

Mortgage organisation
Kazakhstan Mortgage Company JSC

Unaudited Interim
Condensed Financial Statements
for the Six-Month Period ended
30 June 2012

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Independent Auditors' Report on review of Interim Condensed Financial Information

To the Board of Directors and Management Board 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 2012, and the related interim condensed income statement and interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information (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 2012 and 31 December 2011, 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, accumulated losses as at 30 June 2012 and 31 December 2011, net gain on financial instruments at fair value through profit or loss, income tax benefit, profit/(loss) and earnings/(loss) per share for the six-month periods ended 30 June 2012 and 30 June 2011 has not been determined.

As described in the Note 8 to the interim condensed financial information, during the six-month period ended 30 June 2012 the Company revised certain assumptions applied to estimate the impairment losses on its loans to customers which resulted in recovery of impairment losses. Due to limitations of the accounting records of the Company these revisions cannot be linked to underlying changes in the current economic conditions. In accordance with International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*, impairment losses should be measured using historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions. The effects of this departure from International Financial Reporting Standards on loans to customers, accumulated losses, impairment recoveries, taxation and profit for the period as at and for the six-month period ended 30 June 2012 have not been determined.

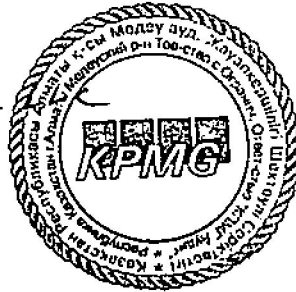
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Qualified Conclusion

Based on our review, except for the possible effects of the matters 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 does not present fairly, in all material respects, the financial position of the Company as at 30 June 2012, and its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

KPMG Audit



KPMG Audit LLC

24 August 2012


*Mortgage organisation Kazakhstan Mortgage Company JSC
Interim Condensed Income Statement for the six-month period ended 30 June 2012*

		Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
Interest income	4	3,766,619	4,024,074
Interest expense	4	(4,195,032)	(4,526,900)
Net interest expense		(428,413)	(502,826)
Fee and commission income		1,650	3,978
Fee and commission expense		(6,813)	(5,405)
Net fee and commission expense		(5,163)	(1,427)
Net gain on available-for-sale financial assets		3,205	-
Net foreign exchange (loss)/gain		(86,445)	87,975
Other income		22,510	14,775
Operating loss		(494,306)	(401,503)
Impairment recoveries/(losses)	5	1,050,440	(200,613)
Personnel expenses		(312,223)	(326,089)
General administrative expenses		(238,922)	(276,024)
Profit/(loss) before income tax		4,989	(1,204,229)
Income tax benefit	6	-	1,624
Profit/(loss) for the period		4,989	(1,202,605)
Basic earnings/(loss) per share, in KZT	10	2	(455)

These interim condensed financial statements as set out on pages 5 to 21 were approved by Management on 24 August 2012.

Ibadullayev
Chairman of the Management Board




Sagimkulova B.D.
Chief Accountant

Mortgage organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Comprehensive Income for the six-month period ended 30 June 2012

	Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
Profit/(loss) for the period	4,989	(1,202,605)
Other comprehensive income, net of income tax		
Revaluation reserve for available-for-sale financial assets:		
Net change in fair value of available-for-sale financial assets	(332,386)	163,172
Net change in fair value of available-for-sale financial assets transferred to profit or loss	(3,205)	-
Other comprehensive income for the period, net of income tax	(335,591)	163,172
Total comprehensive loss for the period	(330,602)	(1,039,433)

Mortgage organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Financial Position as at 30 June 2012

	Note	Unaudited 30 June 2012 KZT'000	31 December 2011 KZT'000
ASSETS			
Cash and cash equivalents		2,864,807	3,453,838
Placements with banks and other financial institutions		10,966,581	10,574,941
Available-for-sale financial assets	7	9,732,588	8,587,968
Loans to customers	8	54,357,638	55,535,523
Held-to-maturity investments	9	13,482,652	13,473,205
Current tax asset		592,154	505,111
Property and equipment		2,261,583	2,313,793
Investment property		628,769	605,082
Other assets		399,850	327,737
Total assets		95,286,622	95,377,198
EQUITY AND LIABILITIES			
Debt securities issued		55,697,580	55,523,652
Other borrowed funds		23,916,162	23,827,227
Deferred tax liability		23,521	23,521
Other liabilities		103,699	126,536
Total liabilities		79,740,962	79,500,936
Equity			
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	2,630,820
Revaluation reserve for available-for-sale financial assets		(429,819)	(94,228)
Accumulated losses		(12,990,580)	(12,995,569)
Total equity		15,545,660	15,876,262
Total equity and liabilities		95,286,622	95,377,198

The interim condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the interim condensed financial statements set out on pages 11 to 21.

Mortgage organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Cash Flows for the six-month period ended 30 June 2012

	Unaudited Six months ended 30 June 2012 KZT'000	Unaudited Six months ended 30 June 2011 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) for the period	4,989	(1,202,605)
<i>Adjustments for non-cash items:</i>		
Net gain on available-for-sale financial assets	(3,205)	-
Depreciation and amortisation	52,097	105,121
Impairment (recoveries)/losses	(1,050,440)	200,613
Interest income	(3,766,619)	(4,024,074)
Interest expense	4,195,032	4,526,900
Net foreign exchange loss/(gain)	86,445	(87,975)
Loss from disposal of investment property	1,361	-
Income tax benefit	-	(1,624)
	(480,340)	(483,644)
(Increase)/decrease in operating assets		
Placements with banks and other financial institutions	(634,134)	(10,959,921)
Loans to customers	1,899,407	2,777,446
Other assets	(78,182)	16,677
Decrease in operating liabilities		
Other liabilities	(22,837)	(3,046)
Cash flow from/(used in) operating activities before interest and income tax paid	683,914	(8,652,488)
Interest received	4,091,326	3,878,991
Interest paid	(3,580,881)	(3,899,693)
Income tax paid	(87,043)	(49,352)
Cash flows from/(used in) operating activities	1,107,316	(8,722,542)

Mortgage organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Cash Flows for the six-month period ended 30 June 2012

	Unaudited Six months ended 30 June 2012 KZT'000	Unaudited Six months ended 30 June 2011 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of held-to-maturity investments	-	1,510,236
Proceeds from sale of available-for-sale financial assets	972,687	-
Acquisition of available-for-sale financial assets	(2,212,459)	-
Purchase of property and equipment	-	(482)
Proceeds from sale of investment property	7,713	-
Net cash (used in)/from investing activities	(1,232,059)	1,509,754
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt securities issued	14,009	1,424,412
Redemption of debt securities issued	(478,297)	(4,642,541)
Dividends paid	-	(32,444)
Cash flows used in financing activities	(464,288)	(3,250,573)
Net decrease in cash and cash equivalents	(589,031)	(10,463,361)
Cash and cash equivalents at beginning of the period	3,453,838	13,664,083
Cash and cash equivalents at end of the period	2,864,807	3,200,722

Mortgage organisation Kazakhstan Mortgage Company JSC
Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2012

	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 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 for the period, unaudited	-	-	-	-	163,172	-	163,172
Total comprehensive loss for the period, unaudited	-	-	-	-	163,172	(1,202,605)	(1,039,433)
Dividends declared, unaudited	-	-	-	-	-	(32,444)	(32,444)
Treasury shares acquired, 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
Balance at 1 January 2012	28,920,000	12,661	(2,597,422)	2,630,820	(94,228)	(12,995,569)	15,876,262
Total comprehensive income	-	-	-	-	-	4,989	4,989
Profit for the period, unaudited	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	(332,386)	-	(332,386)
Net change in fair value of available-for-sale financial assets, unaudited	-	-	-	-	(332,386)	-	(332,386)
Net change in fair value of available-for-sale financial assets transferred to profit or loss, unaudited	-	-	-	-	(3,205)	-	(3,205)
Total other comprehensive income for the period, unaudited	-	-	-	-	(335,591)	-	(335,591)
Total comprehensive loss for the period, unaudited	-	-	-	-	(335,591)	4,989	(330,602)
Balance at 30 June 2012, unaudited	28,920,000	12,661	(2,597,422)	2,630,820	(429,819)	(12,990,580)	15,545,660

1 Background

(a) Principal activities

Mortgage organisation Kazakhstan Mortgage Company JSC (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 activity of the Company is 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 20 June 2012 the Government of the Republic of Kazakhstan approved the State Program "Affordable housing – 2020" for 2012-2020 years. Under the Program, the share capital of the Company will be increased by KZT 107,754 million by annual tranches starting from 2013 till 2016. The Company will construct residential premises for subsequent finance lease to individuals, citizens of the Republic of Kazakhstan.

(b) Shareholders

As at 30 June 2012 and 31 December 2011 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. On 1 June 2012, the rights of possession and use, without the right of disposition, of 41.36% of authorised shares of the Company were transferred to the Agency of the Republic of Kazakhstan on construction and housing and utilities infrastructure.

(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 Kazakhstan. The interim condensed financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These interim condensed financial statements are 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 financial statements of the Company as at and for the year ended 31 December 2011, 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 available-for-sale financial assets 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 financial statements for the year ended 31 December 2011, except as disclosed in the Note 8 "Loans to customers".

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 financial statements for the year ended 31 December 2011.

4 Net interest expense

	Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
Interest income		
Loans to customers	2,614,005	2,760,766
Available-for-sale financial assets	462,798	376,302
Held-to-maturity investments	353,657	432,907
Placements with banks and other financial institutions	336,159	454,099
	<u>3,766,619</u>	<u>4,024,074</u>
Interest expense		
Debt securities issued	(3,500,211)	(3,597,771)
Other borrowed funds	(694,821)	(929,129)
	<u>(4,195,032)</u>	<u>(4,526,900)</u>
	<u>(428,413)</u>	<u>(502,826)</u>

5 Impairment recoveries/(losses)

	Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
Loans to customers (Note 8)	821,000	(203,447)
Available-for-sale financial assets (Note 7)	119,436	87,260
Held-to-maturity investments (Note 9)	83,427	(92,877)
Other assets	26,577	8,451
	1,050,440	(200,613)

6 Income tax benefit

	Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
<i>Current tax expense</i>		
Current period	-	-
	-	-
<i>Deferred tax benefit</i>		
Origination and reversal of temporary differences	-	1,624
Total income tax benefit	-	1,624

The Company's applicable tax rate for the six-month period ended 30 June 2012 is the income tax rate of 20% for Kazakhstan companies (30 June 2011: 20%). The 20% tax rate has been used in the calculation of deferred tax assets and liabilities as at 30 June 2012.

Reconciliation of effective tax rate:

	Unaudited Six-month period ended 30 June 2012		Unaudited Six-month period ended 30 June 2011	
	KZT'000	%	KZT'000	%
Profit/(loss) before income tax	4,989	100	(1,204,229)	100
Income tax at the applicable tax rate	998	20	240,846	(20)
Change in unrecognised deferred tax assets	-	-	(243,618)	20
Tax effect of non-taxable items	(998)	(20)	4,396	-
Total income tax benefit	-	-	1,624	-

7 Available-for-sale financial assets

	Unaudited 30 June 2012 KZT'000	31 December 2011 KZT'000
Government bonds - rated at BBB+	1,628,991	523,747
Corporate bonds - rated from B+ to B	3,363,219	4,405,029
Corporate bonds - not rated	5,442,736	4,480,986
Total corporate bonds	10,434,946	9,409,762
Impairment allowance	(702,358)	(821,794)
	9,732,588	8,587,968

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"). Rosa bonds were excluded from trading on KASE from 2 October 2009. On 26 April 2012, the bonds of Doszhan Temir Zholy JSC ("DTZ") were transferred to the second subcategory of not rated category from the "buffer category" according to the KASE.

During the six-month period ended 30 June 2012 the Company decreased an impairment allowance for DTZ bonds from 56% or KZT 384,051 thousand as at 31 December 2011 to 38% or KZT 264,615 thousand based on the management's revised estimate of future cash flows.

There is no significant change in the situation with Rosa bonds during the six-month period ended 30 June 2012.

Analysis of movements in the impairment allowance

	Six-month period ended 30 June 2012 KZT'000	Six-month period ended 30 June 2011 KZT'000
Balance at the beginning of the period	821,794	1,011,729
Net recovery for the period, unaudited	(119,436)	(87,260)
Balance at the end of the period, unaudited	702,358	924,469

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 2012 KZT'000	31 December 2011 KZT'000
Mortgage loans with recourse	17,807,257	20,027,848
Mortgage loans without recourse - with guarantee	28,909,395	20,891,250
Mortgage loans without recourse - without guarantee	10,357,085	18,118,791
Accrued interest	615,036	714,514
	57,688,773	59,752,403
Impairment allowance	(3,331,135)	(4,216,880)
	54,357,638	55,535,523

During the six-month period ended 30 June 2012 certain borrowers paid regular insurance premiums to Kazakhstan Fund of Guaranteeing Mortgage Loans JSC and became guaranteed. These loans were transferred to the "with guarantee" category from the "without guarantee" category.

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 2012:

	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	17,590,574	-	17,590,574	-
- Overdue less than 30 days	248,190	-	248,190	-
- Overdue 30-89 days	64,435	-	64,435	-
- Overdue 180-360 days	13,933	-	13,933	-
Mortgage loans without recourse to the seller guaranteed by the JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- Current	23,855,577	284,933	23,570,644	1
- Overdue less than 30 days	1,110,926	54,683	1,056,243	5
- Overdue 30-89 days	418,827	202,993	215,834	48
- Overdue 90-179 days	548,703	129,080	419,623	24
- Overdue 180-360 days	247,703	184,428	63,275	74
- Overdue more than 360 days	3,100,449	2,076,031	1,024,418	67
Mortgage loans without recourse to the seller and without guarantee of JSC Kazakhstan Fund of Guaranteeing Mortgage Loans				
- Current	8,296,754	26,306	8,270,448	-
- Overdue less than 30 days	362,497	21,565	340,932	6
- Overdue 30-89 days	143,077	45,643	97,434	32
- Overdue 90-179 days	1,312,482	26,430	1,286,052	2
- Overdue 180-360 days	37,301	27,640	9,661	74
- Overdue more than 360 days	337,345	251,403	85,942	75
	57,688,773	3,331,135	54,357,638	6

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 2011:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans, %
Mortgage loans with recourse to the seller				
- not overdue	19,878,603	-	19,878,603	-
- overdue less than 30 days	233,368	-	233,368	-
- overdue 30-89 days	57,772	-	57,772	-
Mortgage loans without recourse to the seller guaranteed by the Kazakhstan Fund of Guaranteeing Mortgage Loans JSC				
- not overdue	16,803,433	413,647	16,389,786	2
- overdue less than 30 days	632,872	109,374	523,498	17
- overdue 30-89 days	402,072	201,858	200,214	50
- overdue 90-179 days	82,853	66,131	16,722	80
- overdue 180-360 days	617,556	455,496	162,060	74
- overdue more than 360 days	2,742,031	2,032,733	709,298	74
Mortgage loans without recourse to the seller and without guarantee of Kazakhstan Fund of Guaranteeing Mortgage Loans JSC				
- not overdue	15,777,520	64,720	15,712,800	-
- overdue less than 30 days	1,615,362	265,926	1,349,436	16
- overdue 30-89 days	172,743	73,461	99,282	43
- overdue 90-179 days	120,168	87,903	32,265	73
- overdue 180-360 days	176,690	121,638	55,052	69
- overdue more than 360 days	439,360	323,993	115,367	74
	59,752,403	4,216,880	55,535,523	7

(b) Analysis of impairment

The significant assumption used in determining impairment losses for mortgage loans are the same as those that applied to the Company's financial statements for the year ended 31 December 2011, except for the following:

- The historical period for calculation of migration rates was decreased from 12 to 6 months;
- Discount rates applied to determine recoverable values of collateral at foreclosure were reduced by 10% in average.

Movements in the loan impairment allowance are as follows:

	Six-month period ended 30 June 2012 KZT'000	Six-month period ended 30 June 2011 KZT'000
Balance at the beginning of the period	4,216,880	702,971
Net (recovery)/charge for the period, unaudited	(821,000)	203,447
(Write-offs)/recovery of loans, unaudited	(64,745)	4,716
Balance at the end of the period, unaudited	3,331,135	911,134

8 Loans to customers, continued

(c) Collateral obtained

During the six-month period ended 30 June 2012, the Company obtained certain assets by taking possession of collateral for loans to retail customers. As at 30 June 2012, the carrying amount of such assets was KZT 775,639 thousand (31 December 2011: KZT 728,170 thousand), which consisted of investment property of KZT 628,769 thousand (31 December 2011: KZT 605,082 thousand) and other assets of KZT 146,870 thousand (2010: 123,088 thousand).

(d) Significant credit exposures

As at 30 June 2012 and 31 December 2011, 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 2012 is KZT 12,888,151 thousand (31 December 2011: KZT 12,851,855 thousand).

9 Held-to-maturity investments

	Unaudited 30 June 2012 KZT'000	31 December 2011 KZT'000
Governments bonds		
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,045,564	2,113,823
Corporate bonds		
- rated A	3,507,791	3,485,068
- rated from BB- to BB+	578,792	575,818
- rated from B+ to B-	6,122,189	6,150,198
- not rated	2,208,789	2,212,198
Total corporate bonds	12,417,561	12,423,282
Impairment allowance	(980,473)	(1,063,900)
Total net corporate bonds	11,437,088	11,359,382
	13,482,652	13,473,205

As at 30 June 2012 the Company decreased an impairment allowance on bonds of Kazakhstan Kagazy JSC from 65% or KZT 537,168 thousand as at 31 December 2011 to 57% or KZT 454,345 thousand based on the management's revised estimate of future cash flows.

Analysis of movements in the impairment allowance:

	Six-month period ended 30 June 2012 KZT'000	Six-month period ended 30 June 2011 KZT'000
Balance as at the beginning of the period	1,063,900	815,997
Net (recovery)/charge for the period, unaudited	(83,427)	92,877
Balance as at the end of the period, unaudited	980,473	908,874

10 Basic earnings/(loss) 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 2012	Unaudited Six-month period ended 30 June 2011
Profit/(loss) for the period, in thousand of KZT	4,989	(1,202,605)
Weighted average number of ordinary shares	2,642,010	2,642,010
Basic earnings/(loss) per share, in KZT	2	(455)

11 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.

12 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 2012 there were no significant changes in relation to market and liquidity risks since 31 December 2011. Changes in credit risks in relation to loans to customers are disclosed in Note 8.

13 Related party transactions

(a) Transactions with the members of the Management Board and Board of Directors

Total remuneration included in employee compensation:

	Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
Members of the Board of Directors	4,555	4,056
Members of the Management Board	19,664	19,471
	24,219	23,527

13 Related party transactions, continued

(a) **Transactions with the members of the Management Board and Board of Directors, continued**

The above amounts include non-cash benefits in respect of the members of the Management Board. The outstanding balances and average interest rates as of 30 June 2012 and 31 December 2011 with the members of the Management Board are as follows:

	Unaudited 30 June 2012 KZT'000	Average interest rate	31 December 2011 KZT'000	Average interest rate
Interim Condensed Statement of Financial Position				
Loans to customers	14,650	8.5%	17,002	8.5%

Amounts included in profit or loss in relation to transactions with the members of the Management Board are as follows:

	Unaudited Six-month period ended 30 June 2012 KZT'000	Unaudited Six-month period ended 30 June 2011 KZT'000
Interim Condensed Income Statement		
Interest income	622	-

(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 as at 30 June 2012 and 31 December 2011 and interim condensed income statement and interim condensed statement of comprehensive income for the six-month periods ended 30 June 2012 and 2011:

	Unaudited, Six-month period ended 30 June 2012 KZT'000	Unaudited, Six-month period ended 30 June 2012 KZT'000	Unaudited, Six-month period ended 30 June 2011 KZT'000	Unaudited, Six-month period ended 30 June 2011 KZT'000
	Ministry of Finance	State organisations	Ministry of Finance	State organisations
Interim Condensed Income Statement				
Interest income	58,335	90,456	36,839	180,667
Interest expense	(4,510)	(1,339,261)	(4,510)	(1,225,349)
Impairment recoveries	-	119,436	-	886
General administrative expenses	(57,761)	(55,084)	(51,959)	(43,965)
Interim Condensed Statement of Comprehensive Income:				
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	(129,310)	-	-	-

13 Related party transactions, continued

(b) Transaction with other related parties

The balances with related parties as at 30 June 2012 include:

	Unaudited Ministry of Finance		Unaudited State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Interim Condensed Statement of Financial Position				
Placements with banks and other financial institutions	-	-	3,448,149	7.00
Available-for-sale financial assets	1,628,991	5.55	456,500	8.75
Held-to maturity investments	2,045,564	5.50	-	-
Current tax asset	592,154	-	-	-
Other assets	8	-	142,339	-
Debt securities issued	-	-	21,928,309	6.58
Other borrowed funds	9,024,456	0.10	-	-
Deferred tax liability	23,521	-	-	-
Other liabilities	5,611	-	653	-
Revaluation reserve for available-for- sale financial assets	(261,131)	-	-	-

The balances with related parties as of 31 December 2011 include:

	Ministry of Finance		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Statement of Financial Position				
Placements with banks and other financial institutions	-	-	3,479,662	7.0
Available-for-sale financial assets	523,747	3.0	306,478	8.8
Held-to maturity investments	2,113,823	3.5	-	-
Current tax asset	505,111	-	-	-
Other assets	1,321	-	167,709	-
Debt securities issued	-	-	20,638,171	8.1
Other borrowed funds	9,019,946	0.1	-	-
Deferred tax liability	23,521	-	-	-
Other liabilities	7,413	-	1,220	-
Revaluation reserve for available- for-sale financial assets	(131,820)	-	-	-

14 Capital management

The Decree of the NBRK #254 of 25 July 2003 establishes the Company status as a financial agency, for which the NBRK determines statutory capital ratio. As at 30 June 2012 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 2012.

14 Capital management, continued

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 2012 and 31 December 2011:

	Unaudited 30 June 2012 KZT'000	31 December 2011 KZT'000
Tier 1 capital		
Share capital	26,335,239	26,335,239
General reserves	2,630,820	2,630,820
Accumulated losses	(12,990,580)	(12,995,569)
Total tier 1 capital	15,975,479	15,970,490
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(429,819)	(94,228)
Total tier 2 capital	(429,819)	(94,228)
Total capital	15,545,660	15,876,262
Risk-weighted assets, unaudited		
Banking book, unaudited	87,763,933	95,377,198
Trading book, unaudited	11,383,916	11,322,214
Total risk weighted assets, unaudited	99,147,849	106,699,412
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio"), unaudited	16%	15%
Total tier 1 capital expressed as a percentage of risk-weighted assets ("tier 1 capital ratio"), unaudited	16%	15%

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 2012 and 31 December 2011, this minimum level is 8%. The Company has complied with these capital requirements during the six-month period ended 30 June 2012.

15 Events after the reporting period

On 16 July 2012, Fitch assigned the Company a long-term foreign currency rating of "BB", long-term local currency rating of "BB+" and a short-term foreign currency rating of "B", with positive outlooks. The rating action also covers the Company's outstanding bonds.

On 22 June 2012, the Board of directors authorised establishment of a subsidiary company, United Payment System LLP. The entity was officially registered by the Department of Justice of Almaty on 9 July 2012. Main activity of the subsidiary is provision of accounting automation services to mortgage and other companies.

On 6 August 2012, the subsidiary of United Payment System LLP, Kazakhstan Housing Corporation JSC was officially registered by the Department of Justice of Almaty. Main activity of the entity is construction of residential premises under the State Program "Affordable housing – 2020".