



Mortgage organisation
Kazakhstan Mortgage Company JSC

Unaudited Unconsolidated Interim
Condensed Financial Statements
for the Six-Month Period ended
30 June 2014

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Independent Auditors' Report on review of Unconsolidated 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 unconsolidated interim condensed statement of financial position of Mortgage organisation Kazakhstan Mortgage Company JSC (the "Company") as at 30 June 2014, and the related unconsolidated interim condensed income statement and unconsolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the unconsolidated interim financial information (the "unconsolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this unconsolidated 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 unconsolidated 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 unconsolidated 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unconsolidated interim condensed financial information as at 30 June 2014 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*.

Emphasis of Matter

The Company restated comparative information in the unconsolidated interim condensed financial information as at and for the six-month period ended 30 June 2013 to recognise a foreign currency derivative embedded in a loan payable that previously was not separated and measured at fair values as required by International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. In our review report dated 23 July 2013 on the unconsolidated interim condensed financial information of the Company as at and for the six-month ended 30 June 2013 we expressed a qualified conclusion on this matter.

Also during the six-month period ended 30 June 2013 the Company identified and adjusted prior period errors relating to measurement at initial recognition of fair values of certain held-to-maturity investments and available-for-sale assets and impairment of an investment in subsidiary.

The effect of the above adjustments is presented in Note 2(e) to the unconsolidated interim condensed financial information. As part of our review of the unconsolidated interim condensed financial information as at and for the six-month period ended 30 June 2014, we have reviewed the adjustments described in Note 2(e) to the unconsolidated interim condensed financial information that were applied to restate the unconsolidated interim condensed financial information as at and for the six-month period ended 30 June 2013. In our conclusion, such adjustments are appropriate and have been properly applied.

KPMG

KPMG Audit LLC



30 July 2014

Mortgage organisation Kazakhstan Mortgage Company JSC
Unconsolidated Interim Condensed Income Statement for the six-month period ended 30 June 2014

		Unaudited	Unaudited
		Six-month period	Restated
		ended	Six-month period
		30 June 2014	ended
	Note	KZT'000	30 June 2013
		KZT'000	KZT'000
Interest income	4	7,553,726	3,549,225
Interest expense	4	(5,758,774)	(4,112,151)
Net interest income (expense)		1,794,952	(562,926)
Fee and commission income		890	2,901
Fee and commission expense		(110,699)	(6,673)
Net fee and commission expense		(109,809)	(3,772)
Net foreign exchange gain (loss)		48,277	(17,438)
Other income		43,848	21,067
Operating income (loss)		1,777,268	(563,069)
Impairment recoveries (losses)	5	12,229	(186,187)
Personnel expenses		(445,897)	(342,208)
General administrative expenses		(264,258)	(267,445)
Income (loss) before income tax		1,079,342	(1,358,909)
Income tax (expense) benefit	6	(81,283)	976,637
Income (loss) for the period		998,059	(382,272)
Basic earnings (loss) per share, in KZT	11(c)	195	(145)

These unconsolidated interim condensed financial statements as set out on pages 5 to 28 were approved by Management on 30 July 2014 and were signed on its behalf by:



Ibadullayev A.A.
Chairman of the Management Board


Toktarkozha A.T.
Chief Accountant

Mortgage organisation Kazakhstan Mortgage Company JSC
Unconsolidated Interim Condensed Statement of Comprehensive Income for the six-month period ended 30 June 2014

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Restated Six-month period ended 30 June 2013 KZT'000
Income (loss) for the period	998,059	(382,272)
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	(120,399)	(270,597)
Other comprehensive income for the period, net of income tax	(120,399)	(270,597)
Total comprehensive income (loss) for the period	877,660	(652,869)

Mortgage organisation Kazakhstan Mortgage Company JSC
Unconsolidated Interim Condensed Statement of Financial Position as at 30 June 2014

	Note	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
ASSETS			
Cash and cash equivalents		12,793,468	8,402,919
Placements with banks and other financial institutions	7	44,869,047	17,581,157
Available-for-sale financial assets		9,752,318	8,992,960
Loans to customers	8	86,780,954	98,882,264
Held-to-maturity investments		10,858,245	10,422,796
Current tax asset		994,600	810,316
Property and equipment		1,597,509	1,629,131
Investment property		1,294,609	1,069,116
Investments in subsidiary		554,291	554,291
Deferred tax asset	6	1,952,481	2,033,764
Other assets	9	6,246,847	3,747,700
Total assets		177,694,369	154,126,414
EQUITY AND LIABILITIES			
Debt securities issued	10	88,488,920	80,057,711
Subordinated debt securities issued		9,735,634	9,666,887
Other borrowed funds		28,684,111	28,550,720
Other liabilities		5,897,938	6,034,790
Total liabilities		132,806,603	124,310,108
Equity	11		
Share capital		58,113,800	43,920,000
Share premium		12,661	12,661
Treasury shares		(2,597,522)	(2,597,522)
Additional paid-in capital		5,822,856	5,822,856
Reserve capital		2,734,447	2,734,447
Revaluation reserve for available-for-sale financial assets		(585,606)	(465,207)
Accumulated losses		(18,612,870)	(19,610,929)
Total equity		44,887,766	29,816,306
Total equity and liabilities		177,694,369	154,126,414

Mortgage organisation Kazakhstan Mortgage Company JSC
Unconsolidated Interim Condensed Statement of Cash Flows for the six-month period ended 30 June 2014

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Restated Six-month period ended 30 June 2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	1,079,342	(1,358,909)
<i>Adjustments for non-cash items:</i>		
Depreciation and amortisation	31,780	38,002
Impairment (recoveries) losses	(12,229)	186,187
Interest income	(7,553,726)	(3,549,225)
Interest expense	5,758,774	4,112,151
Net foreign exchange (gain) loss	(48,277)	17,438
	(744,336)	(554,356)
(Increase) decrease in operating assets		
Placements with banks and other financial institutions	(26,439,811)	1,005,302
Loans to customers	15,240,998	2,631,108
Other assets	(2,782,208)	(208,303)
Increase (decrease) in operating liabilities		
Other liabilities	(595,779)	124,018
Cash flow (used in) from operating activities before interest and income tax paid	(15,321,136)	2,997,769
Income tax paid	(184,284)	(56,596)
Interest received	7,165,385	3,472,260
Interest paid	(4,222,560)	(2,701,784)
Cash flows (used in) from operating activities	(12,562,595)	3,711,649

Mortgage organisation Kazakhstan Mortgage Company JSC
Unconsolidated Interim Condensed Statement of Cash Flows for the six-month period ended 30 June 2014

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Restated Six-month period ended 30 June 2013 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of held-to-maturity investments	-	390,000
Redemption and sale of available-for-sale financial assets	471,509	-
Acquisition of available-for-sale financial assets	(1,186,321)	-
Purchase of property and equipment	(482)	(205,491)
Proceeds from sale of investment property	95,217	-
Cash flows (used in) from investing activities	(620,077)	184,509
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from shares issued	14,193,800	-
Proceeds from debt securities issued	6,896,272	-
Repurchase/redemption of debt securities issued	(3,874,205)	(430,467)
Receipts from placement of subordinated debt	-	5,049,402
Repayment of other borrowed funds	-	(17,169,697)
Purchase of treasury shares	-	(100)
Dividends paid	-	(103,672)
Cash flows from (used in) financing activities	17,215,867	(12,654,534)
Net increase (decrease) in cash and cash equivalents	4,033,195	(8,758,376)
Effect of changes in exchange rates on cash and cash equivalents	357,354	-
Cash and cash equivalents at beginning of the period	8,402,919	13,680,358
Cash and cash equivalents at end of the period	12,793,468	4,921,982

The unconsolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the unconsolidated interim condensed financial statements.

Mortgage organisation Kazakhstan Mortgage Company JSC
Unconsolidated Interim Condensed Statement of Changes in Equity for the six-month period ended 30 June 2014

	Share capital	Share premium	Treasury shares	Additional paid in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
KZT'000								
Balance as at 1 January 2013	28,920,000	12,661	(2,597,422)	6,998,161	2,630,820	(340,097)	(19,526,211)	16,097,912
Total comprehensive income	-	-	-	-	-	-	(382,272)	(382,272)
Loss for the period, restated, unaudited	-	-	-	-	-	(270,597)	-	(270,597)
Other comprehensive income	-	-	-	-	-	(270,597)	-	(270,597)
Net change in fair value of available-for-sale financial assets, restated, unaudited	-	-	-	-	-	(270,597)	-	(270,597)
Total other comprehensive income for the period, restated, unaudited	-	-	-	-	-	(270,597)	-	(270,597)
Total comprehensive loss for the year, restated, unaudited	-	-	-	-	-	(270,597)	(382,272)	(652,869)
Dividends declared	-	-	-	-	-	-	(103,672)	(103,672)
Recognition of previously unrecognised deferred tax liability	-	-	-	(1,197,365)	-	-	-	(1,197,365)
Purchase of ordinary shares	-	-	(100)	-	-	-	-	(100)
Transfer to reserve capital	-	-	-	-	103,627	-	(103,627)	-
Balance at 30 June 2013, restated, unaudited	28,920,000	12,661	(2,597,522)	5,800,796	2,734,447	(610,694)	(20,115,782)	14,143,906
Balance at 1 January 2014	43,920,000	12,661	(2,597,522)	5,822,856	2,734,447	(465,207)	(19,610,929)	29,816,306
Total comprehensive income	-	-	-	-	-	-	998,059	998,059
Income for the period, unaudited	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Net change in fair value of available-for sale, unaudited	-	-	-	-	-	(120,399)	-	(120,399)
Total other comprehensive income for the period, unaudited	-	-	-	-	-	(120,399)	-	(120,399)
Total comprehensive income for the period, unaudited	-	-	-	-	-	(120,399)	998,059	877,660
Increase in share capital	14,193,800	-	-	-	-	-	-	14,193,800
Balance at 30 June 2014, unaudited	58,113,800	12,661	(2,597,522)	5,822,856	2,734,447	(585,606)	(18,612,870)	44,887,766

The unconsolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the unconsolidated interim condensed financial statements.

1 Background

(a) Principal activities

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

The activities of the Company are regulated by the National Bank of the Republic of Kazakhstan.

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

Under the realisation of the Program “Affordable Housing-2020” the Company established a subsidiary company, United Payment Systems LLC (state registration certificate of a legal entity № 1266-1910-02-TOO dated 9 July 2012). The main functions of the subsidiary are communications with potential lessees, conclusion of rent and utilities (maintenance) agreements, collection and arrangement of lease payments and payments relating to servicing of current mortgage transactions, and control over completeness and timeliness of cash flows.

United Payment Systems LLC established a subsidiary in the form of the joint-stock company, Kazakhstan Housing Construction Corporation JSC (state registration certificate of a legal entity № 1559-1910-02-AO dated 6 August 2012). The main functions of the subsidiary are organisation and holding tenders (biddings) for development of design and estimate documentation, construction and installation works, selection of a contracting construction and mounting organization, support in carrying out state expert reviews, organisation of construction of rental houses, project finance, financing of construction of rental houses, engineering supervision on all stages of construction, acceptance and setting of houses into exploitation.

(b) Shareholders

As at 30 June 2014 National Management Holding Baiterek JSC (“Baiterek”) and the Committee of the State Property and Privatisation of the Ministry of Finance of the Republic of Kazakhstan owned 72.70659% and 27.29340% of the Company’s voting shares, respectively.

As at 31 December 2013 Baiterek owned 97.62168% of the Company’s voting shares.

(c) Kazakhstan business environment

The Company’s operations are primarily located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements of the Company as at and for the year ended 31 December 2013, as these unconsolidated interim condensed financial statements provide an update of previously reported financial information.

The Company also prepares consolidated interim condensed financial statements for the six-month period ended 30 June 2014 in accordance with IAS 34 that can be obtained from the Company's head office at 98, Karasay Batyr st., Almaty, Kazakhstan.

(b) Basis of measurement

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

(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 unconsolidated 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements for the year ended 31 December 2013.

(e) Correction of errors

During the preparation of unconsolidated condensed interim financial statements as at and for the period ended 30 June 2014, management of the Company identified errors affecting 30 June 2013 corresponding figures.

(i) *Recognition of previously unrecognised derivative embedded in a loan payable to a foreign organisation*

During the year ended 31 December 2013 management decided to restate prior period financial information to recognise as required by IAS 39 *Financial Instruments: Recognition and Measurement* a foreign currency derivative instrument that was embedded in the loan payable to Credit Suisse International. As a result, the Company recognised a financial liability at fair value through profit or loss of KZT 2,897,804 thousand and KZT 2,951,358 thousand as at 31 December 2011 and 2012, respectively.

2 Basis of preparation, continued

(e) Correction of errors, continued

(i) *Recognition of previously unrecognised derivative embedded in a loan payable to a foreign organisation, continued*

Fair value of the derivative was calculated using a model based on the forward knock out derivative model. The forward knock out derivative model is based on a forward contract with a specified delivery price maturing at a specified time with an attached barrier. The forward feature ceases to exist as soon as the underlying spot price reaches this barrier.

In December 2012 the Company took a decision to terminate the loan agreement and sent an official notice to the counterparty. On 10 January 2013 the loan was repaid in full. To reflect the change in expected cash flows of the loan, all its components including the embedded derivative were recognised at terminal values as at 31 December 2012. The Company has also made a reversal of previously accrued loss from debt extinguishment of KZT 3,689,198 thousand related to ahead-of-schedule repayment of the loan and accrued interest expense of KZT 98,939 thousand for the six-month period ended 30 June 2013.

(ii) *Initial recognition of financial assets available-for-sale and held-to-maturity instruments at fair value*

In 2010 the Company acquired fixed coupon bonds of Bank of America Corp and Goldman Sachs Group Inc for the nominal value of USD 23,500 thousand. These bonds were classified as held to maturity and measured at amortised cost in the unconsolidated financial statements. During the year ended 31 December 2013 management adjusted the fair value of these bonds at initial recognition. The fair value recalculated using market quotes for similar instruments at acquisition period was estimated at USD 10,221 thousand.

The comparative information for the six-month period ended 30 June 2013 presented in the unconsolidated condensed interim financial statements for the six-month period ended 30 June 2014 is therefore adjusted to measure the bonds at their fair value on initial recognition and to recognise a loss equal to the difference between the fair value on initial recognition and the transaction price. Interest income and net foreign exchange loss were adjusted by KZT 49,910 thousand and KZT 15,524 thousand for the six-month period ended 30 June 2013.

During 2013 management also adjusted the value at initial recognition of certain domestic bonds purchased in 2009 and 2011. These bonds are classified as available-for-sale assets in the Company's unconsolidated financial statements. The Company therefore recognised a loss in the total amount of KZT 300,185 thousand in profit or loss at initial recognition. As a result, interest income and net change in fair value of available-for-sale financial assets were understated by KZT 8,419 thousand for the six-month period ended 30 June 2013.

2 Basis of preparation, continued

(e) Correction of errors, continued

(ii) Initial recognition of financial assets available-for-sale and held-to-maturity instruments at fair value, continued

The effect of the above correction of errors on the comparative figures can be summarised as follows:

KZT'000	Unaudited As previously reported	Unaudited Correction of errors	Unaudited As restated
Unconsolidated interim condensed income statement for the six-month period ended 30 June 2013			
Interest income	3,490,896	58,329	3,549,225
Interest expense	(4,211,090)	98,939	(4,112,151)
Net interest expense	(720,194)	157,268	(562,926)
Loss from debt extinguishment	(3,689,198)	3,689,198	-
Net foreign exchange loss	(1,914)	(15,524)	(17,438)
Operating loss	(4,394,011)	3,830,942	(563,069)
Loss before income tax	(5,189,851)	3,830,942	(1,358,909)
Loss for the period	(4,213,214)	3,830,942	(382,272)
Unconsolidated interim condensed statement of comprehensive income for the six-month period ended 30 June 2013			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value of available-for-sale financial assets	(262,178)	(8,419)	(270,597)
Other comprehensive loss for the period	(262,178)	(8,419)	(270,597)
Total comprehensive loss for the period	(4,475,392)	3,822,523	(652,869)
Unconsolidated interim condensed statement of cash flow for the six-month period ended 30 June 2013			
Loss before income tax	(5,189,851)	3,830,942	(1,358,909)
<i>Adjustments for non-cash items:</i>			
Interest income	(3,490,896)	(58,329)	(3,549,225)
Interest expense	4,211,090	(98,939)	4,112,151
Net foreign exchange loss	1,914	15,524	17,438
Loss from debt extinguishment	3,689,198	(3,689,198)	-
Unconsolidated interim condensed statement of changes in equity for the six-month period ended 30 June 2013			
Revaluation reserve for available-for-sale financial assets as at 30 June 2013	(879,994)	269,300	(610,694)
Accumulated losses as at 30 June 2013	(17,897,505)	(2,218,277)	(20,115,782)
Total equity as at 30 June 2013	16,092,883	(1,948,977)	14,143,906

3 Significant accounting policies

The accounting policies applied by the Company in these unconsolidated interim condensed financial statements are consistent with those applied by the Company in the unconsolidated financial statements for the year ended 31 December 2013.

Certain new standards and improvements to IFRS became effective from 1 January 2014 and have been adopted by the Company since that date. These changes do not have a significant effect on the unconsolidated interim condensed financial statements.

- Amendments to IAS 32 *Financial Instruments, Disclosure and Presentation* further clarify the definition of a legally enforceable right to set off the financial assets and liabilities conditional on the fact that the right is not contingent on a future event; and enforceable in the normal course of business, and in the event of default, insolvency or bankruptcy if the entity and of the counterparties.

4 Net interest income (expense)

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Restated Six-month period ended 30 June 2013 KZT'000
Interest income		
Loans to customers	4,914,288	2,360,723
Placements with banks and other financial institutions	1,652,830	385,359
Available-for-sale financial assets	410,620	462,562
Held-to-maturity investments	305,723	300,511
Reverse repurchase agreements	207,915	-
Other assets	62,350	40,070
	7,553,726	3,549,225
Interest expense		
Debt securities issued	(4,000,104)	(2,937,454)
Other borrowed funds	(1,210,191)	(704,997)
Subordinated debt securities issued	(468,747)	(325,303)
Other assets (recognition of discount)	(79,732)	(144,397)
	(5,758,774)	(4,112,151)
	1,794,952	(562,926)

5 Impairment recoveries (losses)

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Loans to customers (Note 8)	(100,000)	(203,187)
Available-for-sale financial assets	111,591	14,767
Held-to-maturity investments	699	649
Other assets	(61)	1,584
	12,229	(186,187)

During six-month period ended 30 June 2014 the Company sold bonds of Doszhan Temir Zholy JSC for the total amount of KZT 488,777 thousand. As at the selling date the carrying value of the bonds net of impairment allowance comprised KZT 377,185 thousand.

6 Income tax (expense) benefit

	Unaudited Six-month period ended 30 June 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Deferred tax movement due to origination and reversal of temporary differences and movement in valuation allowance	(81,283)	976,637
Total income tax (expense) benefit	(81,283)	976,637

In 2014, the applicable tax rate for current and deferred tax is 20% (2013: 20%).

Reconciliation of effective tax rate:

	Unaudited Six-month period ended 30 June 2014 KZT'000	%	Unaudited Restated Six-month period ended 30 June 2013 KZT'000	%
Income (loss) before income tax	1,079,342	100	(1,358,909)	(100)
Income tax at the applicable tax rate	(215,868)	(20)	271,782	20
Change in unrecognised deferred tax assets	-	-	890,515	66
Tax effect of non-taxable (non-deductible) items	134,585	12	(185,660)	(14)
Total income tax (expense) benefit	(81,283)	(8)	976,637	72

Deferred tax asset and liability

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 2014 and 31 December 2013. These deferred tax assets are recognised in these unconsolidated interim condensed financial statements. 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.

The deductible temporary differences do not expire under current tax legislation. The tax losses carry-forward expire in 2019-2023.

As at 30 June 2014, the Company has recognised net deferred tax asset of KZT 1,952,481 thousand arising from tax losses carried forward (31 December 2013: KZT 2,033,764 thousand). Management believes that the Company will be able to earn sufficient future taxable profit based on the realisation of the government programme "Affordable housing - 2020" under the Decree #821 of the Government of the Republic of Kazakhstan dated 21 June 2012. The significant assumptions used by management in estimating the amount of deferred tax asset to be recognised remain unchanged since 31 December 2013.

6 Income tax (expense) benefit, continued

Movement in temporary differences during the six-month periods ended 30 June 2014 and 2013 are presented as follows:

KZT'000	Balance 1 January 2014	Unaudited Recognised in profit or loss	Unaudited Balance 30 June 2014
Property and equipment	(19,078)	(7,960)	(27,038)
Held-to-maturity investments	334,784	52,300	387,084
Other assets	6,691	3,477	10,168
Debt securities issued	246,550	102,090	348,640
Subordinated debt securities issued	39,556	-	39,556
Other borrowed funds	(1,128,410)	25,495	(1,102,915)
Other liabilities	17,875	4,669	22,544
Tax losses carried-forward	2,535,796	(261,354)	2,274,442
	2,033,764	(81,283)	1,952,481

KZT'000	Balance 1 January 2013	Restated Unaudited Recognised in profit or loss	Unaudited Recognised in additional paid-in capital	Restated Unaudited Balance 30 June 2013
Loans to customers	10,517	81,029	-	91,546
Held-to-maturity investments	347,725	(6,471)	-	341,254
Property and equipment	29,279	(28,327)	-	952
Other assets	-	20,865	-	20,865
Other borrowed funds	-	-	(1,197,365)	(1,197,365)
Financial liability at fair value through profit or loss	608,408	(608,408)	-	-
Other liabilities	-	41,816	-	41,816
Tax losses carried-forward	2,319,549	585,618	-	2,905,167
	3,315,478	86,122	(1,197,365)	2,204,235
Unrecognised deferred tax asset	(890,515)	890,515	-	-
	2,424,963	976,637	(1,197,365)	2,204,235

7 Placement with banks and other financial institutions

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
- rated BBB-	10,180,894	2,012,274
- rated BB+	5,714,800	-
- rated B+	5,116,402	5,011
- rated B	12,610,885	6,328,233
- rated B-	9,228,806	7,020,350
- rated CCC	-	200,000
- not rated	2,017,260	2,015,289
Total term deposits with banks	44,869,047	17,581,157

Credit ratings are presented by Standard&Poor's scale.

None of cash and cash equivalents are impaired or past due.

7 Placement with banks and other financial institutions, continued

As at 30 June 2014 the Company placed term deposits at interest rates up to 9% per annum (31 December 2013: up to 9%) with maturity dates between July 2014 to August 2015 (31 December 2013: March 2014 to April 2015).

As at 30 June 2014 the Company has four banks (31 December 2013: two banks) whose balances exceed 10% of equity. The gross value of these balances as at 30 June 2014 is KZT 28,775,024 thousand (31 December 2013: KZT 8,118,250 thousand).

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 KZT and USD 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 2014 KZT'000	31 December 2013 KZT'000
Mortgage loans with recourse	21,882,258	23,026,670
Mortgage loans without recourse	67,495,620	78,347,951
Accrued interest	700,200	840,990
Gross loans to customers	90,078,078	102,215,611
Impairment allowance	(3,297,124)	(3,333,347)
Net loans to customers	86,780,954	98,882,264

(a) Credit quality of mortgage loans

The following table provides information on credit quality of mortgage loans as at 30 June 2014:

	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				
- not overdue	18,846,250	-	18,846,250	-
- overdue less than 30 days	2,181,840	-	2,181,840	-
- overdue 30-89 days	803,623	-	803,623	-
- overdue 90-179 days	96,874	-	96,874	-
- overdue 180-360 days	321,409	-	321,409	-
Total mortgage loans with recourse to the seller	22,249,996	-	22,249,997	-
Mortgage loans without recourse to the seller				
- not overdue	61,477,129	(52,772)	61,424,357	0.09
- overdue less than 30 days	908,591	(35,056)	873,535	3.86
- overdue 30-89 days	950,298	(79,445)	870,853	8.36
- overdue 90-179 days	505,295	(198,029)	307,266	39.19
- overdue 180-360 days	333,123	(223,071)	110,052	66.96
- overdue more than 360 days	3,653,646	(2,708,751)	944,895	74.14
Total mortgage loans without recourse to the seller	67,828,082	(3,297,124)	64,530,958	4.86
Total loans to customers	90,078,078	(3,297,124)	86,780,954	3.66

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 2013:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans, %
Mortgage loans with recourse to the seller				
- not overdue	20,575,250	-	20,575,250	-
- overdue less than 30 days	1,000,235	-	1,000,235	-
- overdue 30-89 days	576,896	-	576,896	-
- overdue 90-179 days	1,378,151	-	1,378,151	-
Total mortgage loans with recourse to the seller	23,530,532	-	23,530,532	-
Mortgage loans without recourse to the seller				
- not overdue	73,469,676	(53,332)	73,416,344	0.07
- overdue less than 30 days	436,950	(10,341)	426,609	2.37
- overdue 30-89 days	350,515	(67,899)	282,616	19.37
- overdue 90-179 days	386,935	(207,303)	179,632	53.58
- overdue 180-360 days	306,596	(216,208)	90,388	70.52
- overdue more than 360 days	3,734,407	(2,778,264)	956,143	74.40
Total mortgage loans without recourse to the seller	78,685,079	(3,333,347)	75,351,732	4.24
Total loans to customers	102,215,611	(3,333,347)	98,882,264	3.26

(b) Key assumptions and judgements for estimating loan impairment

As at 30 June 2014, the significant assumptions used in determining impairment losses for mortgage loans are the same as those that applied to the Company's unconsolidated financial statements for the year ended 31 December 2013.

Movements in the loan impairment allowance are as follows:

	Six-month period ended 30 June 2014 KZT'000	Six-month period ended 30 June 2013 KZT'000
Balance at the beginning of the period	3,333,347	3,874,770
Net charge (recovery) for the period, unaudited	100,000	203,187
Write-offs of loans, unaudited	(136,223)	(111,418)
Balance at the end of the period, unaudited	3,297,124	3,966,539

9 Other assets

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Receivable from sale of assets held for sale	1,083,858	1,168,780
Receivables on loan acquisition transactions	922,329	651,106
Other receivables	48,345	48,000
Total other financial assets	2,054,532	1,867,886
Construction in progress	3,664,740	1,442,518
Foreclosed property	270,612	364,478
Other prepayments	193,477	20,596
Inventory	21,570	13,744
Other	48,232	44,615
Impairment allowance	(6,316)	(6,137)
Total other non-financial assets	4,192,315	1,879,814
Total other assets	6,246,847	3,747,700

Construction in progress represents capitalised costs incurred by the Company during construction of residential real estate in different regions of Kazakhstan under realisation of the government programme “Affordable housing - 2020” under the Decree #821 of the Government of the Republic of Kazakhstan dated 21 June 2012. The Company will lease out the constructed real estate under finance lease terms approved in this programme. As at 30 June 2014, the largest construction project relates to construction of micro district “Nursat” located in Shymkent, Kazakhstan, in the amount of KZT 1,916,518 thousand.

10 Debt securities issued

Debt securities issued as at 30 June 2014 comprised USD and KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
KZ2C0Y05E529	26-Jul-18	6.0%	6.02%	26,547,195	22,286,912
KZ2C0Y07E517	26-Jul-20	8.5%	8.57%	10,341,846	6,225,653
		0.70%+floating inflation index (limited to 12.00%)	15.10%	8,810,652	8,546,538
KZPO2Y09C495	10-Jun-16				
KZ2C0Y05E503	26-Jul-18	8.0%	8.09%	8,174,893	5,028,854
		1.00%+ NBRK refinancing rate (limited to maximum 10.00%, minimum 6.00%)	12.86%	7,894,664	7,732,522
KZ2C0Y08D913	23-Dec-18				
		3.70%+floating rate (limited to 11%)	16.46%	7,460,711	7,177,013
KZP05Y06C494	10-Dec-15				
KZ2C0Y10B319	1-Oct-14	0.1%+floating inflation index	7.35%	5,065,254	5,029,547
KZPC1Y10B543	10-Apr-15	6.90%	7.26%	5,064,553	5,056,579
		0.01%+floating inflation index (limited to 7.5%)	6.13%	4,674,222	4,667,571
KZPC2Y12B547	10-Apr-17				
		0.01%+floating inflation index (limited to 7.50%)	10.79%	4,447,809	4,367,471
KZPC4Y10B547	15-Jan-17				
KZ2C0Y08E218	2-Apr-20	7.0%	7.00%	7,121	7,121
KZ2C0Y10A980	1-Apr-14	1.00%+floating inflation index	6.55%	-	1,966,167
KZ2C0Y10B079	1-Apr-14	0.50%+floating inflation index	5.89%	-	1,965,763
				88,488,920	80,057,711

11 Equity

(a) Issued capital and share premium

During the six-month period ended 30 June 2014 the Company issued 1,419,380 ordinary shares at their nominal value of KZT 10 thousand.

As at 30 June 2014 and 31 December 2013 authorised share capital comprises 13,681,600 ordinary shares, respectively, and issued and outstanding share capital comprises 5,811,380 and 4,392,000 shares, respectively. All shares have a nominal value of KZT 10 thousand.

(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 financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency. As at 30 June 2014 KZT 998,059 thousand reserve was available for distribution (31 December 2013: KZT 122,581 thousand).

During six-month period ended 30 June 2014 no dividend were declared and paid (six-month period ended 30 June 2013: KZT 103,672 thousand).

(c) Basic income (loss) per share

The calculation of basic loss per share is based on the profit or loss for the period attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the period.

	Unaudited Six-month period ended 30 June 2014	Unaudited Restated Six-month period ended 30 June 2013
Income (loss) for the period, in thousand of KZT	998,059	(382,272)
Weighted average number of ordinary shares	5,106,974	2,642,000
Basic earnings (loss) per share, in KZT	195	(145)

12 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 2014 there were no significant changes in relation to market and liquidity risks since 31 December 2013. Changes in credit risks in relation to placements with banks and other financial institutions and loans to customers are disclosed in Note 7 and Note 8, respectively.

12 Risk management, continued

(a) Currency risk

The following table shows the foreign currency exposure structure of monetary financial assets and liabilities as at 30 June 2014:

KZT'000	Unaudited USD
Assets	
Cash and cash equivalents	2,445,692
Placement with banks and other financial institutions	7,743,204
Loans to customers	16,019,323
Held-to-maturity investments	2,379,889
Other assets	713,162
Total financial assets	29,301,270
Liabilities	
Debt securities issued	26,547,195
Other liabilities	2,675,638
Total financial liabilities	29,222,833
Net on and off balance sheet position as at 30 June 2014	78,437
Net on and off balance sheet position as at 31 December 2013	(298,775)

The following table shows the foreign currency exposure structure of monetary financial assets and liabilities as at 31 December 2013:

KZT'000	USD
Assets	
Cash and cash equivalents	151,695
Placement with banks and other financial institutions	2,304,150
Loans to customers	19,609,311
Held-to-maturity investments	1,942,271
Other assets	188,723
Total financial assets	24,196,150
Liabilities	
Debt securities issued	22,286,912
Other liabilities	2,208,013
Total financial liabilities	24,494,925
Net on and off balance sheet position as at 31 December 2013	(298,775)

(b) Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's unconsolidated interim condensed statement of financial position or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the unconsolidated interim condensed statement of financial position.

The similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Similar financial instruments include derivatives, sales and repurchase agreements, reverse sale and repurchase agreements and securities borrowing and lending agreements.

12 Risk management, continued

(b) Offsetting financial assets and financial liabilities, continued

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 30 June 2014:

KZT'000 Unaudited	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the unconsolidated interim condensed statement of financial position	Net amount of financial assets/liabilities presented in the unconsolidated interim condensed statement of financial position
<u>Types of financial assets/ liabilities</u>	<u>Gross amounts of recognised financial asset/liability</u>	<u>Gross amount of recognised financial liability/asset offset in the unconsolidated interim condensed statement of financial position</u>	<u>Net amount of financial assets/liabilities presented in the unconsolidated interim condensed statement of financial position</u>
Loans to customers	28,743,861	(2,220,299)	26,523,562
Total financial assets	28,743,861	(2,220,299)	26,523,562
Interest strip payable	(2,220,299)	2,220,299	-
Total financial liabilities	(2,220,299)	2,220,299	-

The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements as at 31 December 2013:

KZT'000	Gross amounts of recognised financial asset/liability	Gross amount of recognised financial liability/asset offset in the unconsolidated statement of financial position	Net amount of financial assets/liabilities presented in the unconsolidated statement of financial position
<u>Types of financial assets/ liabilities</u>	<u>Gross amounts of recognised financial asset/liability</u>	<u>Gross amount of recognised financial liability/asset offset in the unconsolidated statement of financial position</u>	<u>Net amount of financial assets/liabilities presented in the unconsolidated statement of financial position</u>
Loans to customers	30,037,389	(2,487,536)	27,549,853
Total financial assets	30,037,389	(2,487,536)	27,549,853
Interest strip payable	(2,487,536)	2,487,536	-
Total financial liabilities	(2,487,536)	2,487,536	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the unconsolidated interim condensed statement of financial position that are disclosed in the above tables are measured in the unconsolidated interim condensed statement of financial position on the following basis:

- loans to customers – amortised cost
- interest strip payable – amortised cost.

The amounts in the above tables that are offset in the unconsolidated interim condensed statement of financial position are measured on the same basis.

12 Risk management, continued

(b) Offsetting financial assets and financial liabilities, continued

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the unconsolidated interim condensed statement of financial position”, as set out above, to the line items presented in the unconsolidated interim condensed statement of financial position as at 30 June 2014.

KZT'000 Unaudited		Line item in the unconsolidated interim condensed statement of financial position	Carrying amount in the unconsolidated interim condensed statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Types of financial assets/liabilities	Net amounts				
Loans to customers	26,523,562	Loans to customers	86,780,954	60,257,392	8
Interest strip payable	-	Other liabilities	5,897,938	5,897,938	-

The table below reconciles the “Net amounts of financial assets and financial liabilities presented in the unconsolidated interim condensed statement of financial position”, as set out above, to the line items presented in the unconsolidated interim condensed statement of financial position as at 31 December 2013.

KZT'000		Line item in the unconsolidated statement of financial position	Carrying amount in the unconsolidated statement of financial position	Financial asset/liability not in the scope of offsetting disclosure	Note
Types of financial assets/liabilities	Net amounts				
Loans to customers	27,549,853	Loans to customers	98,882,264	71,332,411	8
Interest strip payable	-	Other liabilities	6,034,790	6,034,790	-

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 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Members of the Board of Directors	1,840	4,056
Members of the Management Board	29,514	34,580
	31,354	38,636

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 2014 and 31 December 2013 with the members of the Management Board are as follows:

	Unaudited 30 June 2014 KZT'000	Unaudited Average interest rate	31 December 2013 KZT'000	Average interest rate
Unconsolidated Interim Condensed Statement of Financial Position				
Loans to customers	51,124	6.80%	54,090	6.86%
Other liabilities	101,806	-	50,985	-

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 2014 KZT'000	Unaudited Six-month period ended 30 June 2013 KZT'000
Unconsolidated Interim Condensed Income Statement		
Interest income	1,774	1,693

(b) Transactions with other related parties

Other related parties include the Baiterek Group and other state organisations.

The amounts below are included in the unconsolidated interim condensed statement of financial position as at 30 June 2014 and 31 December 2013 and unconsolidated interim condensed income statement and unconsolidated interim condensed statement of comprehensive income for the six-month periods ended 30 June 2014 and 2013:

13 Related party transactions, continued

(b) Transactions with other related parties, continued

	Unaudited, Six-month period ended 30 June 2014	Unaudited, Six-month period ended 30 June 2014	Unaudited, Six-month period ended 30 June 2014	Unaudited, Six-month period ended 30 June 2013	Unaudited, Six-month period ended 30 June 2013	Unaudited, Six-month period ended 30 June 2013
	Baiterek Group KZT'000	Other state organisations KZT'000	Subsidiaries of the Company KZT'000	Ministry of Finance KZT'000	Other state organisations KZT'000	Subsidiaries of the Company KZT'000
Unconsolidated Interim Condensed Income Statement						
Interest income	-	341,551	-	69,080	134,425	-
Interest expense	(1,355,018)	(2,203,817)	-	(118,696)	(1,086,151)	-
Net foreign exchange loss	(4,153,837)	-	-	-	-	-
Impairment recoveries	-	-	-	-	14,767	-
Commission expense	-	(3)	-	-	-	-
General administrative expenses	-	(94,926)	(48,809)	(73,027)	(50,763)	(34,865)
Income tax (expense) benefit	-	(81,283)	-	976,637	-	-
Unconsolidated Interim Condensed Statement of Comprehensive Income						
Other Comprehensive Income						
Net change in fair value of available-for-sale financial assets	-	(37,032)	-	(41,358)	-	-

13 Related party transactions, continued

(b) Transactions with other related parties, continued

The balances with related parties as at 30 June 2014 include:

	Unaudited Baiterek Group		Unaudited Other state organisations		Unaudited Subsidiaries of the Company
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000
Available-for-sale financial assets	-	-	2,637,469	7.1	-
Held-to maturity investments	-	-	1,977,981	3.5	-
Investments in subsidiary	-	-	-	-	554,291
Deferred tax asset	-	-	1,952,481	-	-
Current tax asset	-	-	994,600	-	-
Other assets	48,000	-	18,234	-	24,410
Debt securities issued	36,293,815	8.1	39,103,044	10.4	-
Subordinated debt securities issued	-	-	3,256,813	9.1	-
Other borrowed funds	-	-	3,270,899	8.0	-
Other liabilities	-	-	14,346	-	48,719
Revaluation reserve for available-for-sale financial assets	-	-	147,756	-	-

The balances with related parties as of 31 December 2013 include:

	Baiterek Group		Other state organisations		Subsidiaries of the Company
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %	KZT'000
Placements with banks	-	-	207,851	7.3	-
Available-for-sale financial assets	381,636	3.5	1,423,056	5.7	-
Held-to maturity investments	-	-	2,047,326	3.5	-
Investment in subsidiary	-	-	-	-	554,291
Deferred tax asset	-	-	2,033,764	-	-
Current tax asset	-	-	810,316	-	-
Other assets	48,000	-	10,392	-	28,934
Debt securities issued	30,075,308	6.9	18,494,274	7.0	-
Subordinated debt securities issued	-	-	97	9.5	-
Other borrowed funds	-	-	3,143,420	8.0	-
Other liabilities	-	-	9,651	-	91,746
Revaluation reserve for available-for-sale financial assets	-	-	110,724	-	-

As at 30 June 2014, the Company has a right to sell the acquired loans to individuals overdue more than 60 days back to government owned banks under recourse agreements in the total amount of KZT 7,386,866 thousand (31 December 2013: KZT 9,713,937 thousand).

14 Capital management

The following table shows the composition of the capital position calculated in accordance with the NBRK statutory rules.

	Unaudited 30 June 2014 KZT'000	31 December 2013 KZT'000
Tier 1 capital		
Share capital	55,528,939	41,335,139
Reserve capital	2,734,447	2,734,447
Additional paid-in capital	5,822,856	5,822,856
Statutory accumulated losses	(19,610,929)	(20,355,957)
Total tier 1 capital	44,475,313	29,536,485
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	(585,606)	(465,207)
Subordinated debt securities issued	5,722,714	7,575,287
Net profit for the current year in accordance with NBRK requirements	973,466	745,028
Total tier 2 capital	6,110,574	7,855,108
Investments in subsidiaries	554,291	554,291
Total capital	50,031,596	36,837,302
Total statutory assets	177,694,369	154,126,414
Credit risk weighted assets and contingent liabilities	155,301,574	130,430,787
k1 ratio	25%	19%
k1-2 ratio	29%	23%
k1-3 ratio	32%	28%

As at 30 June 2014 and 31 December 2013 the minimum level of ratios as applicable to the Company are as follows:

- k1 – 6%
- k1-2 – 6%
- k1-3 – 12%.

15 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 Chairman of the Management Board, only receives and reviews the information on the Company as a whole.