



JSC Subsidiary Bank “National Bank of
Pakistan” in Kazakhstan

Financial statements

*For the year ended December 31, 2014
with Independent auditors' report*

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

CONTENT

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS	
INDEPENDENT AUDITORS' REPORT	
FINANCIAL STATEMENTS	
Statement of financial position	1
Statement of profit or loss and other comprehensive income	2
Statement of changes in equity	3
Statement of cash flows	4
Notes to the financial statements	5-33

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2014

The following statement, which should be considered in conjunction with the auditors' responsibilities as presented in the Independent Auditors' Report, was prepared with a purpose to distinguish auditors' and management's responsibilities in relation to the financial statements of JSC SB "National Bank of Pakistan" in Kazakhstan (the "Bank").

Management of the Bank is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2014, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended December 31, 2014, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- applying proved and reasonable estimates and assumptions;
- compliance with IFRS and the disclosure of all significant deviations from IFRS in the notes to the financial statements;
- preparation of the financial statements on the going concern basis, that the Bank will continue its activities in the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining of effective and reliable functionality of internal control system;
- maintaining of proper accounting system, allowing preparation of the Bank's financial position information at any time with reasonable accuracy, and to ensure compliance with IFRS;
- maintaining of accounting records in accordance with legislation of the Republic of Kazakhstan;
- adopting of measures within its competence to safeguard assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2014 were approved by Management Board of the Bank on March 20, 2014:

Deputy Chairman of the Board

Chief Accountant

20 March 2014
Almaty, Republic of Kazakhstan



Abdul Hakeem

Pirmaganbetova Armaral Kozhagulovna



«Grant Thornton» LLP
Kazakhstan, 050059, Almaty
15, Al - Farabi ave,
BC Nurly Tau, 4V, office 705
T +7 (727) 311 13 40
almaty@gtkaz.com
www.grantthornton.kz
www.gti.org

INDEPENDENT AUDITORS' REPORT

To the Shareholder of JSC SB "National Bank of Pakistan" in Kazakhstan

We have audited the accompanying financial statements of JSC SB "National Bank of Pakistan" in Kazakhstan (the "Bank"), which comprise the statement of financial position as at December 31, 2014, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (hereinafter "financial statements").

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 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 auditors' judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank'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 Bank'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 JSC SB "National Bank of Pakistan" in Kazakhstan as at December 31, 2014 and its financial results and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Grant Thornton

Signature of Yerzhan Dossymbekov
Yerzhan Dossymbekov
General Director
Grant Thornton LLP

Signature of Arman Chingilbayev
Arman Chingilbayev
Engagement Partner

Qualification certificate #МФ-0000069, issued by the Ministry of Finance of the Republic of Kazakhstan dated January 20, 2012

Qualification certificate #МФ-0000487, issued by the Ministry of Finance of the Republic of Kazakhstan dated October 12, 1999

Governmental license for audit services on the territory of the Republic of Kazakhstan: series МФЮ – 2, №0000087, issued by the Ministry of Finance of the Republic of Kazakhstan dated June 21, 2012

March 20, 2015
Almaty, Republic of Kazakhstan

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2014

In thousands of tenge	Note	December 31, 2014	December 31, 2013
Assets			
Cash and cash equivalents	5	242,271	609,480
Amounts due from other banks		1,699	1,402
"Reverse REPO" receivables	6	1,488,335	360,245
Short-term loan to the parent bank	7,18	365,025	
Loans to clients	8	3,389,055	4,541,160
Property and equipment and intangible assets		15,401	20,571
Corporate income tax prepayments		11,300	–
Other assets		10,808	22,184
Total assets		5,523,894	5,555,042
Liabilities			
Correspondent accounts and amounts due to banks		144	–
Amounts due to clients	9	756,181	896,378
Corporate income tax liabilities		–	45,322
Deferred tax liabilities	10	14,295	5,112
Other liabilities		24,466	17,145
Total liabilities		795,086	963,957
Equity			
Share capital	11	4,091,000	4,091,000
Reserve capital	11	79,620	79,620
Dynamic reserves	11	86,255	86,255
Retained earnings		471,933	334,210
Total equity		4,728,808	4,591,085
Total equity and liabilities		5,523,894	5,555,042

Accompanying notes on pages 5 to 33 are an integral part of these financial statements.

Signed and authorized for issuance on behalf of the Management Board of the Bank:

Deputy Chairman of the Board

Chief Accountant

March 20, 2015
Almaty, Republic of Kazakhstan



Abdul Hakeem

Pirmaganbetova Akmaral Kozhagulovna

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

In thousands of tenge	Note	For the year ended December 31, 2014	For the year ended December 31, 2013
Interest income	12	595,705	642,706
Interest expense	12	(47,119)	(55,064)
Net interest income		548,586	587,642
(Allowance)/reversal of allowance for loan impairment	8	(1,145)	24,054
Net interest income after allowance for loan impairment		547,441	611,696
Commission income		20,788	19,872
Commission expenses		(3,103)	(2,631)
Net gain from foreign currency transactions		17,498	9,680
Administrative expenses	13	(367,543)	(321,343)
Operating profit before income tax expense		215,081	317,274
Corporate income tax expense	10	(43,159)	(55,038)
Profit for the year		171,922	262,236
Other comprehensive income		-	-
Total comprehensive income for the year		171,922	262,236
Weighted average number of shares		8.182	8.182
Basic and diluted earnings per share, tenge		21,012	32,050

Accompanying notes on pages 5 to 33 are an integral part of these financial statements.

Signed and authorized for issuance on behalf of the Management Board of the Bank:

Deputy Chairman of the Board

Chief Accountant

March 20, 2015
Almaty, Republic of Kazakhstan



Abdul Hakeem

Pirmaganbetova Akmaral Kozhagulovna

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

In thousands of tenge	Share capital	Reserve capital	Dynamic reserves	Retained earnings	Total
As at January 1, 2013	4,091,000	63,100	–	198,406	4,352,506
<i>Net profit for the year</i>	–	–	–	262,236	262,236
<i>Other comprehensive income</i>	–	–	–	–	–
Total comprehensive income	–	–	–	262,236	262,236
Increase in reserve capital (Note 11)	–	16,520	–	(16,520)	–
Formation of dynamic reserves (Note 11)	–	–	86,255	(86,255)	–
Dividends (Note 11)	–	–	–	(23,657)	(23,657)
As at December 31, 2013	4,091,000	79,620	86,255	334,210	4,591,085
<i>Net profit for the year</i>	–	–	–	171,922	171,922
<i>Other comprehensive income</i>	–	–	–	–	–
Total comprehensive income	–	–	–	171,922	171,922
Dividends (Note 11)	–	–	–	(34,199)	(34,199)
As at December 31, 2014	4,091,000	79,620	86,255	471,933	4,728,808

Accompanying notes on pages 5 to 33 are an integral part of these financial statements.

Signed and authorized for issuance on behalf of the Management Board of the Bank

Deputy Chairman of the Board

Chief Accountant

March 20, 2015
Almaty, Republic of Kazakhstan



Abdul Hakeem

Pirmaganbetova Akmaral Kozhagulovna

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

In thousands of tenge	Note	For the year ended December 31, 2014	For the year ended December 31, 2013
Cash flows from operating activities			
Interest received on loans to clients		393,092	552,228
Interest paid on amounts due to banks		–	(1,688)
Interest received on "reverse REPO"		76,385	7,537
Interest paid on amounts due to clients		(47,135)	(53,539)
Commission income received		20,987	19,872
Commission expenses paid		(3,140)	(2,631)
Income received from foreign currency transactions		12,236	9,680
Operating expenses paid		(241,227)	(280,659)
Cash flows from operating activities before changes in operating assets and liabilities		211,198	250,800
Changes in operating assets			
Net increase in due from other banks		(297)	(102)
Net increase in "reverse REPO" receivables		(1,125,000)	(160,001)
Net increase in short-term loan to the parent bank		(364,700)	–
Net decrease/(increase) in loans to clients		1,148,022	(67,558)
Net decrease in other assets		13,582	16,800
Changes in operating liabilities			
Net decrease in amounts due to clients		(140,181)	(46,056)
Net (decrease)/increase in correspondent accounts and due from other banks		144	(3,837)
Net (decrease)/increase in other liabilities		(33,393)	26,564
Income tax paid		(46,000)	(40,719)
Net cash used in operating activities		(336,625)	(24,109)
Cash flows from investing activities			
Purchase of Property and equipment		(1,300)	(7,224)
Net cash used in investing activities		(1,300)	(7,224)
Cash flows from financing activities:			
Dividends paid	11	(34,199)	(23,657)
Net cash used in financing activities		(34,199)	(23,657)
Effect of exchange rates changes on cash and cash equivalents		4,915	972
Net decrease in cash and cash equivalents		(367,209)	(54,018)
Cash and cash equivalents, beginning of the year	5	609,480	663,498
Cash and cash equivalents, end of the year	5	242,271	609,480

Accompanying notes on pages 5 to 33 are an integral part of these financial statements.

Signed and authorized for issuance on behalf of the Management Board of the Bank:

Deputy Chairman of the Board

Chief Accountant

March 20, 2015
Almaty, Republic of Kazakhstan



(Handwritten signature of Abdul Hakeem)

Abdul Hakeem

(Handwritten signature of Pirmaganbetova Akmaral Kozhagulovna)

Pirmaganbetova Akmaral Kozhagulovna

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014

1. GENERAL INFORMATION

Joint Stock Company Subsidiary Bank “National Bank of Pakistan” in Kazakhstan (the “Bank”) is a joint-stock company, which was incorporated in Kazakhstan in 2001. As at December 31, 2014 and 2013 the sole shareholder of the Bank is the National Bank of Pakistan, Karachi (hereinafter “Parent Company of the Bank”).

The Bank’s key activity is regulated by National Bank of Republic of Kazakhstan (hereinafter – “NBRK”). The key activity is banking operations carried out in the Republic of Kazakhstan. The Bank conducts its business under the license for banking and other operations issued on December 27, 2007. The Bank is a member of JSC “Kazakhstan deposit insurance fund”.

As at December 31, 2014 and 2013 the Bank has two branches – in Almaty and Karaganda cities of the Republic of Kazakhstan. The number of employees as at December 31, 2014 is 80 persons (December 31, 2013: 76 persons).

The address of the registered office of the Bank is: Nauryzbay str., 27A, Kaskelen, Almaty oblast, Republic of Kazakhstan.

2. BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except as disclosed in the summary of significant aspects of accounting policy below.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These financial statements are presented in thousands of Kazakhstani tenge, unless otherwise stated.

Adoption of new and revised standards

Standards and Interpretations, adopted in current year

The Bank adopted the following new and revised standards during the reporting period:

- Amendments to IAS 10, 12 and IAS 27 “Investment organizations”
- Amendments to IAS 32 – “Offset of financial assets and liabilities”
- Amendments to IAS 36 – “Disclosure of information on the recoverable amount of non-financial assets”
- Amendments to IAS 39 – “Novations of derivatives and hedge accounting”
- Explanation to IFRIC 21 – “Levies”

Management of the Bank believes that the application of new and revised IFRS amendments and revisions had no significant effect on assets and liabilities presented in the financial statements, profit or loss statement, as well as on the operating results and the statement of changes of equity, and cash flow statement, as well as notes to the financial statements.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

Adoption of new and revised standards (continued)

New and revised IFRS – issued but are not yet effective

Bank has not applied the following new and revised IFRSs and Interpretations (issued but not yet in force):

- Amendments to IAS 19 “Employee benefits”¹;
- Annual Improvements to IFRSs 2010-2012¹;
- Annual Improvements to IFRSs 2011-2013¹;
- Annual Improvements to IFRSs 2012-2014²;
- IFRS 14 “Regulatory deferral accounts”²;
- Amendments to IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortization”²;
- Amendments to IAS 27 “Application of the equity method in Separate financial statements”²;
- Amendments to IAS 16 and IAS 41 “Bearer plants”²;
- Amendments to IFRS 11 “Joint arrangements”²;
- Amendments to IFRS and IAS 28 “Investment entities”²;
- IFRS 15 “Revenue from Contracts with Customers”³;
- IFRS 9 “Financial Instruments”⁴.

¹ Effective for annual periods beginning on or after July 1, 2014, with earlier application permitted.

² Effective for annual periods beginning on 1 January 2016, with earlier application permitted.

³ Effective for annual periods beginning on 1 January 2017, with earlier application permitted.

⁴ Effective for annual periods beginning on 1 January 2018, with earlier application permitted.

Management anticipates that the application of the above standards will not have a significant impact on the financial statements in the period of initial application.

Going concern

These financial statements have been prepared on a going concern basis.

The management believes that the Bank will be able to generate sufficient cash to pay its debts as and when they fall due. The management of the Bank does not have any intention or necessity to liquidate or significantly reduce the size of its business.

Accrual basis

These financial statements have been prepared on accrual basis. Accrual basis is provided by the recognition of results of operation activities, as well as events on the fact of their commission, regardless of the time of payment. Transactions and events are recorded in the accounting records and are included in the financial statements of the periods to which relate.

Reclassifications

In 2014, the Bank made certain reclassifications in the financial statements for the year ended December 31, 2013, to bring it in line with the presentation of financial statements for the year ended December 31, 2014.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

Reclassifications (continued)

Effects of reclassifications on the financial statements for the year ended December 31, 2013 are presented below:

Statement of profit or loss and other comprehensive income for 2013

In thousands of tenge	As previously reported	Reclassification	As adjusted
Administrative expenses	(325,707)	4,364	(321,343)
Recovery of allowance/(allowance) of other assets	4,364	(4,364)	–

Statement of cash flow for 2013

In thousands of tenge	As previously reported	Reclassification	As adjusted
Cash flows from operating activities			
Net increase in “reverse REPO” receivables	–	(160,001)	(160,001)
Cash flows from investing activities			
Net increase in “reverse REPO” receivables	(160,001)	160,001	–

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY

Fair value measurement

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY (CONTINUED)

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs. summary of significant aspects of accounting policy (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in NBRK, and cash on current accounts in other banks.

Financial assets

Initial recognition

Financial assets are classified into the following categories: financial assets at fair value through profit or loss (“FVTPL”); held-to-maturity (“HTM”); available-for-sale (“AFS”) and loans to clients.

The classification of financial assets into one category or another depends on the nature and purpose at initial recognition.

All financial assets are recognized initially at fair value. In the case of investments not at fair value through profit or loss, at initial recognition directly attributable transaction costs are added to fair value. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY (CONTINUED)

Financial assets (continued)

Date of recognition

All regular purchases and sales of financial assets are recognized on the settlement date i.e. the date that an asset is delivered to or by the Bank. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace summary of significant aspects of accounting policy (continued).

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears of overdue payments or economic conditions that correlate with defaults.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below;
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present values of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY (CONTINUED)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position when:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;
- and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized in statement of financial position when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss and other comprehensive income. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

Reverse repurchase agreements

Securities purchased under agreements to resell (“reverse REPO”) are recorded separately in the statement of financial position. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY (CONTINUED)

Amounts due to clients

Amounts due to clients are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value recognized in the statements of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

Property and equipment

Accounting for property and equipment is carried out in accordance with IAS 16 “Property and equipment”, according to which an object is recognized as property and equipment when: it is more likely probable to assert that the Bank will receive future economic benefits from utilization of the asset; and the actual cost of the assets can be measured reliably.

Initially property and equipment are recorded at cost, which includes the purchase price, import duties and other non-refundable taxes, as well as transportation costs, and any direct costs of bringing the asset to a working condition for its intended use.

Subsequent expenditures, related to an item of property and equipment, which has already been recognized, increase its carrying value when it is more likely probable that the Bank will receive future economic benefits in excess of the originally assessed standard indicators of the existing asset. All other subsequent expenditures are recognized as an expense in the period in which they are incurred.

After initial recognition as an asset, an item of property and equipment is carried at historical cost less depreciation and impairment losses, accumulated subsequently.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Categories of property and equipment	Rate
Transport	15%
Computers	40%
Other property and equipment	15%

The assets’ residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in administrative expenses, unless they qualify for capitalization.

Intangible assets

Accounting for intangible assets is carried out in accordance with IAS 38 “Intangible Assets”. Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Depreciation is calculated on a straight-line basis using a rate of 20%. Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY (CONTINUED)

Lease

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into administrative expenses.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Kazakhstan.

Deferred income tax assets and liabilities are estimated using the liability method on temporary differences. Deferred tax recognized for all temporary differences arose between tax base of assets and liabilities and its carrying value in the financial statements, except where the deferred tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income taxes assets are recognized only to the extent that sufficient taxable profit will be available to allow temporary differences to be utilized. Deferred income tax assets and liabilities are measured using the tax rates, which are to be used within the period of asset realization or settlement of the liability according to the legislation that is in force as at reporting date.

There are also other taxes in the Republic of Kazakhstan, which are reflected in the Bank's activities results. These taxes are included as a component of administrative expenses.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements beside the State pension system of the Republic of Kazakhstan, which requires an employer to make deductions, calculated as a percentage employee remuneration fund. Such deductions are expensed in the period in which the related salaries are earned and included in the statement of comprehensive income as salary expenses. The Bank pays social tax to the Republic of Kazakhstan for its employees. Beyond that the Bank has no other employee pension benefits accruals.

Share capital

Contributions to share capital are recognized at cost.

Contingencies

Contingent liabilities are not recognized in financial statements but are disclosed unless the possibility of any outflow associated with obtaining economic benefits is not unlikely. Contingent assets are not recognized in financial statements but are disclosed unless the possibility of any outflow associated with obtaining economic benefits is probable.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ASPECTS OF ACCOUNTING POLICY (CONTINUED)

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

For all financial instruments measured at amortized cost, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced in financial statements due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Foreign currency translation

The financial statements are presented in tenge, which is the functional currency and presentation currency of the Bank. Transactions in foreign currencies are initially recorded in the functional currency at the market rate as stated by Kazakhstan Stock Exchange (hereinafter “KASE”), prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. All foreign exchange differences are included to the statement of profit or loss and other comprehensive income as income, net of foreign exchange cost for the period. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The official currency exchange rates as at the year end at KASE used by the Bank in preparation of financial statements were the following:

Currency	December 31, 2014	December 31, 2013
US Dollar	182.35	154.06
Euro	221.59	212.02
Russian ruble	3.13	4.68

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used the following judgments and made estimates which significantly affect the amounts recognized in the financial statements. The most significant use of judgments and estimates are presented below:

Fair value of financial instruments

For financial assets and financial liabilities, reported in financial statements, not traded in an active market, fair value is determined using appropriate valuation methodologies including mathematic models. The information to these models is taken from observable markets, if possible, otherwise, for the determination of fair value requires judgment to apply.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Allowance for impairment

The Bank regularly reviews its loans to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans. The Bank considers accounting estimates related to allowance for impairment of loans a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in the Bank, and national or local economic conditions that correlate with defaults on assets of the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans.

The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in the historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the country and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Write-off of loans and receivables

In case of failure of recovery of loans and receivables, including through repossession of collateral, they are written off against the allowance for impairment. Write-off of loans and receivables is made after the Bank's management has taken all possible actions to collect amounts owed to the Bank, and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as a reduction in the charge for impairment of financial assets in the profit or loss statement and other comprehensive income in the period of recovery.

Taxation

Tax, currency and customs legislation of the Republic of Kazakhstan is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Fair value in financial instruments

In Note 15 there is detailed information about key assumption used in estimation of fair value of financial instruments as well as detailed analysis of sensitivity of estimates in regard to these assumptions. The management believes that selected methods of estimations and used assumptions are appropriate for fair value estimation.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

The useful lives of fixed assets and intangible assets

The Bank considers the useful lives of fixed assets and intangible assets at the end of each reporting period. The assessment of the useful life of the asset is dependent on factors such as: the economic use, the program on repair and maintenance, technological improvements and other business conditions. Management's assessment of the useful lives of fixed assets reflects the relevant information at the date of these financial statements.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

In thousands of tenge	December 31, 2014	December 31, 2013
Cash on hand	112,477	200,650
Current accounts with NBRK	42,703	261,597
“Nostro” accounts in other banks (Note 18)	87,091	147,233
Total	242,271	609,480

Cash and cash equivalents are mainly represented by cash on current accounts with second tier banks of Kazakhstan.

According to Kazakhstan legislation Bank is obliged to support particular reserves, which are calculated as a percent of Bank's particular obligations. Such reserves should be supported at current accounts in NBRK and/or in form of cash in amount of average monthly aggregate balance of cash on current accounts in NBRK or cash on hand in national currency for a period of the formation of reserves. As per December 31, 2014 required reserves were 11,907 thousand tenge (as per December 31, 2013 were 10,234 thousand tenge). As per December 31, 2014 and December 31, 2013 the Bank complies with the minimum reserve requirements for the second-tier banks.

6. “REVERSE REPO” RECEIVABLES

In December 2014 the Bank entered into «reverse REPO» through JSC “Kazakhstan Stock Exchange” in amount of 1,485,001 thousands of tenge (31 December 2013: 360,001 thousands of tenge). As at December 31, 2014 accrued interest amounted to 3,334 thousands tenge (31 December 2013: 244 thousands tenge). The subject of these agreements are treasury bills of the Ministry of Finance with annual interest rates ranging from 15% to 24% and maturing in January 2015, the fair value of 1,558,579 thousand tenge (31 December 2013: bills of the Ministry of Finance, the fair value of 377,845 thousand tenge, with rates ranging from 5% to 6%).

7. SHORT-TERM LOAN TO THE PARENT BANK

In December 19, 2014 the Bank issued a loan to the parent company, National Bank of Pakistan in Karachi city in the amount of 2,000 thousands US dollars (equivalent to 364,100 thousand tenge) with annual interest rate of 2.5% for the period of three months (Notes 18, 19). As at December 31, 2014 accrued interest amounted to 325,000 tenge (December 31, 2013: nil).

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS,
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

8. LOANS TO CLIENTS

Loans to clients include:

In thousands of tenge	December 31, 2014	December 31, 2013
Loans to legal entities	2,997,577	3,884,126
Loans to individuals	409,489	673,900
Gross loans to clients before allowance for impairment	3,407,066	4,558,026
Allowance for impairment	(18,011)	(16,866)
Total	3,389,055	4,541,160

As at December 31, 2014 the Bank has one borrower, which accounts for 10.71% of the maximum level of credit risk. As at December 31, 2013 the Bank had no borrowers or groups of borrowers, which accounted more than 10% of the maximum level of credit risk.

As at December 31, 2014 and 2013 100% of the total credit portfolio was issued to the companies operating in the Republic of Kazakhstan.

As at December 31, 2014 the accrued interest amounted to 240,915 thousand tenge (December 31, 2013 117,128 tenge).

Below is the analysis of loans by credit quality as at December 31, 2014:

In thousands of tenge	Loans to legal entities	Loans to individuals	Total
Not past due and unimpaired	1,810,054	185,002	1,995,056
Overdue:			
- <i>past due less than 30 days</i>	39,066	16,063	55,129
- <i>past due from 30 to 90 days</i>	363,213	111,246	474,459
- <i>past due from 90 to 180 days</i>	362,936	–	362,936
- <i>past due more than 180 days</i>	422,308	97,178	519,486
Total past due loans to clients	1,187,523	224,487	1,412,010
Gross loans to clients before allowance for impairment	2,997,577	409,489	3,407,066
Allowance for impairment	(1,145)	(16,866)	(18,011)
Total	2,996,432	392,623	3,389,055

Below is the analysis of loans by credit quality as at December 31, 2013:

In thousands of tenge	Loans to legal entities	Loans to individuals	Total
Not past due and unimpaired	2,935,570	434,154	3,369,724
Overdue:			
- <i>past due less than 30 days</i>	117,236	95,471	212,707
- <i>past due from 30 to 90 days</i>	3,475	4,941	8,416
- <i>past due from 90 to 180 days</i>	188,769	30,024	218,793
- <i>past due more than 180 days</i>	639,076	109,310	748,386
Total past due loans to clients	948,556	239,746	1,188,302
Gross loans to clients before allowance for impairment	3,884,126	673,900	4,558,026
Allowance for impairment	–	(16,866)	(16,866)
Total	3,884,126	657,034	4,541,160

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

8. LOANS TO CLIENTS (CONTINUED)

Below is the analysis of the movement in allowances for impairment of loan portfolio for the year ended December 31:

In thousands of tenge	Loans to legal entities	Loans to individuals	Total
January 1, 2013	(5,852)	(35,068)	(40,920)
Recoveries	5,852	18,202	24,054
December 31, 2013	–	(16,866)	(16,866)
Accrued	(1,145)	–	(1,145)
December 31, 2014	(1,145)	(16,866)	(18,011)

The following table represents analysis of carrying value of loans to clients by type of collateral:

In thousands of tenge	December 31, 2014	December 31, 2013
Loans collateralized by real estate	3,150,569	4,136,401
Loans collateralized by inventory and equipment	157,796	285,675
Loans collateralized by transport	94,085	123,080
Unsecured loans	4,616	12,870
Gross loans to clients before allowance for impairment	3,407,066	4,558,026
Allowance for impairment	(18,011)	(16,866)
Total	3,389,055	4,541,160

As at December 31, 2014 the value of collateral amounted to 5,374,353 thousand tenge (as at December 31, 2013 it amounted to 10,432,325 thousand tenge).

Below is the structure of risk concentration on Bank's customer loan portfolio according to sectors of economy:

In thousands of tenge	December 31, 2014	December 31, 2013
Production	1,020,981	1,261,332
Rent services	641,268	787,973
Trade	641,268	819,567
Consumer loans	409,489	673,900
Construction	408,519	470,320
Food services	173,973	327,511
Medical services	60,866	110,572
Financial services	31,973	74,593
Other services	18,729	32,258
Gross loans to clients before allowance for impairment	3,407,066	4,558,026
Allowance for impairment	(18,011)	(16,866)
Total	3,389,055	4,541,160

As at December 31, 2014 and 2013 the share of Bank's ten major borrowers or groups of related borrowers from total loan portfolio before allowance for impairment was 53.32% and 44.82% respectively, which represents the significant concentration. The total debt of these loans as at December 31, 2014 and 2013 amounted to 1,816,597 thousand tenge and 2,042,746 thousand tenge, respectively.

Maturity dates of loans in credit portfolio as at reporting date are presented in Note 16, and represent periods from reporting date to the maturity date of loan agreements.

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

9. AMOUNTS DUE TO CLIENTS

In thousands of tenge	December 31, 2014	December 31, 2013
Current accounts		
<i>Individuals</i>	123,854	88,777
<i>Legal entities</i>	168,274	172,011
Deposits		
<i>Individuals</i>	462,607	634,110
<i>Legal entities</i>	1,446	1,480
Total	756,181	896,378

As at December 31, 2014 and 2013 Bank's customers' deposits amounted to 64,105 thousand tenge and 85,920 thousand tenge, respectively, and serve as collateral for the obligations on loans and unrecognized loan instruments, presented by the Bank.

In cases, when term deposit is returned to depositor as per request prior the expiry date, interest on deposit is not paid, or paid on less rate, in accordance with terms specified in agreement.

As at December 31, 2014 and 2013 share of Bank's ten major clients from total balance of clients' current accounts and deposits amounted to 72.18% and 62.12%, respectively. Aggregated balance of these clients as at December 31, 2014 and 2013 amounted to 545,745 thousand tenge and 555,115 thousand tenge, respectively.

10. TAXATION

The Bank is taxed by official statutory 20% corporate income tax rate.

The effective rate of corporate income tax differs from nominal. Below is reconciliation of the corporate income tax expenses based on nominal rate with actual tax expenses:

In thousands of tenge	For the year ended December 31, 2014	For the year ended December 31, 2013
Profit before income tax expense	215,081	317,274
Statutory rate	20%	20%
Income tax expense using statutory rate	43,016	63,455
Permanent differences	143	(8,417)
Income tax expense	43,159	55,038
Current income tax expense	33,976	49,219
Change in deferred income tax recognized in the statement of profit or loss and other comprehensive income	9,183	5,819
Income tax expense	43,159	55,038

Deferred tax assets are recognized only to the extent that it is probable that there will be future taxable profits available against which the asset can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

The balance of deferred taxes, calculated by applying the statutory tax rates which are in force at the date of the statement of financial position to the temporary differences between the tax base of assets and liabilities and the amounts reported in the financial statements include the following as at December 31:

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

10. TAXATION (CONTINUED)

In thousands of tenge	December 31, 2014	Changes recognized in the statement of profit or loss and other comprehensive income	December 31, 2013	Changes recognized in the statement of profit or loss and other comprehensive income	December 31, 2012
Deferred tax assets					
Property and equipment and intangible assets	1,283	277	1,006	805	201
Unused vacation reserve	1,673	297	1,376	148	1,228
Deferred tax liabilities					
Loans to clients	(17,251)	(9,757)	(7,494)	(6,772)	(722)
Net deferred tax liabilities	(14,295)	(9,183)	(5,112)	(5,819)	707

11. EQUITY

As at December 31, 2014 and 2013 share capital comprises of 8.182 issued shares and totally paid common shares, with nominal value of 500 thousand tenge each. Each common share is entitled to one vote and equal amount of dividends.

Within the reporting period dividends for the year 2013 were paid in amount of 34,199 thousand tenge, in 2013 dividends paid for 2012 in amount of 23,657 thousand tenge.

Dividends for one share, including withholding tax paid in 2014 and 2013 amounted to 4,180 tenge and 2,891 tenge, respectively.

Dynamic reserves

To improve the stability of the banking sector, by Resolution # 137 of the Board of NBRK dated May 27, 2013 number of regulations became invalid, according to which the second-tier banks formed the general reserve to cover any unexpected risks and future losses. According to this Resolution rules of dynamic reserves formation were introduced, which are the part of the bank's capital.

Dynamic reserves formed on quarterly basis and depend on growth rate of credit portfolio; coefficients defining such dependency are set by NBRK every three years, for each loan category: corporate, mortgage, consumer and SME.

In accordance with the decisions of the financial stability board and the development of the financial market of the Republic of Kazakhstan dated December 11, 2013, the Management of the National Bank adopted a resolution #293, according to which the conservation of dynamic reserve formed in 2013 is provided. These actions have been put into effect on January 1, 2014. Currently decree #293 is being coordinated by the Ministry of Finance of the Republic of Kazakhstan, after coordination with which will be sent to the state registration in the Ministry of Justice of the Republic of Kazakhstan.

As at December 31, 2014 and 2013 the amount of formed dynamic reserves amounted to 86,255 thousand tenge.

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS,
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

11. EQUITY (CONTINUED)

Reserve capital

According to Resolution # 296 of Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations dated December 25, 2006 second tier banks formed general reserve to cover unexpected risks and future losses became invalid from the effective date of Resolution #137 of NBRK dated May 27, 2013. Further situation on actions regarding this reserve on the date of issue of these financial statements is not clear. On March 29, 2013 by the decision of the sole shareholder, additional reserve capital was formed for 16,520 thousand tenge. So, as at December 31, 2014 and 2013 the reserve capital amounted to 79,620 thousand tenge.

12. INTEREST INCOME/EXPENSE

In thousands of tenge	For the year ended December 31, 2014	For the year ended December 31, 2013
Interest income:		
Loans to clients	516,031	634,135
- <i>Unimpaired</i>	506,194	619,714
- <i>Impaired</i>	9,837	14,421
"Reverse REPO" receivables	79,475	7,258
Amounts due from other banks	199	1,313
	595,705	642,706
Interest expense:		
Amounts due to clients	(47,119)	(53,376)
Correspondent accounts and amounts due to banks	-	(1,688)
	(47,119)	(55,064)
Net interest income	548,586	587,642

13. ADMINISTRATIVE EXPENSES

In thousands of tenge	For the year ended December 31, 2014	For the year ended December 31, 2013
Payroll and related expenses	238,553	205,716
Rent	36,020	32,688
Provision / (reversal of) for reimbursement of legal costs	17,500	(4,364)
Communication services	11,707	11,051
Transportation services	9,607	6,793
Security	8,052	7,990
Depreciation and amortization	6,471	7,726
Taxes other than income tax	6,212	9,288
Professional services	4,856	13,717
Technical maintenance	4,645	3,608
Contribution to Kazakhstan deposit insurance fund	2,504	3,056
Insurance	2,084	2,030
Marketing services	829	492
Other	18,503	21,552
Total	367,543	321,343

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

14. COMMITMENTS AND CONTINGENCIES

Operating environment

Bank's major economic activity is conducted on the territory of the Republic of Kazakhstan. Legislation and other regulations affecting the economic situation in the Republic of Kazakhstan are subject to frequent changes, due to this Bank's assets and operations could be at risk in case of decline of political and economic situation.

Claims and litigations

During normal activity Bank is subject to court claims and litigation. According to Management's opinion, probable obligations (if any), rising from such claims and litigation will not have a significant negative effect on the financial position or results of Bank's operations in the future.

Bank evaluates probability of material liabilities arising as a result of individual circumstances, and creates reserves in its financial statement only in case of probability that events giving rise to the liability will occur and the amount of the liability can be reliably measured. In the given financial statements a provision for reimbursement of legal costs in amount of 17,500 thousands of tenge were formed (Note 13).

Taxation

The provisions of the various legislative and regulatory acts are not always clearly written and their interpretation depends on the opinions tax inspectors in the field and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are frequent. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan laws, regulations and relevant legal acts is severe. Penalties include confiscation of the disputed amounts, as well as fines, usually 50% of the amount of unpaid taxes.

Bank believes that it paid or transferred all applicable taxes. In case of doubt, the Bank accrued tax liabilities based on management's reasonable estimates. Bank's Policy provides recognition of reserves in the reporting period, in which there is a probability of loss and the amount of it can be determined with sufficient accuracy. Management believes that as at December 31, 2014 and December 31, 2013 its interpretation of the legislation is appropriate and the Bank's tax, currency and customs positions will be approved.

Due to the uncertainties associated with the Kazakhstan tax system, the potential amount of taxes, penalties and interest may exceed the amount expensed to date and accrued at December 31, 2014. Despite the possibility of accrual of such amounts and their potentially significant nature, Management believes that they are either unlikely or not measurable, or both at once.

Credit related commitments

Bank gives its clients opportunity to receive guarantees which may require that the Bank make payments on behalf of customers. Clients reimburse such payments to Bank in accordance with the terms of the provision. On mentioned agreements Bank bear risks which are similar to risks on loans and these are mitigated by the same control processes and policies risks.

In thousands of tenge	December 31, 2014	December 31, 2013
Financial guarantees issued	64,105	61,337
	64,105	61,337

As at December 31, 2014 and December 31, 2013 financial guarantees were represented in Euro and were fully collateralized by cash in Euro.

Bank had no material capital commitments and significant operating lease liabilities as at December 31, 2014 and 2013.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between well informed, willing parties to make such transaction, from independent parties, other than in a forced or liquidation sale.

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities

Below is a comparison of the book value and fair value per class of financial instruments of the Bank that are not reflected at fair value in the statement of financial position. The table does not include the fair value of nonfinancial assets and nonfinancial liabilities:

In thousands of tenge	December 31, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	242,271	242,271	609,480	609,480
Amounts due from other banks	1,699	1,699	1,402	1,402
“Reverse REPO” receivables	1,488,335	1,488,335	360,245	360,245
Short-term loan to the parent bank	365,025	365,025	–	–
Loans to clients	3,389,055	3,389,055	4,541,160	4,541,160
Total	5,486,385	5,486,385	5,512,287	5,512,287
Correspondent accounts and amounts due to banks	144	144	–	–
Amounts due to clients	756,108	756,108	896,378	896,378
Total	756,252	756,252	896,378	896,378

Fair value of financial assets and liabilities is defined as follows:

- fair value of financial assets and liabilities on standard terms, traded on active liquid markets are determined in accordance with market quotations (including quoted in an active market term bonds, notes and perpetual notes);
- fair value of other financial assets and liabilities (excluding derivatives) is defined in accordance with commonly accepted cost calculation models based on discounted cash flow analysis using prices used in market transactions on the relevant date, and dealer quotes for similar instruments.

Bank uses the following hierarchical structure of methods for determining and disclosing the fair value of financial instruments:

- Level 1: quotes (not corrected) on active markets of similar assets or liabilities;
- Level 2: valuation models all initial data of which have a significant effect on the recorded fair value that are directly or indirectly based on information observed on market;
- Level 3: valuation models, using initial data, which have a significant effect on the recorded fair value that are not based on information observed on market.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and financial liabilities carried at amortized cost (continued)

Following table provides analysis of financial instruments, presented in the financial statements not at fair value as at December 31, 2014:

In thousands of tenge	Level 1	Level 2	Level 3	Total as at December 31, 2014
Cash and cash equivalents	242,271	–	–	242,271
Amounts due from other banks	–	1,699	–	1,699
“Reverse REPO” receivables	–	1,488,335	–	1,488,335
Short-term loan to the parent bank	–	365,025	–	365,025
Loans to clients	–	3,389,055	–	3,389,055
Total	242,271	5,244,114	–	5,486,385
Amounts due to clients	–	756,108	–	756,108
Correspondent accounts and amounts due to banks	–	144	–	144
Total	–	756,252	–	756,252

Following table provides analysis of financial instruments, presented in the financial statements not at fair value as at December 31, 2013:

In thousands of tenge	Level 1	Level 2	Level 3	Total as at December 31, 2013
Cash and cash equivalents	609,480	–	–	609,480
Amounts due from other banks	–	1,402	–	1,402
“Reverse REPO” receivables	–	360,245	–	360,245
Loans to clients	–	4,541,160	–	4,541,160
Total	609,480	4,902,807	–	5,512,287
Amounts due to clients	–	896,378	–	896,378
Total	–	896,378	–	896,378

For the year 2014 there were no transfers between 1,2 and 3 levels.

16. RISK MANAGEMENT

Introduction

Bank manages risk in the continuous process of identifying, evaluating and monitoring, as well as setting risk limits and other controls. The risk management process is crucial to the Bank's continuing profitability and each individual within the Bank is responsible for the risks associated with his or her responsibilities. Bank is subject to credit risk, liquidity risk and market risk. Bank is also a subject to operational risks.

The process of independent risk control is not associated with business risks, such as for example changes in the economic environment, technology and changes in the industry. Such risks are controlled by Bank during process of strategic planning.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Introduction (continued)

Treasury Department

The Treasury Department of the Bank, together with the Management Board, is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited by the internal audit, which examines the adequacy of internal control system, conformity of the procedures and the Bank's compliance with the procedures. Internal Audit discusses its findings of the examinations taken with the Management Board and provides its recommendation to the Board of Directors.

Credit risk

Credit risk is the risk that Bank will incur a loss due to the fact that its clients or counterparties failed to discharge their contractual obligations. The maximum exposure to credit risk is limited to the carrying amount of financial assets, except for collateralized loans to clients, the value of collateral disclosed in Note 8. The Bank manages credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring compliance with risk limits.

Bank developed credit quality review procedure in order to provide identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are identified using a credit risk classification system, which assigns each counterparty a risk rating. Ratings are reviewed on regular basis. Credit quality review procedure allows Bank to assess value of potential loss on exposed risks, and take necessary actions.

Financial assets are classified taking into account current credit ratings, given by internationally recognized rating agencies, such as Standard and Poor's, Fitch and Moody's Investors Service. The highest possible rating is – AAA.

Classification of Bank's financial assets on credit ratings as at December 31, 2014 and 2013 is presented below:

In thousands of tenge	B	B-	CCC+	Credit rating not assigned	Total as at December 31, 2014
Cash and cash equivalents	1,034	–	–	241,237	242,271
Amounts due from other banks	1,094	605	–	–	1,699
“Reverse REPO” receivables	–	–	–	1,488,335	1,488,335
Short-term loan to the parent bank	–	–	–	365,025	365,025
Loans to clients	–	–	–	3,389,055	3,389,055
Total	2,128	605	–	5,483,652	5,486,385

In thousands of tenge	BBB	B-	CCC+	Credit rating not assigned	Total as at December 31, 2013
Cash and cash equivalents	147,224	–	9	462,247	609,480
“Reverse REPO” receivables	–	–	–	360,245	360,245
Amounts due from other banks	–	1,402	–	–	1,402
Loans to clients	–	–	–	4,541,160	4,541,160
Total	147,224	1,402	9	5,363,652	5,512,287

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Credit quality by types of financial assets

The following table shows carrying value of assets that are not considered to be impaired, which are also classified as past due debt.

In thousand of tenge	Neither past due nor impaired	Past due but not impaired				Impaired financial assets	December 31, 2014
		Less than 30 days	From 31 to 90 days	From 91 days to 180	Over 181 days		
Cash and cash equivalents	242,271	–	–	–	–	–	242,271
Amounts due from other banks	1,699	–	–	–	–	–	1,699
“Reverse REPO” receivables	1,488,335	–	–	–	–	–	1,488,335
Short-term loan to the parent bank	365,025	–	–	–	–	–	365,025
Loans to clients	1,995,056	55,129	474,459	362,936	385,200	116,275	3,389,055
Total	4,092,386	55,129	474,459	362,936	385,200	116,275	5,486,385

In thousand of tenge	Neither past due nor impaired	Past due but not impaired				Impaired financial assets	December 31, 2013
		Less than 30 days	From 31 to 90 days	From 91 days to 180	Over 181 days		
Cash and cash equivalents	609,480	–	–	–	–	–	609,480
Amounts due from other banks	1,402	–	–	–	–	–	1,402
“Reverse REPO” receivables	360,245	–	–	–	–	–	360,245
Loans to clients	3,369,724	212,707	8,416	218,793	716,213	15,307	4,541,160
Total	4,340,851	212,707	8,416	218,793	716,213	15,307	5,512,287

Geographical concentration

Major part of Bank’s financial assets are in Kazakhstan. The Bank monitors its risk to the legal environment in all countries in which it owns assets and assesses the potential impact on the Bank's activities. In particular, Bank controls sovereign credit risk, established by international rating agencies. Risk Manager regularly monitors international financial and political news in international media to prevent possible negative effect on the Bank’s exposure to risk.

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Geographical concentration (continued)

This approach allows Bank to minimize possible losses of changes in investment climate in countries, where bank has assets.

Information on geographical concentration of assets and liabilities as at December 31, 2014 is presented below:

In thousand of tenge	Kazakhstan	Not OECD countries	OECD countries	Total December 31, 2014
Financial assets				
Cash and cash equivalents	156,214	86,057	–	242,271
Amounts due from other banks	1,699	–	–	1,699
“Reverse REPO” receivables	1,488,335	–	–	1,488,335
Short-term loan to the parent bank	–	365,025	–	365,025
Loans to clients	3,389,055	–	–	3,389,055
Total financial assets	5,035,303	451,082	–	5,486,385
Financial liabilities				
Correspondent accounts and amounts due to banks	144	–	–	144
Amounts due to clients	756,181	–	–	756,181
Total financial liabilities	756,325	–	–	756,325
Net position	4,278,978	451,082	–	4,730,060

Information on geographical concentration of assets and liabilities as at December 31, 2013 is presented below:

In thousand of tenge	Kazakhstan	Not OECD countries	OECD countries	Total December 31, 2013
Financial assets				
Cash and cash equivalents	609,480	–	–	609,480
Amounts due from other banks	1,402	–	–	1,402
“Reverse REPO” receivables	360,245	–	–	360,245
Loans to clients	4,541,160	–	–	4,541,160
Total financial assets	5,512,287	–	–	5,512,287
Financial liabilities				
Amounts due to clients	896,378	–	–	896,378
Total financial liabilities	896,378	–	–	896,378
Net position	4,615,909	–	–	4,615,909

Liquidity risk and funding management

Liquidity risk – is the risk refers to the availability of funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Committee on active-passive transactions management and Risk manager control of liquidity risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Management on current liquidity is carried by Treasury, which makes transactions on cash markets in order to support current liquidity and optimization of cash flows.

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS,
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, included in the process of asset and liability management. Bank's Board sets limits in terms on minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels.

Liquidity risk analysis as at December 31, 2014 is presented below:

In thousands of tenge	Rate	Due on demand	Less than 3 months	3 to 12 months	1 to 5 years	Total December 31, 2014
Financial assets						
“Reverse REPO” receivables	15-24%	–	1,488,335	–	–	1,488,335
Short-term loan to the parent bank	2.5%	–	365,025	–	–	365,025
Loans to clients	12-20%	91,301	4,545	146,022	3,147,187	3,389,055
Total interest bearing financial assets		91,301	1,857,905	146,022	3,147,187	5,242,415
Cash and cash equivalents		242,271	–	–	–	242,271
Amounts due from other banks		1,094	605	–	–	1,699
Total financial assets		334,666	1,858,510	146,022	3,147,187	5,486,385
Financial liabilities						
Amounts due to clients	9-10%	227,950	28,264	105,595	394,372	756,181
Total interest bearing financial liabilities		227,950	28,264	105,595	394,372	756,181
Correspondent accounts and amounts due to banks		144	–	–	–	144
Total financial liabilities		228,094	28,264	105,595	394,372	756,325
Changes between financial assets and financial liabilities		106,572	1,830,246	40,427	2,752,815	4,730,060
Changes between interest bearing financial assets and interest bearing financial liabilities		(136,649)	1,829,641	40,427	2,752,815	4,486,234
Changes between interest bearing financial assets and interest bearing financial liabilities, cumulative total		(136,649)	1,692,992	1,733,419	4,486,234	
Changes between interest bearing financial assets and interest bearing financial liabilities, in % of total assets, cumulative		(2)%	31%	31%	81%	

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN
 NOTES TO FINANCIAL STATEMENTS,
 FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

Liquidity risk analysis as at December 31, 2013 is presented below:

In thousands of tenge	Rate	Due on demand	Less than 3 months	3 to 12 months	1 to 5 years	Total December 31, 2013
Financial assets						
“Reverse REPO” receivables	4.1-6.02%	360,245	—	—	—	360,245
Loans to clients	12-20%	15,356	16,407	250,739	4,258,658	4,541,160
Total interest bearing financial assets		375,601	16,407	250,739	4,258,658	4,901,405
Cash and cash equivalents		609,480	—	—	—	609,480
Amounts due from other banks		—	1,402	—	—	1,402
Total financial assets		985,081	17,809	250,739	4,258,658	5,512,287
Financial liabilities						
Amounts due to clients	9-10%	224,070	—	55,619	616,689	896,378
Total interest bearing financial liabilities		224,070	—	55,619	616,689	896,378
Total financial liabilities		224,070	—	55,519	616,689	896,378
Changes between financial assets and financial liabilities		761,011	17,809	195,120	3,641,969	4,615,909
Changes between interest bearing financial assets and interest bearing financial liabilities		151,531	16,407	195,120	3,641,969	4,005,027
Changes between interest bearing financial assets and interest bearing financial liabilities, cumulative total		151,531	167,938	363,058	4,005,027	
Changes between interest bearing financial assets and interest bearing financial liabilities, in % of total assets, cumulative		3%	3%	7%	72%	

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS,
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

Analysis of financial assets and financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial assets and financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

In thousands of tenge	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Total as at December 31, 2014
Financial assets							
Cash and cash equivalents	242,271	-	-	-	-	-	242,271
Amounts due from other banks	1,699	-	-	-	-	-	1,699
"Reverse REPO" receivables	1,756,003	-	-	-	-	-	1,756,003
Short-term loan to the parent bank	-	372,313	-	-	-	-	372,313
Loans to clients	80,173	4,134	57,407	99,004	4,992,930	1,102,124	6,335,772
Total financial assets	2,080,146	376,447	57,407	99,004	4,992,930	1,102,124	8,708,058
Financial liabilities							
Correspondent accounts and amounts due to banks	144	-	-	-	-	-	144
Amounts due to clients	235,508	19,709	106,099	1,546	435,064	-	797,926
Total financial liabilities	235,652	19,709	106,099	1,546	435,064	-	798,070

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS,
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Liquidity risk and funding management (continued)

Analysis of financial assets and financial liabilities by remaining contractual maturities (continued)

In thousand of tenge	Less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	Total as at December 31, 2013
Financial assets							
Cash and cash equivalents	609,480	–	–	–	–	–	609,480
Amounts due from other banks	–	1,402	–	–	–	–	1,402
"Reverse REPO" receivables	360,964	–	–	–	–	–	360,964
Loans to clients	63,831	142,435	321,440	460,620	2,301,333	3,343,418	6,633,077
Total financial assets	1,034,275	143,837	321,440	460,620	2,301,333	3,343,418	7,604,923
Financial liabilities							
Amounts due to clients	226,255	26,217	8,556	47,889	666,597	–	975,514
Total financial liabilities	226,255	26,217	8,556	47,889	666,597	–	975,514

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS,
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Market risk

Market risk – is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and equity prices. Market risk is managed and monitored using sensitivity analysis. The Bank has no significant concentration of market risk.

Currency risk

Currency risk – is the risk that value of financial instrument will fluctuate due to changes of currency exchange rate.

In thousands of tenge	Tenge	US Dollar	Euro	Russian Ruble	Total December 31, 2014
Financial assets					
Cash and cash equivalents	73,083	100,111	68,996	81	242,271
Amounts due from other banks	240	1,459	–	–	1,699
“Reverse REPO” receivables	1,488,335	–	–	–	1,488,335
Short-term loan to the parent bank	–	365,025	–	–	365,025
Loans to clients	3,255,298	133,757	–	–	3,389,055
Total financial assets	4,816,956	600,352	68,996	81	5,486,385
Financial liabilities					
Correspondent accounts and amounts due to banks	144	–	–	–	144
Amounts due to clients	88,780	595,365	72,002	34	756,181
Total financial liabilities	88,924	595,365	72,002	34	756,325
Difference between financial assets and financial liabilities	4,728,032	4,987	(3,006)	47	

In thousands of tenge	Tenge	US Dollar	Euro	Russian Ruble	Total December 31, 2013
Financial assets					
Cash and cash equivalents	380,091	164,072	64,919	398	609,480
Amounts due from other banks	170	1,232	–	–	1,402
“Reverse REPO” receivables	360,245	–	–	–	360,245
Loans to clients	4,418,583	122,577	–	–	4,541,160
Total financial assets	5,159,089	287,881	64,919	398	5,512,287
Financial liabilities					
Amounts due to clients	475,971	350,051	68,283	2,073	896,378
Total financial liabilities	475,971	350,051	68,283	2,073	896,378
Difference between financial assets and financial liabilities	4,683,118	(62,170)	(3,364)	(1,675)	

JSC SB “NATIONAL BANK OF PAKISTAN” IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

16. RISK MANAGEMENT (CONTINUED)

Sensitivity analysis to currency risk

Table below provides analysis of Bank’s sensitivity to increase or decrease by 20% of the U.S. dollar, Euro, Russian ruble to the tenge. This is the level of sensitivity which Bank uses for internal reporting on currency risk for Bank’s key management personnel and represents management’s assessment of the possible change in currency exchange rates. Sensitivity analysis includes only amounts in foreign currency at the end of the period, which are converted at the end of the period by 20% rate to increase or decrease comparing with actual rate. The sensitivity analysis includes loans to clients of the Bank, if such loans are given in a currency other than the functional currency of the Bank.

In thousands of tenge Currency	2014		2013	
	Change in exchange rate in %	Impact on income before tax expense	Change in exchange rate in %	Impact on income before tax expense
US Dollar	+20%	997	+20%	(12,434)
	-20%	(997)	-20%	12,434
Euro	+20%	(601)	+20%	(673)
	-20%	601	-20%	673
Russian ruble	+20%	9	+20%	(335)
	-20%	(9)	-20%	335

17. CAPITAL MANAGEMENT

The Bank maintains an active management of capital base to cover risks inherent in the business. Bank’s sufficiency of capital is monitored using, among other measures, norms established by the legislation of the Republic of Kazakhstan.

Main object of capital management for Bank is to provide Bank’s compliance to external requirements in terms of capital and support of high credit rate and norms of capital sufficiency required for activity.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. Compared with last year, there were no changes in the objectives, policies and processes of capital management; however the Board of Directors pays constant attention to this issue.

In accordance with effective capital requirements, set by NBRK, should keep first tier capital adequacy (k1.1) coefficient not less than 0.5 and second tier capital adequacy (k1.1) coefficient not less than 0.12.

As at December 31, 2014 capital adequacy coefficients exceeded statutory minimum k1.1 – 0.83; k1.2 – 0.86 and k2 – 0.89 (as at December 31, 2013: k1.1 – 0.79; k1.2 – 0.73 and k2 – 0.79).

Operating risk

Operational risk – is the risk of system failure, personnel mistakes, fraud or external events. When control system stops to function, operational risks could harm reputation, cause legal implications, or lead to financial loss. Bank cannot expect that all operational risks are eliminated, but with the control system and by monitoring and appropriate reaction to potential risks Bank can manage such risks. Control system provides effective division of responsibilities, access rights, approval and reconciliation procedures, employees training and assessment processes, including internal audit. Management is responsible for operational risk management associated with products, activity, procedures and Bank’s systems. During work compliance specialists control consistency and effectiveness of control over the risk of non-compliance with Bank’s regulatory requirements.

JSC SB "NATIONAL BANK OF PAKISTAN" IN KAZAKHSTAN

NOTES TO FINANCIAL STATEMENTS, FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

18. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Terms and conditions of transactions with related parties

Transactions with related parties were conducted on terms agreed between the parties, which are not necessarily carried out on market terms. Outstanding balances at the end of year are not collateralised and payments are made in cash, except as described below. For the year ended December 31, 2014, the Bank did not reflect any impairment of loans to shareholders and management personnel.

In thousand tenge	December 31 2014		December 31 2013	
	Operations with related parties	Totals by categories in compliance with accounts of financial statement	Operations with related parties	Totals by categories in compliance with accounts of financial statement
Cash and cash equivalents	86,057	242,271	–	609,480
Parent bank (Note 5)	86,057		–	
Short-term loan to the parent bank	365,025	365,025	–	–
Parent bank (Note 7)	365,025		–	
Amounts due to Clients	–	756,108	6,208	896,378
Key managing personnel	–		6,208	
Interest income	325	595,705	–	642,706
Parent bank (Note 12)	325		–	
Interest expenses	–	(47,119)	(244)	(55,064)
Key managing personnel	–		(244)	
Administrative expenses	(35,842)	(367,582)	(27,887)	(321,343)
Key managing personnel	(35,842)		(27,887)	

Key management personnel comprise the Acting Chairman of the Board, Chief Manager and Chief Accountant of the Bank, total of 3 persons as at 31 December 2014 (2013: 3 persons). Total compensation to key management personnel included in administrative expenses in profit or loss and other comprehensive income is 35,842 thousand tenge for the year ended 31 December 2014 (2013: 27,887 thousand tenge). The remuneration of key management personnel includes salaries and other payments in accordance with the internal regulations of the Bank.

19. SUBSEQUENT EVENTS

On March 18, 2015 the Management of the Bank decided to make a prolongation of the short-term loan to the parent bank in amount of 2,000 US dollars for 3 month period and changed annual interest rate to 1.75%.