

Mortgage organisation
Kazakhstan Mortgage Company JSC

Unaudited Interim
Condensed Financial Statements
for the Six-Month Period ended
30 June 2011

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Independent Auditors' Report on review of Interim Financial Information

To the Management of Mortgage Organisation Kazakhstan Mortgage Company JSC

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") as at 30 June 2011, and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended (the "interim condensed financial information"). Management is responsible for the preparation and presentation of this interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As at 30 June 2011 and 31 December 2010, the Company has not separated and measured at fair value a foreign currency written option feature embedded in a loan payable, which is required by International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The effect of this departure from International Financial Reporting Standards on derivative liability, other borrowed funds and accumulated loss as at 30 June 2011 and 31 December 2010, gain on financial instruments at fair value through profit or loss, interest expense, profit before taxes, taxation and profit for the six-month periods ended 30 June 2011 and 30 June 2010 has not been determined.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the interim condensed financial information as at 30 June 2011 and for the six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Abibullayeva E. Sh.
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate No.0000288
of 11 November 1996

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan



Nigay A. N.
General Director of KPMG Audit LLC
acting on the basis of the Charter

25 August 2011


Mortgage Organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Comprehensive Income for the Six-Month Period ended 30 June 2011

		Unaudited Six-month period ended 30 June 2011 KZT'000	Unaudited Six-month period ended 30 June 2010 KZT'000
Interest income		4,024,074	4,063,041
Interest expense	4	(4,526,900)	(3,618,628)
Net interest (expense)/income		(502,826)	444,413
Fee and commission income		3,978	7,999
Fee and commission expense		(5,405)	(19,889)
Net fee and commission expense		(1,427)	(11,890)
Net gain on financial instruments at fair value through profit or loss		-	65
Net foreign exchange gain		87,975	87,840
Other income		14,775	4,079
		(401,503)	524,507
Net impairment (losses)/recoveries	5	(200,613)	1,109,092
Personnel expenses		(326,089)	(284,608)
General administrative expenses		(276,024)	(303,900)
(Loss)/profit before income tax		(1,204,229)	1,045,091
Income tax benefit	6	1,624	14,645
(Loss)/ profit for the period		(1,202,605)	1,059,736
Other comprehensive income			
Revaluation reserve for available-for-sale financial assets, net of income tax:			
- Net change in fair value of available-for-sale financial assets		163,172	145,000
Other comprehensive income, net of tax		163,172	145,000
Total comprehensive income for the period		(1,039,433)	1,204,736
Basic and diluted earnings per share, in KZT	12	(455)	391

These interim condensed financial statements as set out on pages 5 to 24 were approved by Management on 25 August 2011.



Ibadullaev A.A.
Chairman of the Management Board


Sagimkulova B.D.
Chief Accountant

Mortgage Organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Financial Position as at 30 June 2011

	Note	Unaudited 30 June 2011 KZT'000	31 December 2010 KZT'000
ASSETS			
Cash and cash equivalents		3,200,722	13,664,083
Placements with banks and other financial institutions		16,710,508	5,624,025
Available-for-sale financial assets	7	7,136,616	6,878,845
Loans to customers	8	59,674,535	62,610,240
Held-to-maturity investments	9	13,068,985	14,733,129
Current tax asset		440,350	390,998
Investment property	10	633,789	-
Property and equipment		2,389,918	2,481,524
Intangible assets		9,710	22,742
Deferred tax assets	6	23,451	21,827
Other assets		233,641	875,656
Total assets		103,522,225	107,303,069
EQUITY AND LIABILITIES			
Debt securities issued	11	59,346,052	61,958,989
Other borrowed funds		23,630,311	23,723,295
Other liabilities		104,228	107,274
Total liabilities		83,080,591	85,789,558
Equity	12		
Share capital		28,920,000	28,920,000
Share premium		12,661	12,661
Treasury shares		(2,597,422)	(2,597,422)
Reserve capital		2,630,820	2,598,418
Revaluation reserve for available-for-sale financial assets		(532,401)	(695,573)
Accumulated losses		(7,992,024)	(6,724,573)
Total equity		20,441,634	21,513,511
Total equity and liabilities		103,522,225	107,303,069

Mortgage Organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Cash Flows for the Six-Month Period ended 30 June 2011

	Unaudited Six months ended 30 June 2011 KZT'000	Unaudited Six months ended 30 June 2010 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before income tax	(1,204,229)	1,045,091
Adjustments for non-cash items:		
Net gain on financial instrument at fair value through profit or loss	-	(65)
Depreciation and amortisation	105,121	127,214
Net impairment losses/(recoveries)	200,613	(1,109,092)
Interest income	(4,024,074)	(4,063,041)
Interest expense	4,526,900	3,618,628
Net foreign exchange gain	(87,975)	(87,840)
	(483,644)	(469,105)
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	(10,959,921)	4,444,142
Loans to customers	2,777,446	2,722,412
Other assets	16,677	(34,119)
Increase/(decrease) in operating liabilities		
Other liabilities	(3,046)	46,872
Interest received	3,878,991	3,776,881
Interest paid	(3,899,693)	(3,151,422)
Withholding income tax paid	(49,352)	(111,903)
Income tax paid	-	(1,702)
Cash flows (used in)/from operating activities	(8,722,542)	7,222,056

Mortgage Organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Cash Flows for the Six-Month Period ended 30 June 2011

	Unaudited Six months ended 30 June 2011 KZT'000	Unaudited Six months ended 30 June 2010 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of held-to-maturity investments	-	(6,421,470)
Redemption of held-to-maturity investments	1,510,236	-
Acquisition of available-for-sale financial assets	-	(923,747)
Purchase of property and equipment	(482)	(800)
Purchase of intangible assets	-	-
Net cash used in investing activities	1,509,754	(7,346,017)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchase of share capital	-	(1,507,500)
Proceeds from debt securities issued	1,424,412	5,706,051
Redemption of debt securities issued	(4,642,541)	(5,590,490)
Dividends paid	(32,444)	-
Cash flows used in financing activities	(3,250,573)	(1,391,939)
Net decrease in cash and cash equivalents	(10,463,361)	(1,515,900)
Cash and cash equivalents at beginning of the period	13,664,083	10,135,404
Cash and cash equivalents at end of the period	3,200,722	8,619,504

The interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the interim condensed financial statements set out on pages 10 to 24.

	Share capital	Share premium	Treasury shares	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
KZT'000							
Balance at 1 January 2010	28,920,000	12,661	(1,089,922)	2,598,418	(621,880)	(6,900,887)	22,918,390
Total comprehensive income	-	-	-	-	-	1,059,736	1,059,736
Profit for the period, unaudited	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	145,000	-	145,000
Net change in fair value of available-for-sale financial assets, unaudited	-	-	-	-	145,000	-	145,000
Total other comprehensive income, unaudited	-	-	-	-	145,000	-	145,000
Total comprehensive income, unaudited	-	-	-	-	145,000	-	145,000
Treasury shares acquired, unaudited	-	-	(1,507,500)	-	-	-	(1,507,500)
Balance at 30 June 2010, unaudited	28,920,000	12,661	(2,597,422)	2,598,418	(476,880)	(5,841,151)	22,615,626
Balance at 1 January 2011	28,920,000	12,661	(2,597,422)	2,598,418	(695,573)	(6,724,573)	21,513,511
Total comprehensive income	-	-	-	-	-	(1,202,605)	(1,202,605)
Loss for the period, unaudited	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	163,172	-	163,172
Net change in fair value of available-for-sale financial assets, unaudited	-	-	-	-	163,172	-	163,172
Total other comprehensive income, unaudited	-	-	-	-	163,172	-	163,172
Total comprehensive income, unaudited	-	-	-	-	163,172	(1,202,605)	(1,039,433)
Dividends declared, unaudited	-	-	-	-	-	(32,444)	(32,444)
Transfer to reserve capital, unaudited	-	-	-	32,402	-	(32,402)	-
Balance at 30 June 2011, unaudited	28,920,000	12,661	(2,597,422)	2,630,820	(532,401)	(7,992,024)	20,441,634

1 Background

(a) Principal activities

The Company was established on 29 December 2000 in accordance with resolution number 469 of the National Bank of the Republic of Kazakhstan (the “NBRK”) dated 20 December 2000. The principal activities of the Company are the issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license #5.1.69 on banking lending transactions.

The Company’s official address is 98, Karasay Batyr st., 050012, Almaty, Kazakhstan. The Company has a representative office in Astana.

On 4 May 2010 Moody’s Investors Service downgraded the Company’s long-term local currency issuer rating to B1 (31 December 2009: Ba2). On 9 June 2010 Rating Agency Regional Financial Centre of Almaty City JSC assigned to debt securities of the Company issued on Kazakhstan Stock Exchange credit ratings for twelve secured bond issues at BBB1 and for one unsecured bond issue at BBB2, and to the Company itself credit rating A3.

(b) Shareholders

As at 30 June 2011 and 31 December 2010 the Committee of the State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan owned 99.99% of the Company’s voting shares.

(c) Kazakhstan business environment

The Company’s operations are primarily located in the Republic of Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of the Republic of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Kazakhstan. The interim condensed financial statements reflect management’s assessment of the impact of the Republic of Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended 31 December 2010, as these interim condensed financial statements provide an update of previously reported financial information.

(b) Basis of measurement

The interim condensed financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale financial instruments are stated at fair value.

2 Basis of preparation, continued

(c) Functional and presentation currency

The functional currency of the Company is the Kazakhstan Tenge (“KZT”) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

The KZT is also the presentation currency for the purposes of these interim condensed financial statements.

Except as indicated, financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these interim condensed financial statements in conformity with IAS 34. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these interim condensed financial statements the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty are the same as those that applied to the Company’s consolidated financial statements for the year ended 31 December 2010.

3 Significant accounting policies

The accounting policies applied by the Company in these interim condensed financial statements are consistent with those applied by the Company in the consolidated financial statements for the year ended 31 December 2010 apart from the below.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

4 Interest expense

	Unaudited Six-month period ended 30 June 2011 KZT’000	Unaudited Six-month period ended 30 June 2010 KZT’000
Debt securities issued	(3,597,771)	(2,847,460)
Other borrowed funds	(929,129)	(771,168)
	<u>(4,526,900)</u>	<u>(3,618,628)</u>

5 Net impairment (losses)/recoveries

	Unaudited Six-month period ended 30 June 2011 KZT'000	Unaudited Six-month period ended 30 June 2010 KZT'000
Available-for-sale financial assets	87,260	548,575
Other assets	8,451	86
Held-to-maturity investments	(92,877)	(32,944)
Loans to customers	(203,447)	593,375
	<u>(200,613)</u>	<u>1,109,092</u>

6 Income tax benefit

	Unaudited Six-month period ended 30 June 2011 KZT'000	Unaudited Six-month period ended 30 June 2010 KZT'000
<i>Current tax expense</i>		
Current period	-	-
	-	-
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	1,624	14,645
Total income tax benefit	<u>1,624</u>	<u>14,645</u>

The Company's applicable tax rate for the six-month period ended 30 June 2011 is the income tax rate of 20% for Kazakhstan companies (30 June 2010:20%). In 2009 the Government announced that the income tax rates for Kazakhstan companies were 20% in 2009-2012, 17.5% in 2013 and 15% in later years. In November 2010 the Government cancelled the reduction and announced that the income tax rate will remain at 20%. The 20% tax rate has been used in the calculation of deferred tax assets and liabilities as at 30 June 2011.

Reconciliation of effective tax rate:

	Unaudited Six-month period ended 30 June 2011 KZT'000	%	Unaudited Six-month period ended 30 June 2010 KZT'000	%
(Loss)/profit before income tax	(1,204,229)	100	1,045,091	100
Income tax at the applicable tax rate	240,846	(20)	(209,018)	(20)
Change in unrecognised deferred tax assets	(243,618)	20	65,380	6
Tax effect of non-taxable items	4,396	-	158,283	15
Total income tax benefit	<u>1,624</u>	<u>-</u>	<u>14,645</u>	<u>1</u>

Deferred tax asset

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 30 June 2011 and 31 December 2010. These deferred tax assets have been recognised in these interim condensed financial statements apart from the deferred tax assets in respect of loans to customers and tax loss carry-forward. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Company's ability to claim the deductions in future periods.

6 Income tax benefit, continued

Deferred tax asset, continued

Deferred tax assets of KZT 1,174,411 thousand relating to tax loss carry-forwards (31 December 2010: KZT 784,945 thousand), KZT 1,762 thousand relating to other liabilities (31 December 2010: KZT 942 thousand) and deferred tax liabilities of KZT 6,075 thousand relating to loans to customers (31 December 2010: deferred tax assets of KZT 140,594 thousand), have not been recognised due to uncertainties concerning their realisation. The tax loss carry-forwards expire in 2012-2021.

Movements in temporary differences during the six-month periods ended 30 June 2011 and 30 June 2010 are presented as follows:

KZT'000	Balance 1 January 2011	Unaudited Recognised in profit or loss	Unaudited Balance 30 June 2011
Property and equipment	21,827	1,624	23,451
	21,827	1,624	23,451

KZT'000	Balance 1 January 2010	Unaudited Recognised in profit or loss	Unaudited Balance 30 June 2010
Property and equipment	8,394	7,316	15,710
Other liabilities	246	7,329	7,575
	8,640	14,645	23,285

7 Available-for-sale financial assets

	Unaudited 30 June 2011 KZT'000	31 December 2010 KZT'000
Corporate bonds		
- rated below B+	3,725,813	3,633,523
- not rated	4,335,272	4,257,051
Total corporate bonds	8,061,085	7,890,574
Impairment allowance	(924,469)	(1,011,729)
	7,136,616	6,878,845

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable in the Kazakhstan Stock Exchange, except for the bonds of Rosa JSC ("Rosa"). The bonds of DTZ are currently referred to as being in the "buffer category" according to the KASE, due to non-conformance with the listing requirements of other categories of the Kazakhstan Stock Exchange official list. Rosa bonds were excluded from trading on KASE from 2 October 2009.

In August 2008 DTZ defaulted on payment of the coupon on its debt securities in issue and the Company reclassified debt securities with a fair value on the date of reclassification of KZT 450,920 thousand from held-to-maturity to available-for-sale securities. On reclassifying these debt securities, the Company recognised a loss of KZT 329,314 thousand, calculated as the difference between the carrying amount before reclassification and the fair value on reclassification, directly in equity. The Company reclassified these bonds due to an unanticipated, significant deterioration in the issuer's creditworthiness that was evidenced by a temporary substantial drop in their market value of these bonds and a significant growth in the yield in comparison with corporate bonds of other issuers.

7 Available-for-sale financial assets, continued

As at 31 December 2009, the Company made a 100% impairment provision for the bonds of DTZ in the amount of KZT 804,849 thousand and Rosa in the amount of KZT 450,939 thousand due to the facts explained above.

On 14 May 2010 DTZ repaid all outstanding coupon interest at that date, however defaulted on payment of the coupon on its debt securities in issue in the end of 2010. On 20 June 2011 DTZ repaid all outstanding coupon interest at that date including penalty, however subsequently in August 2011 paid only 88% of coupon interest due and the remaining outstanding coupon interest is expected to be repaid in March 2012. As at 30 June 2011, the Company decreased the impairment allowance for DTZ bonds to 68% or to the amount of KZT 486,726 thousand based on the management's estimate of future cash flows under this revised situation (31 December 2010: 76% or KZT 562,406 thousand).

There is no significant change in the situation with Rosa bonds during the six-month period ended 30 June 2011.

Analysis of movements in the impairment allowance

	Six-month period ended 30 June 2011 KZT'000	Six-month period ended 30 June 2010 KZT'000
Balance at the beginning of the year	1,011,729	1,255,788
Net recovery for the period, unaudited	(87,260)	(548,575)
Balance at the end of the period, unaudited	924,469	707,213

8 Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans issued to individuals. The loans comprise only KZT denominated mortgage loans due from individuals located within the Republic of Kazakhstan.

All loans are secured by the underlying housing real estate.

	Unaudited 30 June 2011 KZT'000	31 December 2010 KZT'000
Mortgage loans with recourse	23,151,105	24,757,157
Mortgage loans without recourse		
- with guarantee	32,792,210	34,217,610
- without guarantee	4,033,184	3,774,462
Accrued interest	609,170	563,982
	60,585,669	63,313,211
Impairment allowance	(911,134)	(702,971)
	59,674,535	62,610,240

Loans to customers carry interest at rates ranging from 7% to 17.5% per annum (31 December 2010: from 6.7% to 16% per annum).

8 Loans to customers, continued

(a) Credit quality of mortgage loans

The following table provides information on credit quality of mortgage loans as at 30 June 2011:

	Unaudited Gross loans KZT'000	Unaudited Impairment KZT'000	Unaudited Net loans KZT'000	Unaudited Impairment to gross loans %
Mortgage loans with recourse to the seller				
- Current	22,826,970	-	22,826,970	-
- Overdue less than 30 days	430,341	-	430,341	-
- Overdue 30-89 days	61,400	-	61,400	-
- Overdue 90-179 days	-	-	-	-
Mortgage loans without recourse to the seller guaranteed by the JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- Current	27,327,458	374,161	26,953,297	1
- Overdue less than 30 days	1,184,008	16,211	1,167,797	1
- Overdue 30-89 days	611,953	8,379	603,574	1
- Overdue 90-179 days	776,017	10,625	765,392	1
- Overdue 180-360 days	323,222	4,425	318,797	1
- Overdue more than 360 days	2,960,229	40,531	2,919,698	1
Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- Current	3,400,903	41,314	3,359,589	1
- Overdue less than 30 days	136,076	13,383	122,693	10
- Overdue 30-89 days	80,135	20,066	60,069	25
- Overdue 90-179 days	135,770	50,852	84,918	37
- Overdue 180-360 days	49,315	49,315	-	100
- Overdue more than 360 days	281,872	281,872	-	100
	60,585,669	911,134	59,674,535	2

8 Loans to customers, continued

(a) Credit quality of mortgage loans, continued

The following table provides information on credit quality of mortgage loans as at 31 December 2010:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Mortgage loans with recourse to the seller				
- Current	24,417,989	-	24,417,989	-
- Overdue less than 30 days	387,095	-	387,095	-
- Overdue 30-89 days	116,392	-	116,392	-
Mortgage loans without recourse to the seller guaranteed by the JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- Current	28,985,823	264,521	28,721,302	1
- Overdue less than 30 days	933,930	7,879	926,051	1
- Overdue 30-89 days	635,266	5,359	629,907	1
- Overdue 90-179 days	296,584	2,502	294,082	1
- Overdue 180-360 days	2,789,891	23,535	2,766,356	1
- Overdue more than 360 days	931,351	7,856	923,495	1
Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- Current	3,302,679	20,821	3,281,858	1
- Overdue less than 30 days	67,959	6,338	61,621	9
- Overdue 30-89 days	57,832	13,010	44,822	22
- Overdue 90-179 days	56,797	17,527	39,270	31
- Overdue 180-360 days	48,293	48,293	-	100
- Overdue more than 360 days	285,330	285,330	-	100
	63,313,211	702,971	62,610,240	1

(b) Analysis of impairment

The Company uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

The significant assumption used in determining impairment losses for mortgage loans include:

- Mortgage loans with recourse overdue more than 60 days can be sold back by the Company at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing, except for JSC Mortgage organisation "Astana-Finance", which plans to return its license on banking operations (31 December 2010: JSC Mortgage Organisation "Kurylys Ipoteka", JSC Mortgage Organisation "Astana-Finance" were under restructuring process).

8 Loans to customers, continued

(b) Analysis of impairment, continued

- Mortgage loans guaranteed by the State Fund Kazakhstan Fund of Guaranteeing Mortgage Loans JSC (“KFGML”) can be recovered from the guarantor if the sale of the collateral is not sufficient to repay the loan in full to the maximum of 40% of the outstanding amount. Management assumes that the Company can substantially recover mortgage loans guaranteed by KFGML in full through the sale of collateral. Unimpaired loans of this category are also subject to collective impairment assessment based on their past loss experience.
- Other mortgage loans are subject to collective impairment assessment based on their past loss experience.

Movements in the loan impairment allowance are as follows:

	Six-month period ended 30 June 2011 KZT'000	Six-month period ended 30 June 2010 KZT'000
Balance at the beginning of the period	702,971	2,268,301
Net charge/(recovery) for the period, unaudited	203,447	(593,375)
Recovery of previously written-off/(write-offs), unaudited	4,716	(628)
Balance at the end of the period, unaudited	911,134	1,674,298

As at 30 June 2011 KZT 441,565 thousand of interest was accrued on impaired loans (31 December 2010: KZT 399,661 thousand).

As at 30 June 2011 included in the loan portfolio are loans that were issued with recourse or guarantee that would otherwise be past due or impaired of KZT 3,498,164 thousand (31 December 2010: KZT 3,532,421 thousand), for which the Company granted a privilege period of an average of four to six months with either capitalisation of interest for the whole privilege period to a principal amount of a respective loan or immediate repayment of the accrued interest after a privilege period. Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of estimated cash flows differs by plus minus three percent, the impairment allowance on loans to customers as at 30 June 2011 would be KZT 1,790,236 thousand lower/higher (31 December 2010: KZT 1,878,307 thousand).

(c) Asset securitisation

Loans to customers in the amount of KZT 57,291,694 thousand (31 December 2010: KZT 62,882,687 thousand) serve as collateral for debt securities issued by the Company. As at 30 June 2011, the carrying amount of the notes is KZT 59,346,052 thousand (31 December 2010: KZT 61,958,989 thousand). Refer to Note 11.

(d) Significant credit exposures

As at 30 June 2011 and 31 December 2010, there are five banks to which the Company has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of these loans as at 30 June 2011 is KZT 15,994,946 thousand (31 December 2010: KZT 17,160,162 thousand).

9 Held-to-maturity investments

	Unaudited 30 June 2011 KZT'000	31 December 2010 KZT'000
Governments bonds		
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,077,658	2,145,319
Corporate bonds		
- rated A	3,439,125	3,470,001
- rated from BBB	221,586	217,079
- rated below B+	7,035,145	8,089,486
- not rated	1,204,345	1,627,241
Total corporate bonds	11,900,201	13,403,807
Impairment allowance	(908,874)	(815,997)
Total net corporate bonds	10,991,327	12,587,810
	13,068,985	14,733,129

As at 31 December 2010, the Company has written-off the bonds of BTA Bank JSC as these securities did not fall into the restructuring program of BTA Bank JSC. During 2010 the Company reduced the impairment allowance up to 95% on Astana-Finance JSC bonds due to the restructuring proposal dated 7 October 2010. Also in 2010 Kazakhstan Kagazy JSC defaulted on payment of the coupon on its debt securities in issue and the Company provided 43% impairment allowance based on the amended payment schedule proposed by Kazakhstan Kagazy JSC.

During the six-month period ended 30 June 2011 the Company increased an impairment allowance for the bonds of Astana-Finance JSC up to 100% or to the amount of KZT 527,318 thousand due to uncertainty of the announced restructuring proposal that has not been approved by the creditors. On 29 July 2011 specialised financial court of Almaty city satisfied in full claims of Astana-Finance JSC on restructuring process. The decision gives Astana-Finance JSC immunity from legal claims of counterparts, and allows to start renegotiating debt repayment terms.

Also during the six-month period ended 30 June 2011 Kazakhstan Kagazy JSC finalised and agreed with its creditors an updated restructuring plan. Therefore as at 30 June 2011, the Company increased the impairment allowance for these bonds to 47% or to the amount of KZT 381,556 thousand based on the final restructuring plan.

Analysis of movements in the impairment allowance:

	Six-month period ended 30 June 2011 KZT'000	Six-month period ended 30 June 2010 KZT'000
Balance as at the beginning of the year	815,997	633,000
Net charge for the period, unaudited	92,877	32,944
Balance as at the end of the period, unaudited	908,874	665,944

10 Investment property

	Six-month period ended 30 June 2011 KZT'000	Six-month period ended 30 June 2010 KZT'000
Balance at 1 January	-	-
Transfer from other assets	633,789	-
Balance at 31 December	633,789	-

Investment property is represented by collateral on loans to customers that the Company obtained control of as a result of normal operating activity. Repossessed collateral is mainly in the form of real estate and is located throughout Kazakhstan. The Company leases the premises to third parties under operating leases.

During the year ended 31 December 2010 all repossessed collateral was presented as other assets due to unclear management intention. During the six-month period ended 30 June 2011 management decided to use these real estate to earn rentals or to held for appreciation or both, so the Company presented them as investment property as this better reflects revised management's intentions.

The total amount of rental income recognised in profit or loss is KZT 12,353 thousand (six-month ended 30 June 2010: nil); no direct operating expenses arise, except for property tax expense, as in accordance with the rental agreements all maintenance costs are borne by the tenants.

Fair value determination

The Company commissioned Bata Group LLC, Tsentr Nezavisimoi Otsenki "MIRAS" LLC, Aziatskaya Ekspertnaya Kompaniya LLC, Mezhdunarodnyi Institut Ekspertnoi Otsenki LLC, Bureau po Inventarizatsii i Otsenke Nedvizhimosti LLC to independently appraise investment property as at 30 June 2011.

The fair value of real estate reflects market prices in recent transactions.

11 Debt securities issued

Debt securities issued as at 30 June 2011 and 31 December 2010 comprised KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	Unaudited	Effective rate	31 December
				30 June 2011 KZT'000		2010 KZT'000
KZP02Y09C495	10.06.2016	0.7%+floating inflation index (limited to 12.0%)	15.93%	7,596,542	13.51%	7,447,660
KZ2C0Y08D913	23.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	16.68%	6,234,505	13.11%	4,778,138
KZP05Y06C494	10.06.2015	3.7%+floating rate	20.06%	6,145,604	20.06%	5,991,550
KZ2C0Y07B307	01.10.2011	0.10%+floating inflation index	7.50%	5,111,096	6.04%	5,093,146
KZPC2Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	6.98%	5,105,340	6.08%	5,097,883
KZPC1Y10B543	10.04.2015	6.90%	7.25%	5,020,411	7.25%	5,013,991
KZ2C0Y10B319	01.10.2014	0.1%+floating inflation	8.83%	4,957,449	7.30%	4,914,664
KZP03Y05C491	01.12.2012	11.00%	13.08%	4,914,921	13.08%	4,874,370
KZP04Y04C492	15.07.2013	10.20%	20.59%	4,492,235	19.87%	4,341,499
KZPC4Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	13.83%	3,970,146	6.08%	3,883,817
KZ2C0Y10B079	01.04.2014	0.50%+floating inflation index	8.13%	2,447,053	12.44%	2,706,383
KZ2C0Y10A980	01.04.2014	1.00%+floating inflation index	8.83%	2,429,593	13.17%	2,686,053
KZ2C0Y10A857	01.10.2013	0.80%+floating inflation index	8.44%	921,157	7.87%	916,884
KZ2C0Y07B224	01.04.2011	0.39%+floating inflation index	-	-	6.56%	4,212,951
				59,346,052		61,958,989

These obligations are secured by loan agreements with customers and the related real estate collateral supporting these loans (Note 8) in the amount of KZT 57,291,694 thousand (31 December 2010: KZT 62,882,687 thousand).

The floating inflation rate is based on the inflation index for the prior 12 months published by the Statistics Agency of the Republic of Kazakhstan and is revised semi-annually according to the date of issue.

The Company has not had any defaults of principal, interest or other breaches with respect to its debt securities during six-month period ended 30 June 2011 and the year ended 31 December 2010.

12 Share capital

(a) Issued capital and share premium

As at 30 June 2011 and 31 December 2010 authorised share capital comprised 2,906,200 ordinary shares, issued and outstanding share capital comprised 2,892,000 shares. All shares have a nominal value of KZT 10,000.

(b) Dividends

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory interim condensed financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. As at 30 June 2011 the Company had accumulated losses, including the loss for the current period, of KZT 7,992,024 thousand (31 December 2010: KZT 6,724,573 thousand).

Dividends payable are restricted to the maximum retained earnings of the Company, which are determined according to legislation of the Republic of Kazakhstan. During the six-month period ended 30 June 2011 the dividends of KZT 32,444 thousand relating to 2010 results of the Company were declared and paid by the Company.

(c) Treasury shares

As at 30 June 2011 and 31 December 2010 the Company held 249,990 of its own shares.

(d) Reserve capital

In accordance with the Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan", the Company should establish a capital reserve. At 30 June 2011 the capital reserve amounted to KZT 2,630,820 thousand and (31 December 2010: KZT 2,598,418 thousand). This reserve is non-distributable.

(e) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the period attributable to common shareholders of the Company by the weighted average number of ordinary shares (excluding treasury shares) outstanding during the period.

	Unaudited Six-month period ended 30 June 2011	Unaudited Six-month period ended 30 June 2010
(Loss) profit for the period, in thousand of KZT	(1,202,605)	1,059,736
Weighted average number of ordinary shares	2,642,010	2,711,177
Basic and diluted earnings per share, in KZT	(455)	391

13 Segment reporting

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 8 "Segment Reporting". The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan. The Chief Operating Decision Maker, in the case of the Company, the Executive Chairman, only receives and reviews the information on the Company as a whole.

14 Financial risk management

Management of risk is fundamental to the mortgage business and is an essential element of the Company's operations. The major risks faced by the Company are those related to market risk, credit risk and liquidity risk.

As at 30 June 2011 there were no significant changes in relation to market and liquidity risks since 31 December 2010.

15 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Company's property or relating to the Company's operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Litigation

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions of the results of future operations of the Company.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position of the Company, if the authorities were successful in enforcing their interpretations, could be significant.

16 Related party transactions

(a) Transactions with the members of the Management Board

Total remuneration included in employee compensation:

	Unaudited Six-month period ended 30 June 2011 KZT'000	Unaudited Six-month period ended 30 June 2010 KZT'000
Members of the Board of Directors	4,056	3,103
Members of the Management Board	19,471	28,814
	<u>23,527</u>	<u>31,917</u>

The above amounts include non-cash benefits in respect of the members of the Management Board.

(b) Transaction with other related parties

Other related parties include the Ministry of Finance of the Republic of Kazakhstan and State organisations. The amounts below are included in the interim condensed statement of financial position and interim condensed statement of comprehensive income for transactions with related parties as at 30 June 2011 and 31 December 2010:

	Unaudited, 30 June 2011 KZT'000	Unaudited, 30 June 2011 State organisations KZT'000	Unaudited, 30 June 2010 KZT'000	Unaudited, 30 June 2010 State organisations KZT'000
Interest income	36,839	-	52,855	-
Interest expense	(4,510)	-	(14,897)	-
Net gain on financial instruments at fair value through profit or loss	-	-	65	-

The balances with related parties as at 30 June 2011 include:

	Ministry of Finance		State organizations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Held-to maturity investments	2,077,658	5.50	-	-
Deferred tax assets	-	-	23,451	-
Current tax asset	-	-	440,350	-
Current assets	8	6.44	-	-
Other borrowed funds	9,024,456	0.10	-	-
Other liabilities	-	-	6,674	-

The balances with related parties as of 31 December 2010 include:

	Ministry of Finance		State organizations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Held-to maturity investments	2,145,319	5.50	-	-
Deferred tax assets	-	-	21,827	-
Current tax asset	-	-	390,988	-
Other assets	8	6.44	-	-
Other borrowed funds	9,019,946	0.10	-	-
Other liabilities	-	-	10,643	-

17 Capital management

The Decree of the National Bank of the Republic of Kazakhstan #254 of 25 July 2003 establishes the Company status as a financial agency, for which the National Bank determines statutory capital ratio. As at 30 June 2011 the minimum level of this ratio is 8%. The Company was in compliance with the statutory capital ratio during the six-month period ended 30 June 2011 and the year ended 31 December 2010.

The Company also monitors its capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basle Accord, as at 30 June 2011 and 31 December 2010:

	Unaudited 30 June 2011 KZT'000	31 December 2010 KZT'000
Tier 1 capital		
Share capital	26,335,239	26,335,239
General reserves	2,630,820	2,598,418
Accumulated losses	(7,992,024)	(6,724,573)
Total tier 1 capital	20,974,035	22,209,084
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(532,401)	(695,573)
Total tier 2 capital	(532,401)	(695,573)
Total capital	20,441,634	21,513,511
Risk-weighted assets, unaudited		
Banking book, unaudited	38,878,301	38,244,077
Trading book, unaudited	41,234,303	43,212,693
Total risk weighted assets, unaudited	80,112,604	81,456,770
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio"), unaudited	26%	26%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio"), unaudited	26%	27%

The risk-weighted assets are measured by means of a hierarchy of risk weight classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Company is subject to minimum capital adequacy requirements calculated in accordance with the Basle Accord established by covenants under liabilities incurred by the Company. As at 30 June 2011 and 31 December 2010, this minimum level is 8%. The Company has complied with these capital requirements during the six-month period ended 30 June 2011 and the year ended 31 December 2010.

18 Events after the reporting period

On 10 August 2011 in accordance with the Decree of the President of the Republic of Kazakhstan #136 the Government of Kazakhstan was instructed to ensure that the rights of possession and use of shares of the Company owned by the state are transferred to the Agency for Construction and Housing of the Republic of Kazakhstan. As at the date of these interim condensed financial statements, there is no Government decree have been issued that executes the above Decree of the President of the Republic of Kazakhstan.