“Shinhan Bank Kazakhstan” JSC

Financial Statements

for the year ended 31 December 2015

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Independent Auditors' Report

To the Board of Directors and Management Board of "Shinhan Bank Kazakhstan" JSC

We have audited the accompanying financial statements of "Shinhan Bank Kazakhstan" JSC (the "Bank"), which comprise the statement of financial position as at 31 December 2015, and the 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 Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Yelena Kim
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No. МФ0000042 of 8 August 2011

KPMG Audit LLC

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

Assel Khairova,
General Director of KPMG Audit LLC
acting on the basis of the Charter

31 March 2016

	Note	2015 '000 KZT	2014 '000 KZT
Interest income	4	1,127,112	1,023,598
Interest expense	4	(35,068)	(123,214)
Net interest income		**1,092,044**	**900,384**
Fee and commission income	5	49,142	48,528
Fee and commission expense	6	(18,316)	(15,033)
Net fee and commission income		**30,826**	**33,495**
Net foreign exchange gain	7	255,073	158,868
Net gain on available-for-sale financial assets		-	4,278
Other operating income, net		6,413	4,039
Operating income		**1,384,356**	**1,101,064**
Personnel expenses	8	(392,222)	(359,786)
Other general administrative expenses	9	(222,405)	(212,626)
Profit before income tax		**769,729**	**528,652**
Income tax expense	10	(119,702)	(95,011)
Profit for the year		**650,027**	**433,641**
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss:			
Revaluation reserve of available-for-sale financial assets			
- net change in fair value		(112,093)	(137,931)
- net change in fair value transferred to profit or loss		-	(4,278)
Other comprehensive income for the year, net of income tax		**(112,093)**	**(142,209)**
Total comprehensive income for the year		**537,934**	**291,432**

The financial statements as set out on pages 5 to 48 were approved on 31 March 2016 by Management and signed on its behalf by:

Mr. Choi Myoung Kyu
Chairman of the Management Board

Ms. M.A. Nikitina
Chief Accountant

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

	Note	2015 ’000 KZT	2014 ’000 KZT
ASSETS			
Cash and cash equivalents	11	1,050,608	13,776,774
Placements with banks		320	240
Available-for-sale financial assets	12	1,397,331	2,474,469
Loans to banks	13	2,911,612	960,684
Loans to customers	14	11,084,277	9,277,236
Held-to-maturity investments	15	1,923,767	1,931,104
Property, equipment and intangible assets	16	87,636	98,468
Current tax asset		22,568	21,693
Other assets		24,487	33,508
Total assets		**18,502,606**	**28,574,176**
LIABILITIES			
Deposits and balances from banks	17	1,734,916	1,049,637
Current accounts and deposits from customers	18	4,621,981	15,926,526
Deferred tax liabilities	10	50,657	51,160
Other liabilities		51,792	41,527
Total liabilities		**6,459,346**	**17,068,850**
EQUITY	19		
Share capital		10,028,720	10,028,720
Additional paid-in capital		144,196	144,196
Statutory reserve		279,516	279,516
Revaluation reserve for available-for-sale financial assets		(215,867)	(103,774)
Retained earnings		1,806,695	1,156,668
Total equity		**12,043,260**	**11,505,326**
Total liabilities and equity		**18,502,606**	**28,574,176**

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

	2015 '000 KZT	2014 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	1,153,717	998,192
Interest payments	(35,554)	(125,782)
Fee and commission receipts	49,241	49,125
Fee and commission payments	(18,325)	(15,053)
Net receipts from foreign exchange	220,127	154,847
Other operating receipts	6,853	381
Employee benefits	(393,659)	(361,324)
Other general administrative expenses	(189,035)	(193,011)
(Increase)/decrease of operating assets		
Placements with banks	(80)	-
Loans to banks	(1,394,506)	525,226
Loans to customers	(627,856)	(645,122)
Increase/(decrease) of operating liabilities		
Deposits and balances from banks	374,148	(283,048)
Current accounts and deposits from customers	(13,760,464)	10,798,687
Net cash (used in)/provided from operating activities before income tax paid	**(14,615,393)**	**10,903,118**
Income tax paid	(121,080)	(64,998)
Cash flows (used in)/from operating activities	**(14,736,473)**	**10,838,120**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment and intangible assets	(7,385)	(63,799)
Repayment and sale of available-for-sale financial assets	900,000	823,890
Cash flows from investing activities	**892,615**	**760,091**
Net (decrease)/increase in cash and cash equivalents	**(13,843,858)**	**11,598,211**
Effect of changes in exchange rates on cash and cash equivalents	1,117,692	229,026
Cash and cash equivalents as at the beginning of the year	13,776,774	1,949,537
Cash and cash equivalents as at the end of the year (Note 11)	**1,050,608**	**13,776,774**

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

'000 KZT	Share capital	Additional paid-in capital	Statutory reserve	Revaluation reserve for available-for-sale financial assets	Retained earnings	Total equity
Balance as at 1 January 2014	10,028,720	144,196	279,516	38,435	723,027	11,213,894
Profit for the year	-	-	-	-	433,641	433,641
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	-	-	-	(137,931)	-	(137,931)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	-	(4,278)	-	(4,278)
Total other comprehensive income	-	-	-	(142,209)	-	(142,209)
Total comprehensive income for the year	**-**	**-**	**-**	**(142,209)**	**433,641**	**291,432**
Balance as at 31 December 2014	**10,028,720**	**144,196**	**279,516**	**(103,774)**	**1,156,668**	**11,505,326**
Balance as at 1 January 2015	10,028,720	144,196	279,516	(103,774)	1,156,668	11,505,326
Profit for the year	-	-	-	-	650,027	650,027
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	-	-	-	(112,093)	-	(112,093)
Total other comprehensive income	-	-	-	(112,093)	-	(112,093)
Total comprehensive income for the year	**-**	**-**	**-**	**(112,093)**	**650,027**	**537,934**
Balance as at 31 December 2015	**10,028,720**	**144,196**	**279,516**	**(215,867)**	**1,806,695**	**12,043,260**

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

1 Background

(a) Organisation and operations

The Bank was established in the Republic of Kazakhstan as a Joint Stock Company in 2008. The principal activities of the Bank are deposit taking and customer accounts maintenance, lending and issuing guarantees, cash and settlement operations, and transactions with securities and foreign exchange. The activities of the Bank are regulated by the National Bank of the Republic of Kazakhstan ("the NBRK").

The official status of the Bank is established by the state registration as a legal entity with the Ministry of Justice of the Republic of Kazakhstan (Legal Entity State Registration Certificate No. 5037-1900-АО (ИУ)) and the Financial Markets and Organisations Supervisory and Regulatory Agency ("the FMSA") for banking operations (License for banking and other operations No. 1.1.258 dated 28 November 2008).

In January 2015, following entry into force of the Law of the Republic of Kazakhstan "On amendments and additions to certain legislative acts of the Republic of Kazakhstan on issues involving the permit system", the name of the banking operation "on organisation of foreign exchange operations" changed for "on organisation of foreign exchange operations, including organisation of exchange operations with cash foreign currency", and the license held by the Bank was re-issued.

The registered legal address of the Bank is 123/7 Dostyk Avenue, Almaty, Republic of Kazakhstan.

The Bank has no branches. The majority of the assets and liabilities are located in the Republic of Kazakhstan.

The Bank is wholly-owned by Shinhan Bank JSC (Seoul, Republic of Korea) (the "Parent Bank" or the "Shareholder"), which, in turn, is a member of the Shinhan Financial Group. Related party transactions are detailed in Note 25.

(b) Kazakhstan business environment

The Bank's operations are primarily located in Kazakhstan. Consequently, the Bank is exposed to the economic and financial markets of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan. In addition, the recent significant depreciation of the Kazakhstan tenge, and the reduction in the global price of oil, have increased the level of uncertainty in the business environment.

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

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

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

2 Basis of preparation, continued

(c) Functional and presentation currency

The functional currency of the Bank is the Kazakhstan tenge 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 the Bank.

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

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may 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:

- Note 14 – loan impairment estimates;
- Note 15 – classification of held-to-maturity investments;
- Note 26 – estimates of fair value of financial instruments.

3 Significant accounting policies

The accounting policies set out below are applied by the Bank consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated 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 to the functional currency 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 translated to the functional currency at the exchange rate at the date that the fair value was 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.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances (nostro accounts) held with the NBRK and other 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 Bank in the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification of financial instruments

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

The Bank 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.

Management determines the appropriate classification of financial instruments at the time of the 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 fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of 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 Bank:

- intends to sell immediately or in the near term;
- upon initial recognition, designated 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 Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition, designates as at fair value through profit or loss.
- the Bank 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Recognition

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

(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, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments which are measured at amortised cost using the effective interest 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 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 Bank has access at that date. The fair value of a liability reflects its performance risk.

When available, the Bank 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 Bank 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

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 Bank 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 Bank measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(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 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 Bank 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 Bank 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 Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged, or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its 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 Bank 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vii) Derecognition, continued

In transfers where control over the asset is retained, the Bank 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.

The Bank writes off assets deemed to be uncollectible.

(viii) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions within deposits and balances from banks or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within loans and advances to banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

(ix) Offsetting

Financial assets and liabilities are offset and the net amount reported in the 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.

(d) 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) Depreciation

Depreciation is charged to profit or loss on a reducing-balance method 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 life is 5 years for all items of property and equipment. If the Bank makes capital investments in the leased property, plant and equipment, such costs are amortised on a straight-line basis during the lower of the period of leasing or useful life of leasehold improvement.

3 Significant accounting policies, continued

(e) 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 reducing-balance method basis over the estimated useful lives of intangible assets. The estimated useful life is 5 years.

(f) Impairment

The Bank 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 Bank 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 Bank 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 relating 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 (the "loans and receivables"). The Bank reviews its loans and receivables, to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of 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 Bank 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

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

In some cases the observable data required to estimate the amount of an 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 Bank 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 or receivable is uncollectible, it is written off against the related allowance for impairment. The Bank writes off a loan or receivable balance (and any related allowances for losses) when the Bank’s management determines that the loans or receivables are uncollectible and when all necessary steps to collect the loan or receivable are completed.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that is 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.

(iii) Non financial assets

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.

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.

(g) Provisions

A provision is recognised in the statement of financial position when the Bank 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.

3 Significant accounting policies, continued

(h) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included in other liabilities.

Loan commitments are not recognised, except for the following:

- loan commitments that the Bank designates as financial liabilities at fair value through profit or loss;
- if the Bank has a past practice of selling the assets resulting from its loan commitments shortly after origination, then the loan commitments in the same class are treated as derivative instruments;
- loan commitments that can be settled net in cash or by delivering or issuing another financial instrument;
- commitments to provide a loan at a below-market interest rate.

(i) 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) Dividends

The ability of the Bank 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.

(j) 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.

3 Significant accounting policies, continued

(j) Taxation, continued

Deferred tax is 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 is not recognised on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is 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.

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

A deferred tax asset is 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 it is no longer probable that the related tax benefit will be realised.

(k) Income and expense recognition

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

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

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.

(l) 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 2015, and are not applied in preparing these financial statements. The Bank plans to adopt these pronouncements when they become effective.

- IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Bank recognises that the new standard introduces many changes to accounting for financial instruments and is likely to have a significant impact on the financial statements. The Bank has not analysed the impact of these changes yet. The Bank 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 the amendments, resulting to the changes in accounting, recognition or assessment, become effective not earlier than 1 January 2016. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2015 '000 KZT	2014 '000 KZT
Interest income		
Loans to customers	888,134	692,190
Held-to-maturity investments	104,139	116,845
Available-for-sale financial assets	84,839	104,487
Loans to banks	42,611	90,643
Placements with banks	5,056	537
Cash and cash equivalents	2,333	18,896
	1,127,112	**1,023,598**
Interest expense		
Amounts payable under repurchase agreements	(21,859)	(73,064)
Current accounts and deposits from customers	(7,624)	(42,434)
Deposits and balances from banks	(5,585)	(7,716)
	(35,068)	**(123,214)**
	1,092,044	**900,384**

5 Fee and commission income

	2015 '000 KZT	2014 '000 KZT
Transfer operations	30,628	31,882
Cash operations	12,241	11,604
Guarantees	3,394	1,680
Letters of credit	993	1,083
Other	1,886	2,279
	49,142	**48,528**

6 Fee and commission expense

	2015 '000 KZT	2014 '000 KZT
Transfer operations	13,176	10,959
Brokerage	1,580	1,810
Other	3,560	2,264
	18,316	**15,033**

7 Net foreign exchange gain

	2015 '000 KZT	2014 '000 KZT
Dealing operations, net	220,127	154,847
Translation differences, net	34,946	4,021
	255,073	**158,868**

8 Personnel expenses

	2015 ’000 KZT	2014 ’000 KZT
Employee compensation	356,302	326,975
Payroll related taxes	35,920	32,811
	392,222	**359,786**

9 Other general administrative expenses

	2015 ’000 KZT	2014 ’000 KZT
Operating lease expense	77,155	75,867
Communications and information services	40,695	31,961
Depreciation and amortisation	18,217	10,848
Professional services	16,573	11,102
Transportation	12,465	11,397
Software maintenance	11,699	20,424
Security	10,241	8,924
Representative expenses	3,464	3,638
Travel expenses	3,216	3,464
Advertising and marketing	2,506	7,031
Repair and technical maintenance	2,347	4,969
Office supplies	1,933	3,636
Membership fee	874	1,675
Writing off of property and equipment	-	4,443
Other	21,020	13,247
	222,405	**212,626**

10 Income tax expense

	2015 ’000 KZT	2014 ’000 KZT
Current year tax expense		
Current year	120,205	92,858
Deferred taxation movement due to origination and reversal of temporary differences	(503)	2,153
Total income tax expense	**119,702**	**95,011**

In 2015, the applicable tax rate for current and deferred tax is 20% (2014: 20%).

10 Income tax expense, continued

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

	2015 '000 KZT	%	2014 '000 KZT	%
Profit before income tax	**769,729**		**528,652**	
Income tax at the applicable tax rate	153,946	20.0	105,730	20.0
Non-taxable income from securities	(37,796)	(4.9)	(45,122)	(8.5)
Other non-deductible costs	3,552	0.5	34,403	6.5
	119,702	**15.6**	**95,011**	**18.0**

Deferred tax assets and liabilities

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 liabilities as at 31 December 2015 and 2014.

Movements in temporary differences during the years ended 31 December 2015 and 2014 are presented as follows.

2015 **'000 KZT**	**Balance 1 January 2015**	**Recognised in profit or loss**	**Balance 31 December 2015**
Loans to customers	(53,640)	-	(53,640)
Property, equipment and intangible assets	(2,158)	686	(1,472)
Deposits and balances from banks	934	(96)	838
Other liabilities	3,704	(87)	3,617
	(51,160)	**503**	**(50,657)**

2014 **'000 KZT**	**Balance 1 January 2014**	**Recognised in profit or loss**	**Balance 31 December 2014**
Loans to customers	(53,640)	-	(53,640)
Property, equipment and intangible assets	(455)	(1,703)	(2,158)
Deposits and balances from banks	1,448	(514)	934
Other liabilities	3,640	64	3,704
	(49,007)	**(2,153)**	**(51,160)**

11 Cash and cash equivalents

	2015 '000 KZT	2014 '000 KZT
Cash on hand	**280,903**	**263,671**
Nostro accounts with the NBRK	**473,527**	**303,542**
Nostro accounts with other banks:		
- rated from A- to A+	103,597	13,209,471
- rated BBB	190,986	90
- rated from BB+ to BB-	1,595	-
Total nostro accounts with other banks	**296,178**	**13,209,561**
Total cash equivalents and nostro accounts	**769,705**	**13,513,103**
Total cash and cash equivalents	**1,050,608**	**13,776,774**

The credit ratings are presented by reference to the credit ratings of Standard & Poor's credit ratings agency or analogues of similar international agencies. No cash and cash equivalents are impaired or past due.

11 Cash and cash equivalents, continued

Minimum reserve requirements

As at 31 December 2015, in accordance with regulation issued by the NBRK, minimum reserve requirements are calculated as average of totals of specified proportions of different groups of banks liabilities for period of twenty eight calendar days (31 December 2014: for two-week period). Banks are required to comply with these requirements by maintaining average reserve assets (in the form of local currency cash not exceeding 70% of the estimated minimum reserve requirements and balances on current account with the NBRK in national currency) equal or in excess of the average minimum requirements. As at 31 December 2015, the minimum reserve is KZT 314,898 thousand (31 December 2014: KZT 487,504 thousand).

Concentration of cash and cash equivalents

As at 31 December 2015 the Bank has no banks (31 December 2014: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2014 is KZT 13,109,472 thousand.

12 Available-for-sale financial assets

	2015 '000 KZT	2014 '000 KZT
Held by the Bank		
Debt financial instruments		
- Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,169,218	2,219,334
- Bonds of Sovereign Wealth Fund "Samruk-Kazyna" JSC	228,113	255,135
	1,397,331	**2,474,469**

No available-for-sale financial assets are impaired or past due.

As at 31 December 2015, the Bank has no Treasury bills of the Ministry of Finance of the Republic of Kazakhstan with floating coupon rate (31 December 2014: KZT 959,642 thousand with floating coupon rate, which equals to the annual inflation rate as at coupon payment date plus fixed interest of 0.07% per annum).

13 Loans to banks

As at 31 December 2015 and 2014 the loans to banks comprised loans to one local commercial bank with credit rating B+ in the amount of KZT 2,911,612 thousand and KZT 960,684 thousand, respectively.

No loans to banks are past due or impaired.

14 Loans to customers

	2015 '000 KZT	2014 '000 KZT
Loans to corporate customers		
Loans to large corporates	3,580,417	1,635,843
Loans to small and medium size companies	4,360,892	4,218,420
Total loans to corporate customers	**7,941,309**	**5,854,263**
Loans to retail customers		
Consumer loans	2,879,320	3,298,962
Other	263,648	124,011
Total loans to retail customers	**3,142,968**	**3,422,973**
	11,084,277	**9,277,236**

14 Loans to customers, continued

As at 31 December 2015, the Bank has one (31 December 2014: one) corporate customer whose debt is overdue for more than 183 days, and two retail customers, whose debt is overdue for less than 60 days. Total debt of that corporate borrower is KZT 515,916 thousand (31 December 2014: KZT 470,847 thousand) and the total debt of retail customers is KZT 21,442 thousand (31 December 2014: KZT 11,160 thousand). As at 31 December 2015, the Bank has three (31 December 2014: nil) corporate borrowers whose debts are not overdue but with individual signs of impairment. Total debt of these corporate borrowers is KZT 35,000 thousand (31 December 2014: nil). These debts are not provisioned as they are excessively covered by the collateral value.

No collective provision was recognised in respect of loans to customers as all possible risks have been considered in individual impairment test and the Bank does not have history of losses from loans issued to customers. Accordingly, no impairment is provided.

Change in estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by minus one percent, the impairment allowance on loans to customers as at 31 December 2015 would be KZT 110,843 thousand higher (31 December 2014: KZT 92,772 thousand).

As at 31 December 2015 in the loan portfolio there are no renegotiated loans to corporate and retail customers that would otherwise be past due or impaired (31 December 2014: nil).

(a) Analysis of collateral and other credit enhancements

(i) Loans to corporate customers

Loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of the loan extended to it. However, collateral provides additional security and the Bank generally requests corporate borrowers to provide it.

The following tables provides information on collateral and other credit enhancements securing loans to corporate customers by types of collateral.

31 December 2015 ’000 KZT	**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**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Corporate guarantees (provided by the Parent Bank, rated A+)	2,776,776	-	-	2,776,776
Real estate	3,455,499	3,455,499	-	-
Cash and deposits	102,105	102,105	-	-
Other collateral	35,282	-	35,282	-
No collateral	1,020,731	-	-	-
	7,390,393	**3,557,604**	**35,282**	**2,776,776**
Loans with individual signs of impairment				
Real estate	550,916	35,000	515,916	-
	550,916	**35,000**	**515,916**	**-**
Total loans to corporate customers	**7,941,309**	**3,592,604**	**551,198**	**2,776,776**

14 Loans to customers, continued

(a) Analysis of collateral and other credit enhancements, continued

(i) Loans to corporate customers, continued

31 December 2014 '000 KZT	**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**	**Fair value of collateral not determined**
Loans without individual signs of impairment				
Corporate guarantees (provided by the Parent Bank, rated A+)	770,000	-	-	770,000
Real estate	2,562,553	33,209	2,529,344	-
Cash and deposits	255,083	255,083	-	-
Other collateral	694,210	-	694,210	-
No collateral	1,101,570	-	-	-
	5,383,416	**288,292**	**3,223,554**	**770,000**
Loans with individual signs of impairment				
Real estate	470,847	470,847	-	-
	470,847	**470,847**	**-**	**-**
Total loans to corporate customers	**5,854,263**	**759,139**	**3,223,554**	**770,000**

The tables above exclude overcollateralisation.

As the recoverability of loans which are neither past due nor impaired is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, the Bank does not necessarily update the valuation of collateral as at each reporting date.

For most of loans the fair value of collateral is updated as at the reporting date. Information on valuation of collateral is based on when this estimate was made, if any.

For loans secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

(ii) Loans to retail customers

Loans to retail customers are secured mainly by housing real estate. The Bank's policy is to issue loans to retail customers with a loan-to-value ratio of a maximum of 70%.

14 Loans to customers, continued

(a) Analysis of collateral and other credit enhancements, continued

(ii) Loans to retail customers, continued

The following tables provides information on real estate collateral securing loans to individuals:

31 December 2015 ’000 KZT	**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**	**Fair value of collateral not determined**
Not past due	3,121,526	3,118,102	-	3,424
Past due	21,442	21,442	-	-
Total loans to retail customers	**3,142,968**	**3,139,544**	**-**	**3,424**
31 December 2014 ’000 KZT				
Not past due	3,411,813	7,001	3,401,800	3,012
Past due	11,160	-	11,160	-
Total loans to retail customers	**3,422,973**	**7,001**	**3,412,960**	**3,012**

The table above excludes overcollateralisation.

(b) Industry and geographical analysis of the loan portfolio

Loans to customers were issued primarily to customers located within the Republic of Kazakhstan who operate in the following economic sectors:

	2015 ’000 KZT	**2014 ’000 KZT**
Loans to retail customers	3,142,968	3,422,973
Trade	3,397,505	3,039,412
Information and communication	2,004,750	-
Crude oil and natural gas extraction	1,020,731	1,094,770
Rent, hire and lease	876,724	836,608
Advertising activity	313,919	225,502
Construction	117,143	-
Real estate	68,205	115,188
Finance	65,720	382,286
Transport	39,148	57,056
Mining/metallurgy	8,882	21,853
Other	28,582	81,588
	11,084,277	**9,277,236**

(c) Significant credit exposures

As at 31 December 2015 the Bank has one borrower (31 December 2014: nil), whose loan balance exceeds 10% of the equity. The gross value of this borrower is KZT 2,004,750 thousand (31 December 2014: nil).

14 Loans to customers, continued

(d) Loan maturities

The maturity of the loan portfolio is presented in note 20(d), which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans issued by the Bank, it is likely that many of the loans will be prolonged at maturity. Accordingly, the effective maturity of the loan portfolio may be longer than the term based on contractual terms.

15 Held-to-maturity investments

	2015 '000 KZT	2014 '000 KZT
Held by the Bank		
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,923,767	1,931,104
	1,923,767	**1,931,104**

The entire amount of held-to-maturity investments is represented by treasury bills of the Ministry of Finance of the Republic of Kazakhstan denominated in KZT and rated BBB+.

In accordance with the Investment Policy, the Bank has intention and ability to hold these securities till their maturity. The published price quotations for substantially the same debt securities with identical terms are available from the local stock exchange.

No held-to-maturity investments are impaired or past due.

16 Property, equipment and intangible assets

'000 KZT	Computers	Motor vehicles	Other	Intangible assets	Total
Cost					
Balance at 1 January 2015	65,273	12,586	54,544	42,231	174,634
Additions	1,753	-	2,968	2,664	7,385
Balance at 31 December 2015	**67,026**	**12,586**	**57,512**	**44,895**	**182,019**
Depreciation and amortisation					
Balance at 1 January 2015	(20,422)	(9,326)	(34,561)	(11,857)	(76,166)
Depreciation and amortisation for the year	(8,281)	(595)	(3,719)	(5,622)	(18,217)
Balance at 31 December 2015	**(28,703)**	**(9,921)**	**(38,280)**	**(17,479)**	**(94,383)**
Carrying amount					
Balance at 31 December 2015	**38,323**	**2,665**	**19,232**	**27,416**	**87,636**

16 Property, equipment and intangible assets, continued

'000 KZT	Computers	Motor vehicles	Other	Intangible assets	Total
Cost					
Balance at 1 January 2014	31,491	12,586	63,852	17,317	125,246
Additions	34,014	-	4,779	25,006	63,799
Disposals	(232)	-	(14,087)	(92)	(14,411)
Balance at 31 December 2014	**65,273**	**12,586**	**54,544**	**42,231**	**174,634**
Depreciation and amortisation					
Balance at 1 January 2014	(16,889)	(8,598)	(39,742)	(10,057)	(75,286)
Depreciation and amortisation for the year	(3,651)	(728)	(4,631)	(1,838)	(10,848)
Disposals	118	-	9,812	38	9,968
Balance at 31 December 2014	**(20,422)**	**(9,326)**	**(34,561)**	**(11,857)**	**(76,166)**
Carrying amount					
Balance at 31 December 2014	**44,851**	**3,260**	**19,983**	**30,374**	**98,468**

There are no capitalised borrowing costs related to the acquisition or construction of property during 2015 (2014: nil).

17 Deposits and balances from banks

	2015 '000 KZT	2014 '000 KZT
Vostro accounts	99,202	148,219
Term deposits	1,635,714	901,418
	1,734,916	**1,049,637**

As at 31 December 2015, the Bank has one (31 December 2014: nil) bank, whose balance exceeds 10% of equity for the total amount of KZT 1,295,304 thousand (31 December 2014: nil).

18 Current accounts and deposits from customers

	2015 '000 KZT	2014 '000 KZT
Current accounts and demand deposits		
- Retail	1,259,798	246,885
- Corporate	2,796,163	13,957,381
Term deposits		
- Retail	189,309	377,290
- Corporate	376,711	1,344,970
	4,621,981	**15,926,526**

18 Current accounts and deposits from customers, continued

Blocked amounts

As at 31 December 2015, the Bank maintained customer deposit balances of KZT 135,598 thousand (2014: KZT 358,110 thousand) that serve as collateral for loans to customers and off-balance sheet credit instruments granted by the Bank.

Concentrations of current accounts and deposits from customers

As at 31 December 2015, the Bank has no customers (2014: one), whose balances exceed 10% of equity. This balance as at 31 December 2014 is KZT 11,186,562 thousand.

19 Share capital

(a) Issued and additional paid-in capital

The authorised, issued and outstanding share capital comprises 1,002,872 ordinary shares (2014: 1,002,872). All shares have a nominal value of KZT 10,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

(b) Nature and purpose of reserves

Statutory reserve

Until 2013, in accordance with amendments to the Resolution #196 On Establishment of Minimum Limit on Reserve Capital of Second-Tier Banks issued by the FMSA introduced on 31 January 2011 (which ceased to be in force during 2013), the Bank had to establish reserve capital by transferring an amount from retained earnings to a non-distributable reserve. The amount to be transferred each year was calculated as the net profit for the preceding year before distribution of dividends attributable to ordinary shareholders, multiplied by the percentage increase in Classified Assets and Contingent Liabilities (as defined in Resolution #296 On Approval of the Rules of Classification of Assets, Contingent Liabilities and Creation of Provisions (Reserves) against Assets and Contingent Liabilities issued by the FMSA on 25 December 2006 (which ceased to be in force during 2013) during the preceding year. Such percentage increase should have been not less than 10% and not more than 100%.

In accordance with the amendments to the Resolution # 358 On Approval of the Instruction of Normative Coefficients and Methods of Calculation of Prudential Norms for the Second Tier Banks issued on 25 December 2013 the statutory reserve capital is non-distributable.

During the year ended 31 December 2015 and 2014, the Bank made no transfers from the retained earnings to reserve for general banking risks.

Dynamic reserve

In accordance with the Resolution of the National Bank of the Republic of Kazakhstan #137 dated 27 May 2013 On Approval of Rules on Forming Dynamic Reserves by Second-Tier Banks and Establishment of Minimum Size of Dynamic Reserves and Expected Loss, the Bank should establish a dynamic reserve calculated using a formula determined in the Resolution and the value should not be less than zero. The Resolution has been effective from 1 January 2013.

In 2014, the dynamic reserve is temporarily frozen by the NBRK at the level of 31 December 2013.

As at 31 December 2015 and 2014, non-distributable dynamic reserve provided by the Bank amounted to KZT 268,199 thousand and was included in retained earnings in the Bank's statement of financial position.

19 Share capital, continued

(c) 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.

(d) Dividends

The ability of the Bank 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. No dividends were declared for 2015 and 2014.

20 Risk management

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

(a) Risk management policies and procedures

The Bank's risk management policies aim to identify, analyse and manage the risks faced by the Bank, 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 Board of Directors of the Bank 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 Bank is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Management Board of the Bank 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.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a Credit Committees and an Asset and Liability Management Committee (ALCO).

Both external and internal risk factors are identified and managed throughout the organisation. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Management Board of the Bank monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

20 Risk management, continued

(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 optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank 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.

(i) 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 Bank 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.

20 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. As at 31 December 2015 a summary of the interest gap position for major interest-bearing financial instruments is as follows:

’000 KZT	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Placements with banks	320	-	-	-	-	-	320
Available-for-sale financial assets	-	3,968	43,541	224,145	1,125,677	-	1,397,331
Loans to banks	24,676	-	2,886,936	-	-	-	2,911,612
Loans to customers	696,459	1,353,168	5,829,908	2,205,180	999,562	-	11,084,277
Held-to-maturity investments	-	-	61,415	1,862,352	-	-	1,923,767
	721,455	**1,357,136**	**8,821,800**	**4,291,677**	**2,125,239**	**-**	**17,317,307**
LIABILITIES							
Deposits and balances from banks	-	340,410	1,295,304	-	-	99,202	1,734,916
Current accounts and deposits from customers	13,467	340,517	60,934	6,958	-	4,200,105	4,621,981
	13,467	**680,927**	**1,356,238**	**6,958**	**-**	**4,299,307**	**6,356,897**
	707,988	**676,209**	**7,465,562**	**4,284,719**	**2,125,239**	**(4,299,307)**	**10,960,410**

20 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

Interest rate risk is managed principally through monitoring interest rate gaps. As at 31 December 2014 a summary of the interest gap position for major interest-bearing financial instruments is as follows:

’000 KZT	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Placements with banks	-	-	80	160	-	-	240
Available-for-sale financial assets	900,910	62,700	43,541	251,167	1,216,151	-	2,474,469
Loans to banks	202,543	176,150	581,991	-	-	-	960,684
Loans to customers	700,462	1,566,906	3,379,706	2,331,750	1,298,412	-	9,277,236
Held-to-maturity investments	-	-	61,416	1,869,688	-	-	1,931,104
	1,803,915	**1,805,756**	**4,066,734**	**4,452,765**	**2,514,563**	**-**	**14,643,733**
LIABILITIES							
Deposits and balances from banks	-	901,418	-	-	-	148,219	1,049,637
Current accounts and deposits from customers	914,586	330,610	120,346	4,827	-	14,556,157	15,926,526
	914,586	**1,232,028**	**120,346**	**4,827**	**-**	**14,704,376**	**16,976,163**
	889,329	**573,728**	**3,946,388**	**4,447,938**	**2,514,563**	**(14,704,376)**	**(2,332,430)**

20 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 2015 and 2014.

	2015 Average effective interest rate, %		2014 Average effective interest rate, %	
	KZT	**USD**	**KZT**	**USD**
Interest bearing assets				
Placements with other banks	0.10	-	0.10	-
Loans to banks	-	3.81	6.72	-
Available-for-sale financial assets	4.92	-	4.94	-
Loans to customers	9.76	4.48	10.83	2.80
Held-to-maturity investments	5.57	-	5.48	-
Interest liabilities				
Deposits and balances from banks				
- Term deposits	-	1.16	6.30	-
Current accounts and deposits from customers				
- Term deposits	7.50	0.40	5.54	1.03

Interest rate 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 the Bank's profit or loss and equity (net of taxes) to changes in interest rates (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 2015 and 2014 is as follows:

	2015		2014	
	Profit or loss '000 KZT	**Equity '000 KZT**	**Profit or loss '000 KZT**	**Equity '000 KZT**
100 bp parallel fall	(25,866)	(25,866)	(22,482)	(22,482)
100 bp parallel rise	25,866	25,866	22,482	22,482

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2015 and 2014 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2015		2014	
	Profit or loss '000 KZT	**Equity '000 KZT**	**Profit or loss '000 KZT**	**Equity '000 KZT**
100 bp parallel fall	-	69,112	-	88,989
100 bp parallel rise	-	(64,534)	-	(82,749)

20 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2015:

	KZT '000 KZT	USD '000 KZT	EUR '000 KZT	RUR '000 KZT	Other currencies '000 KZT	Total '000 KZT
ASSETS						
Cash and cash equivalents	541,284	337,866	169,743	1,604	111	1,050,608
Placements with banks	320	-	-	-	-	320
Available-for-sale financial assets	1,397,331	-	-	-	-	1,397,331
Loans to banks	-	2,911,612	-	-	-	2,911,612
Loans to customers	8,680,671	2,403,606	-	-	-	11,084,277
Held-to-maturity investments	1,923,767	-	-	-	-	1,923,767
Other financial assets	134	-	-	-	-	134
Total assets	**12,543,507**	**5,653,084**	**169,743**	**1,604**	**111**	**18,368,049**
LIABILITIES						
Deposits and balances from banks	637	1,710,671	23,608	-	-	1,734,916
Current accounts and deposits from customers	1,033,599	3,438,604	147,331	2,447	-	4,621,981
Other financial liabilities	34,762	-	-	-	-	34,762
Total liabilities	**1,068,998**	**5,149,275**	**170,939**	**2,447**	**-**	**6,391,659**
Net position	**11,474,509**	**503,809**	**(1,196)**	**(843)**	**111**	**11,976,390**

20 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

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

	KZT '000 KZT	USD '000 KZT	EUR '000 KZT	RUR '000 KZT	Total '000 KZT
ASSETS					
Cash and cash equivalents	511,295	13,250,382	15,007	90	13,776,774
Placements with banks	240	-	-	-	240
Available-for-sale financial assets	2,474,469	-	-	-	2,474,469
Loans to banks	960,684	-	-	-	960,684
Loans to customers	8,182,466	1,094,770	-	-	9,277,236
Held-to-maturity investments	1,931,104	-	-	-	1,931,104
Other financial assets	473	-	-	-	473
Total assets	**14,060,731**	**14,345,152**	**15,007**	**90**	**28,420,980**
LIABILITIES					
Deposits and balances from banks	902,055	137,543	10,039	-	1,049,637
Current accounts and deposits from customers	1,092,618	14,550,028	2,178	281,702	15,926,526
Other financial liabilities	30,026	830	-	-	30,856
Total liabilities	**2,024,699**	**14,688,401**	**12,217**	**281,702**	**17,007,019**
Net position	**12,036,032**	**(343,249)**	**2,790**	**(281,612)**	**11,413,961**

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2015 and 2014 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 Bank 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.

	2015		2014	
	Profit or loss '000 KZT	**Equity '000 KZT**	**Profit or loss '000 KZT**	**Equity '000 KZT**
30% appreciation of USD against KZT	120,914	120,914	(82,380)	(82,380)
30% appreciation of EUR against KZT	(287)	(287)	670	670
30% appreciation of RUR against KZT	(202)	(202)	(67,587)	(67,587)

A strengthening of the KZT against the above currencies at 31 December 2015 and 2014 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

20 Risk management, continued

(c) Credit risk

Credit risk the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank 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 Board of Directors.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by a verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax specialist depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. In this case, decision on granting each credit is made by the Credit Committee after all necessary procedures have been completed, and this, in its turn, makes possible to control the entire credit process given a small number of incoming loan applications.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Bank's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the 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.

20 Risk management, continued

(c) Credit risk, continued

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

	2015 '000 KZT	2014 '000 KZT
ASSETS		
Cash equivalents and nostro accounts	769,705	13,513,103
Placements with banks	320	240
Available-for-sale financial assets	1,397,331	2,474,469
Loans to banks	2,911,612	960,684
Loans to customers	11,084,277	9,277,236
Held-to-maturity investments	1,923,767	1,931,104
Other financial assets	134	473
Total maximum exposure	**18,087,146**	**28,157,309**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to note 14.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in note 22.

As at 31 December 2015, the Bank has three (2014: two) counterparties, credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The gross value of these balances as at 31 December 2015 is KZT 8,009,348 thousand (2014: KZT 17,259,910 thousand).

(d) Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank 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 liquidity policy is reviewed and approved by the Board of Directors.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The section of the corporate risk management policy, which deals with the liquid risk management, consists of:

- 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 flows;

20 Risk management, continued

(d) Liquidity risk, continued

- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flows on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

’000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (outflow) inflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	99,202	340,705	-	1,308,413	-	1,748,320	1,734,916
Current accounts and deposits from customers	4,106,132	340,756	25,811	35,870	115,195	4,623,764	4,621,981
Other financial liabilities	34,762	-	-	-	-	34,762	34,762
Total liabilities	**4,240,096**	**681,461**	**25,811**	**1,344,283**	**115,195**	**6,406,846**	**6,391,659**
Credit related commitments	**999,319**	**-**	**-**	**-**	**-**	**999,319**	**999,319**

20 Risk management, continued

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount (outflow) inflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	148,219	906,615	-	-	-	1,054,834	1,049,637
Current accounts and deposits from customers	15,135,677	339,521	24,407	107,441	322,398	15,929,444	15,926,526
Other financial liabilities	30,856	-	-	-	-	30,856	30,856
Total liabilities	**15,314,752**	**1,246,136**	**24,407**	**107,441**	**322,398**	**17,015,134**	**17,007,019**
Credit related commitments	**4,184,560**	**-**	**-**	**-**	**-**	**4,184,560**	**4,184,560**

In accordance with Kazakhstan legislation, individuals can withdraw their term deposits at any time, losing in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customer accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Bank indicates that these customers accounts provide a long-term and stable source of funding.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms because either management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

20 Risk management, continued

(d) Liquidity risk, continued

The table below show an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2015:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	1,050,608	-	-	-	-	-	-	1,050,608
Placements with banks	320	-	-	-	-	-	-	320
Available-for-sale financial assets	-	3,968	43,541	224,145	1,125,677	-	-	1,397,331
Loans to banks	24,676	-	2,886,936	-	-	-	-	2,911,612
Loans to customers	215,882	333,138	6,849,938	2,205,180	999,562	-	480,577	11,084,277
Held-to-maturity investments	-	-	61,415	1,862,352	-	-	-	1,923,767
Property, equipment and intangible assets	-	-	-	-	-	87,636	-	87,636
Current tax asset	22,568	-	-	-	-	-	-	22,568
Other assets	1,680	-	-	-	-	22,807	-	24,487
Total assets	**1,315,734**	**337,106**	**9,841,830**	**4,291,677**	**2,125,239**	**110,443**	**480,577**	**18,502,606**
Non-derivative liabilities								
Deposits and balances from banks	99,202	340,410	1,295,304	-	-	-	-	1,734,916
Current accounts and deposits from customers	4,106,129	340,517	60,934	114,401	-	-	-	4,621,981
Deferred tax liabilities	-	-	-	50,657	-	-	-	50,657
Other liabilities	35,157	-	16,635	-	-	-	-	51,792
Total liabilities	**4,240,488**	**680,927**	**1,372,873**	**165,058**	**-**	**-**	**-**	**6,459,346**
Net position	**(2,924,754)**	**(343,821)**	**8,468,957**	**4,126,619**	**2,125,239**	**110,443**	**480,577**	**12,043,260**

20 Risk management, continued

(d) Liquidity risk, continued

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

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Derivative assets								
Cash and cash equivalents	13,776,774	-	-	-	-	-	-	13,776,774
Placements with banks	-	-	80	160	-	-	-	240
Available-for-sale financial assets	900,910	62,700	43,541	251,167	1,216,151	-	-	2,474,469
Loans to banks	202,543	176,150	581,991	-	-	-	-	960,684
Loans to customers	350,563	457,599	4,489,013	2,331,750	1,298,412	-	349,899	9,277,236
Held-to-maturity investments	-	-	61,415	1,869,689	-	-	-	1,931,104
Property, equipment and intangible assets	-	-	-	-	-	98,468	-	98,468
Current tax asset	21,693	-	-	-	-	-	-	21,693
Other assets	8,345	-	-	-	-	25,163	-	33,508
Total assets	**15,260,828**	**696,449**	**5,176,040**	**4,452,766**	**2,514,563**	**123,631**	**349,899**	**28,574,176**
Non-derivative liabilities								
Deposits and balances from banks	148,219	901,418	-	-	-	-	-	1,049,637
Current accounts and deposits from customers	15,146,901	339,040	130,455	310,130	-	-	-	15,926,526
Deferred tax liabilities	-	-	-	51,160	-	-	-	51,160
Other liabilities	24,465	-	17,062	-	-	-	-	41,527
Total liabilities	**15,319,585**	**1,240,458**	**147,517**	**361,290**	**-**	**-**	**-**	**17,068,850**
Net position	**(58,757)**	**(544,009)**	**5,028,523**	**4,091,476**	**2,514,563**	**123,631**	**349,899**	**11,505,326**

21 Capital management

The NBRK sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Starting from 1 January 2015 the new capital requirements, set by the NBRK, came into effect for the Bank. Under the new capital requirements, the Bank has to maintain a ratio of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk (31 December 2014: a ratio of tier 1 capital to total assets) and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk above the prescribed minimum levels. As at 31 December 2015 and 31 December 2014, this minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk (31 December 2014: tier 1 capital to total assets) was 0.05 and the minimum level of total capital to risk weighted assets, contingent liabilities, operational and market risk was 0.075 (31 December 2014: 0.1).

The Bank was in compliance with the statutory capital requirements as at 31 December 2015 and 31 December 2014, with a minimum level of tier 1 capital to risk weighted assets, contingent liabilities, operational and market risk of 0.8 (31 December 2014: a ratio of tier 1 capital to total assets of 0.39) and a ratio of total capital to risk weighted assets, contingent liabilities, operational and market risk of 0.8 (31 December 2014: 0.7).

22 Credit related commitments

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

As at 31 December 2015 the Bank has outstanding contractual credit related commitments on credit line commitments of KZT 969,128 thousand (2014: KZT 4,110,738 thousand) and guarantees and letters of credit of KZT 30,191 thousand (2014: KZT 73,822 thousand).

23 Operating leases

Leases as lessee

The Bank leases an office under an operating lease. Non-cancellable operating lease rentals amounted to KZT 39,529 thousand (2014: KZT 19,000 thousand). The lease runs for an initial period of 48 months, with an option to renew the lease after that date. The lease does not include contingent rentals. During the year ended 31 December 2015 KZT 77,155 thousand was recognised as expense in profit or loss in respect of operating leases (2014: KZT 75,867 thousand).

24 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 Bank 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 its property or relating to Bank’s operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank’s operations and financial position.

24 Contingencies, continued

(b) Litigation

The Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who 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.

These circumstances may create tax risks in 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, if the authorities were successful in enforcing their interpretations, could be significant.

25 Related party transactions

(a) Control relationships

The Bank's parent company is "Shinhan Bank" JSC (Seoul, Republic of Korea). Publicly available financial statements are produced by the Parent Bank.

Ultimate controlling party of the Bank is Shinhan Financial Group Co., Ltd for which financial statements are publicly available.

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

Total remuneration included in personnel expenses for the years ended 31 December 2015 and 2014 is as follows:

	2015 '000 KZT	2014 '000 KZT
Board of Directors	49,061	48,096
Management Board	99,038	93,146
	148,099	**141,242**

The outstanding balances and average interest rates as at 31 December 2015 and 2014 for transactions with the members of the Board of Directors and the Management Board are as follows:

	2015 '000 KZT	Average interest rate, %	2014 '000 KZT	Average interest rate, %
Statement of Financial Position				
Loans to customers	-	-	6,986	9.0
Current accounts and deposits from customers	8,536	0.4	-	-

25 Related party transactions, continued

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

All loans provided are in tenge and repayable by the end of 2016.

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

	2015 '000 KZT	2014 '000 KZT
Statement of Profit or Loss and Other Comprehensive Income		
Net foreign exchange gain	251	-
Interest income	329	746
Interest expense	1	-

(c) Transactions with other related parties

Other related parties include: the Parent Bank and subsidiaries of the Parent Bank. The outstanding balances and the related average interest rates as at 31 December 2015 and related profit or loss amounts of transactions for the year ended 31 December 2015 with other related parties are as follows.

	The Parent Bank		Other related parties	
	'000 KZT	Average interest rate, %	'000 KZT	Average interest rate, %
Statement of Financial Position				
ASSETS				
Cash and cash equivalents				
- in other currency	1,624	-	-	-
LIABILITIES				
Deposits and balances from banks				
- in KZT	637	-	-	-
- in USD	74,956	-	1,635,714	1.1
- in EUR	23,608	-	-	-
Current accounts and deposits from customers				
- in USD	-	-	340,030	0.3
Items not recognised in the statement of financial position				
Guarantees received*	2,776,776	-	-	-
Statement of Profit or Loss and Other Comprehensive Income				
Net foreign exchange gain	-	-	824	-
Interest expense	-	-	6,302	-
Interest income	-	-	22	-
Other general administrative expense	-	-	16,518	-

* As at 31 December 2015 guarantees received include a guarantee provided by the Parent Bank on a loan to one corporate borrower. The guarantee is non-interest bearing and has maturity of 18 June 2016. The guarantee is denominated in KZT.

25 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2014 and related profit or loss amounts of transactions for the year ended 31 December 2014 with other related parties are as follows.

	The Parent Bank		
	'000 KZT	**Average interest rate, %**	**Total '000 KZT**
Statement of Financial Position			
ASSETS			
Cash and cash equivalents			
- in EUR	969	-	969
LIABILITIES			
Deposits and balances from banks			
- in KZT	902,055	6.3	902,055
- in USD	137,543	-	137,543
- in EUR	10,039	-	10,039
Items not recognised in the statement of financial position			
Guarantees received	770,000	-	770,000
Statement of Profit or Loss and Other Comprehensive Income			
Interest expense	7,497	-	7,497

* As at 31 December 2014 guarantees received include a guarantee provided by the Parent Bank on a loan to one corporate borrower. The guarantee is non-interest bearing and has maturity of 22 May 2015. The guarantee is denominated in KZT.

26 Financial assets and liabilities: fair values and accounting classifications

(a) Accounting classification and fair value

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2015:

'000 KZT	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair values
Cash and cash equivalents	-	1,050,608	-	-	1,050,608	1,050,608
Placements with banks	-	320	-	-	320	320
Available-for-sale financial assets	-	-	1,397,331	-	1,397,331	1,397,331
Loans to banks	-	2,911,612	-	-	2,911,612	2,910,752
Loans to customers						
Loans to corporate customers	-	7,941,309	-	-	7,941,309	7,896,678
Loans to retail customers	-	3,142,968	-	-	3,142,968	2,547,443
Held-to-maturity investments	1,923,767	-	-	-	1,923,767	1,744,669
Other financial assets	-	134	-	-	134	134
	1,923,767	**15,046,951**	**1,397,331**	**-**	**18,368,049**	**17,547,935**
Deposits and balances from banks	-	-	-	1,734,916	1,734,916	1,734,916
Current accounts and deposits from customers	-	-	-	4,621,981	4,621,981	4,621,981
Other financial liabilities	-	-	-	34,762	34,762	34,762
	-	**-**	**-**	**6,391,659**	**6,391,659**	**6,391,659**

26 Financial assets and liabilities: fair values and accounting classifications, 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 2014:

'000 KZT	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair values
Cash and cash equivalents	-	13,776,774	-	-	13,776,774	13,776,774
Placements with banks	-	240	-	-	240	240
Available-for-sale financial assets	-	-	2,474,469	-	2,474,469	2,474,469
Loans to banks	-	960,684	-	-	960,684	958,868
Loans to customers						
Loans to corporate customers	-	5,854,263	-	-	5,854,263	5,810,641
Loans to retail customers	-	3,422,973	-	-	3,422,973	3,399,969
Held-to-maturity investments	1,931,104	-	-	-	1,931,104	1,878,518
Other financial assets	-	473	-	-	473	473
	1,931,104	**24,015,407**	**2,474,469**	**-**	**28,420,980**	**28,299,952**
Deposits and balances from banks	-	-	-	1,049,637	1,049,637	1,049,637
Current accounts and deposits from customers	-	-	-	15,926,526	15,926,526	15,926,526
Other financial liabilities	-	-	-	30,856	30,856	30,856
	-	**-**	**-**	**17,007,019**	**17,007,019**	**17,007,019**

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 Bank determines fair values using other valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market-observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia 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 management used assumption on discount rate of 9.0% and 18.1% (2014: 9.2% and 11.05%), used for discounting future cash flows to estimate the fair values of loans to corporate customers and loans to retail customers, respectively.

26 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which 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: unobservable inputs. 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 difference between the instruments.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Risk Management department function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing
- re-performance of model valuations
- review and approval process for new models and changes to models involving Risk Management department
- quarterly calibration and back testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by a Management Board.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, risk manager assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of a financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

26 Financial assets and liabilities: fair values and accounting classifications, continued

(b) Fair value hierarchy, continued

Significant valuation issues are reported to the Management Board.

The table below analyses financial instruments measured at fair value at 31 December, 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 statement of financial position:

	Level 2	
'000 KZT	**31 December 2015**	**31 December 2014**
Available-for-sale financial assets		
- Debt financial instruments	1,397,331	2,474,469
	1,397,331	**2,474,469**

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 2015:

'000 KZT	Level 2	Total fair values	Total carrying amount
Assets			
Cash and cash equivalents	1,050,608	1,050,608	1,050,608
Placements with banks	320	320	320
Loans to banks	2,910,752	2,910,752	2,911,612
Loans to customers	10,444,121	10,444,121	11,084,277
Held-to-maturity investments	1,744,669	1,744,669	1,923,767
Other financial assets	134	134	134
Liabilities			
Deposits and balances from banks	1,734,916	1,734,916	1,734,916
Current accounts and deposits from customers	4,621,981	4,621,981	4,621,981
Other financial liabilities	34,762	34,762	34,762

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:

'000 KZT	Level 2	Total fair values	Total carrying amount
Assets			
Cash and cash equivalents	13,776,774	13,776,774	13,776,774
Placements with banks	240	240	240
Loans to banks	958,868	958,868	960,684
Loans to customers	9,210,610	9,210,610	9,277,236
Held-to-maturity investments	1,878,518	1,878,518	1,931,104
Other financial assets	473	473	473
Liabilities			
Deposits and balances from banks	1,049,637	1,049,637	1,049,637
Current accounts and deposits from customers	15,926,526	15,926,526	15,926,526
Other financial liabilities	30,856	30,856	30,856