company and the Company's shareholders.

(Thousands of Kazakhstani Tenge)

4. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2004	*2003*
Cash on hand	**365**	629
Current accounts with financial institutions	**174,886**	155,210
Cash and cash equivalents	**175,251**	155,839

5. Due from Financial Institutions

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

6. Loans to Customers

Loans to customers comprise:

	2004	*2003*
Loans to customers	**9,554,004**	4,417,650
Less - Allowance for impairment	**(218,564)**	(72,572)
	9,335,440	4,345,078
Unamortized issuance fees	**(67,878)**	(25,887)
Loans to customers, net	**9,267,562**	4,319,191

As of December 31, 2004, the Company had a concentration of loans represented by KZT 473,552 due from ten borrowers or 5% of the total portfolio. (December 31, 2003 – KZT 232,542 or 5% of the total portfolio).

Loans to customers include loans of KZT 746,197, which are pledged as collateral for the EBRD credit facility (December 31, 2003 – KZT 913,122).

Loans to customers include loans of KZT 173,082, which are pledged as collateral for the Temir Bank credit facility (December 31, 2003 – KZT 449,966).

Loans have been extended to the following types of customers:

	2004	*2003*
Individuals	**9,044,962**	4,249,668
Legal entities	**509,042**	167,982
	9,554,004	4,417,650

7. Allowances for Impairment and Other Provisions

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

	Loans to customers
December 31, 2002 (unaudited)	15,869
Charge	64,205
Write-offs	(12,525)
Recoveries	5,023
December 31, 2003	72,572
Charge	**239,455**
Write-offs	**(197,869)**
Recoveries	**104,406**
December 31, 2004	**218,564**

(Thousands of Kazakhstani Tenge)

7. Allowances for Impairment and Other Provisions (continued)

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

	Guarantees
December 31, 2002 (unaudited)	6,000
Charge	23,568
December 31, 2003	29,568
Charge	**79,955**
December 31, 2004	**109,523**

8. Property and Equipment

The movements on property and equipment, were as follows:

	Land and buildings	Furniture and fixtures	Computers and equipment	Vehicles	Total
Cost					
December 31, 2003	64,874	5,560	13,692	–	84,126
Additions	**31,500**	**9,419**	**21,754**	**3,767**	**66,440**
Disposals	**(70,537)**	**(787)**	**(4,304)**	**–**	**(75,628)**
December 31, 2004	**25,837**	**14,192**	**31,142**	**3,767**	**74,938**
Accumulated depreciation					
December 31, 2003	(4,024)	(485)	(3,016)	–	(7,525)
Charge for the year	**(3,532)**	**(967)**	**(4,733)**	**(314)**	**(9,546)**
Disposals	**5,331**	**84**	**1,532**	–	**6,947**
December 31, 2004	**(2,225)**	**(1,368)**	**(6,217)**	**(314)**	**(10,124)**
Net book value:					
December 31, 2004	**23,612**	**12,824**	**24,925**	**3,453**	**64,814**
December 31, 2003	**60,850**	**5,075**	**10,676**	–	**76,601**

9. Intangible Assets

The movements on intangible assets, were as follows:

	Software
Cost:	
December 31, 2003	4,497
Additions	**4,531**
December 31, 2004	**9,028**
Accumulated amortization:	
December 31, 2003	(351)
Charge for the year	**(974)**
December 31, 2004	**(1,325)**
Book value:	
December 31, 2004	**7,703**
December 31, 2003	**4,146**

(Thousands of Kazakhstani Tenge)

10. Other Assets

Other assets comprise:

	2004	*2003*
Inventory held for sale	**95,606**	–
Prepaid income taxes	**8,793**	10,277
Other prepayments	**7,862**	12,950
Other	**5,051**	1,829
	117,312	25,056

11. Loans Due to Financial Institutions

Loans due to financial institutions comprise:

	2004	*2003*
Bank TuranAlem	**3,584,368**	2,904,913
EBRD	**603,977**	729,120
Alfa-bank	**650,000**	–
TemirBank	**130,948**	350,022
	4,969,293	3,984,055
Unamortized cost of issuance	**(10,949)**	(13,000)
	4,958,344	3,971,055

During the year, loans amounting to KZT 836,779 that were due to Bank TuranAlem at December 31, 2003 were capitalized and converted to common shares of the Company (Note 15).

Interest rates and maturity of loans due to financial institutions follow:

	2004		*2003*	
	%	*Maturity*	*%*	*Maturity*
Bank TuranAlem	**12.00%-14.00%**	**2015**	12.00%-15.00%	2013
EBRD	**9.31%**	**2010**	9.31%	2010
Temir Bank	**12.5%**	**2005**	13.50%	2004
Alfa-bank	**8.75%**	**2005**	–	–

12. Other Amounts Due to Financial Institutions

Other amounts due to financial institutions represent repayments received from borrowers on loans sold to Bank TuranAlem and Kazakh Mortgage Company ("KMC")but not yet remitted to them.

13. Subordinated Debt

Subordinated debt represents a subordinated loan from Bank TuranAlem, which was received on May 27, 2003. The loan is indexed to the US$, bears interest at 12% per annum, and matures at various dates between September 2012 and February 2013 and collateralized by mortgage certificates. On July 16, 2004, the subordinated debt was converted to common shares (Note 15).

14. Debt Securities Issued

Debt securities issued comprised:

	2004	*2003*
Mortgage-backed KZT denominated bonds	**2,686,236**	–
Less unamortized cost of issuance	**(6,444)**	–
	2,679,792	–

(Thousands of Kazakhstani Tenge)

14. Debt Securities Issued (continued)

Interest rates and maturities of these securities are as follows:

	Interest rate	*Maturity*
Mortgage-backed KZT denominated bonds 1st issuance	10.00%	26-Dec-10
Mortgage-backed KZT denominated bonds 2nd issuance	9.00%	21-Oct-14
Mortgage-backed KZT denominated bonds 3d issuance	8.50%	15-Dec-11

15. Shareholders' Equity

Authorised capital at December 31, 2004, and December 31, 2003, consisted of 15,000,000 KZT-denominated common share with nominal value KZT 100 each. Issued and fully paid share capital at December 31, 2004, and December 31, 2003, consisted of 12,699,920 and 400,000 KZT denominated common shares, respectively. In accordance with the resolutions of the shareholders' meeting held on July 16, 2004, the Company increased its share capital by issuing 12,299,920 common shares at a nominal value of KZT 100 per share.

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

	Number of common shares	*Nominal Amount*
December 31, 2002 and 2003	400,000	40,000
Loans due to Bank TuranAlem converted into common shares (Note 11)	**8,367,790**	**836,779**
Subordinated debt of Bank TuranAlem converted into common shares (Note 13)	**3,872,630**	**387,263**
Capital Contributions from TuranAlem Securities, paid in cash	**59,500**	**5,950**
December 31, 2004	**12,699,920**	**1,269,992**

During 2004 and 2003, the Company has not declared or paid any dividends.

16. Fee and Commission Income

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

	2004	*2003*
Mortgage service fees	**266,752**	43,926
Support services' fees	**214,039**	101,571
Commission on sale of properties	–	131,075
Other	**16,450**	9,285
	497,241	285,857

Mortgage service fees represent fees earned by the Company for management services provided in connection with mortgage loans sold to KMC and Bank TuranAlem. These fees are collected in the form of approximately 2.2% – 5.7% spread between the interest charged to the borrowers and the interest paid to KMC and Bank TuranAlem.

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

During 2003, the Company assisted a third party in the sale of certain of that party's properties. The sales were collected in cash and the Company's commission income from those sales was recorded as commission on sale of properties.

(Thousands of Kazakhstani Tenge)

17. Fee and Commission Expense

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

	2004	*2003*
Registration fees	**(30,402)**	(16,173)
Real estate center services	**(16,103)**	(12,830)
Others	**(459)**	(164)
	(46,964)	(29,167)

18. Other Operating Income

Other operating income during the year ended December 31 comprised:

	2004	*2003*
Gain on disposal of property and equipment	**21,261**	–
Reimbursement from Insurance companies	**4,875**	–
Rent	**3,305**	–
Consulting	**2,520**	3,606
Fines and penalties	**2,117**	17,898
Other	**1,960**	5,958
	36,038	27,462

19. Salary and Salary Related Expenses

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

	2004	*2003*
Salaries and bonuses	**(135,860)**	(71,093)
Social tax	**(16,899)**	(12,240)
	(152,759)	(83,333)

20. Administrative and operating expenses

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

	2004	*2003*
Bank charges	**(42,712)**	(22,414)
Rent	**(39,629)**	(4,391)
Advertising	**(24,150)**	(11,930)
Communication	**(20,598)**	(6,925)
Office expenses	**(10,951)**	(10,517)
Repair and maintenance of property and equipment	**(10,538)**	(6,322)
Business travel	**(9,443)**	(4,412)
Data processing	**(8,137)**	–
Professional fees	**(7,386)**	(1,380)
Entertainment	**(6,614)**	–
Personnel training	**(3,234)**	–
Security	**(1,920)**	(1,154)
Penalties incurred	**(1,585)**	–
Insurance	**(1,032)**	–
Expenses on project engineering	–	(5,471)
Other	**(9,722)**	(4,574)
	(197,651)	(79,490)

(Thousands of Kazakhstani Tenge)

21. Income Taxes

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

The reconciliation between the provision for income taxes in the accompanying financial statements and income before taxes multiplied by the statutory tax rate of 30% for the years ended December 31 is as follows:

	2004	*2003*
Income tax computed at the statutory tax rate	**79,526**	40,328
Non-deductible expenses:		
Provisions	**23,987**	14,868
Interest expense	**11,950**	11,800
Other	**2,820**	1,427
Non-taxable income on mortgage loans	**(206,311)**	(170,335)
Tax effect of temporary differences as measured by the change in unrecognised deferred tax assets	**89,675**	101,912
Provision for income taxes	**1,647**	–

Deferred tax balances, calculated by applying the statutory tax rates in effect at the respective balance sheet dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements comprised the following at December 31:

	2004	*2003*
Deferred tax assets:		
Tax loss carried forward	–	101,297
Unamortized loan origination fees	**11,163**	5,876
Reserves	**7,789**	–
Total deferred tax assets	**18,952**	107,173
Deferred tax liabilities:		
Unamortized cost of funding	**(1,226)**	(3,900)
Discount on bonds	**(3,296)**	–
Property and equipment	**(2,193)**	(1,361)
Total deferred tax liabilities	**(6,715)**	(5,261)
Net deferred tax assets	**12,237**	101,912
Deferred tax assets not recognized	**(12,237)**	(101,912)
	–	–

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

Kazakhstan currently has a number of laws related to various taxes imposed by both state and regional governmental authorities. Applicable taxes include value added tax, income tax, social taxes, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

Unused tax credit for exchange losses have been eliminated during 2004 as a result of change in the income tax law.

Management believes that the Company is in substantial compliance with the tax laws affecting its operations; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

(Thousands of Kazakhstani Tenge)

22. Net Gain on Disposal of Subsidiary

On July 1, 2004, in accordance with the resolution of the Board of Directors, the Company disposed of its subsidiary – Dom Service LLP. The Subsidiary did not represent a separate major line of business or geographical area of operations as defined by IAS 14 "Segment Reporting".

The gain on this disposal is analysed as follows:

Fair value of the assets and liabilities of the subsidiary as at June 30, 2004 (the date of disposal):	
Property and equipment, net	**61,949**
Advances	**895,550**
Loans to customers	**165,373**
Trade and other receivables	**8,069**
Cash	**5,332**
	1,136,273
Loans due to financial institutions	**(1,121,564)**
Trade and other payables	**(15,247)**
Net liabilities	**(538)**
Proceeds from disposal	**127,955**
Gain on disposal	**128,493**

23. Commitments and Contingencies

Financial Commitments and Contingencies

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

	2004	*2003*
Guarantees of loans sold to other financial institutions	**11,147,221**	3,970,639
Less: cash collateral	**(202,210)**	(292,718)
Less: provisions	**(109,523)**	(29,568)
Financial commitments and contingencies	**10,835,488**	3,648,353

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

Trust Activities

The Company provides trust services to third parties which involve the Company services in relation to mortgage loans. Those mortgage loans are not included in these consolidated financial statements. As at December 31, 2004 such mortgage loans not reported in the balance sheet amounted to KZT 11,147,221 (December 31, 2003 – KZT 3,970,639).

(Thousands of Kazakhstani Tenge)

24. Currency Risk

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

	2004				*2003*			
	KZT	***Freely convertible***	***Indexed to the devaluation of the KZT against the USD***	***Total***	***KZT***	***Freely convertible***	***Indexed to the devaluation of the KZT against the USD***	***Total***
Assets:								
Cash and cash equivalents	**175,251**	–	–	**175,251**	155,833	6	–	155,839
Due from other financial institutions	**62,174**	–	–	**62,174**	40,672	–	–	40,672
Loans to customers	**2,117,447**	–	**7,436,557**	**9,554,004**	1,553,343	–	2,864,307	4,417,650
Other assets	**117,312**	–		**117,312**	25,056	–	–	25,056
	2,472,184	–	**7,436,557**	**9,908,741**	1,774,904	6	2,864,307	4,639,217
Liabilities:								
Loans due to financial institutions	–	**1,373,976**	**3,584,368**	**4,958,344**	–	1,066,142	2,904,913	3,971,055
Other amounts due to financial institutions	**202,210**	–	–	**202,210**	–	34,602	–	34,602
Subordinated loan		–	–	–	–	387,263	–	387,263
Debt securities issued	**2,679,792**	–	–	**2,679,792**	–	–	–	–
Other liabilities	**8,487**	–	–	**8,487**	3,888	–	–	3,888
	2,890,489	**1,373,976**	**3,584,368**	**7,848,833**	3,888	1,488,007	2,904,913	4,396,808
Net balance sheet position	**(418,305)**	**(1,373,976)**	**3,852,189**	**2,059,908**	1,771,016	(1,488,001)	(40,606)	242,409

The above tables do not include the effect of allowances for loans losses, which total KZT 218,564 thousand and KZT 72,572 as of December 31, 2004 and 2003, respectively.

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

(Thousands of Kazakhstani Tenge)

25. Maturity Analysis

The maturity of monetary assets and liabilities represents the remaining terms until repayment in accordance with the underlying contractual agreements and terms of issuance of the monetary asset or liability at the respective balance sheet date. In practice, the actual maturity of monetary assets and liabilities may differ from the contractual terms based on both verbal agreements between the parties and addenda to the contracts, which may exist.

The maturity of monetary assets and liabilities was as follows:

2004

	On demand	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Monetary assets:							
Cash and cash equivalents	175,251	–	–	–	–	–	175,251
Due from financial institutions	–	–	–	–	–	62,174	62,174
Loans to customers	–	–	–	462,430	2,752,173	6,339,401	9,554,004
Other assets	93,003	24,309	–	–	–	–	117,312
	268,254	24,309	–	462,430	2,752,173	6,401,575	9,908,741
Monetary liabilities:							
Loans due to financial institutions	–	25,386	9,004	769,051	–	4,154,903	4,958,344
Other amounts due to financial institutions	–	202,210	–	–	–	–	202,210
Debt securities issued	–		–	–	–	2,679,792	2,679,792
Other liabilities	–	8,487	–	–	–	–	8,487
		236,083	9,004	769,051	–	6,834,695	7,848,833
Net position	268,254	(211,774)	(9,004)	(306,621)	2,752,173	(433,120)	2,059,908
Accumulated gap	268,254	56,480	47,476	(259,145)	2,493,028	2,059,908	

2003

	On demand	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Monetary assets:							
Cash and cash equivalents	155,839	–	–	–	–	–	155,839
Due from financial institutions	–	–	–	–	–	40,672	40,672
Loans to customers	–	25,578	37,655	180,689	1,357,985	2,815,743	4,417,650
Other assets	17,990	–	–	–	7,066		25,056
	173,829	25,578	37,655	180,689	1,365,051	2,856,415	4,639,217
Monetary liabilities:							
Loans due to financial institutions	–	–	30,716	406,124	512,949	3,021,266	3,971,055
Other amounts due to financial institutions	–	34,602	–	–	–	–	34,602
Subordinated loan	–	–	1,269	–	–	385,994	387,263
Other liabilities	–	–	3,888	–	–	–	3,888
	–	34,602	35,873	406,124	512,949	3,407,260	4,396,808
Net position	173,829	(9,024)	1,782	(225,435)	852,102	(550,845)	242,409
Accumulated gap	173,829	164,805	166,587	(58,848)	793,254	242,409	

The above tables do not include the effect of allowances for loans losses, which total KZT 218,564 thousand and KZT 72,572 as of December 31, 2004 and 2003, respectively.

(Thousands of Kazakhstani Tenge)

26. Related Party Transactions

As disclosed elsewhere in the financial statements, the Company enters into transactions with related parties. The year-end balances in respect of related parties included in the financial statements and the terms relating to those balances are disclosed in other notes to the financial statements.

The Company had the following transactions with related parties:

	2004			***2003***		
	Related party transactions	***Percent on normal conditions***	***Total category***	***Related party transactions***	***Percent on normal conditions***	***Total category***
Balance Sheet						
Cash and cash equivalents	**175,251**	**100%**	**175,251**	154,857	100%	155,839
Due from financial institutions	**62,174**	**100%**	**62,174**	40,672	100%	40,672
Loans due to financial institutions	**3,557,035**	**100%**	**4,958,344**	2,904,913	100%	3,971,055
Amounts due to other financial institutions	**23,507**	**100%**	**202,210**	15,223	100%	34,602
Subordinated debt	**–**	**100%**	**–**	387,263	100%	387,263
Off-balance Sheet						
Loans managed on behalf of Bank TuranAlem	**3,100,744**	**100%**	**11,147,221**	2,088,622	100%	3,970,639
Income Statement						
Interest income	**109,214**	**100%**	**992,811**	–	–	527,890
Interest expense	**489,738**	**100%**	**619,750**	372,793	100%	403,310
Commission income	**13,822**	**100%**	**450,277**	18,133	100%	256,690
Administrative expenses	**62,166**	**100%**	**197,651**	26,985	100%	79,490

27. Subsequent events

On February 25, 2005, BTA Ipoteka signed loan agreement for 10 million US dollars with the Bank of Reconstruction and Development. According to the agreement, the loan matures in 2015 and interest is payable quarterly at the rate of 5% plus 3 months LIBOR on 17 January, 17 April, 17 July, and 17 October of each year. The principal is payable quarterly starting from 17 January 2006.