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Industrial and Commercial Bank of China Almaty Joint Stock Company Financial Statements

Year ended 31 December 2011

together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

NOTES TO THE FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Board of Directors of Industrial and Commercial Bank of China Almaty Joint Stock Company

We have auited the accompanying financial statements of Industrial and Commercial Bank of China Almaty Joint Stock Company (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the statement of 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.

Management's Responsibility for the Financial Statements

Management of the Bank 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 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Bank, 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.

ERNST & YOUNG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Bank of China Almaty Joint Stock Company as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor / General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ – 2, № 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan dated 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

30 January 2012

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

(In thousands of tenge)

	Notes	*2011*	*2010*
Assets			
Cash and cash equivalents	5	**21,678,075**	11,612,021
Obligatory reserves	6	**518,883**	179,264
Loans to customers	7	**2,541,650**	152,567
Held-to-maturity investment securities	8	**5,003,161**	3,891,777
Property and equipment	9	**676,572**	512,064
Intangible assets	10	**3,583**	5,000
Current corporate income tax assets	11	**1,680**	–
Deferred income tax assets	11	**656**	1,686
Other assets	12	**6,748**	145,572
Total assets		**30,431,008**	16,499,951
Liabilities			
Amounts due to credit institutions	13	**445,231**	–
Amounts due to customers	14	**19,027,966**	10,913,443
Current corporate income tax liabilities	11	–	7,000
Other liabilities		**3,776**	3,544
Total liabilities		**19,476,973**	10,923,987
Equity			
Share capital	15	**8,933,491**	3,934,049
Retained earnings		**745,581**	407,724
General reserve	15	**1,274,963**	1,234,191
Total equity		**10,954,035**	5,575,964
Total liabilities and equity		**30,431,008**	16,499,951

Signed and authorised for release on behalf of the Management Board of the Bank:

Zhang Rongbao — Acting Chairman of the Board

Tatiana Maurer — Chief Accountant

30 January 2012

The accompanying notes on pages from 5 to 29 are an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(In thousands of tenge)

	Notes	*2011*	*2010*
Interest income			
Held-to-maturity investment securities		**190,725**	234,591
Cash and cash equivalents		**57,280**	49,478
Loans to customers		**54,163**	22,767
Amounts due from credit institutions		**–**	3,728
		302,168	310,564
Interest expenses			
Amounts due to credit institutions		**(13,262)**	–
Amounts due to customers		**(2,712)**	(6,184)
		(15,974)	(6,184)
Net interest income		**286,194**	304,380
Net fee and commission income	17	**240,322**	237,993
Net gains from foreign currencies:			
- dealing		**183,427**	157,517
- translation differences		**1**	1,303
Other income		**2,343**	806
Non-interest income		**426,093**	397,619
Personnel expenses	18	**(162,740)**	(148,183)
Other operating expenses	18	**(90,276)**	(83,687)
Depreciation and amortisation	9, 10	**(20,316)**	(8,540)
Taxes other than corporate income tax		**(10,312)**	(4,737)
Non-interest expense		**(283,644)**	(245,147)
Profit before corporate income tax expense		**428,643**	456,852
Corporate income tax expense	11	**(50,014)**	(49,128)
Profit for the year		**378,629**	407,724
Other comprehensive income		**–**	–
Total comprehensive income for the year		**378,629**	407,724

The accompanying notes on pages from 5 to 29 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(In thousands of tenge)

	Notes	*Share capital*	*General reserve*	*Retained earnings*	*Total equity*
31 December 2009		3,934,049	29,750	1,204,441	5,168,240
Allowances for general reserve	15	–	1,204,441	(1,204,441)	–
Comprehensive income for the year		–	–	407,724	407,724
31 December 2010		3,934,049	1,234,191	407,724	5,575,964
Issue of share capital	15	**4,999,442**	–	–	**4,999,442**
Allowances for general reserve	15	–	**40,772**	**(40,772)**	–
Comprehensive income for the year		–	–	**378,629**	**378,629**
31 December 2011		**8,933,491**	**1,274,963**	**745,581**	**10,954,035**

The accompanying notes on pages from 5 to 29 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

(In thousands of tenge)

	Notes	*2011*	*2010*
Cash flows from operating activities:			
Interest received		**304,731**	259,529
Interest paid		**(17,119)**	(7,912)
Fees and commissions received		**253,199**	249,759
Fees and commissions paid		**(12,509)**	(11,291)
Net gains from foreign currencies		**183,427**	157,517
Personnel expenses paid		**(162,740)**	(147,832)
Other operating expenses paid		**(98,264)**	(88,105)
Cash flows from operating activities before changes in operating assets and liabilities		**450,725**	411,665
Net (increase) / decrease in operating assets			
Obligatory reserves		**(339,619)**	16,251
Loans to customers		**(2,377,600)**	150,000
Other assets		**1,205**	(139,878)
Net increase / (decrease) in operating liabilities			
Amounts due to credit institutions		**445,200**	(14,856)
Amounts due to customers		**8,115,699**	(721,008)
Other liabilities		**(495)**	(419)
Net cash flows from / (used in) operating activities before corporate income tax		**6,295,115**	(298,245)
Corporate income tax paid		**(57,664)**	(24,507)
Net cash flows from / (used in) operating activities		**6,237,451**	(322,752)
Cash flows from investing activities:			
Redemption of held-to-maturity investment securities		**1,029,533**	2,078,146
Purchase of held-to-maturity investment securities		**(2,154,963)**	(2,493,418)
Purchase of property and equipment	9	**(45,248)**	(496,776)
Purchase of intangible assets	10	**(162)**	(3,652)
Net cash flows used in investing activities		**(1,170,840)**	(915,700)
Cash flows from financing activities:			
Proceeds from issue of share capital	15	**4,999,442**	–
Net cash flows from financing activities		**4,999,442**	–
Effect of exchange rates changes on cash and cash equivalents		**1**	(2,796)
Net increase / (decrease) in cash and cash equivalents		**10,066,054**	(1,241,248)
Cash and cash equivalents at the beginning of the year	5	**11,612,021**	12,853,269
Cash and cash equivalents at the end of the year	5	**21,678,075**	11,612,021

The accompanying notes on pages from 5 to 29 are an integral part of these financial statements

1. Principal activities

Industrial and Commercial Bank of China Almaty Joint Stock Company (the "Bank") provides retail and corporate banking services in the Republic of Kazakhstan. The Bank was incorporated in the Republic of Kazakhstan on 3 March 1993. The sole shareholder of the Bank is Industrial and Commercial Bank of China Joint Stock Company (the "Parent"), which is incorporated and operates in the People's Republic of China. The ultimate shareholder of the Bank is the People's Republic of China.

The Bank operates under a general banking license № 174 issued by the Agency for Regulation and Supervision of Financial Markets and Financial Organisations of the Republic of Kazakhstan on 9 March 2006.

The Bank accepts deposits from the public, extends credit and transfers payments in the Republic of Kazakhstan and abroad, exchanges currencies and provides other banking services to its corporate and retail customers.

The registered address of the Bank is 150/230 Abai Ave., #846, block 7, Turgut Ozala str, Almaty, 050046, Republic of Kazakhstan. The Bank did not have any branches and subsidiaries as at 31 December 2011 and 2010.

2. Basis of preparation

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

The financial statements have been prepared under the historical cost convention. These financial statements are presented in thousands of tenge ("KZT" or "tenge"), unless otherwise is stated.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Amendment to IAS 32 "Financial Instruments: Presentation" - Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment had no impact on the Bank's financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. This interpretation had no impact on the Bank's financial statements.

Improvement to IFRSs

In May 2010 the IASB issued the third omnibus of amendments, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. Each standard has its own transitional provisions. Amendments included in Improvements to IFRS had some impact on the financial policy, financial position or financial results of the Bank as follows:

- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements had minor impact as information is readily available.
- Other amendments to IFRS 1, IFRS 3, IAS 1, IAS 27, IAS 34 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

The following amendments to standards and interpretations did not have any impact on the Bank's accounting policies, financial position or results of operations:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - Voluntary exclusion with the limited scope from the requirement on disclosure of comparative information under IFRS 7, for companies using IFRS for the first time
- IFRIC 14 Prepayments of a minimum funding requirement

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. At initial recognition financial assets are measured at fair value. Plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Date of recognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Bank commits to purchase the asset. 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.

'Day 1' profit

Where the transaction price in a non-active market is different to the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognised in the statement of comprehensive income when the inputs become observable, or when the instrument is derecognised.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortised cost, which is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the statement of comprehensive income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Offsetting

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 recognised amounts and there is an intention to settle on a net basis, or to realise 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, amount due from the National Bank of the Republic of Kazakhstan (the "NBRK") and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Borrowings

Borrowings are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

3. Summary of accounting policies (continued)

Borrowings (continued)

Borrowings, which include amounts due to credit institutions and amounts due to customers, are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the borrowings are derecognised as well as through the amortisation process.

Leases

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 recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

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 (or events) 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 borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans to customers

For loans to customers carried at amortised cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets 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 has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income . Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the statement of comprehensive income.

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 derecognised where:

- 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 retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase. This provision does not apply in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised 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 recognised in the statement of comprehensive income.

Financial guarantee contracts

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognised 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 amortised 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 comprehensive income. The premium received is recognised in the statement of comprehensive income on a straight-line basis over the life of the guarantee.

3. Summary of accounting policies (continued)

Taxation

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

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or 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.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Republic of Kazakhstan also has various operating taxes that are assessed on the Bank's activities. These taxes are included in the statement of comprehensive income as taxes other than corporate income tax.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. 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:

	Years
Buildings	50
Furniture and fixtures	9
Computers and office equipment	4
Leasehold improvements	5
Motor vehicles	5
Land	–

The asset's 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 other operating expenses, unless they qualify for capitalisation.

Intangible assets

Intangible assets include computer software and licences. Intangible assets are carried at cost less any accumulated amortisation and impairment losses. Intangible assets are amortised on a straight – line basis over the useful economic lives of 5 to 10 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

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 separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. The Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Share capital

Share capital is recognised at the fair value of consideration received or paid. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

3. Summary of accounting policies (continued)

Contingencies

Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

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. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised 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 due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These items include commission income and fees for the issuance of guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loans.

- Commission income from providing transaction services

Fees arising from transfer transactions, transactions with cash and other services are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Foreign currency translation

The financial statements are presented in tenge, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated into functional currency at the official exchange rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter - the "KASE") and published by the NBRK. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as net gains from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate established by KASE on the date of the transaction are included in net gains from dealing in foreign currencies. The KASE market exchange rates at 31 December 2011 and 2010, were 148.4 KZT and 147.5 KZT to 1 USD, respectively.

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 "Financial Instruments" (first phase)

In November 2009 and 2010 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2015. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial instruments. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. For financial liabilities designated at fair value through profit or loss using fair value option IFRS 9 requires the amount of change in fair value attributable to changes in credit risk to be presented in other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.In addition IFRS 10 introduces specific application guidance for agency relationships. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IAS 27 Separate Financial Statements (Revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Bank expects that this amendment will have no impact on the Bank's financial statements.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Amendments to IFRS 7 "Financial Instruments: Disclosures

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The Bank expects that this amendment will have no impact on the Bank's financial statements.

Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Bank now evaluates the impact of the adoption of this amendment.

IAS 19 Employee Benefits (Amendment)

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which proposes major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The amendment will not have any impact on the financial position or performance of the Bank.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after 1 July 2012, change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. These amendments will change presentation in the statement of comprehensive income but will have no effect on its financial position and performance.

Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - A significant hyperinflation and cancellation of fixed dates for companies applying IFRS for the first time

These amendments to IFRS 1, effective for annual periods beginning on or after 1 July 2011, introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. The amendment will not have any impact on the financial position or performance of the Bank.

4. Significant accounting judgements and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Taxation

Kazakh tax, currency and customs legislation 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. The review may cover longer periods under certain circumstances.

As at 31 December 2011, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2011	*2010*
Cash on hand	**284,186**	179,377
Current accounts with the NBRK	**653,935**	2,109,952
Current accounts with the Parent	**759,088**	278,893
Current accounts with Kazakhstani banks	**97,595**	19,462
Current accounts with with OECD based banks	**42,495**	1,023,981
Term deposits with the NBRK up to 90 days from the acquisition date	**19,101,800**	8,000,356
Loans issued to Chinese banks up to 90 days from the acquisition date	**738,976**	–
	21,678,075	11,612,021

6. Obligatory reserves

Under Kazakh legislation, the Bank is required to maintain certain obligatory reserves, which are computed as a percentage of certain liabilities of the Bank. Such reserves must be held in either current accounts with the NBRK or physical cash computed and maintained based on average monthly balances of the aggregate of current accounts with the NBRK or physical cash in national or freely convertible currencies for the period of reserves formation.

As at 31 December 2011 the obligatory reserves are KZT 518,883 thousand (as at 31 December 2010: KZT 179,264 thousand).

7. Loans to customers

As at 31 December 2011 loans to customers comprise non-impaired loans issued to three borrowers (as at 31 December 2010: one borrower) with maturity in 2012 (as at 31 December 2010: in 2011). As at 31 December 2011 nominal interest rates established by the Bank for these loans are 3%-7% per annum (as at 31 December 2010: 8% per annum).

As at 31 December 2011 loans to customers in amount of KZT 2,084,475 thousand (as at 31 December 2010: KZT 152,567 thousand) were guaranteed by the Parent.

Concentration of loans to customers

As at 31 December 2011 and 2010 loans to customers were concentrated in the following economic sectors:

	2011		*2010*	
	Amount	*%*	*Amount*	*%*
Oil and gas	**1,787,336**	**70.3%**	–	–
Mining	**457,175**	**18.0%**	–	–
Trade	**297,139**	**11.7%**	–	–
Construction	–	–	152,567	100.0%
	2,541,650	**100.0%**	152,567	100.0%

8. Held-to-maturity investment securities

As at 31 December held-to-maturity investment securities comprise:

	2011		*2010*	
	Carrying value	*Nominal amount*	*Carrying value*	*Nominal amount*
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**5,003,161**	**4,860,789**	3,891,777	3,735,359
	5,003,161	**4,860,789**	3,891,777	3,735,359

As at 31 December 2011 the effective interest rate of treasury bills of the Ministry of Finance of the Republic of Kazakhstan is 3.25%-5.50% per annum (as at 31 December 2010: 3.00%-8.75% per annum). The maturity of these treasury bills is – 2012-2026 (as at 31 December 2010: 2011-2016).

9. Property and equipment

The movements of property and equipment during 2011 and 2010 are as follows:

	Land and buildings	*Leasehold improve-ments*	*Computer equipment*	*Vehicles*	*Other*	*Total*
Cost:						
31 December 2009	49,035	29,572	27,349	23,716	26,283	155,955
Additions	492,844	–	3,243	–	689	496,776
31 December 2010	541,879	29,572	30,592	23,716	26,972	652,731
Additions	**4,348**	–	**1,201**	–	**39,699**	**45,248**
Disposals	–	**(29,572)**	**(4,098)**	–	**(13,889)**	**(47,559)**
Transfer from other assets	**139,984**	–	–	–	–	**139,984**
31 December 2011	**686,211**	–	**27,695**	**23,716**	**52,782**	**790,404**
Accumulated depreciation:						
31 December 2009	(45,351)	(29,436)	(18,305)	(23,716)	(16,949)	(133,757)
Charge	(98)	(136)	(3,670)	–	(3,006)	(6,910)
31 December 2010	(45,449)	(29,572)	(21,975)	(23,716)	(19,955)	(140,667)
Charge	**(10,463)**	–	**(4,120)**	–	**(4,154)**	**(18,737)**
Disposals	–	**29,572**	**4,098**	–	**11,902**	**45,572**
31 December 2011	**(55,912)**	–	**(21,997)**	**(23,716)**	**(12,207)**	**(113,832)**
Net book value:						
31 December 2011	**630,299**	–	**5,698**	–	**40,575**	**676,572**
31 December 2010	496,430	–	8,617	–	7,017	512,064
31 December 2009	3,684	136	9,044	–	9,334	22,198

In May 2010 the Bank purchased an office building with rough furnishing. In 2011, the Bank capitalised repair expenses in the amount of KZT 144,332 thousand associated with this building.

Carrying value of fully amortised assets that are in use as at 31 December 2011 is KZT 39,482 thousand (as at 31 December 2010: KZT 71,628 thousand).

10. Intangible assets

The movements of intangible assets in 2011 and 2010 are as follows:

	Licenses	*Software*	*Total*
Cost:			
31 December 2009	7,321	4,990	12,311
Additions	1,465	2,187	3,652
31 December 2010	8,786	7,177	15,963
Additions	–	**162**	**162**
31 December 2011	**8,786**	**7,339**	**16,125**
Accumulated amortisation:			
31 December 2009	(5,925)	(3,408)	(9,333)
Charge	(786)	(844)	(1,630)
31 December 2010	(6,711)	(4,252)	(10,963)
Charge	**(622)**	**(957)**	**(1,579)**
31 December 2011	**(7,333)**	**(5,209)**	**(12,542)**
Net book value:			
31 December 2011	**1,453**	**2,130**	**3,583**
31 December 2010	2,075	2,925	5,000
31 December 2009	1,396	1,582	2,978

Carrying amount of fully amortised intangible assets being in use as at 31 December 2011 is KZT 7,126 thousand (as at 31 December 2010: KZT 2,539 thousand).

11. Taxation

The corporate income tax expense comprises the following:

	2011	*2010*
Current corporate income tax expense	**48,984**	49,778
Deferred tax charge / (benefit) – origination and reversal of temporary differences	**1,030**	(650)
Corporate income tax expense	**50,014**	49,128

The Republic of Kazakhstan is only one tax jurisdiction in which the Bank's income is taxable. In accordance with the Tax Code, the applied corporate income tax rate comprises 20.0% in 2011 and 2010.

The reconciliation between the corporate income tax expense presented in these financial statements and profit before corporate income tax expense multiplied by the statutory tax rate for the periods ended 31 December is as follows:

	2011	*2010*
Profit before corporate income tax expense	**428,643**	456,852
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**85,729**	91,370
Tax exempt income on government securities	**(38,145)**	(46,918)
Non-deductible operating expenses	**2,430**	5,280
Difference due to change in tax rate	**–**	(604)
Corporate income tax expense	**50,014**	49,128

As at 31 December 2011 current corporate income tax assets are KZT 1,680 thousand. As at 31 December 2010 current corporate income tax liabilities amounted to KZT 7,000 thousand.

Deferred income tax balances, calculated by applying the statutory tax rates in effect at the respective statement of financial position dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements, comprise the following as at 31 December:

	2009	*Origination and reversal of temporary differences in the statement of comprehensive income*	*2010*	*Origination and reversal of temporary differences in the statement of comprehensive income.*	*2011*
Tax effect of deductible temporary differences:					
Property, plant and equipment and intangible assets	1,036	650	1,686	**(1,030)**	**656**
Deferred tax assets	1,036	650	1,686	**(1,030)**	**656**

The Republic of Kazakhstan currently has a number of laws regulated various taxes imposed by both state and regional government authorities. Applicable taxes include value added tax, corporate income tax, social tax, and others. Implementing regulations are often unclear or nonexistent and few precedents have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations; thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in the Republic of Kazakhstan substantially more significant than typically found in other countries with more developed tax systems.

Management believes that the Bank is in substantial compliance with the tax laws of the Republic of Kazakhstan affecting its operations. However, the risk remains that relevant authorities could take differing positions with regard to interpretive issues.

12. Other assets

As at 31 December other assets comprise the following:

	2011	*2010*
Materials	**2,370**	1,743
Deferred expenses	**867**	1,181
Advances and other prepayments on property and equipment	**527**	139,984
Other	**2,984**	2,664
Other assets	**6,748**	145,572

13. Amounts due to credit institutions

As at 31 December 2011 amounts due to credit institutions comprise a loan from Industrial and Commercial Bank of China Limited, Frankfurt branch in the amount of KZT 445,231 thousand with maturity in January 2012, denominated in US dollars at 1.25% interest rate per annum.

14. Amounts due to customers

Amounts due to customers comprise the following:

	2011	*2010*
Current accounts:		
Commercial entities	**17,840,036**	9,026,692
Governmental entities	**509,492**	1,097,533
Individuals	**669,386**	750,250
	19,018,914	10,874,475
Term deposits:		
Individuals	**9,052**	38,968
	9,052	38,968
Amounts due to customers	**19,027,966**	10,913,443
Held as security against guarantees and letters of credit	**31,393**	46,217

As at 31 December 2011 the Bank's ten largest customers accounted for 92% of the total amounts due to customers (as at 31 December 2010: 87%).

Included in term deposits are deposits of individuals in the amount of KZT 9,052 thousand (as at 31 December 2010: KZT 38,968 thousand). In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest is not paid or paid at considerably lower interest rate depending on the terms specified in the agreement.

An analysis of customer accounts by economic sectors is as follows:

	2011	*%*	*2010*	*%*
Oil transportation	**12,730,693**	**66.9%**	5,696,752	52.2%
Trade	**2,999,943**	**15.8%**	1,065,454	9.8%
Agriculture	**786,817**	**4.1%**	160,306	1.5%
Individuals	**678,438**	**3.6%**	789,218	7.2%
Governmental entities	**509,492**	**2.7%**	1,097,533	10.1%
Mining	**412,284**	**2.2%**	599,043	5.5%
Oil and gas	**303,931**	**1.6%**	3,655	0.0%
Construction	**124,456**	**0.7%**	172,283	1.6%
Transportation and communication	**6,068**	**0.0%**	2,083	0.0%
Hotel business	**44**	**0.0%**	882,502	8.1%
Other	**475,800**	**2.5%**	444,614	4.0%
	19,027,966	**100.0%**	10,913,443	100.0%

15. Equity

In June 2011, based on the shareholder's decision dated 15 January 2009, concerning the increase of shareholders' equity prior to 30 November 2011, in accordance with requirements of the Committee for the Control and Supervision of Financial Market and Financial Organisations of the National Bank of the Republic of Kazakhstan (the "FMSC"), the Bank additionally issued 7,968 of ordinary shares. All issued shares were fully paid by the current shareholder. No dividends were declared and paid during 2011 and 2010.

The movements in outstanding, issued and fully paid shares are as follows:

	Number of shares	*Placement value*
31 December 2010	6,270	3,934,049
Issue of share capital	**7,968**	**4,999,442**
31 December 2011	**14,238**	**8,933,491**

In accordance with local legislation and the NBRK rules, in 2011 the Bank has allocated funds from the retained earnings in the amount of KZT 40,772 thousand to make a general reserve to cover unforeseen risks and future losses (in 2010: KZT 1,204,441 thousand). The funds from the general reserve could be allocated only upon the shareholder's official authorisation.

16. Financial commitments and contingencies

Political and economic environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Legal actions and claims

In the ordinary course of business, the Bank is subject to legal actions and complaints. The Bank believes that the ultimate liabilities, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Bank.

The Bank assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only when it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in this financial statement for any of the contingent liabilities.

Tax contingencies

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakh laws, decrees and related regulations is severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of generally 50% of the taxes unpaid.

The Bank believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Bank has accrued tax liabilities based on management's best estimate. The Bank's policy is to recognise provisions in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2011. Although such amounts are possible and may be material, it is the opinion of the Bank's management that these amounts are either not probable, nor reasonably determinable, or both.

Financial commitments and contingencies

As at 31 December the Bank's financial commitments and contingencies comprised the following:

Credit related commitments:	*2011*	*2010*
Guarantees	**929,702**	900,615
Letters of credit	–	745,367
	929,702	1,645,982
Less: Funds held as security against guarantees and letters of credit	**(31,393)**	(46,217)
Financial commitments and contingencies	**898,309**	1,599,765

As at 31 December 2011 guarantees and letters of credit issued by the Bank are secured by collateral in the form of cash on current account in amount of KZT 31,393 thousand (as at 31 December 2010: KZT 46,217 thousand) and the Parent's guarantee in amount of KZT 900,615 thousand (as at 31 December 2010: KZT 1,599,765 thousand).

The total outstanding contractual amount of letters of credit and guarantees does not necessarily represent future cash claims, as the specified liabilities could mature or be terminated without granting funds to the borrower.

17. Net fee and commission income

Net fee and commission income for the year ended 31 December comprises:

	2011	*2010*
Transfer operations	**211,695**	217,518
Cash operations	**29,957**	27,736
Guarantees and letters of credit	**10,648**	2,398
Other	**921**	2,107
Fee and commission income	**253,221**	249,759
Custody activities	**(10,674)**	(9,790)
Transfer operations	**(1,675)**	(1,579)
Other	**(550)**	(397)
Fee and commission expenses	**(12,899)**	(11,766)
Net fee and commission income	**240,322**	237,993

18. Personnel and other operating expenses

Salaries and other employee benefits and other operating expenses comprise:

	2011	*2010*
Salaries and bonuses	**147,475**	134,303
Social tax	**15,265**	13,880
Personnel expenses	**162,740**	148,183
Security	**10,685**	9,342
Representation expenses	**9,769**	6,129
Communication services	**8,474**	6,396
Utilities	**8,346**	1,800
Cash collection expenses	**8,238**	6,779
Business trip expenses	**6,995**	6,494
Professional services	**5,858**	10,718
Office supplies	**5,169**	3,872
Rent	**4,270**	17,082
Information technology services	**4,061**	3,822
Transportation	**2,254**	1,369
Deposit insurance	**2,186**	1,953
Write-off of property and equipment	**1,987**	–
Translation and notary services	**1,697**	756
Training expenses	**781**	684
Insurance expenses	**585**	544
Membership fee	**501**	830
Other	**8,420**	5,117
Other operating expenses	**90,276**	83,687

19. Risk management

Introduction

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

19. Risk management (continued)

Introduction (continued)

Management Board

The Management Board has the responsibility to monitor the overall risk management process within the Bank.

Risk Management and Law Compliance Department

The Risk Management and Law Compliance Department (here and after the "Department") has the overall responsibility for the development of the risk management strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk management issues and monitors relevant risk decisions.

The Department is responsible for implementing and maintaining risk management related procedures to ensure an independent control process.

The Department is responsible for monitoring compliance with risk management principles, policies and limits, across the Bank, for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products.

Assets and Liabilities Management Committee

Assets and Liabilities Management Committee 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 annually by the internal audit department that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit department discusses the results of all assessments with management, and reports its findings and recommendations to the Chairman of the Management Board.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience and adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions of the Bank have access to extensive, necessary and up-to-date information.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

Excessive risk concentration

Risk concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Risk concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified risk concentrations are controlled and managed accordingly.

19. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, for geographical and industry risk concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and undertake corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The carrying value of components of the statement of financial position before the effect of mitigation through the use of master netting and collateral agreements, most accurately reflects the maximum credit risk exposure on these components.

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is presented in *Note 7 "Loans to customers"* and *Note 16 "Financial commitments and contingencies"*.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality analysis by class of assets for loan-related statement of financial position lines, based on the Bank's credit rating system.

		Neither past due nor impaired		
	Notes	*High grade 2011*	*Standard grade 2011*	*Total 2011*
Cash and cash equivalents	5	**20,807,363**	**870,712**	**21,678,075**
Loans to customers	7	–	**2,541,650**	**2,541,650**
Held-to-maturity investment securities	8	**5,003,161**	–	**5,003,161**
Total		**25,810,524**	**3,412,362**	**29,222,886**

		Neither past due nor impaired		
	Notes	*High grade 2010*	*Standard grade 2010*	*Total 2010*
Cash and cash equivalents	5	10,836,120	775,901	11,612,021
Loans to customers	7	–	152,567	152,567
Held-to-maturity investment securities	8	3,891,777	–	3,891,777
Total		14,727,897	928,468	15,656,365

It is the Bank's policy to maintain accurate and consistent risk ratings across the loan portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

19. Risk management (continued)

Credit risk (continued)

Impairment assessment

The main considerations for the loan impairment assessment comprise: whether any payments of principal and interest are overdue by more than 60 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include: the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen; projected receipts and the expected dividend payout should bankruptcy ensue; the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, mortgage loans and unsecured consumer loans) and for individually significant loans where there is no objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2011			
	Kazakhstan	*OECD*	*China*	*Total*
Assets:				
Cash and cash equivalents	20,137,516	42,495	1,498,064	21,678,075
Obligatory reserves	518,883	–	–	518,883
Loans to customers	457,175	1,787,336	297,139	2,541,650
Held-to-maturity investment securities	5,003,161	–	–	5,003,161
Other monetary assets	22	–	–	22
	26,116,757	1,829,831	1,795,203	29,741,791
Liabilities:				
Amounts due to credit institutions	–	445,231	–	445,231
Amounts due to customers	19,027,966	–	–	19,027,966
Other monetary liabilities	3,718	–	–	3,718
	19,031,684	445,231	–	19,476,915
Net position on assets and liabilities	7,085,073	1,384,600	1,795,203	10,264,876

19. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances (continued)

	2010			
	Kazakhstan	*OECD*	*China*	*Total*
Assets:				
Cash and cash equivalents	10,309,147	1,023,981	278,893	11,612,021
Obligatory reserves	179,264	–	–	179,264
Loans to customers	152,567	–	–	152,567
Held-to-maturity investment securities	3,891,777	–	–	3,891,777
Other monetary assets	2,041	–	–	2,041
	14,534,796	1,023,981	278,893	15,837,670
Liabilities:				
Amounts due to customers	10,913,443	–	–	10,913,443
Current corporate income tax liabilities	7,000	–	–	7,000
Other monetary liabilities	3,544	–	–	3,544
	10,923,987	–	–	10,923,987
Net position on assets and liabilities	3,610,809	1,023,981	278,893	4,913,683

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to receive additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash inflow.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2011 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.

	2011			
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Total*
Financial liabilities:				
Amounts due to credit institutions	**445,339**	–	–	**445,339**
Amounts due to customers	**19,019,810**	**8,158**	**200**	**19,028,168**
Total undiscounted financial liabilities	**19,465,149**	**8,158**	**200**	**19,473,507**

	2010			
	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Total*
Financial liabilities:				
Amounts due to customers	10,906,753	7,144	–	10,913,897
Total undiscounted financial liabilities	10,906,753	7,144	–	10,913,897

19. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the Civil Code of the Republic of Kazakhstan, the Bank is obliged to repay such deposits upon demand of a depositor. (See *Note 14*)

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. In the case of financial guarantee contracts, the maximum amount of guarantee is allocated to the earliest period in which this guarantee could be called.

	Less than 3 months	*From 3 to 12 months*	*From 1 to 5 years*	*Total*
2011	**24,435**	**905,067**	**200**	**929,702**
2010	46,217	1,599,765	–	1,645,982

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank is exposed to market risk on non-trading portfolio. The market risk for non-trading portfolio is managed and monitored based on sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The following table demonstrates the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities held at 31 December 2011 and 2010.

Currency	*Increase in basis points, 2011*	*Sensitivity of net interest income, 2011*
1-month LIBOR		
US dollar	**0.15%**	**5,577**
Euro	**0.15%**	**5**
Japanese yen	**0.15%**	**1**
Chinese yuan	**0.15%**	**454**

Currency	*Decrease in basis points, 2011*	*Sensitivity of net interest income, 2011*
1-month LIBOR		
US dollar	**0.10%**	**(3,718)**
Euro	**0.10%**	**(3)**
Japanese yen	**0.10%**	**(1)**
Chinese yuan	**0.10%**	**(303)**

19. Risk management (continued)

Market risk (continued)

Interest rate risk (continued)

Currency	*Increase in basis points, 2010*	*Sensitivity of net interest income, 2010*
1-month LIBOR		
US dollar	1.0%	(3,431)
Euro	1.0%	44
Japanese yen	1.0%	7
Chinese yuan	1.0%	(3,431)

Currency	*Decrease in basis points, 2010*	*Sensitivity of net interest income, 2010*
1-month LIBOR		
US dollar	0.1%	343
Euro	0.1%	(4)
Japanese yen	0.1%	(1)
Chinese yuan	0.1%	(110)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRK regulations. Positions are monitored on a daily basis.

The following table indicates the currencies to which the Bank has exposure as at 31 December 2011 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible change in the currency rates against tenge on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. The negative amounts in the table reflect a potential net reduction in statement of comprehensive income or equity, while the positive amounts reflect a net potential increase.

	2011		*2010*	
Currency	*Increase in currency rate, in %*	*Effect on profit before corporate income tax expense*	*Increase in currency rate, in %*	*Effect on profit before corporate income tax expense*
US dollar	**0.4**	**(33)**	7.5	1,182
Euro	**2.0**	**62**	7.8	338
Japanese yen	**2.6**	**20**	8.9	64
Chinese yuan	**0.6**	**9**	0.5	1

	2011		*2010*	
Currency	*Decrease in currency rate, in %*	*Effect on profit before corporate income tax expense*	*Decrease in currency rate, in %*	*Effect on profit before corporate income tax expense*
US dollar	**0.4**	**34**	0.4	(55)
Euro	**2.8**	**(85)**	2.0	(88)
Japanese yen	**3.1**	**(24)**	2.8	(20)
Chinese yuan	**0.7**	**(11)**	0.4	(0.4)

19. Risk management (continued)

Operational risk

Operational risk is the risk arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

20. Fair value of financial instruments

Financial instruments not carried at fair value in the statement of financial position

Set out below is a comparison by class of the carrying value and fair values of the Bank's financial assets and liabilities that are not carried at fair value in the statement of financial position. As at 31 December 2011 and 2010, the Bank did not have financial instruments recorded in the financial statements at fair value. The table does not include the fair value of non-financial assets and non-financial liabilities.

	2011			*2010*		
	Carrying value	*Fair value*	*Unrecognised gain*	*Carrying value*	*Fair value*	*Unrecognised gain*
Financial assets:						
Cash and cash equivalents	**21,678,075**	**21,678,075**	–	11,612,021	11,612,021	–
Obligatory reserves	**518,883**	**518,883**	–	179,264	179,264	–
Loans to customers	**2,541,650**	**2,541,650**	–	152,567	152,567	–
Held-to-maturity investment securities	**5,003,161**	**5,012,314**	**9,153**	3,891,777	3,931,412	39,635
Other assets	**22**	**22**	–	2,041	2,041	–
Financial liabilities:						
Amounts due to credit institutions	**445,231**	**445,231**	–	–	–	–
Amounts due to customers	**19,027,966**	**19,027,966**	–	10,913,443	10,913,443	–
Total unrecognised change in unrealised fair value			**9,153**			39,635

The following describes the methodologies and assumptions used to determine fair value for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates to carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than one year) it is assumed that the fair value approximates to their carrying value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and short-term loans to customers.

20. Fair value of financial instruments (continued)

Fixed and variable rate financial instruments

For quoted debt instruments the fair value is determined based on quoted market prices. The fair value of unquoted debt instruments is estimated by discounting cash flows using interest rate currently available for debt instruments on similar terms, credit risk and remaining maturity.

21. Maturity analysis of assets and liabilities

The table below shows assets and liabilities their expected maturities. See *Note 19 "Risk management"* for the Bank's contractual undiscounted repayment obligations.

	2011			*2010*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	**21,678,075**	–	**21,678,075**	11,612,021	–	11,612,021
Obligatory reserves	**518,883**	–	**518,883**	179,264	–	179,264
Loans to customers	**2,541,650**	–	**2,541,650**	152,567	–	152,567
Held-to-maturity investment securities	**181,058**	**4,822,103**	**5,003,161**	1,052,940	2,838,837	3,891,777
Property and equipment	–	**676,572**	**676,572**	–	512,064	512,064
Intangible assets	–	**3,583**	**3,583**	–	5,000	5,000
Current corporate income tax assets	**1,680**	–	**1,680**	–	–	–
Deferred income tax assets	–	**656**	**656**	–	1,686	1,686
Other assets	**6,748**	–	**6,748**	145,572	–	145,572
Total assets	**24,928,094**	**5,502,914**	**30,431,008**	13,142,364	3,357,587	16,499,951
Amounts due to credit institutions	**445,231**	–	**445,231**	–	–	–
Amounts due to customers	**19,027,766**	**200**	**19,027,966**	10,913,443	–	10,913,443
Current corporate income tax liabilities	–	–	–	7,000	–	7,000
Other liabilities	**3,763**	**13**	**3,776**	3,544	–	3,544
Total liabilities	**19,476,760**	**213**	**19,476,973**	10,923,987	–	10,923,987
Net position	**5,451,334**	**5,502,701**	**10,954,035**	2,218,377	3,357,587	5,575,964

22. 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. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

Transactions with entities related to the People's Republic of China

The People's Republic of China acting through the Parent controls the Bank's activities.

The People's Republic of China through its state agencies and other institutions directly and indirectly controls and has significant influence over a significant number of entities (together referred to as "entities associated with the state"). The Bank enters into banking transactions with these entities including cash settlement and foreign exchange transactions.

State authorities of People's Republic of China do not publish and present an official entire list of organisations owned or controlled, directly and indirectly, by the government to the companies controlled/owned by the government. Taking into account this circumstance, the Bank's management has only disclosed information in these financial statements allowed by the Bank's management accounting system with respect to transactions with government-controlled entities, which are considered to be such entities by the Bank's management based on all available information. The financial statements disclose transactions with the state entities and companies where the share of the government constitutes 50% and more. As related to the entities under the government control the Bank's management has analysed transactions with largest clients and allocated transactions balances with the groups of companies given below: 1) government entities; 2) entities with over 50% of share capital controlled by the government. The Bank performs all transactions with government entities and companies under the government control in course of its everyday activity.

The volumes of transactions with government entities and companies under the government control and outstanding balances as at the year end are as follows:

	2011		*2010*	
	Government entities	*Entities with over 50% of share capital controlled by the government*	*Government entities*	*Entities with over 50% of share capital controlled by the government*
Amounts due to customers as at 1 January	**826,227**	**250,766**	916,186	316,795
Receipts on current accounts during the year	**3,382,623**	**8,883,506**	3,014,476	10,562,910
Payments on current accounts during the year	**(3,819,769)**	**(9,035,468)**	(3,102,998)	(10,627,780)
Foreign exchange (loss) / gain	**(203)**	**1,271**	(1,437)	(1,159)
Amounts due to customers as at 31 December	**388,878**	**100,075**	826,227	250,766

22. Related party transactions (continued)

Related party transactions

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year ended 31 December are as follows:

	2011			*2010*		
	The Parent	*Entities under common control*	*Key management personnel*	*The Parent*	*Entities under common control*	*Key management personnel*
Cash and cash equivalents as at 1 January	**278,893**	**267,541**	–	602,520	5,716,810	–
Receipts on current accounts during the year	**120,952,111**	**8,091,546**	–	89,627,717	12,959,475	–
Payments on current accounts during the year	**(120,469,774)**	**(8,350,837)**	–	(89,939,953)	(18,406,261)	–
Foreign exchange (loss) / gain	**(2,142)**	**104**	–	(11,391)	(2,483)	–
Cash and cash equivalents as at 31 December	**759,088**	**8,354**	–	278,893	267,541	–
Interest income on current accounts	**4,272**	–	–	7,461	–	–
Amounts due from credit institutions as at 1 January	–	–	–	–	–	–
Deposits placed during the year	–	–	–	–	500,695	–
Payments on deposits during the year	–	–	–	–	(500,468)	–
Foreign exchange loss	–	–	–	–	(227)	–
Amounts due from credit institutions as at 31 December	–	–	–	–	–	–
Interest income on amounts due from credit institutions	–	–	–	–	3,728	–
Amounts due to credit institutions as at 1 January	–	–	–	–	–	–
Receipts on current accounts during the year	–	**8,823,521**	–	–	–	–
Payments on current accounts during the year	–	**(8,406,647)**	–	–	–	–
Foreign exchange gain	–	**28,357**	–	–	–	–
Amounts due to credit institutions as at 31 December	–	**445,231**	–	–	–	–
Interest expense on current accounts	–	**(13,262)**	–	–	–	–

22. Related party transactions (continued)

	2011			*2010*		
	The Parent	*Entities under common control*	*Key management personnel*	*The Parent*	*Entities under common control*	*Key management personnel*
Amounts due to customers as at 1 January	–	–	**2,340**	–	–	3,847
Receipts on current accounts during the year	–	–	**52,386**	–	–	37,135
Payments on current accounts during the year	–	–	**(47,421)**	–	–	(38,637)
Foreign exchange gain / (loss)	–	–	**39**	–	–	(5)
Amounts due to customers as at 31 December	–	–	**7,344**	–	–	2,340
Interest expense on current accounts	–	–	–	–	–	(4)

Compensation of 4 members of key management personnel comprises the following:

	2011	*2010*
Salary and other short-term benefits	**37,366**	39,022
Social security costs	**3,934**	1,555
	41,300	40,577

23. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the FMSC.

During the 2011, the Bank had complied in full with all its externally imposed capital requirements.

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit rating and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policy and processes of capital management from the previous years.

The FMSC requires banks to maintain the capital adequacy ratio k1-1 at a rate of minimum 5% of the total assets under FMSC rules, k1-2 at a rate of 5% and k2 at a rate of 10% of assets, contingent liabilities, potential claims and liabilities and operational risks. As at 30 September 2011 and 31 December 2010 the Bank's capital adequacy ratio on this basis exceeded the statutory minimum.

As at 31 December 2011 and 2010, the Bank's capital adequacy ratio, computed in accordance with the FMSC requirements together with subsequent adjustments pertaining to inclusion of market risk, comprised:

	2011	*2010*
Tier 1 capital	**10,574,588**	5,166,871
Tier 2 capital	**378,629**	407,724
Total general capital	**10,953,217**	5,574,595
Total assets under the FMSC rules	**30,431,008**	16,499,951
Risk weighted assets and contingent liabilities, potential claims and liabilities	**2,939,944**	2,818,992
Capital adequacy ratio k1-1	**34.7%**	31.3%
Capital adequacy ratio k1-2	**359.7%**	197.8%
Capital adequacy ratio k2	**372.6%**	197.8%