«Microcredit organization «KazMicroFinance»

Financial Statements

for the year ended

31 December 2012

Contents

«КПМГ Аудит» жауапкершілігі
шектеулі серіктестік
050051 Алматы, Достық д-лы 180,
Тел./факс 8 (727) 298-08-98, 298-07-08

KPMG Audit LLC
050051 Almaty, 180 Dostyk Avenue,
E-mail: company@kpmg.kz

Independent Auditors' Report

To the Management Board of "Microcredit organisation "KazMicroFinance" LLC

We have audited the accompanying financial statements of "Microcredit organisation "KazMicroFinance" LLC (the "Company"), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kim Y. V.
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No. MF-0000042 of 8 August 2011

KPMG Audit LLC

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

Nigay A.N.
General Director of KPMG Audit LLC
acting on the basis of the Charter

2 April 2013

	Note	2012 '000 KZT	2011 '000 KZT
Interest income	4	4,696,600	2,903,950
Interest expense	4	(1,014,662)	(559,100)
Net interest income		**3,681,938**	**2,344,850**
Net loss on financial instruments at fair value through profit or loss		-	(1,480)
Net foreign exchange loss		(24,730)	(4,735)
Other expenses		(2,174)	(1,936)
		3,655,034	**2,336,699**
Reversal of impairment losses on loans to customers	10	50,630	33,797
Personnel expenses	5	(1,947,343)	(1,234,194)
Other general administrative expenses	6	(838,972)	(567,172)
Profit before income tax		**919,349**	**569,130**
Income tax expense	7	(187,583)	(107,313)
Profit and total comprehensive income for the year		**731,766**	**461,817**

The financial statements as set out on pages 5 to 40 were approved by Management on 2 April 2013 and were signed on its behalf by:

Zhusupov Sh.A.
Chairman of the Board

Yugay O.V.
Chief Accountant

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

	Note	31 December 2012 '000 KZT	31 December 2011 '000 KZT
ASSETS			
Cash and cash equivalents	8	1,771,455	159,593
Placements with banks	9	321,073	236,249
Loans to customers	10	12,479,188	7,848,574
Current tax asset		23,299	34,152
Property and equipment	11	894,418	734,116
Intangible assets	12	108,879	84,342
Other assets	13	85,810	38,831
Total assets		**15,684,122**	**9,135,857**
LIABILITIES			
Other borrowed funds	14	11,572,640	5,867,603
Subordinated borrowings	14	451,856	444,842
Deferred tax liability		13,646	10,447
Other liabilities	15	318,327	170,896
Total liabilities		**12,356,469**	**6,493,788**
EQUITY	16		
Charter capital		2,492,887	2,077,252
Reserve capital		103,000	103,000
Retained earnings		731,766	461,817
Total equity		**3,327,653**	**2,642,069**
Total liabilities and equity		**15,684,122**	**9,135,857**

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

	2012 '000 KZT	2011 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**919,349**	**569,130**
Adjustments for:		
Depreciation and amortisation	88,315	75,537
Interest income	(4,696,600)	(2,903,950)
Interest expense	1,014,662	559,100
Reversal of impairment losses on loans to customers	(50,630)	(33,797)
Loss (gain) on disposal of property and equipment	9,772	(2,577)
Unrealised loss on foreign currency	22,469	33,018
Vacation reserve and other payroll accruals	198,174	131,399
Cash used in operating activities before changes in operating assets and liabilities, interest received and paid and income tax	**(2,494,489)**	**(1,572,140)**
(Increase) decrease in operating assets		
Placements with banks	(68,124)	(13,675)
Loans to customers	(4,446,599)	(2,417,023)
Other assets	(56,684)	(7,071)
Increase (decrease) in operating liabilities		
Other liabilities	(50,741)	(80,783)
Net cash used in operating activities before interest and income tax paid	**(7,116,637)**	**(4,090,692)**
Interest received	4,364,469	2,781,426
Interest paid	(737,334)	(390,629)
Income tax paid	(173,531)	(120,952)
Cash flows used in operations	**(3,663,033)**	**(1,820,847)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(253,784)	(191,980)
Sales of property and equipment	21,659	10,073
Purchases of intangible assets	(41,028)	(24,632)
Cash flows used in investing activities	**(273,153)**	**(206,539)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution to charter capital	415,635	529,418
Receipts of other borrowed funds	8,169,524	3,761,710
Repayments of other borrowed funds	(2,561,698)	(1,716,732)
Dividends paid	(461,817)	(529,418)
Cash flows from financing activities	**5,561,644**	**2,044,978**
Net increase in cash and cash equivalents	**1,625,458**	**17,592**
Cash and cash equivalents at the beginning of the year	159,593	145,403
Effect of changes in exchange rates on cash and cash equivalents	(13,596)	(3,402)
Cash and cash equivalents at the end of the year (Note 8)	**1,771,455**	**159,593**

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

'000 KZT	Charter capital	Reserve capital	Retained earnings	Total equity
Balance at 1 January 2011	1,547,834	80,000	552,418	2,180,252
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	461,817	461,817
Total comprehensive income for the year	**-**	**-**	**461,817**	**461,817**
Charter capital contribution	529,418	-	-	529,418
Dividends declared	-	-	(529,418)	(529,418)
Total transactions with owners	**529,418**	**-**	**(529,418)**	**-**
Transfer to reserve capital	-	23,000	(23,000)	-
Balance at 31 December 2011	**2,077,252**	**103,000**	**461,817**	**2,642,069**
Balance at 1 January 2012	**2,077,252**	**103,000**	**461,817**	**2,642,069**
Total comprehensive income				
Profit and total comprehensive income for the year	-	-	731,766	731,766
Total comprehensive income for the year	**-**	**-**	**731,766**	**731,766**
Charter capital contribution	415,635	-	-	415,635
Dividends declared	-	-	(461,817)	(461,817)
Total transactions with owners	**415,635**	**-**	**(461,817)**	**(46,182)**
Balance at 31 December 2012	**2,492,887**	**103,000**	**731,766**	**3,327,653**

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

1 Background

(a) Principal activities

"Microcredit organisation "KazMicroFinance" LLC (the "Company") was established in the Republic of Kazakhstan as a limited liability company in 2006.

Principal activity of the Company is providing microcredits to its clients. As at 31 December 2012 the Company has 14 branches in Almaty, Astana, Karaganda, Kokshetau, Kyzylorda, Pavlodar, Semei, Shymkent, Taldykorgan, Taraz, Turkestan, Ust-Kamenogorsk, Kostanay and Aktobe (2011:14 branches). The Company is located and operates in the Republic of Kazakhstan.

The registered address of the Company's head office is 30, Kaldayakov Str., Almaty, 050010, Kazakhstan.

As at 31 December 2012 86.16% of the Company's charter capital is owned by Corporate Fund "KMF-Demeu" (the "Parent") and 13.84% by management and employees of the Company (31 December 2011: 86.16% and 13.84%, respectively).

(b) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is the Kazakhstan Tenge (KZT) as, being the national currency of the Republic of Kazakhstan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

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

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

(d) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2 Basis of preparation, continued

(d) Use of estimates and judgments, continued

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

- accounting treatment and recognition of bank deposits pledged as collateral for loans payable to the same bank – Note 9
- loan impairment estimates – Note 10.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

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

(c) Financial instruments

(i) Classification

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

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

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) Recognition

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

(iii) Measurement

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Measurement, continued

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

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

(iv) Amortised cost

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

(v) Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) Fair value measurement principles, continued

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Company has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction.

(vi) Gains and losses on subsequent measurement

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

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

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

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

(vii) Derecognition

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

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

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

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

The Company writes off assets deemed to be uncollectible.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(viii) Offsetting

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

(d) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

Buildings	40 years
Computer equipment	3-5 years
Vehicles	5-7 years
Office furniture and equipment	7 -16 years

(e) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 10 years.

(f) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of placements with banks, loans and other receivables (loans and receivables). The Company reviews its loans and receivables to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, indications that a borrower or issuer will enter bankruptcy, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3 Significant accounting policies, continued

(f) Impairment, continued

(i) Financial assets carried at amortised cost, continued

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

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

(ii) Non financial assets

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

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

3 Significant accounting policies, continued

(g) Charter capital

Charter capital is classified as equity. Incremental costs directly attributable to the issue of additional charter capital are recognised as a deduction from equity, net of any tax effects.

Dividends

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

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

(h) Taxation

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Income and expense recognition

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

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

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

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

3 Significant accounting policies, continued

(j) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Company plans to adopt these pronouncements when they become effective. The Company has not yet analysed the likely impact of these new standards on its financial statements.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement.* The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Company's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Company does not intend to adopt this standard early.

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.

- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2012 '000 KZT	2011 '000 KZT
Interest income		
Loans to customers	4,679,900	2,879,751
Cash and cash equivalents	16,700	24,199
	4,696,600	**2,903,950**
Interest expense		
Other borrowed funds	(959,772)	(500,524)
Subordinated borrowings	(54,890)	(58,576)
	(1,014,662)	**(559,100)**
	3,681,938	**2,344,850**

Included within various line items under interest income for the year ended 31 December 2012 is a total of KZT 17,607 thousand (2011: KZT 30,284 thousand) accrued on impaired loans to customers.

5 Personnel expenses

	2012 '000 KZT	2011 '000 KZT
Wages, salaries, bonuses and related taxes	1,786,289	1,151,369
Other employee costs	161,054	82,825
	1,947,343	**1,234,194**

6 Other general administrative expenses

	2012 '000 KZT	2011 '000 KZT
Rent	195,972	96,618
Depreciation and amortisation	88,315	75,537
Security	71,834	45,865
Office supplies	67,240	41,267
Professional services	62,125	54,652
Advertising and marketing	55,707	59,428
Communication and information services	52,480	23,216
Business trips	47,291	36,587
Transportation	44,804	31,285
Bank charges	38,200	28,991
Repair and maintenance	34,690	9,127
Cash collection	33,069	17,656
Charity	15,388	13,321
Taxes other than income	10,548	15,872
Personnel training	7,784	5,682
Insurance	6,686	5,665
Other	6,839	6,403
	838,972	**567,172**

All lease agreements which are effective in 2012 and as at 31 December 2012 are operating lease agreements. The leases expire in 2013 and do not contain non-cancellable periods.

7 Income tax expense

	2012 '000 KZT	2011 '000 KZT
Current income tax expense	184,384	110,348
Deferred taxation movement due to origination and reversal of temporary differences	3,199	(3,035)
Total income tax expense	**187,583**	**107,313**

In 2012, the applicable tax rate for current and deferred tax is 20% (2011: 20%).

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

	2012 '000 KZT	%	2011 '000 KZT	%
Profit before income tax	**919,349**	**100.0**	**569,130**	**100.0**
Income tax at the applicable tax rate	183,870	20.0	113,826	20.0
Non-taxable income (non-deductible costs)	3,713	0.4	(6,513)	(1.1)
	187,583	**20.4**	**107,313**	**18.9**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as at 31 December 2012 and 2011. The future tax benefits will only be realised if there are no changes to the law and regulations that adversely affect the Company's ability to claim the deductions in future periods.

Movements in temporary differences during the years ended 31 December 2012 and 2011 are presented as follows:

'000 KZT	Balance 1 January 2012	Recognised in profit or loss	Balance 31 December 2012
Property, equipment and intangible assets	(39,581)	(16,338)	(55,919)
Other assets	2,494	(428)	2,066
Other liabilities	26,640	13,567	40,207
	(10,447)	**(3,199)**	**(13,646)**

'000 KZT	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011
Property, equipment and intangible assets	(36,790)	(2,791)	(39,581)
Other assets	2,452	42	2,494
Other liabilities	20,856	5,784	26,640
	(13,482)	**3,035**	**(10,447)**

8 Cash and cash equivalents

	2012 '000 KZT	2011 '000 KZT
Cash on hand	**32,606**	**16,816**
Cash in transit	**150,740**	**-**
Current accounts with banks		
- rated BB+ to BB-	10,310	-
- rated below B+	613,475	49,339
- not rated	20,567	9,439
Total current accounts with banks	**644,352**	**58,778**
Cash equivalents		
Term deposits with banks		
- rated B+	943,757	83,999
Total term deposits with banks	**943,757**	**83,999**
Total cash and cash equivalents	**1,771,455**	**159,593**

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

As at 31 December 2012 the Company has two banks (2011: nil), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2012 is KZT 1,556,298 thousand (2011: nil).

9 Placements with banks

As at 31 December 2012 the Company's placements were held with local banks and of KZT 301,480 thousand (2011: KZT 224,084 thousand) are pledged as collateral for loans payable to the same banks (Note 14). The management of the Company believes that these transactions represent collateralised loans, rather than derivatives, and accordingly has presented them on a gross basis. Furthermore, these financial instruments have not been considered as derivatives because loans payable and collateral deposits have different maturities.

As at 31 December 2012 KZT 321,073 thousand is a term bank deposit in a local bank whose rating is B under "Standard & Poor's" rating system (2011: of KZT 236,249 thousand in a local bank with rating of B).

As at 31 December 2012 the Company has no banks (2011: no banks), whose balances exceed 10% of equity.

10 Loans to customers

	2012 '000 KZT	2011 '000 KZT
Trade loans	7,510,986	4,986,350
Agricultural loans	2,323,584	1,325,621
Consumer loans	2,744,002	1,621,998
Gross loans to customers	**12,578,572**	**7,933,969**
Impairment allowance	(99,384)	(85,395)
Net loans to customers	**12,479,188**	**7,848,574**

10 Loans to customers, continued

The vast majority of the Company's loans are to individuals.

Movements in the loan impairment allowance for the year ended 31 December 2012 and 2011 were as follows:

	2012 '000 KZT	2011 '000 KZT
Balance at the beginning of the year	85,395	86,681
Net recovery for the year	(50,630)	(33,797)
Write-offs	(22,991)	(68,007)
Recovery	87,610	100,518
Balance at the end of the year	**99,384**	**85,395**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loan portfolio as at 31 December 2012:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans, %
Trade loans				
- Not past due	7,428,014	(25,573)	7,402,441	0.3
- Overdue less than 30 days	15,959	(4,222)	11,737	26.5
- Overdue 30-89 days	17,413	(6,845)	10,568	39.3
- Overdue 90-179 days	17,136	(11,564)	5,572	67.5
- Overdue more than 180 days	32,464	(26,310)	6,154	81.0
Total trade loans	**7,510,986**	**(74,514)**	**7,436,472**	**1.0**
Agricultural loans				
- Not past due	2,298,361	(4,008)	2,294,353	0.2
- Overdue less than 30 days	3,316	(257)	3,059	7.8
- Overdue 30-89 days	12,195	(2,947)	9,248	24.2
- Overdue 90-179 days	1,472	(908)	564	61.7
- Overdue more than 180 days	8,240	(6,234)	2,006	75.7
Total agricultural loans	**2,323,584**	**(14,354)**	**2,309,230**	**0.6**
Consumer loans				
- Not past due	2,732,925	(5,725)	2,727,200	0.2
- Overdue less than 30 days	3,968	(992)	2,976	25.0
- Overdue 30-89 days	2,723	(918)	1,805	33.7
- Overdue 90-179 days	2,676	(1,702)	974	63.6
- Overdue more than 180 days	1,710	(1,179)	531	68.9
Total consumer loans	**2,744,002**	**(10,516)**	**2,733,486**	**0.4**
Total loans to customers	**12,578,572**	**(99,384)**	**12,479,188**	**0.8**

10 Loans to customers, continued

(a) Credit quality of loans to customers, continued

The following table provides information on the credit quality of the loan portfolio as at 31 December 2011:

	Gross loans '000 KZT	Impairment '000 KZT	Net loans '000 KZT	Impairment to gross loans, %
Trade loans				
- Not past due	4,961,623	(12,263)	4,949,360	0.2
- Overdue less than 30 days	3,617	(487)	3,130	13.5
- Overdue 30-89 days	7,177	(2,302)	4,875	32.1
- Overdue 90-179 days	3,657	(2,534)	1,123	69.3
- Overdue more than 180 days	10,276	(8,322)	1,954	81.0
Total trade loans	**4,986,350**	**(25,908)**	**4,960,442**	**0.5**
Agricultural loans				
- Not past due	1,311,313	(7,108)	1,304,205	0.5
- Overdue less than 30 days	1,146	(104)	1,042	9.1
- Overdue 30-89 days	1,946	(468)	1,478	24.0
- Overdue 90-179 days	5,956	(3,983)	1,973	66.9
- Overdue more than 180 days	5,260	(4,514)	746	85.8
Total agricultural loans	**1,325,621**	**(16,177)**	**1,309,444**	**1.2**
Consumer loans				
- Not past due	1,601,928	(33,998)	1,567,930	2.1
- Overdue less than 30 days	1,205	(346)	859	28.7
- Overdue 30-89 days	14,637	(5,423)	9,214	37.0
- Overdue 90-179 days	515	(221)	294	42.9
- Overdue more than 180 days	3,713	(3,322)	391	89.5
Total consumer loans	**1,621,998**	**(43,310)**	**1,578,688**	**2.7**
Total loans to customers	**7,933,969**	**(85,395)**	**7,848,574**	**1.1**

The Company estimates loan impairment based on its past historical loss experience on these types of loans. The main consideration for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, or infringement of the original terms of the contract. The significant assumptions used by management in determining the impairment losses include assumptions on loss migration rates which are constant and can be estimated based on historic loss migration patterns for the past 60 months.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment on loans as of 31 December 2012 would be KZT 124,792 thousand lower/higher (2011: KZT 78,486 thousand).

10 Loans to customers, continued

(a) Credit quality of loans to customers, continued

(i) Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of loans for the year ended 31 December 2012 are as follows:

'000 KZT	Trade loans	Agricultural loans	Consumer loans	Total
Balance at the beginning of the year	25,908	16,177	43,310	85,395
Net recovery for the year	(1,133)	(23,069)	(26,428)	(50,630)
Write-offs	(6,120)	(848)	(16,023)	(22,991)
Recovery	55,859	22,094	9,657	87,610
Balance at the end of the year	**74,514**	**14,354**	**10,516**	**99,384**

Movements in the loan impairment allowance by classes of loans for the year ended 31 December 2011 are as follows:

'000 KZT	Trade loans	Agricultural loans	Consumer loans	Total
Balance at the beginning of the year	40,199	22,789	23,693	86,681
Net recovery for the year	(17,964)	(5,884)	(9,949)	(33,797)
Write-offs	(36,818)	(28,892)	(2,297)	(68,007)
Recovery	40,491	28,164	31,863	100,518
Balance at the end of the year	**25,908**	**16,177**	**43,310**	**85,395**

(b) Analysis of collateral

The following table provides the analysis of loans by types of collateral:

	2012 '000 KZT	% of loan portfolio	2011 '000 KZT	% of loan portfolio
Guarantees	7,518,506	60.2	4,343,080	55.4
Real estate	1,720,908	13.8	2,387,580	30.4
Goods in turnover	1,631,669	13.1	936,703	11.9
Other collateral	1,549,013	12.4	109,519	1.4
Motor vehicles	59,092	0.5	71,692	0.9
Total	**12,479,188**	**100.0**	**7,848,574**	**100.0**

Guarantees are the main collateral on repayment of group loans and represent joint responsibility of borrowers. They are not taken into account when assessing impairment allowance.

The recoverability of loans is primarily dependent of the creditworthiness of the borrowers rather than the value of collateral. The Company's policy provides for recovery of loans through sale of collateral only in the exceptional cases. It is confirmed by the history of obtaining and selling collateral in the event of a failure by the retail customer to meet obligations to the Company when due. Therefore in many cases, the Company believes that the values of collaterals should not be taken into consideration in impairment testing and assumes that the collateral value has zero financial effect in mitigating credit risk.

The amounts shown in the table above represent the carrying amount of the loans, and do not necessarily represent the fair value of the collateral.

For loans to customers with a net carrying amount of KZT 55,195 thousand (2011: KZT 27,079 thousand) management believes that the fair value of collateral is at least equal to the carrying amount of loans at the reporting date.

10 Loans to customers, continued, continued

(b) Analysis of collateral, continued

The Company updates the appraised values of collateral at inception of the loans to the current values considering the approximate changes in property values. The Company obtains specific individual valuation of collateral at each reporting date in case there are indications of impairment.

For loans with a net carrying amount of KZT 1,720,908 thousand (2011: KZT 2,387,580 thousand) collaterised by real estate the fair value of collateral was estimated at inception of the loans and was not adjusted for subsequent changes to the reporting date.

(c) Significant credit exposures

As at 31 December 2012 and 2011, the Company did not have any borrowers or groups of connected borrowers, whose loan balances exceed 10% of equity.

(d) Loan maturities

The maturity of the loan portfolio is presented in Note 17 (d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

11 Property and equipment

'000 KZT	Land and buildings	Computer equipment	Vehicles	Office furniture and equipment	Construction in progress	Total
Cost						
At 1 January 2012	449,152	115,978	116,346	166,592	60,118	908,186
Additions	30,279	50,038	58,144	109,671	5,652	253,784
Disposals	(8,699)	(12,339)	(15,312)	(12,096)	-	(48,446)
Transfers	61,793	-	-	-	(65,770)	(3,977)
At 31 December 2012	**532,525**	**153,677**	**159,178**	**264,167**	**-**	**1,109,547**
Depreciation						
At 1 January 2012	(36,629)	(56,564)	(28,888)	(51,989)	-	(174,070)
Depreciation charge	(9,478)	(20,303)	(16,380)	(21,685)	-	(67,846)
Disposals	66	10,634	7,663	8,424	-	26,787
At 31 December 2012	**(46,041)**	**(66,233)**	**(37,605)**	**(65,250)**	**-**	**(215,129)**
Carrying value						
At 31 December 2012	**486,484**	**87,444**	**121,573**	**198,917**	**-**	**894,418**
Cost						
At 1 January 2011	441,272	80,384	107,185	116,095	2,939	747,875
Additions	7,880	42,611	23,090	54,270	63,566	191,417
Disposals	-	(7,017)	(13,929)	(3,773)	(6,387)	(31,106)
At 31 December 2011	**449,152**	**115,978**	**116,346**	**166,592**	**60,118**	**908,186**
Depreciation						
As at 1 January 2011	(27,839)	(45,000)	(18,315)	(38,719)	-	(129,873)
Depreciation charge	(8,790)	(16,893)	(19,794)	(15,926)	-	(61,403)
Disposals	-	5,329	9,221	2,656	-	17,206
At 31 December 2011	**(36,629)**	**(56,564)**	**(28,888)**	**(51,989)**	**-**	**(174,070)**
Carrying value						
At 31 December 2011	**412,523**	**59,414**	**87,458**	**114,603**	**60,118**	**734,116**

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2012 (2011: nil).

12 Intangible assets

'000 KZT	Software
Cost	
At 1 January 2012	123,509
Additions	41,043
Disposals	(35)
Transfers from property and equipment	3,977
At 31 December 2012	**168,494**
Amortisation	
At 1 January 2012	(39,167)
Amortisation charge	(20,469)
Disposals	21
At 31 December 2012	**(59,615)**
Carrying value	
At 31 December 2012	**108,879**
Cost	
At 1 January 2011	98,877
Additions	24,632
At 31 December 2011	**123,509**
Amortisation	
At 1 January 2011	(25,033)
Amortisation charge	(14,134)
At 31 December 2011	**(39,167)**
Carrying value	
At 31 December 2011	**84,342**

13 Other assets

	2012 '000 KZT	2011 '000 KZT
Prepayments to suppliers	64,464	17,022
Materials and supplies	14,245	14,441
Receivables from employees	4,190	3,330
Prepaid taxes and other prepayments to budget	1,198	2,330
Other	1,713	1,708
Total other non-financial assets	**85,810**	**38,831**

14 Subordinated borrowings and other borrowed funds

	2012 '000 KZT	2011 '000 KZT
Subordinated debt	**451,856**	**444,842**
Other borrowed funds		
Loans from OECD based financial institutions, other than banks	9,622,802	4,985,975
Loans from OECD based banks	1,351,460	741,685
Loans from non-OECD financial institutions, other than banks	306,693	-
Loans from a local bank	291,685	139,943
	11,572,640	**5,867,603**
	12,024,496	**6,312,445**

A summary of the terms of other borrowed funds as at 31 December 2012 and 2011 is presented below:

	31 December 2012		31 December 2011	
	Nominal interest rate, %	**Maturity**	**Nominal interest rate, %**	**Maturity**
Subordinated debt	9.7	2015	9.7	2015
Loans				
- Loans from OECD based financial institutions, other than banks	6.50-12.50	2013-2015	7. 75-11.1	2012-2014
- Loans from OECD based banks	6.7-10.8	2013-2016	6.7-7.4,variable	2012-2014
Loans from non-OECD financial institutions, other than banks	7.50-11.00	2014	-	-
- Loans from a local bank	4.0	2013	2.5	2012

Subordinated debt will, in the event of the winding-up of the Company, be subordinated to the claims of all other creditors of the Company.

As at 31 December 2012 and 2011 loans payable to a local bank of KZT 291,685 thousand (2011: KZT 139,942 thousand) are secured by interest-free term deposits with the same bank in the amount of KZT 301,480 thousand and KZT 224,084 thousand, respectively (Note 9).

As at 31 December 2012 the Company had one bank and eight financial institutions (2011: one banks and nine financial institutions) whose balances exceed 10% equity. The gross value of these balances as at 31 December 2012 is KZT 11,732,811 thousand (2011: KZT 5,869,460 thousand).

15 Other liabilities

	2012 '000 KZT	2011 '000 KZT
Payables to suppliers	12,968	6,882
Total other financial liabilities	**12,968**	**6,882**
Payables to employees	153,428	75,779
Taxes other than income taxes payable	64,568	21,809
Vacation reserve	63,667	58,547
Other liabilities	23,696	7,879
Total other non-financial liabilities	**305,359**	**164,014**
	318,327	**170,896**

16 Equity

(a) Charter capital

As at 31 December 2012 the paid-in and outstanding charter capital of the Company is KZT 2,492,887 thousand (2011: 2,077,252 thousand). In accordance with the decision of General Meeting of Participants held on 4 May 2012, the charter capital of the Company was increased by KZT 415,635 thousand and paid in full in 2012.

(b) Dividends to partners

In accordance with the legislation of the Republic of Kazakhstan, the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with IFRSs or profit for the period if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency. As at 31 December 2012 reserves available for distribution amounted to KZT 731,766 thousand (31 December 2011: KZT 461,817 thousand).

According to the decision of General Meeting of Participants held on 4 May 2012 the Company declared and paid dividends of KZT 461,817 thousand (2011: KZT 529,418 thousand).

(c) Reserve capital

In accordance with the decision of the General Meeting of Participants dated 30 July 2010, the Company established reserve capital, which should be not less than 5% of charter capital as of reporting date by transferring an amount from retained earnings to a non-distributable reserve.

In accordance with the decision of General Meeting of Participants dated 4 May 2012 the Company revised its policy in respect of the reserve capital. The reserve capital is now formed within the year and shall not be less than 5% of the charter capital at the beginning of the year.

During 2012 the Company did not make any transfer to the reserve capital (2011: KZT 23,000 thousand).

17 Risk management

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

(a) Risk management policies and procedures

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

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Asset and Liability Management Committee (the "ALCO Committee") of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and the ALCO Committee. In order to facilitate efficient decision-making, the Company has established a hierarchy of credit committees depending on the type and amount of the exposure. Both external and internal risk factors are identified and managed throughout the Company's organisational structure.

(b) Market risk

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

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

Overall authority for market risk is vested in the ALCO Committee, chaired by the Chairman of the Board.

(i) Interest rate risk

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

17 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

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

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2012						
ASSETS						
Cash and cash equivalents	943,757	-	-	-	-	943,757
Loans to customers	2,138,557	3,852,677	5,388,546	944,936	154,472	12,479,188
	3,082,314	**3,852,677**	**5,388,546**	**944,936**	**154,472**	**13,422,945**
LIABILITIES						
Subordinated borrowings	-	-	-	451,856	-	451,856
Other borrowed funds	332,439	877,521	1,633,381	8,729,299	-	11,572,640
	332,439	**877,521**	**1,633,381**	**9,181,155**	**-**	**12,024,496**
	2,749,875	**2,975,156**	**3,755,165**	**(8,236,219)**	**154,472**	**1,398,449**
31 December 2011						
ASSETS						
Cash and cash equivalents	83,999	-	-	-	-	83,999
Loans to customers	1,472,895	2,589,323	2,878,991	690,467	216,898	7,848,574
	1,556,894	**2,589,323**	**2,878,991**	**690,467**	**216,898**	**7,932,573**
LIABILITIES						
Subordinated borrowings	-	-	-	444,842	-	444,842
Other borrowed funds	820,173	111,802	1,400,967	3,534,661	-	5,867,603
	820,173	**111,802**	**1,400,967**	**3,979,503**	**-**	**6,312,445**
	736,721	**2,477,521**	**1,478,024**	**(3,289,036)**	**216,898**	**1,620,128**

17 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average effective interest rates

The table below displays the Company's interest bearing assets and liabilities as at 31 December 2012 and 2011 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2012 Average effective interest rate, %			2011 Average effective interest rate, %		
	KZT	**USD**	**EUR**	**KZT**	**USD**	**EUR**
Interest bearing assets						
Cash and cash equivalents	4.5	0.3	-	6.0	-	-
Loans to customers	42.8	-	-	43.3	-	-
Interest bearing liabilities						
Loans payable:						
- Loans from OECD based banks	8.5	-	-	7.0	-	-
- Loans from OECD based credit institutions, other than banks	11.0	7.9	6.5	9.3	-	7.8
- Loans from non-OECD financial institutions, other than banks	11.5	8.0	-	-	-	-
- Loans from local bank	4.1	-	-	2.5	-	-
- Subordinated debt	-	9.7	-	-	9.7	-

Interest rate sensitivity analysis

An analysis of sensitivity of the Company's profit or loss and equity to changes in the market interest rate based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012		2011	
	Profit or loss '000 KZT	**Equity '000 KZT**	**Profit or loss '000 KZT**	**Equity '000 KZT**
100 bp parallel rise	53,037	53,037	26,180	26,180
100 bp parallel fall	(53,037)	(53,037)	(26,180)	(26,180)

(ii) Currency risk

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

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

17 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	USD '000 KZT	EUR '000 KZT	Total '000 KZT
ASSETS			
Cash and cash equivalents	1,045,958	148,544	1,194,502
Placements with banks	301,480	-	301,480
Total assets	**1,347,438**	**148,544**	**1,495,982**
LIABILITIES			
Subordinated borrowings	451,856	-	451,856
Other borrowed funds	920,676	223,593	1,144,269
Total liabilities	**1,372,532**	**223,593**	**1,596,125**
Net position as at 31 December 2012	**(25,094)**	**(75,049)**	**(100,143)**

The following table shows the currency structure of financial assets and liabilities as at 31 December 2011:

	USD '000 KZT	EUR '000 KZT	Total '000 KZT
ASSETS			
Cash and cash equivalents	279	-	279
Placements with banks	236,249	-	236,249
Total assets	**236,528**	**-**	**236,528**
LIABILITIES			
Subordinated borrowings	444,842	-	444,842
Other borrowed funds	-	319,054	319,054
Total liabilities	**444,842**	**319,054**	**763,896**
Net position as at 31 December 2011	**(208,314)**	**(319,054)**	**(527,368)**

17 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of the KZT, as indicated below, against the following currencies at 31 December 2012 and 2011 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		**2011**	
	Profit or loss '000 KZT	**Equity '000 KZT**	**Profit or loss '000 KZT**	**Equity '000 KZT**
10% appreciation of USD against KZT	(2,007)	(2,007)	(16,665)	(16,665)
10% appreciation of EUR against KZT	(6,004)	(6,004)	(25,524)	(25,524)

A strengthening of the KZT against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(c) Credit risk

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

The Company's credit policy establishes:

- Procedures for review and approval of loan applications
- Methodology for the credit assessment of borrowers
- Methodology for the evaluation of collateral
- Credit documentation requirements
- Procedures for the ongoing monitoring of loans and other credit exposures.

The Company continuously monitors the performance of individual credit exposures.

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

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

17 Risk management, continued

(c) Credit risk, continued

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

	2012 '000 KZT	2011 000 KZT
ASSETS		
Cash and cash equivalents	1,738,849	142,777
Placements with banks	321,073	236,249
Loans to customers	12,479,188	7,848,574
	14,539,110	**8,227,600**

For the analysis of concentration of credit risk in respect of loans to customers refer to Note 10 – Loans to customers.

The maximum exposure to credit risk from unrecognised contractual commitments at the reporting date is presented in Note 19.

(d) Liquidity risk

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

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

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

The liquidity management policy of the Company requires:

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

The following tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The total gross amount disclosed in the table is the contractual, undiscounted cash flow on the financial liability.

17 Risk management, continued

(d) Liquidity risk, continued

The position of the Company as at 31 December 2012 was as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Subordinated borrowings	22,183	-	22,183	-	540,711	585,077	451,856
Other borrowed funds	185,125	276,810	1,114,997	2,176,492	9,777,197	13,530,621	11,572,640
Other financial liabilities	12,968	-	-	-	-	12,968	12,968
Total liabilities	**220,276**	**276,810**	**1,137,180**	**2,176,492**	**10,317,908**	**14,128,666**	**12,037,464**
Credit related commitments	**7,150**	**-**	**-**	**-**	**-**	**7,150**	**7,150**

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow (inflow)	Carrying amount
Non-derivative liabilities							
Subordinated borrowings	21,797	-	21,797	-	573,983	617,577	444,842
Other borrowed funds	806,880	112,437	158,742	1,627,946	4,004,331	6,710,336	5,867,603
Other financial liabilities	6,882	-	-	-	-	6,882	6,882
Total liabilities	**835,559**	**112,437**	**180,539**	**1,627,946**	**4,578,314**	**7,334,795**	**6,319,327**
Credit related commitments	**34,111**	**-**	**-**	**-**	**-**	**34,111**	**34,111**

17 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	1,771,455	-	-	-	-	-	-	1,771,455
Placements with banks	-	-	14,839	306,234	-	-	-	321,073
Loans to customers	316,132	1,795,153	9,234,263	942,737	153,479	-	37,424	12,479,188
Current tax asset	-	-	23,299	-	-	-	-	23,299
Property and equipment	-	-	-	-	-	894,418	-	894,418
Intangible assets	-	-	-	-	-	108,879	-	108,879
Other assets	-	-	85,810	-	-	-	-	85,810
Total assets	**2,087,587**	**1,795,153**	**9,358,211**	**1,248,971**	**153,479**	**1,003,297**	**37,424**	**15,684,122**
Non-derivative liabilities								
Subordinated borrowings	-	-	-	451,856	-	-	-	451,856
Other borrowed funds	120,151	212,288	2,510,902	8,729,299	-	-	-	11,572,640
Deferred tax liability	-	-	-	13,646	-	-	-	13,646
Other liabilities	46,467	-	271,860	-	-	-	-	318,327
Total liabilities	**166,618**	**212,288**	**2,782,762**	**9,194,801**	**-**	**-**	**-**	**12,356,469**
Net position	**1,920,969**	**1,582,865**	**6,575,449**	**(7,945,830)**	**153,479**	**1,003,297**	**37,424**	**3,327,653**

17 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Non-derivative assets								
Cash and cash equivalents	75,594	-	83,999	-	-	-	-	159,593
Placements with banks	-	-	236,249	-	-	-	-	236,249
Loans to customers	200,912	1,234,113	5,468,314	690,467	216,915	-	37,853	7,848,574
Current tax asset	-	-	34,152	-	-	-	-	34,152
Property and equipment	-	-	-	-	-	734,116	-	734,116
Intangible assets	-	-	-	-	-	84,342	-	84,342
Other assets	-	-	38,831	-	-	-	-	38,831
Total assets	**276,506**	**1,234,113**	**5,861,545**	**690,467**	**216,915**	**818,458**	**37,853**	**9,135,857**
Non-derivative liabilities								
Subordinated borrowings	-	-	-	444,842	-	-	-	444,842
Other borrowed funds	756,516	63,657	1,512,769	3,534,661	-	-	-	5,867,603
Deferred tax liability	-	-	-	10,447	-	-	-	10,447
Other liabilities	-	-	170,896	-	-	-	-	170,896
Total liabilities	**756,516**	**63,657**	**1,683,665**	**3,989,950**	**-**	**-**	**-**	**6,493,788**
Net position	**(480,010)**	**1,170,456**	**4,177,880**	**(3,299,483)**	**216,915**	**818,458**	**37,853**	**2,642,069**

18 Capital management

According to the Law on Microcredit Organizations of 6 March 2003, the Company should have paid the capital in the amount not less than 1,000 times of Monthly Calculation Index (MCI). On 26 November 2012 the Law on Microfinance Organizations was put in force, under which the microcredit organizations (MCO) should be re-registered in microfinance organizations (MFO) with the minimum charter capital of KZT 30,000 thousand and transition period up to 1 January 2016. Prior to re-registration the new requirements to the minimum charter capital are not applied to MCO.

In addition, the Company has a requirement to maintain a ratio of equity to total assets of not less than 20% in accordance with loan agreements with the European Bank for Reconstruction and Development, «Triodos International Fund Management» and «Triple Jump; not less than 15% in accordance with the loan agreements with «Symbiotics», «responsAbility», «Incofin», «Deutsche Bank», «ConCap Connective Capital», and not less than 12% as a part of the subordinated debt with «Symbiotics».

The Company has complied with all externally imposed capital requirements as at 31 December 2012 and 2011.

19 Commitments

The Company has outstanding commitments to extend loans. These commitments take the form of approved credit lines.

The Company applies the same credit risk management policies and procedures when granting credit commitments as it does for granting loans to customers.

The contractual amounts of commitments are set out in the following table. The amounts reflected in the table for commitments assume that amounts are fully advanced.

	2012 '000 KZT	2011 '000 KZT
Contracted amount		
Loan and credit line commitments	7,150	34,111

The total outstanding contractual commitments above do not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

20 Contingencies

(a) Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Company's operations and financial position.

(b) Litigation

Management is unaware of any significant actual, pending or threatened claims against the Company.

20 Contingencies, continued

(c) Taxation contingencies

The taxation system in the Republic of Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Republic of Kazakhstan suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Republic of Kazakhstan that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

21 Related party transactions

(a) Parent company

The Company's Parent company is Corporate Fund "KMF-Demeu".

The party with ultimate control over the Company is ACDI/VOCA, a not-for-profit institution registered in the United States of America, which produces publicly available financial statements.

(b) Transactions with members of the key management personnel

Total remuneration included in employee compensation:

	2012 '000 KZT	**2011 '000 KZT**
Key management personnel	179,389	117,711

For the years ended 31 December 2012 and 2011 key management personnel did not receive any non-cash benefits.

The outstanding balances and average interest rates as of 31 December 2012 and 2011 with members of the key management personnel are as follows:

	2012 '000 KZT	**Average Interest Rate**	**2011 '000 KZT**	**Average Interest Rate**
Statement of financial position				
Assets				
Loans to customers	66,792	3.3	80,383	2.1

Amounts included in profit or loss in relation to transactions with the key management personnel are as follows:

	2012 '000 KZT	**2011 '000 KZT**
Statement of comprehensive income		
Interest income	2,222	2,103

(c) Other transactions with related parties

There were no transactions with other related parties during the year.

22 Fair value of financial instruments

The estimated fair values of all financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

As at 31 December 2012 and 2011 estimated fair values of all financial instruments approximate their carrying values as majority of loans to customers, subordinated borrowings and other borrowed fund are issued at market conditions and the interest rates on these financial instruments in 2012 do not change much in comparison with last years.

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

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

'000 KZT	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	1,738,849	-	1,738,849	1,738,849
Placements with banks	321,073	-	321,073	321,073
Loans customers	12,479,188	-	12,479,188	12,479,188
	14,539,110	**-**	**14,539,110**	**14,539,110**
Subordinated borrowings	-	451,856	451,856	451,856
Other borrowed funds	-	11,572,640	11,572,640	11,572,640
Other financial liabilities	-	12,968	12,968	12,968
	-	**12,037,464**	**12,037,464**	**12,037,464**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

'000 KZT	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	142,777	-	142,777	142,777
Placements with banks	236,249	-	236,249	236,249
Loans customers	7,848,574	-	7,848,574	7,848,574
	8,227,600	**-**	**8,227,600**	**8,227,600**
Subordinated borrowings	-	444,842	444,842	444,842
Other borrowed funds	-	5,867,603	5,867,603	5,867,603
Other financial liabilities	-	6,882	6,882	6,882
	-	**6,319,327**	**6,319,327**	**6,319,327**