Mortgage Organisation
Kazakhstan Mortgage Company JSC

Consolidated Financial Statements

for the year ended 31 December 2014

Contents

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Independent Auditors' Report

To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

We have audited the accompanying consolidated financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No МФ-0000053 of 6 January 2012

KPMG Audit LLC

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

Alla Nigay
General Director of KPMG Audit LLC
acting on the basis of the Charter

27 February 2015

	Note	2014 KZT'000	2013 KZT'000
Interest income	4	15,782,259	9,669,486
Interest expense	4	(11,606,101)	(8,838,876)
Net interest income		**4,176,158**	**830,610**
Fee and commission income		1,860	8,597
Fee and commission expense		(394,088)	(94,671)
Net fee and commission expense		**(392,228)**	**(86,074)**
Net foreign exchange gain/(loss)		46,519	(48,210)
Net (loss)/gain from repurchase of debt securities issued		(65,424)	42,891
Other operating income		184,370	192,050
Operating income		**3,949,395**	**931,267**
Impairment losses	5	(604,651)	(44,954)
General administrative expenses	6	(1,879,107)	(1,502,445)
Profit/(loss) before income tax		**1,465,637**	**(616,132)**
Income tax (expense)/benefit	7	(281,628)	783,828
Profit for the year		**1,184,009**	**167,696**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve for available-for-sale financial assets:			
- Net change in fair value		(265,028)	(125,110)
Other comprehensive income for the year, net of income tax		**(265,028)**	**(125,110)**
Total comprehensive income for the year		**918,981**	**42,586**
Basic and diluted earnings per share, in KZT	20(f)	223	51

The consolidated financial statements as set out on pages 5 to 54 were approved by Management on 27 February 2015 and were signed on its behalf by:

Ibadullayev A.A.
Chairman of the Management Board

Toktarkozha A.T.
Chief Accountant

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Note	2014 KZT'000	2013 KZT'000
ASSETS			
Cash and cash equivalents	8	13,970,781	8,546,337
Placements with banks and other financial institutions	9	24,361,759	17,581,157
Available-for-sale financial assets	10	9,632,176	8,992,960
Loans to customers	11	87,193,112	98,882,264
Finance lease receivables	12	2,325,891	-
Held-to-maturity investments	13	10,231,995	10,422,796
Current tax asset		1,310,488	810,316
Construction in progress	14	6,339,486	1,442,518
Property and equipment		1,727,239	1,645,998
Investment property		1,466,929	1,418,827
Deferred tax asset	7	1,754,817	2,033,764
Other assets	15	7,020,320	2,309,667
Total assets		**167,334,993**	**154,086,604**
LIABILITIES			
Debt securities issued	16	77,188,204	80,057,711
Subordinated debt securities issued	17	9,809,666	9,666,887
Other borrowed funds	18	28,808,521	28,550,720
Other liabilities	19	6,610,782	6,006,247
Total liabilities		**122,417,173**	**124,281,565**
EQUITY	20		
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		(730,235)	(465,207)
Accumulated losses		(18,438,187)	(19,622,196)
Total equity		**44,917,820**	**29,805,039**
Total equity and liabilities		**167,334,993**	**154,086,604**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(loss) before income tax	**1,465,637**	**(616,132)**
Adjustments for non-cash items:		
Depreciation and amortisation	109,358	72,025
Impairment losses	604,651	44,954
Interest income	(15,782,259)	(9,669,486)
Interest expense	11,606,101	8,838,876
Net foreign exchange (gain)/loss	(46,519)	48,210
Net loss/(gain) from repurchase of debt securities issued	65,424	(42,891)
	(1,977,607)	**(1,324,444)**
(Increase) decrease in operating assets		
Placements with banks and other financial institutions	(5,795,436)	(4,824,313)
Loans to customers	15,012,690	(42,092,212)
Finance lease receivables	(2,312,552)	-
Construction in progress	(4,896,968)	(1,442,518)
Other assets	(4,989,602)	(733,157)
Decrease in operating liabilities		
Other liabilities	(52)	(425,172)
Net cash used in operating activities before interest and income tax paid	**(4,959,527)**	**(50,841,816)**
Income tax paid	(502,853)	(181,452)
Interest received	14,226,691	9,036,061
Interest paid	(9,045,616)	(6,019,451)
Cash flows used in operations	**(281,305)**	**(48,006,658)**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 10 to 54.

	2014 KZT'000	2013 KZT'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(1,186,321)	-
Redemption and sale of available-for-sale financial assets	471,509	1,238,250
Redemption of held-to-maturity investments	669,120	390,000
Purchases of property and equipment	(155,069)	(59,513)
Sales of property and equipment	-	2,745
Sales of investment property	238,031	43,702
Cash flows from investing activities	**37,270**	**1,615,184**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of share capital	14,193,800	15,000,000
Acquisition of treasury shares	-	(100)
Proceeds from debt securities issued	6,896,272	32,840,722
Repurchase/redemption of debt securities issued	(15,768,569)	(6,087,876)
Receipts from subordinated debt securities issued	-	5,049,402
Receipts of other borrowed funds	-	10,867,251
Repayment of other borrowed funds	-	(16,464,000)
Dividends paid	-	(103,672)
Cash flows from financing activities	**5,321,503**	**41,101,727**
Net increase/(decrease) in cash and cash equivalents	**5,077,468**	**(5,289,747)**
Effect of changes in exchange rates on cash and cash equivalents	346,976	9,409
Cash and cash equivalents at the beginning of the year	8,546,337	13,826,675
Cash and cash equivalents at the end of the year (Note 8)	**13,970,781**	**8,546,337**

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

KZT'000	Share capital	Share premium	Treasury shares	Additional paid-in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2013	**28,920,000**	**12,661**	**(2,597,422)**	**6,998,161**	**2,630,820**	**(340,097)**	**(19,582,593)**	**16,041,530**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	167,696	167,696
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(125,110)	-	(125,110)
Total other comprehensive income	-	-	-	-	-	(125,110)	-	(125,110)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**(125,110)**	**167,696**	**42,586**
Transactions with owners, recorded directly in equity								
Shares issued (Note 20(a))	15,000,000	-	-	-	-	-	-	15,000,000
Dividends declared (Note 20(b))	-	-	-	-	-	-	(103,672)	(103,672)
Purchase of ordinary shares	-	-	(100)	-	-	-	-	(100)
Recognition of previously unrecognised deferred tax liability (Note 7)	-	-	-	(1,175,305)	-	-	-	(1,175,305)
Transfer to reserve capital (Note 20(d))	-	-	-	-	103,627	-	(103,627)	-
Total transactions with owners	**15,000,000**	**-**	**(100)**	**(1,175,305)**	**103,627**	**-**	**(207,299)**	**13,720,923**
Balance as at 31 December 2013	**43,920,000**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(465,207)**	**(19,622,196)**	**29,805,039**

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

KZT'000	Share capital	Share premium	Treasury shares	Additional paid-in capital	Reserve capital	Revaluation reserve for available-for-sale financial assets	Accumulated losses	Total
Balance as at 1 January 2014	**43,920,000**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(465,207)**	**(19,622,196)**	**29,805,039**
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	1,184,009	1,184,009
Other comprehensive income								
Items that are or may be reclassified subsequently to profit or loss:								
Net change in fair value of available-for-sale financial assets	-	-	-	-	-	(265,028)	-	(265,028)
Total other comprehensive income	-	-	-	-	-	**(265,028)**	-	**(265,028)**
Total comprehensive income for the year	-	-	-	-	-	**(265,028)**	**1,184,009**	**918,981**
Transactions with owners, recorded directly in equity								
Shares issued (Note 20(a))	14,193,800	-	-	-	-	-	-	14,193,800
Balance as at 31 December 2014	**58,113,800**	**12,661**	**(2,597,522)**	**5,822,856**	**2,734,447**	**(730,235)**	**(18,438,187)**	**44,917,820**

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

1 Background

(a) Organisation and operations

These consolidated financial statements include the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the "Company") and its fully-owned subsidiaries, United Payment Systems LLC and Kazakhstan Housing-Construction Corporation JSC (together referred to as the "Group").

The Company was established on 29 December 2000 in accordance with the Decree #469 of the National Bank of the Republic of Kazakhstan (the "NBRK") dated 20 December 2000. The principal activity of the Company is 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 registered office 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). In accordance with the Decree #821 of the Government of the Republic of Kazakhstan dated 21 June 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 organisation, 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.

On 14 November 2014 the Management Board of Mortgage Organisation Kazakhstan Mortgage Company JSC approved a reorganisation plan, under which during 2015 Kazakhstan Housing-Construction Corporation JSC will be merged with its parent company United Payment Systems LLC, which later will be merged with its parent company, Mortgage Organisation Kazakhstan Mortgage Company JSC.

(b) Shareholders

As at 31 December 2014 the Group is wholly-owned by the National Management Holding Baiterek JSC ("Baiterek"). As at 31 December 2013 Baiterek owned 97.62168% of the Company's voting shares. The ultimate controlling party is the Government of the Republic of Kazakhstan.

(c) Kazakhstan business environment

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

2 Basis of preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Company and its subsidiaries 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 consolidated financial statements.

Financial information presented in KZT is rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- Income tax (expense)/benefit – Note 7
- Available-for-sale financial assets – Note 10
- Loans to customers – Note 11
- Held-to-maturity investments – Note 13
- Other borrowed funds – Note 18.

(e) Change in accounting policies

The Group has adopted the following new amendment to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32 Financial Instruments: Presentation).

Amendments to IAS 32 Financial Instruments: Disclosure and Presentation - Offsetting Financial Assets and Financial Liabilities do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect that these amendments will have an impact on its financial statements as the Group does not present financial assets and financial liabilities on net basis in the statement of financial position.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements, except as explained in Note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, the Group consolidates investees that it controls on the basis of de facto circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents include cash, the Group's current accounts in the commercial banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(d) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term

- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

- derivative financial instruments (except for a derivative that is a financial guarantee contract or a designated and effective hedging instruments) or,

3 Significant accounting policies, continued

(d) Financial instruments, continued

(i) Classification, continued

- upon initial recognition, designated as at fair value through profit or loss.

The Group may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as liabilities.

Management determines the appropriate classification of financial instruments in this category at the time of initial recognition. Derivative financial instruments and financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the at fair value through profit or loss or available-for-sale category if the Group has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of the at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group:

- intends to sell immediately or in the near term

- upon initial recognition designates as at fair value through profit or loss

- upon initial recognition designates as available-for-sale or,

- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that:

- the Group upon initial recognition designates as at fair value through profit or loss

- the Group designates as available-for-sale or,

- meet the definition of loans and receivables.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

Financial assets and liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, cxccpt for:

- loans and receivables which are measured at amortised cost using the effective interest rate method
- held-to-maturity investments which are measured at amortised cost using the effective interest rate method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(v) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(vi) Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or liability is recognised as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss

- a gain or loss on an available-for-sale financial asset is recognised as other comprehensive income in equity (except for impairment losses and foreign exchange gains and losses on debt financial instruments available-for-sale) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest in relation to an available-for-sale financial asset is recognised in profit or loss using the effective interest rate method.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in profit or loss when the financial asset or liability is derecognised or impaired, and through the amortisation process.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the consolidated statement of financial position. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The Group writes off assets deemed to be uncollectible.

3 Significant accounting policies, continued

(d) Financial instruments, continued

(viii) Derivative financial instruments

Derivative financial instruments include swaps, forwards, futures, spot transactions and options in interest rates, foreign exchanges, precious metals and stock markets, and any combinations of these instruments.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Derivatives may be embedded in another contractual arrangement (a host contract). An embedded derivative is separated from the host contract and is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Leases

The Group's lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The indicators for finance lease classification are:

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

The Group as a lessor initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

(f) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle and recorded at net book value of underlying lease at foreclosure date.

3 Significant accounting policies, continued

(f) Foreclosed assets, continued

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at the amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Building	8-100 years
Computer equipment	2-10 years
Vehicles	5-7 years
Other	3-20 years

(h) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses. Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives vary from 1 year for programme software to 20 years for licenses.

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses. When the use of a property changes such that it is reclassified as property and equipment, its carrying value at the date of reclassification becomes its cost for subsequent accounting.

(j) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

3 Significant accounting policies, continued

(k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(l) Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Group determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data related to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security available-for-sale a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans and other receivables (loans and receivables). The Group reviews its loans and receivables to assess impairment on a regular basis.

The Group first assesses whether objective evidence of an impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

3 Significant accounting policies, continued

(l) Impairment, continued

(i) Financial assets carried at amortised cost, continued

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data related to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available-for-sale financial assets that are not carried at fair value because their fair value cannot be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and cannot be reversed.

(iii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(iv) Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

3 Significant accounting policies, continued

(l) Impairment, continued

(iv) Non financial assets, continued

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(ii) Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

(iii) Dividends

The ability of the Company to declare and pay dividends is subject to the rules and regulations of the Kazakhstan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

(o) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3 Significant accounting policies, continued

(o) Taxation, continued

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that taxable profit will be available against which the deductible temporary differences can be utilised.

(p) Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest rate method.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(q) Segment reporting

An operating segment is a component of a Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same Group); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of the new standards on its financial position and performance.

3 Significant accounting policies, continued

(r) New standards and interpretations not yet adopted, continued

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding the classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates to general hedge accounting. The standard was finalised and published in July 2014. The final phase relates to a new expected credit loss model for calculating impairment. The Group recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The Group has not analysed the impact of these changes yet. The Group does not intend to adopt this standard early. The standard will be effective for annual periods beginning on or after 1 January 2018 and will be applied retrospectively with some exemptions.
- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 July 2014. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2014 KZT'000	2013 KZT'000
Interest income		
Loans to customers	10,266,017	6,740,843
Placements with banks and other financial institutions	2,714,452	1,026,276
Held-to-maturity investments	893,312	613,767
Available-for-sale financial assets	860,117	927,415
Cash and cash equivalents	656,920	270,365
Reverse repurchase agreements	241,264	-
Finance lease receivables	27,116	-
Other assets	123,061	90,820
	15,782,259	**9,669,486**
Interest expense		
Debt securities issued	(8,043,682)	(6,125,408)
Other borrowed funds	(2,417,163)	(1,845,079)
Subordinated debt securities issued	(942,779)	(744,113)
Recognition of discount on long-term receivable	(202,477)	(124,276)
	(11,606,101)	**(8,838,876)**
Net interest income	**4,176,158**	**830,610**

Included within various line items under interest income for the year ended 31 December 2014 is a total of KZT 723,085 thousand (2013: KZT 250,615 thousand) accrued on impaired financial assets.

5 Impairment losses

	2014 KZT'000	2013 KZT'000
Loans to customers (Note 11)	(323,436)	(80,542)
Held-to-maturity investments (Note 13)	(218,695)	1,329
Investment property	(172,477)	-
Other assets (Note 15)	(1,634)	6,338
Available-for-sale financial assets (Note 10)	111,591	27,921
	(604,651)	**(44,954)**

5 General administrative expenses

	2014 KZT'000	2013 KZT'000
Employee compensation	1,058,439	829,466
Payroll related taxes	105,492	82,420
Personnel expenses	**1,163,931**	**911,886**
Advertising and marketing	140,325	103,071
Depreciation and amortisation	109,358	77,068
Taxes other than on income	96,913	57,451
Professional services	64,342	66,683
Technical services for software	42,562	45,379
Utilities	35,090	32,842
Occupancy	24,070	18,938
State duties	15,991	20,159
Security	14,634	24,265
Communications and information services	13,005	16,200
Travel	11,900	8,240
Insurance of mortgage loans	10,920	12,558
Other	136,066	107,705
	1,879,107	**1,502,445**

7 Income tax (expense)/benefit

	2014 KZT'000	2013 KZT'000
Current year tax expense	(2,681)	(278)
Deferred taxation movement due to origination and reversal of temporary differences and movement in valuation allowance	(278,947)	784,106
Total income tax (expense)/benefit	**(281,628)**	**783,828**

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

Reconciliation of effective tax rate for the year ended 31 December:

	2014 KZT'000	%	2013 KZT'000	%
Profit/(loss) before income tax	**1,465,637**	**100**	**(616,132)**	**100**
Income tax at the applicable tax rate	(293,127)	(20)	123,226	(20)
Tax exempt interest on securities	261,936	18	-	-
Non-deductible expenses	(250,437)	(17)	(229,913)	37
Change in unrecognised deferred tax assets	-	-	890,515	(144)
	(281,628)	**(19)**	**783,828**	**(127)**

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 31 December 2014 and 2013. These deferred tax assets are fully recognised in these consolidated 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 Group'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.

7 Income tax (expense)/benefit, continued

Deferred tax asset and liability, continued

In 2014 the Government launched "Regions Development till 2020" program under the President's "Nurly Zhol" Statement (further together referred to as "Nurly Zhol"). The program incorporated objectives of previously implemented "Affordable Housing - 2020" that was discontinued as a separate program. Under the program, during 2015-2019 the Group has to build or acquire living accommodation for a total amount of KZT 250,000,000 thousand, that it will lease to specified groups of population under finance and operating lease terms. The financing will be received from the National fund of the Republic of Kazakhstan, commercial markets and government budget.

Accordingly, in 2014 the Group has revised its model for assessment of recoverability of its deferred tax asset and the revised model has the following key inputs:

- borrowing rate for the financing from the National fund of the Republic of Kazakhstan – 0.15% p.a.;
- volume of construction property leased under the programme in 2015-2019 will amount to 1,483 thousand square meters.

Changes in the assumptions used could affect the deferred tax asset, as follows:

- a decrease in volume of leased property by 15% p.a. could decrease the total amount of deferred tax asset from KZT 1,754,817 thousand to KZT 1,479,114 thousand;
- a decrease in implied rate of interest on finance lease by 0.5% p.a. for "Nurly Zhol" programme and 1.5% p.a. for "Own programme" could decrease the amount of deferred tax asset from KZT 1,754,817 thousand to KZT 1,497,104 thousand.

During the year ended 31 December 2013 the Group has recognised a deferred tax liability related to the equity component of a low interest rate loan received from the shareholder in prior periods. The transfer was made directly in equity and was not done on a retrospective basis since it was not considered significant to comparative information. Movements in temporary differences during the years ended 31 December 2014 and 2013 are presented as follows:

KZT'000	1 January 2014	Recognised in profit or loss	31 December 2014
Held-to-maturity investments	334,784	37,672	372,456
Property and equipment	(19,078)	17,007	(2,071)
Other assets	6,691	15,883	22,574
Debt securities issued	246,550	(246,550)	-
Subordinated debt securities issued	39,556	(39,556)	-
Other borrowed funds	(1,128,410)	49,115	(1,079,295)
Other liabilities	17,875	1,497	19,372
Tax loss carry-forward	2,535,796	(114,015)	2,421,781
	2,033,764	**(278,947)**	**1,754,817**

KZT'000	1 January 2013	Recognised in profit or loss	Recognised in additional paid-in capital	31 December 2013
Loans to customers	10,517	(10,517)	-	-
Held-to-maturity investments	347,725	(12,941)	-	334,784
Property and equipment	29,279	(48,357)	-	(19,078)
Other assets	-	6,691	-	6,691
Debt securities issued	-	246,550	-	246,550
Subordinated debt securities issued	-	39,556	-	39,556
Other borrowed funds	-	46,895	(1,175,305)	(1,128,410)
Financial liability at fair value	608,408	(608,408)	-	-
Other liabilities	-	17,875	-	17,875
Tax loss carry-forward	2,319,549	216,247	-	2,535,796
	3,315,478	**(106,409)**	**(1,175,305)**	**2,033,764**
Unrecognised deferred tax asset	(890,515)	890,515	-	-
	2,424,963	**784,106**	**(1,175,305)**	**2,033,764**

8 Cash and cash equivalents

	2014 KZT'000	2013 KZT'000
Nostro accounts with banks		
- rated BBB-	103,012	1,073
- rated BB+	1,507,662	-
- rated BB	-	249,954
- rated BB-	31,952	-
- rated B+	47,130	62,140
- rated B	114,090	168,464
- rated B-	5,345,685	217,551
- rated CCC	-	7,851
- not rated	89,097	-
Total nostro accounts with banks	**7,238,628**	**707,033**
Term deposits with banks		
- rated BB-	-	9,357
- rated B	-	3,000,000
- rated B-	6,732,153	4,030,672
- not rated	-	799,275
Total term deposits with banks	**6,732,153**	**7,839,304**
Total cash and cash equivalents	**13,970,781**	**8,546,337**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

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

As at 31 December 2014 the Group has one bank (2013: two banks) whose balances exceed 10% of equity. The gross value of these balances as at December 2014 is KZT 7,268,667 thousand (2013: KZT 7,117,824 thousand).

9 Placement with banks and other financial institutions

	2014 KZT'000	2013 KZT'000
- rated BBB-	-	2,012,274
- rated BB+	1,714,800	-
- rated B+	4,299,200	5,011
- rated B	5,199,555	6,328,233
- rated B-	13,148,204	7,020,350
- rated CCC	-	200,000
- not rated	-	2,015,289
	24,361,759	**17,581,157**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

None of the balances are impaired or past due.

As at 31 December 2014 the Group placed term deposits with interest rates ranging from 6% to 10.5% per annum (2013: 2% to 9%) and which have maturities from February 2015 to November 2015 (2013: March 2014 to April 2015).

As at 31 December 2014 the Group has one bank (2013: two banks) whose balance exceeds 10% of equity. The gross value of this balance as at 31 December 2014 is KZT 5,138,888 thousand (2013: KZT 8,118,250 thousand).

10 Available-for-sale financial assets

	2014 KZT'000	2013 KZT'000
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,403,163	1,423,056
Corporate bonds rated from BBB-	1,217,405	-
Corporate bonds rated from B+ to B-	2,772,987	2,934,728
Corporate bonds not rated	4,676,364	5,382,730
	10,069,919	**9,740,514**
Impairment allowance	(437,743)	(747,554)
	9,632,176	**8,992,960**

The credit ratings are presented by reference to the credit ratings of Standard&Poor's credit ratings agency or analogues of similar international agencies.

Corporate bonds are interest-bearing securities, issued by local companies and banks. These securities are freely tradable on the Kazakhstan Stock Exchange ("KASE"), except for the bonds of Rosa JSC ("Rosa") with a gross amount of KZT 437,743 thousand (31 December 2013: KZT 437,743 thousand). Rosa bonds were excluded from trading on KASE on 2 October 2009.

As at 31 December 2014 and 2013 the Group considers Rosa bonds fully impaired as based on its understanding of the issuer's financial position it does not expect probable future cash flows from the asset.

Analysis of movements in the impairment allowance:

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	747,554	775,475
Net recovery	(111,591)	(27,921)
Write-offs	(198,220)	-
Balance at the end of the year	**437,743**	**747,554**

11 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 in the Republic of Kazakhstan.

	2014 KZT'000	2013 KZT'000
Mortgage loans with recourse	25,742,040	23,026,670
Mortgage loans without recourse	63,873,798	78,347,951
Accrued interest	1,061,391	840,990
Gross loans to customers	**90,677,229**	**102,215,611**
Impairment allowance	(3,484,117)	(3,333,347)
Net loans to customers	**87,193,112**	**98,882,264**

During the year ended 31 December 2014 the Group acquired mortgage loan portfolios from two commercial banks (2013: three commercial banks). The loans were recorded at their fair value totalling KZT 12,493,704 thousand (2013: KZT 54,444,968 thousand).

11 Loans to customers, continued

(a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans as at 31 December 2014:

	Gross loans KZT'000	Impairment KZT'000	Net loans KZT'000	Impairment to gross loans %
Mortgage loans with recourse to the seller				
- not overdue	23,787,951	-	23,787,951	-
- overdue less than 30 days	1,616,641	-	1,616,641	-
- overdue 30-89 days	455,270	-	455,270	-
- overdue 90-179 days	158,799	-	158,799	-
- overdue 180-360 days	71,221	-	71,221	-
- overdue more than 360 days	1,554	-	1,554	-
Total mortgage loans with recourse to the seller	**26,091,436**	**-**	**26,091,436**	**-**
Mortgage loans without recourse to the seller				
- not overdue	58,447,913	(18,596)	58,429,317	0.03
- overdue less than 30 days	825,853	(4,393)	821,460	0.53
- overdue 30-89 days	418,567	(41,003)	377,564	9.80
- overdue 90-179 days	449,120	(169,074)	280,046	37.65
- overdue 180-360 days	764,983	(134,389)	630,594	17.57
- overdue more than 360 days	3,679,357	(3,116,662)	562,695	84.71
Total mortgage loans without recourse to the seller	**64,585,793**	**(3,484,117)**	**61,101,676**	**5.39**
Total loans to customers	**90,677,229**	**(3,484,117)**	**87,193,112**	**3.84**

The following table provides information on the 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**

11 Loans to customers, continued

(b) Key assumptions and judgements for estimating loan impairment

As described in Note 2, the Group uses its experience and judgment to estimate the amount of impairment loss for loans to customers.

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

- mortgage loans with recourse overdue more than 60 days can be sold back by the Group at any time at their gross amount. Management believes that recourse counterparties are institutions of good reputation, with good credit standing.
- other mortgage loans are subject to collective impairment assessment based on their past loss experience
- loss migration rates are constant and can be estimated based on the historical loss migration pattern for the past 24 months
- a delay of two years in obtaining proceeds from the foreclosure of collateral, which is not compensated by related interest income, and a discount of 65% to 80% to the originally appraised value if the property pledged is sold through court procedures (2013: 65% to 80%).

Movements in the loan impairment allowance for the year ended 31 December 2014 are as follows:

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	3,333,347	3,874,770
Net charge	323,436	80,542
Write-offs	(172,666)	(621,965)
Balance at the end of the year	**3,484,117**	**3,333,347**

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 31 December 2014 would be KZT 2,615,793 thousand lower/higher (2013: KZT 2,966,468 thousand).

(c) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

For loans with recourse to the seller, the commercial banks-partners are responsible for monitoring of collateral on a periodic basis according to requirements of the NBRK. The recoverability of these loans is primarily dependent on the creditworthiness of the borrowers and commercial banks-partners rather than the value of collateral, and the current value of the collateral does not impact the impairment assessment.

The following tables provide information on real estate collateral securing mortgage loans, net of impairment:

31 December 2014 KZT'000	Loans to customers, carrying amount	Fair value of collateral – for collateral assessed as of reporting date	Fair value of collateral – for collateral assessed as of loan inception date
Not overdue loans	82,217,268	39,794,558	39,618,080
Overdue loans	4,975,844	3,090,502	1,709,187
	87,193,112	**42,885,060**	**41,327,267**

11 Loans to customers, continued

(c) Analysis of collateral, continued

31 December 2013 KZT'000	**Loans to customers, carrying amount**	**Fair value of collateral – for collateral assessed as of reporting date**	**Fair value of collateral – for collateral assessed as of loan inception date**
Not overdue loans	93,991,594	56,628,527	33,031,729
Overdue loans	4,890,670	3,893,117	777,454
	98,882,264	**60,521,644**	**33,809,183**

The table above excludes overcollateralisation.

The Group updates the appraised values of collateral obtained at inception of the loans to the current values considering the approximate changes in property values. The Group may also obtain specific individual valuation of collateral at each reporting date where there are indications of impairment.

Repossessed property

The Group obtains certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2014, the carrying amount of such assets was KZT 1,448,710 thousand (2013: KZT 1,433,594 thousand), which consisted of investment property of KZT 1,130,962 thousand (2013: KZT 1,069,116 thousand) and other assets of KZT 317,748 thousand (2013: 364,478 thousand).

The Group's policy is to sell these assets as soon as it is practicable, except for investment property.

(d) Asset securitisation

Loans to customers with the amount of principal of KZT 36,268,176 thousand (2013: KZT 46,282,135 thousand) serve as collateral for debt securities issued by the Group. As at 31 December 2014, the carrying amount of these debt securities is KZT 30,215,082 thousand (31 December 2013: KZT 37,969,754 thousand). Refer to Note 16.

(e) Significant credit exposures

As at 31 December 2014 the Group has one bank (2013: one bank) to whom the Group has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of these loans as at 31 December 2014 is KZT 6,427,303 thousand (2013: KZT 7,015,306 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in Note 21(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.

12 Finance lease receivables

During the year ended 31 December 2014 the Group acquired a housing estate AkKent located in Almaty, and partially leased it out under "Own programme". The Group classifies these lease agreements as a finance lease under IAS 17 because ownership of the assets gets transferred to lessees by the end of the lease term, and at the inception the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets. The finance lease agreements have a maturity term ranging from 15 to 20 years and bear an effective interest rate of 12.36% on average.

As at 31 December 2014 the carrying value of the finance lease receivables comprised KZT 2,325,891 thousand which represent 174 out of originally acquired 363 apartments been leased out. The remaining apartments are classified as assets to be transferred under finance lease included in other assets (Note 15).

None of the balances are impaired or past due.

13 Held-to-maturity investments

	2014 KZT'000	2013 KZT'000
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	2,012,242	2,047,326
Corporate bonds rated A to A-	2,430,468	1,942,271
Corporate bonds rated from BB- to BB+	3,679,651	343,589
Corporate bonds rated from B+ to B-	1,196,643	5,253,839
Corporate bonds not rated	2,100,164	1,804,249
	11,419,168	**11,391,274**
Impairment allowance	(1,187,173)	(968,478)
	10,231,995	**10,422,796**

As at 31 December 2014 the Group holds bonds of one issuer, Astana Finance JSC ("Astana Finance"), who is in the restructuring process, and another issuer, Kazakhstan Kagazy JSC ("Kazakhstan Kagazy"), who is still in early stage of implementation of a restructuring program which incepted in 2012, with a gross value of KZT 552,990 thousand and KZT 1,056,966 thousand, respectively (2013: KZT 524,167 thousand and KZT 789,866 thousand, respectively).

As at 31 December 2014 the Group has an 83% or KZT 460,133 thousand (2013: 82% or KZT 431,310 thousand) impairment allowance on Astana-Finance bonds based on the restructuring plan of the issuer.

As at 31 December 2014 the Group has a 69% or KZT 727,040 thousand (2013: 68% or KZT 537,168 thousand) impairment allowance on Kazakhstan Kagazy bonds following the announcement of the amended payment schedule on its new debts issued according to restructuring terms and based on the analysis of the financial position of the issuer.

Analysis of movements in the impairment allowance

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	968,478	969,807
Net charge/(recovery)	218,695	(1,329)
Balance at the end of the year	**1,187,173**	**968,478**

14 Construction in progress

Construction in progress represents capitalised costs incurred by the Group during construction of residential real estate in different regions of Kazakhstan as part of "Regions Development till 2020" program approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014 and launched under the President's "Nurly Zhol" Statement. The Group will lease out the constructed real estate under finance lease terms approved in this programme.

As at 31 December 2014 the largest construction project relates to construction of micro district "Nursat" located in Shymkent, Kazakhstan, in the amount of KZT 3,604,204 thousand.

15 Other assets

	2014 KZT'000	2013 KZT'000
Receivables on loan acquisition transactions	1,383,968	651,106
Receivable from sale of assets held for sale	1,009,825	1,168,780
Other receivables	-	48,000
Total other financial assets	**2,393,793**	**1,867,886**
Assets to be transferred under finance lease agreements	2,482,252	-
Advances paid under finance lease agreements	1,670,392	-
Foreclosed property	317,748	364,478
Intangible assets	60,343	3,424
Other	56,821	43,072
Other prepayments	24,054	20,596
Inventory	22,805	16,348
Impairment allowance	(7,888)	(6,137)
Total other non-financial assets	**4,626,527**	**441,781**
Total other assets	**7,020,320**	**2,309,667**

Receivable from sale of assets held for sale has been recognised at amortised cost in the consolidated statement of financial position, reflecting fair value of the receivable at origination in 2013. Fair value was assessed using an estimated market rate of interest of 12% p.a. The resulting discount of KZT 124,276 thousand arising at initial recognition was recognised as interest expense in the consolidated statement of profit or loss. During the year ended 31 December 2014, the parties concluded an additional agreement further deferring the payment. This resulted in an additional discount of KZT 202,477 thousand being recognised in the consolidated statement of profit or loss.

Assets to be transferred under finance lease agreements include AkKent apartments acquired by the Group during 2014, which the Group intends to transfer to lessees in 2015.

Advances paid under finance lease agreements comprise advances made by the Group for the property to be acquired from the third parties. The Group plans to lease it out under finance lease, once the legal title on the property passes to the Group.

Foreclosed property comprises real estate collateral accepted by the Group in exchange for its rights and obligations under impaired mortgage loans. The Group has not yet determined future use of this property, whether it is going to be sold or rented out.

Analysis of movements in the impairment allowance

	2014 KZT'000	2013 KZT'000
Balance at the beginning of the year	6,137	6,095
Net charge/(recovery)	1,634	(6,338)
Recoveries of previous write-offs	117	6,380
Balance at the end of the year	**7,888**	**6,137**

16 Debt securities issued

Debt securities issued as at 31 December 2014 and 2013 comprised USD and KZT denominated bonds.

Emission	Maturity date	Coupon rate	Effective rate	2014 KZT'000	2013 KZT'000
KZ2C0Y05E529	26.07.2018	6.00%	6.00%	19,360,577	22,286,912
KZ2C0Y07E517	26.07.2020	8.50%	8.50%	10,342,640	6,225,653
KZP02Y09C495	10.06.2016	0.7%+floating inflation index (limited to 12.0%)	13.15%	9,093,513	8,546,538
KZ2C0Y05E503	26.07.2018	8.00%	8.00%	8,176,392	5,028,854
KZ2C0Y08D913	23.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%)	12.57%	8,070,855	7,732,522
KZP05Y06C494	10.06.2015	3.7%+floating inflation index (limited to 11%)	17.70%	7,767,280	7,177,013
KZPC1Y10B543	10.04.2015	6.90%	7.23%	5,072,954	5,056,579
KZPC2Y12B547	10.04.2017	0.01%+floating inflation index (limited to 7.5%)	5.35%	4,684,926	4,667,571
KZPC4Y10B547	15.01.2017	0.01%+floating inflation index (limited to 7.5%)	12.13%	4,611,946	4,367,471
KZ2C0Y08E218	02.04.2020	7.00%	6.99%	7,121	7,121
KZ2C0Y10B319	01.10.2014	0.1%+floating inflation index	6.35%	-	5,029,547
KZ2C0Y10A980	01.04.2012-2014	1.00%+floating inflation index	6.55%	-	1,966,167
KZ2C0Y10B079	01.04.2012-2014	0.50%+floating inflation index	5.89%	-	1,965,763
				77,188,204	**80,057,711**

These obligations are secured by loan agreements with customers and the related real estate supporting these loans (Note 11) with a principal amount of KZT 36,268,176 thousand (2013: KZT 46,282,135 thousand).

The floating 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.

17 Subordinated debt securities issued

Emission	Maturity date	Coupon rate	Effective rate	2014 KZT'000	2013 KZT'000
KZ2C0Y05E206	02.04.2017	8.00%	9.99%	9,809,666	9,666,887
				9,809,666	**9,666,887**

As at 31 December 2014 and 2013 subordinated debt securities issued comprise unsecured obligations of the Group. In case of bankruptcy, the repayment of the subordinated debt securities would be made after repayment in full of all other liabilities of the Group.

Subordinated bonds bear a fixed coupon rate.

18 Other borrowed funds

	2014 KZT'000	2013 KZT'000
Loans from banks of the Republic of Kazakhstan	25,422,657	25,407,300
Due to the Government of the Republic of Kazakhstan	3,385,864	3,143,420
	28,808,521	**28,550,720**

As at 31 December 2014 and 2013 the Group has loans from Halyk Saving Bank of Kazakhstan JSC and SB Sberbank JSC with the principal amount of KZT 14,300,000 thousand and KZT 10,900,000 thousand, respectively, which bear an interest of 8.2% and 9% p.a. and mature in 2017 and 2016 years, respectively.

Amounts due to the Government of the Republic of Kazakhstan consist of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second-tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. The fair value of the loan at initial recognition was estimated by discounting the contractual future cash flows of the loan using management's estimate of a long-term market borrowing rate for the Group of 8% p.a.

19 Other liabilities

	2014 KZT'000	2013 KZT'000
Payable to ATF Bank JSC for mortgage loans acquired	4,290,135	3,884,901
Interest strip payable	1,654,748	1,639,765
Prepaid loans	223,318	242,405
Loan portfolios servicing fee payable	44,523	27,281
Professional services	17,560	8,954
Total other financial liabilities	**6,230,284**	**5,803,306**
Payables to employees	104,380	90,951
Other taxes payable	53,653	-
Other non-financial liabilities	222,465	111,990
Total other non-financial liabilities	**380,498**	**202,941**
Total other liabilities	**6,610,782**	**6,006,247**

The amount payable to ATF Bank JSC represents a final instalment payable for certain acquired mortgage loans (Note 11) which is due upon transfer of loan documentation. Management expects the transfer to be finalised in July 2015.

Interest strip payable represents obligation to return to the original loan issuer a portion of interest receivable on mortgage loan portfolios acquired from three banks during 2014 and 2013. The Group is obliged to pay 1.2-1.7% p.a. of the outstanding mortgage loan portfolio on a monthly basis. This balance does not meet criteria for offsetting and, thus, is recognised as a separate financial liability.

20 Share capital and reserves

(a) Issued capital and share premium

During the year ended 31 December 2014 the Company issued 1,419,380 ordinary shares (2013: 1,500,000 ordinary shares) at their nominal value of KZT 10 thousand (2013: KZT 10 thousand).

As at 31 December 2014 and 2013, authorised share capital comprises 13,681,600 ordinary shares, and issued and outstanding share capital comprises 5,811,380 and 4,392,000 shares, respectively, including treasury shares (Note (c) below). 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.

During the year ended 31 December 2014 no dividend were declared and paid. During the year ended 31 December 2013 dividends of KZT 103,672 thousand or KZT 39 dividend per ordinary share relating to the previous year results of the Company were declared and paid.

(c) Treasury shares

As at 31 December 2014 and 2013 the Group held 250,000 of its own shares.

(d) Reserve capital

The Group has established a reserve capital in accordance with a decision of shareholders. As at 31 December 2014 and 2013 the reserve capital amounted to KZT 2,734,447 thousand. This reserve capital is available for distribution.

During the year ended 31 December 2014 the shareholders did not make any transfer from accumulated losses to this reserve capital (2013: KZT 103,627 thousand were transferred).

(e) Revaluation reserve for available-for-sale financial assets

The revaluation reserve for available-for-sale financial assets comprises the cumulative net change in the fair value, until the assets are derecognised or impaired.

(f) Earnings per share

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

	2014	**2013**
Profit for the year, in thousand of KZT	1,184,009	167,696
Weighted average number of ordinary shares	5,317,456	3,314,220
Basic and diluted earnings per share, in KZT	**223**	**51**

(g) Book value per share

Under the listing rules of the Kazakhstan Stock Exchange the Group should present book value per share in its consolidated financial statements. The book value per share is calculated dividing net assets less intangible assets by the number of outstanding ordinary shares. As at 31 December 2014 the book value per share was KZT 8,065.89 (2013: KZT 7,194.98).

21 Risk management

Management of risk is fundamental to the lending business and is an essential element of the Group's operations. The major risks faced by the Group are those related to market risk, which includes interest rate and currency risks, credit risk and liquidity risk.

(a) Risk management policies and procedures

The Group's risk management policies aim to identify, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of Risk Department of the Group is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. She reports directly to the Deputy Chairman of the Management Board.

The Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board.

Both external and internal risk factors are identified and managed throughout the Group's organisational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

Overall authority for market risk is vested in the Risk Management Committee.

The Group manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest-bearing financial instruments is as follows:

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2014							
ASSETS							
Cash and cash equivalents	11,868,499	-	-	-	-	2,102,282	13,970,781
Placements with banks and other financial institutions	480,801	7,053,500	16,827,458	-	-	-	24,361,759
Available-for-sale financial assets	1,312,288	644,577	1,150,511	5,136,916	1,387,884	-	9,632,176
Loans to customers	2,540,183	1,037,801	13,751,637	21,823,770	48,039,721	-	87,193,112
Finance lease receivables	34,353	8,724	27,250	285,953	1,969,611	-	2,325,891
Held-to-maturity investments	2,606,172	2,477,301	201,466	2,431,253	2,515,803	-	10,231,995
Other financial assets	-	-	-	-	-	2,393,793	2,393,793
Total assets	**18,842,296**	**11,221,903**	**31,958,322**	**29,677,892**	**53,913,019**	**4,496,075**	**150,109,507**
LIABILITIES							
Debt securities issued	5,738,350	34,689,648	-	26,776,538	9,983,668	-	77,188,204
Subordinated debt securities issued	-	197,778	-	9,611,888	-	-	9,809,666
Other borrowed funds	237,607	-	3,628,475	21,556,700	3,385,739	-	28,808,521
Other financial liabilities	-	-	-	-	-	6,230,284	6,230,284
Total liabilities	**5,975,957**	**34,887,426**	**3,628,475**	**57,945,126**	**13,369,407**	**6,230,284**	**122,036,675**
Net position	**12,866,339**	**(23,665,523)**	**28,329,847**	**(28,267,234)**	**40,543,612**	**(1,734,209)**	**28,072,832**

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

KZT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	7,839,305	-	-	-	-	707,032	8,546,337
Placements with banks and other financial institutions	1,056,657	-	12,424,500	4,100,000	-	-	17,581,157
Available-for-sale financial assets	2,584,315	646,662	396,915	3,957,291	1,407,777	-	8,992,960
Loans to customers	2,361,168	1,622,167	12,760,915	24,932,292	57,205,722	-	98,882,264
Held-to-maturity investments	38,815	2,096,577	2,323,773	3,716,421	2,247,210	-	10,422,796
Other financial assets	-	-	-	-	-	1,867,886	1,867,886
Total assets	**13,880,260**	**4,365,406**	**27,906,103**	**36,706,004**	**60,860,709**	**2,574,918**	**146,293,400**
LIABILITIES							
Debt securities issued	5,116,765	37,162,868	-	31,652,128	6,125,950	-	80,057,711
Subordinated debt securities issued	-	197,778	-	9,469,109	-	-	9,666,887
Other borrowed funds	234,350	-	125	25,172,950	3,143,295	-	28,550,720
Other financial liabilities	-	-	-	-	-	5,803,306	5,803,306
Total liabilities	**5,351,115**	**37,360,646**	**125**	**66,294,187**	**9,269,245**	**5,803,306**	**124,078,624**
Net position	**8,529,145**	**(32,995,240)**	**27,905,978**	**(29,588,183)**	**51,591,464**	**(3,228,388)**	**22,214,776**

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2014 Average effective interest rate, %		2013 Average effective interest rate, %	
	KZT	USD	KZT	USD
Interest bearing assets				
Cash and cash equivalents	10.36	-	7.79	-
Placement with banks and other financial institutions	9.38	5.89	7.63	-
Available-for-sale financial assets	8.46	-	7.96	-
Loans to customers	11.31	13.84	11.21	13.77
Finance lease receivables	12.36	-	-	-
Held-to-maturity investments	6.82	6.07	6.54	6.07
Interest bearing liabilities				
Debt securities issued	10.12	-	9.45	-
Subordinated debt securities issued	9.76	-	9.99	-
Other borrowed funds	8.55	-	8.49	-

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rates sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014 KZT'000		2013 KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	(28,345)	(28,345)	(48,992)	(48,992)
100 bp parallel fall	28,345	28,345	48,992	48,992

21 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rates sensitivity analysis, continued

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2014 KZT'000		2013 KZT'000	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
100 bp parallel rise	-	(383,589)	-	(404,707)
100 bp parallel fall	-	411,084	-	439,179

(c) Currency risk

The Group has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2014 and 2013:

	USD	
KZT'000	**2014 KZT'000**	**2013 KZT'000**
Assets		
Cash and cash equivalents	1,704,444	151,695
Placement with banks and other financial institutions	11,133,852	2,304,150
Loans to customers	9,692,408	19,609,311
Held-to-maturity investments	2,430,468	1,942,271
Other assets	1,257,735	188,723
Total financial assets	**26,218,907**	**24,196,150**
Liabilities		
Debt securities issued	19,360,577	22,286,912
Other liabilities	2,605,306	2,208,013
Total financial liabilities	**21,965,883**	**24,494,925**
Net on and off balance sheet position	**4,253,024**	**(298,775)**

A change in the value of the KZT, as indicated below, against the following currencies at 31 December 2014 and 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

21 Risk management, continued

(c) Currency risk, continued

	2014 KZT'000		2013 KZT'000	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against KZT	680,484	680,484	(47,804)	(47,804)
5% depreciation of USD against KZT	(170,121)	(170,121)	11,951	11,951

(d) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- procedures for review and approval of loan/credit applications
- methodology for the credit assessment of borrowers
- methodology for the credit assessment of counterparties, issuers and insurance companies
- methodology for the evaluation of collateral
- minimum financial and collateral requirements for loan approvals
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Group's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2014 KZT'000	2013 KZT'000
ASSETS		
Cash and cash equivalents	13,970,781	8,546,337
Placements with banks and other financial institutions	24,361,759	17,581,157
Available-for-sale financial assets	9,632,176	8,992,960
Loans to customers	87,193,112	98,882,264
Finance lease receivables	2,325,891	-
Held-to-maturity investments	10,231,995	10,422,796
Other financial assets	2,393,793	1,867,886
Total maximum exposure	**150,109,507**	**146,293,400**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 11.

As at 31 December 2014 and 2013 the Group has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

21 Risk management, continued

(e) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- managing the concentration and profile of debts
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

21 Risk management, continued

(e) Liquidity risk, continued

The following tables show the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability. The Group's expected cash flows on these financial liabilities may vary significantly from this analysis.

The liquidity position of the Group as at 31 December 2014 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative liabilities								
Debt securities issued	1,483,331	-	14,523,164	2,393,995	68,498,021	10,357,245	97,755,756	77,188,204
Subordinated debt securities issued	-	-	400,000	400,000	11,200,000	-	12,000,000	9,809,666
Other borrowed funds	245,250	296,407	535,143	4,656,412	23,418,229	9,991,980	38,243,421	28,808,521
Other financial liabilities	243,750	55,478	82,160	4,520,253	1,085,303	1,253,417	7,240,361	6,230,284
Total	**1,972,331**	**351,885**	**15,540,467**	**11,970,660**	**104,201,553**	**21,202,642**	**155,239,538**	**122,036,675**

The position of the Group as at 31 December 2013 was as follows:

KZT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount inflow/ (outflow)	Carrying amount
Non-derivative liabilities								
Debt securities issued	1,256,602	-	5,359,004	7,622,269	83,935,907	6,533,340	104,807,122	80,057,711
Subordinated debt securities issued	-	-	400,000	400,000	12,000,000	-	12,800,000	9,666,887
Other borrowed funds	245,250	286,636	544,914	1,082,563	29,166,392	9,991,980	40,417,735	28,550,720
Other financial liabilities	272,643	47,925	3,944,722	119,331	1,127,591	1,373,076	6,885,288	5,803,306
Total	**1,774,495**	**334,561**	**10,248,640**	**9,224,163**	**126,229,890**	**17,998,396**	**164,910,145**	**124,078,624**

21 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2014:

	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Assets							
Cash and cash equivalents	13,970,781	-	-	-	-	-	13,970,781
Placements with banks and other financial institutions	122,080	358,721	23,880,958	-	-	-	24,361,759
Available-for-sale financial assets	138,505	36,055	166,727	5,136,916	4,153,973	-	9,632,176
Loans to customers	1,042,960	1,491,356	4,096,957	25,556,508	55,005,331	-	87,193,112
Finance lease receivables	21,591	12,762	35,974	285,953	1,969,611	-	2,325,891
Held-to-maturity investments	7,250	14,685	2,678,767	4,685,565	2,845,728	-	10,231,995
Current tax asset	-	-	-	-	-	1,310,488	1,310,488
Construction in progress	-	-	-	-	-	6,339,486	6,339,486
Property and equipment	-	-	-	-	-	1,727,239	1,727,239
Investment property	-	-	-	-	-	1,466,929	1,466,929
Deferred tax asset	-	-	-	-	-	1,754,817	1,754,817
Other assets	38,845	6,898	4,077,884	1,504	3,823	2,891,366	7,020,320
Total assets	**15,342,012**	**1,920,477**	**34,937,267**	**35,666,446**	**63,978,466**	**15,490,325**	**167,334,993**
Liabilities							
Debt securities issued	1,288,023	-	12,979,904	52,936,609	9,983,668	-	77,188,204
Subordinated debt securities issued	-	-	197,778	9,611,888	-	-	9,809,666
Other borrowed funds	234,350	3,257	3,628,475	21,556,700	3,385,739	-	28,808,521
Other liabilities	354,846	33,165	4,720,415	657,056	845,300	-	6,610,782
Total liabilities	**1,877,219**	**36,422**	**21,526,572**	**84,762,253**	**14,214,707**	**-**	**122,417,173**
Net position as at 31 December 2014	**13,464,793**	**1,884,055**	**13,410,695**	**(49,095,807)**	**49,763,759**	**15,490,325**	**44,917,820**
Net position as at 31 December 2013	9,202,033	(1,991,038)	10,334,163	(54,428,113)	58,952,911	7,735,083	29,805,039

21 Risk management, continued

(e) Liquidity risk, continued

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2013:

	Less than 1 month KZT'000	1 to 3 months KZT'000	3 months to 1 year KZT'000	1 to 5 years KZT'000	More than 5 years KZT'000	No maturity KZT'000	Total KZT'000
Assets							
Cash and cash equivalents	8,546,337	-	-	-	-	-	8,546,337
Placements with banks and other financial institutions	51,657	1,005,000	12,424,500	4,100,000	-	-	17,581,157
Available-for-sale financial assets	184,870	31,097	57,695	5,062,249	3,657,049	-	8,992,960
Loans to customers	1,185,283	1,166,757	5,117,850	28,018,000	63,394,374	-	98,882,264
Held-to-maturity investments	28,493	10,322	773,269	7,363,502	2,247,210	-	10,422,796
Current tax asset	-	-	-	-	-	810,316	810,316
Construction in progress	-	-	-	-	-	1,442,518	1,442,518
Property and equipment	-	-	-	-	-	1,645,998	1,645,998
Investment property	-	-	-	-	-	1,418,827	1,418,827
Deferred tax asset	-	-	-	-	-	2,033,764	2,033,764
Other assets	434,074	40,918	1,451,015	-	-	383,660	2,309,667
Total assets	**10,430,714**	**2,254,094**	**19,824,329**	**44,543,751**	**69,298,633**	**7,735,083**	**154,086,604**
Liabilities							
Debt securities issued	885,553	-	9,180,358	63,865,850	6,125,950	-	80,057,711
Subordinated debt securities issued	-	197,778	-	9,469,109	-	-	9,666,887
Other borrowed funds	-	-	234,475	25,172,950	3,143,295	-	28,550,720
Other liabilities	343,128	4,047,354	75,333	463,955	1,076,477	-	6,006,247
Total liabilities	**1,228,681**	**4,245,132**	**9,490,166**	**98,971,864**	**10,345,722**	**-**	**124,281,565**
Net position as at 31 December 2013	**9,202,033**	**(1,991,038)**	**10,334,163**	**(54,428,113)**	**58,952,911**	**7,735,083**	**29,805,039**
Net position as at 31 December 2012	14,144,537	2,507,883	9,040,825	(52,360,831)	39,961,155	2,747,961	16,041,530

22 Capital management

The Decree of the NBRK #254 of 25 July 2003 establishes the Company's status as a financial agency, for which the NBRK determines statutory capital ratios.

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings/accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount not exceeding tier 1 capital) less investments into equity or subordinated debt.

Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK mortgage companies have to maintain:

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).

	2014 KZT'000	2013 KZT'000
Tier 1 capital		
Share capital	55,528,939	41,335,139
General reserves	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	(730,235)	(465,207)
Subordinated debt securities issued	5,767,133	7,575,287
Net profit for the year in accordance with the NBRK requirements	1,177,442	745,028
Total tier 2 capital	**6,214,340**	**7,855,108**
Investments in subsidiaries	554,291	554,291
Total capital	**50,135,362**	**36,837,302**
Total statutory assets	167,419,116	154,126,414
Credit risk weighted assets and contingent liabilities	145,279,951	130,430,787
k1 ratio	**27%**	**19%**
k1-2 ratio	**31%**	**23%**
k1-3 ratio	**35%**	**28%**

22 Capital management, continued

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

- k1 – 6%
- k1-2 – 6%
- k1-3 – 12%.

23 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group 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 Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

In the ordinary course of business, the Group 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 Group.

(c) Taxation contingencies

The taxation system in the Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes 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 Group, if the authorities were successful in enforcing their interpretations, could be significant.

24 Related party transactions

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

Total remuneration included in personnel expenses is as follows (refer to Note 6):

	2014 KZT'000	2013 KZT'000
Members of the Board of Directors	4,240	15,425
Members of the Management Board	101,422	199,436
	105,662	**214,861**

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

The outstanding balances and average interest rates as at 31 December 2014 and 2013 for transactions with the members of the Management Board and the Board of Directors are as follows:

	2014 KZT'000	Average interest rate, %	2013 KZT'000	Average interest rate, %
Consolidated statement of financial position				
Loans to customers	49,801	6.79	54,090	6.86
Other liabilities	30,308	-	50,985	-

Amounts included in profit or loss in relation to transactions with the members of the Management Board and the Board of Directors for the year ended 31 December are as follows:

	2014 KZT'000	2013 KZT'000
Profit or loss		
Interest income	3,487	3,680

(b) Transaction with other related parties

Other related parties include Baiterek and its subsidiaries (together the "Baiterek Group") and other State organisations.

The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as of 31 December 2014 and 2013:

	2014 KZT'000 Baiterek Group	2014 KZT'000 State organisations	2013 KZT'000 Baiterek Group	2013 KZT'000 State organisations
Consolidated statement of profit or loss				
Interest income	-	219,512	31,572	406,403
Interest expense	(2,692,846)	(4,021,522)	(1,587,612)	(2,105,865)
Commission expense	-	(2,131)	27,920	-
Net foreign exchange loss	-	-	(112,829)	-
Other income	5,895	19,241	-	-
Net (loss)/gain from repurchase of debt securities issued	(65,424)	-	42,891	-
General administrative expenses	-	(244,664)	(12,558)	(179,859)
Income tax (expense)/benefit	-	(281,628)	-	783,828
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	-	(14,107)	-	159,880

24 Related party transactions, continued

(b) Transaction with other related parties, continued

The balances with related parties as of 31 December 2014 include:

	Baiterek Group		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Available-for-sale financial assets	-	-	2,620,568	6.97
Held-to maturity investments	-	-	2,012,242	3.48
Current tax asset	-	-	1,310,488	-
Deferred tax asset	-	-	1,754,817	-
Other assets	153	-	12,855	-
Debt securities issued	29,311,969	9.34	36,290,307	11.00
Subordinated debt securities issued	-	-	3,281,578	9.96
Other borrowed funds	-	-	3,385,864	8.00
Other liabilities	-	-	33,171	-
Revaluation reserve for available-for-sale financial assets	-	-	(124,831)	-

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

	Baiterek Group		State organisations	
	KZT'000	Average interest rate, %	KZT'000	Average interest rate, %
Placements with banks	-	-	207,851	7.30
Available-for-sale financial assets	381,636	9.96	1,423,056	6.10
Held-to maturity investments	-	-	2,047,326	2.80
Current tax asset	-	-	810,316	-
Deferred tax asset	-	-	2,033,764	-
Other assets	48,000	-	10,392	-
Debt securities issued	30,075,308	9.50	18,494,274	9.50
Subordinated debt securities issued	-	-	97	10.00
Other borrowed funds	-	-	3,143,420	8.00
Other liabilities	-	-	9,651	-
Revaluation reserve for available-for-sale financial assets	-	-	(110,724)	-

As at 31 December 2013 the Group had 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 9,713,937 thousand. As at 31 December 2014 none of the banks under recourse agreements are government owned.

25 Financial assets and liabilities: fair values and accounting classification

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

KZT'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	13,970,781	-	-	13,970,781	13,970,781
Placements with banks and other financial institutions	-	24,361,759	-	-	24,361,759	24,361,759
Available-for-sale financial assets	-	-	9,632,176	-	9,632,176	9,632,176
Loans customers	-	87,193,112	-	-	87,193,112	85,892,121
Finance lease receivables	-	2,325,891	-	-	2,325,891	2,325,891
Held-to-maturity investments:						
Government bonds	2,012,242	-	-	-	2,012,242	1,938,230
Corporate bonds	8,219,753	-	-	-	8,219,753	7,919,972
Other financial assets	-	2,393,793	-	-	2,393,793	2,393,793
	10,231,995	**130,245,336**	**9,632,176**	**-**	**150,109,507**	**148,434,723**
Debt securities issued	-	-	-	77,188,204	77,188,204	71,798,714
Subordinated debt securities issued	-	-	-	9,809,666	9,809,666	9,942,134
Other borrowed funds	-	-	-	28,808,521	28,808,521	27,758,068
Other financial liabilities	-	-	-	6,230,284	6,230,284	6,230,284
	-	**-**	**-**	**122,036,675**	**122,036,675**	**115,729,200**

25 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

KZT'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	8,546,337	-	-	8,546,337	8,546,337
Placements with banks and other financial institutions	-	17,581,157	-	-	17,581,157	17,581,157
Available-for-sale financial assets	-	-	8,992,960	-	8,992,960	8,992,960
Loans customers	-	98,882,264	-	-	98,882,264	98,318,822
Held-to-maturity investments:						
Government bonds	2,047,326	-	-	-	2,047,326	1,951,564
Corporate bonds	8,375,470	-	-	-	8,375,470	7,850,173
Other financial assets	-	1,867,886	-	-	1,867,886	1,867,886
	10,422,796	**126,877,644**	**8,992,960**	**-**	**146,293,400**	**145,108,899**
Debt securities issued	-	-	-	80,057,711	80,057,711	81,823,976
Subordinated debt securities issued	-	-	-	9,666,887	9,666,887	9,858,280
Other borrowed funds	-	-	-	28,550,720	28,550,720	28,550,720
Other financial liabilities	-	-	-	5,803,306	5,803,306	5,803,306
	-	**-**	**-**	**124,078,624**	**124,078,624**	**126,036,282**

25 Financial assets and liabilities: fair values and accounting classification, continued

(a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

For more complex instruments, the Group uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and securities for which there is no active market.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

(b) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

25 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 2 KZT'000
Financial assets	
Available-for-sale financial assets	9,632,176
	9,632,176

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 2 KZT'000
Financial assets	
Available-for-sale financial assets	8,992,960
	8,992,960

As at 31 December 2014 and 2013 the Group does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2014:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	13,970,781	-	13,970,781	13,970,781
Placements with banks and other financial institutions	24,361,759	-	24,361,759	24,361,759
Loans to customers	85,892,121	-	85,892,121	87,193,112
Finance lease receivables	2,325,891	-	2,325,891	2,325,891
Held-to-maturity investments	9,505,122	353,080	9,858,202	10,231,995
Liabilities				
Debt securities issued	71,798,714	-	71,798,714	77,188,204
Subordinated debt securities issued	9,942,134	-	9,942,134	9,809,666
Other borrowed funds	27,758,068	-	27,758,068	28,808,521

25 Financial assets and liabilities: fair values and accounting classification, continued

(b) Fair value hierarchy, continued

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2013:

KZT'000	Level 2	Level 3	Total fair values	Total carrying amount
Assets				
Cash and cash equivalents	8,546,337	-	8,546,337	8,546,337
Placements with banks and other financial institutions	17,581,157	-	17,581,157	17,581,157
Loans to customers	98,318,822	-	98,318,822	98,882,264
Held-to-maturity investments	9,456,182	345,555	9,801,737	10,422,796
Liabilities				
Debt securities issued	81,823,976	-	81,823,976	80,057,711
Subordinated debt securities issued	9,858,280	-	9,858,280	9,666,887
Other borrowed funds	28,550,720	-	28,550,720	28,550,720

26 Segment reporting

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

27 Events after the reporting date

On 21 January 2015 the Group received a loan in the amount of KZT 50,600,000 thousand from the National Management Holding Baiterek JSC under the programme "Regions Development till 2020" approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014 and launched under the President's "Nurly Zhol" Statement. The loan bears a nominal interest rate of 0.15% per annum and matures in January 2045. The repayment of principal is at maturity.