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Temirleasing JSC

Financial statements

*For the year ended 31 December 2012
Together with Independent Auditors' Report*

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Independent Auditors' Report

To the Shareholders and Board of Directors of Temirleasing Joint Stock Company

We have audited the accompanying financial statements of Temirleasing Joint Stock Company ("the Company"), which comprise the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in equity and 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 Company 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 auditors' judgement, 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 auditors consider 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 Temirleasing Joint Stock 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.

Ernst & Young LLP


Dmitry Weinstein
Audit Partner


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 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

30 April 2013

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

(Thousands of tenge)

	Note	2012	2011
Assets			
Cash and cash equivalents	5	290,835	540,610
Amounts due from credit institutions		—	36,516
Net investment in finance leases	6	2,231,899	2,217,448
Embedded derivative financial instruments	7	—	14,270
Inventories	8	113,121	131,531
Investment property	9	963,380	988,019
Property and equipment	10	98,587	4,743
Current corporate income tax assets	13	3,750	3,750
Other assets	11	55,636	74,730
Total assets		3,757,208	4,011,617
Liabilities			
Amounts due to credit institutions	12	1,572,871	1,404,798
Debt securities issued		—	512,966
Deferred corporate income tax liabilities	13	50,503	48,079
Other liabilities	11	137,744	99,381
Total liabilities		1,761,118	2,065,224
Equity			
Share capital	14	1,684,113	1,684,113
Retained earnings		311,977	262,280
Total equity		1,996,090	1,946,393
Total equity and liabilities		3,757,208	4,011,617

Signed and authorised for release on behalf of the Management of the Company:

Slamkulov N. O.

General director

Koloskova I. B.

Chief accountant

30 April 2013



STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2012***(Thousands of tenge)*

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Interest income			
Net investment in finance leases		365,642	353,586
		<u>365,642</u>	<u>353,586</u>
Interest expenses			
Amounts due to credit institutions		(196,658)	(161,217)
Debt securities issued		(14,557)	(53,538)
		<u>(211,215)</u>	<u>(214,755)</u>
Net interest income		154,427	138,831
Reversal/(charge) of provision for impairment of investment in finance leases	6	16,036	(32,047)
Net interest income after provision for impairment of investment in finance leases		<u>170,463</u>	<u>106,784</u>
Fee and commission income	15	9,147	8,199
Net gain from initial recognition of financial leases provided/loans borrowed at below market interest rates		—	67,452
Income from operating leases	9	88,012	62,164
Profit/(loss) from sale of inventory		2,083	(433)
Net losses from foreign currencies transactions:			
- dealing		—	(18,880)
- translation difference		6,004	(3,701)
Other income		22,077	7,996
Non-interest income		<u>127,323</u>	<u>122,797</u>
Personnel expenses	16	(121,364)	(104,191)
Depreciation and amortisation	9,10	(31,680)	(26,461)
Other operating expenses	16	(92,583)	(72,539)
Non-interest expense		<u>(245,665)</u>	<u>(203,191)</u>
Profit before corporate income tax (expenses)/benefit		52,121	26,390
Corporate income tax (expense)/benefit	13	(2,424)	4,243
Profit for the year		<u>49,697</u>	<u>30,633</u>
Other comprehensive income		—	—
Total comprehensive income for the year		<u>49,697</u>	<u>30,633</u>
Basic and diluted earnings per share (in tenge)	17	31.86	19.63

For the year ended 31 December 2012

(Thousands of tenge)

	Share capital	Retained earnings	Total equity
As at 31 December 2010	1,684,113	231,647	1,915,760
Total comprehensive income for the year	—	30,633	30,633
As at 31 December 2011	1,684,113	262,280	1,946,393
Total comprehensive income for the year	—	49,697	49,697
As at 31 December 2012	1,684,113	311,977	1,996,090

STATEMENT OF CASH FLOW**For the year ended 31 December 2012***(Thousands of tenge)*

	<i>Note</i>	<i>2012</i>	<i>2011</i>
Cash flows from operating activities:			
Interest received		345,378	334,603
Interest paid		(175,283)	(180,061)
Fee and commission income received		9,147	9,684
Income from operating leases received		87,815	63,363
Other income received		18,281	11,902
Losses from transactions in foreign currencies		(1,750)	(3,560)
Personnel expenses paid		(121,185)	(104,150)
Other operating expenses paid		(87,083)	(65,989)
Cash flows from operating activities before changes in operating assets and liabilities		75,320	65,792
<i>Net (increase)/decrease in operating assets</i>			
Net investment in finance leases		(33,844)	119,846
Amounts due from credit institutions		35,000	(35,000)
Inventories		2,083	(7,364)
Other assets		22,411	(15,267)
<i>Net increase/(decrease) in operating liabilities</i>			
Other liabilities		20,589	(123,982)
Net cash from operating activities before corporate income tax		121,559	4,025
Corporate income tax paid	13	—	—
Net cash provided by operating activities		121,559	4,025
Cash from investing activities:			
Proceeds from sale of property and equipment		—	5,603
Purchase of property and equipment		(15,427)	(971)
Net cash flows (used in)/from investing activities		(15,427)	4,632
Cash flows from financing activities:			
Repayment of amounts due to credit institutions		144,093	435,423
Redemption of debt securities issued		(500,000)	—
Net cash (used in)/from financing activities		(355,907)	435,423
Net (decrease)/increase in cash and cash equivalents		(249,775)	444,080
Cash and cash equivalents, beginning of the year	5	540,610	96,530
Cash and cash equivalents, ending of the year	5	290,835	540,610
Non-cash transactions:			
Non-cash transfer of equipment returned from lessees to property and equipment		84,782	—

(In thousands of tenge unless otherwise is stated)

1. Principal activities

Temirleasing Joint Stock Company (the "Company") was formed on 5 March 2001 under the laws of the Republic of Kazakhstan. The Company's principal business activity is carrying out leasing operations in Kazakhstan.

The registered address of the Company's office is the Almaty Abay 68/74, Republic of Kazakhstan.

The number of employees of the Company as at 31 December 2012 was 28 persons (as at 31 December 2011: 29 persons).

As at 31 December, the following shareholders owned more than 2.5% of the outstanding shares:

<i>Shareholders</i>	<i>2012, %</i>	<i>2011, %</i>
BTA Bank JSC	44.96	35.35
Temirbank JSC	18.88	18.88
CARTE BLANCH LTD LLP	9.56	9.56
SMKK LLP	5.87	5.87
FRANCIS ALLIANCE LTD UL	5.64	5.64
Company Premium Invest LLP	5.06	5.06
Corvet LLP	3.35	3.35
INTELLECTUAL CREATIVE SOLUTIONS LTD UL	2.56	2.56
NAK – LTD LLP	–	9.62
Other	4.12	4.11
Total	100.00	100.00

As at 31 December 2012 authorised and paid capital of the Company comprised 1,560,000 common shares. The controlling shareholder of the Company as at 31 December 2012 is the Government of the Republic of Kazakhstan through BTA Bank JSC and Temirbank JSC.

Basis of preparation

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

These financial statements are prepared under the historical cost convention except as mentioned in Summary of significant accounting policies. For example, derivative financial instruments were measured at fair value.

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

2. Summary of significant accounting policies

Changes in accounting policies

In 2012 the Company has implemented the following revised IFRS standards and new Interpretations. The effects of these changes are as follows:

Amendment to IFRS 7 Financial Instruments: Disclosures

The amendment was issued in October 2010 and became effective for financial years beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Company's financial statements to evaluate the risks associated with those assets. The amendment affected disclosures only and did not have any impact on the Company's financial position or performance.

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

- Amendment to IAS 12 *Income tax - Deferred Taxes - Recovery of underlying assets*;
- 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*.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies

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 Company determines the classification of its financial assets upon initial recognition and, where 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 Company 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 Company 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.

Fair value determination

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Finance leases and receivables

Finance leases 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 resale in the near future 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 rate method. Gains and losses are recognised in the statement of comprehensive income when the finance leases 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 consolidated statement of financial position.

Reclassification of financial assets

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to receivables category of the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss previously recognised in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Embedded derivative financial instruments

Derivatives embedded in other financial instruments are accounted for separately and recorded at fair value if their risks and characteristics are not closely related to those of the host contracts and the host contracts are not held for trading or revalued at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value, with changes in fair value recognised in the statement of comprehensive income within net gains/(losses) from foreign currencies (dealing). Realised income on derivatives embedded in financial lease agreements are recorded in the statement of comprehensive income within interest income.

Borrowings

Borrowings are classified as liabilities, where the substance of the contractual arrangement results in the Company 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.

Borrowings that comprise amounts due to credit institutions and debt securities issued initially recognized at fair value of consideration received, net of expenses directly related to transaction. 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. If the Company purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in the statement of comprehensive income.

Leases

Finance – Company as lessor

The Company recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Assets owned by the Company but subject to finance lease are included in the financial statements as “Net investment in finance lease”, which is the gross investment in finance lease less unearned finance income. Unearned finance income is amortised over the lease term, applying the annuity method, so as to produce a systematic return on the net investment in finance lease.

The lease term is the non-cancelable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

Gross investment in a lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor. Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

Unearned finance income is the difference between the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and the present value of those minimum lease payments, at the interest rate implicit in the lease.

The interest rate implicit in the lease is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments to be equal to the fair value of the leased asset.

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

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Leases (continued)

Operating - Company 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.

Operating – Company as lessor

The Company presents assets subject to operating leases in the statement of financial position according to the nature of the asset. Income from operating lease is recognized in the statement of comprehensive income on a straight line basis over the life of a lease. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Impairment of financial assets

The Company 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.

For financial assets carried at amortised cost, the Company 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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. Investments in finance leases 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 by the Company. 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. The calculation of the present value of the estimated future cash flows of a collateralised 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 similar credit risk characteristics that considers asset type, industry, geographical location, type of security, 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 Company 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.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated investments in finance leases

Where possible, the Company seeks to restructure investment in finance leases rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new finance leases conditions.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the investment in finance lease has been changed the old finance lease payables are derecognised and the new finance lease payables are recognized in the statement of financial position;
- ▶ If the restructuring is not caused by the financial difficulties of the lessee, the Company uses the same approach as for financial liabilities described below.
- ▶ If restructuring is due to the financial difficulties of the lessee and investment in finance leases is impaired after restructuring, the Company recognizes the difference between the present value of future cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case investment in finance leases is not impaired after restructuring, the Company recalculates the effective interest rate.

In the event a financial asset has been renegotiated, it is no longer considered past due. Management continuously reviews renegotiated financial assets to ensure that all criteria are met and that future payments are likely to occur. Such financial assets continue to be subject to an individual or collective impairment assessment, calculated using the financial asset's original effective interest rate.

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 Company 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 Company 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.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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.

Taxation

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

Deferred corporate income tax assets and liabilities are calculated using the liability method. Deferred corporate 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.

Deferred income tax assets are 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.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Company's activities. These taxes are recorded within other operating expenses in the statement of comprehensive income.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

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:

	<i>Years</i>
Motor vehicles	7-10
Other property and equipment	10-14

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

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Investment property

Investment property comprises office premises, is intended to earn operating lease income or capital appreciation, and which is not used by the Company as fixed assets.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time when such cost are incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost, less accumulated depreciation. Buildings within investment property are depreciated on a straight-line basis over the period of useful life, comprising 40 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of comprehensive income in the year of retirement or disposal.

Transfers to and from investment property are made when, and only when, there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the owner becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Impairment of property and equipment and investment property

The carrying amounts of property and equipment and investment property are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. The recoverable amount of property and equipment and investment property is the greater of the net selling price and the value in use. In assessing the 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.

Inventories

Inventory represents forfeited collateral or leased object and are stated at the lower of cost and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Retirement and other employee benefit obligations

The Company 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. Besides, the Company has no post-retirement benefits or significant other compensated benefits requiring accrual.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, 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 the obligation can be made.

Contingent liabilities

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.

Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Finance lease receivables and recognition of rental income

The Company recognizes finance lease receivables in the amount of net investment in leases starting from the commencement of the lease term. Net investment in leases is calculated in the statement of financial position as the net present value of minimum lease payments. In calculating the present value of the minimum lease payments, the interest rate implicit in the lease is used as the discount factor. Initial direct costs are recorded upon initial recognition of the finance lease receivables.

The finance leases originate upon the signing date of the lease agreement or a date when the parties assume obligations under the main leases provisions depending on which of the dates is earlier. At this date:

- the leases are classified as finance leases; and
- the amount, which must be recognized at the beginning of the leases term, is determined.

The leases commences upon a date when the lessor obtained a right to use a leased asset. This is a date of initial recognition of leases (i.e. recognition of assets, liabilities, income or expenses resulted from leases).

The lease payments received are proportionally allocated between financial income and decrease in outstanding lease receivables. Financial income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing instruments classified as available-for-sale, 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). The carrying amount of the financial asset or financial liability is adjusted if the Company 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.

Profit from sale of inventory

Revenue is recognized when the significant risks and rewards of ownership of finance lease items have passed to the buyer and the amount of revenue can be measured reliably. The profit from the sale of inventory comprises of the difference between sales revenue and the cost of the sales. The cost of sale recognized at the commencement of the lease term is the cost, or carrying amount if different, of the leased property less the discounted value of the non-guaranteed residual value.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Revenue and expense recognition (continued)

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 from project evaluation and other advisory services.

Operating expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into KZT at the market exchange rate quoted by the Kazakhstan Stock Exchange (KASE) and reported by the National Bank of the Republic of Kazakhstan at the reporting date. Non-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/(losses) 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 on the date of the transaction are included in net gains from dealing in foreign currencies. The official exchange rates at 31 December 2012 and 2011, were KZT 150.74 and KZT 148.4 to USD 1, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Company will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 *Consolidated Financial Statements* provides a unified control model that is applicable to all types of 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. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation-Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Company evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using the proportionate consolidation. Instead, the jointly controlled entities that meet the definition of joint ventures are 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. Currently the Company evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 combines the disclosure requirements that were previously contained in IAS 27 as related to consolidated financial statements, as well as IAS 31 and IAS 28. These disclosure requirements apply to shares of the company's participation in subsidiaries, joint venture, associates and structured companies. With respect to such companies were introduced a number of new disclosure requirements. The Company will need to disclose more information about the consolidated and unconsolidated structured entities with which it is involved or which it has sponsored. However, the standard will not have any impact on the financial position or performance of the Company.

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. The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Company's assets and liabilities accounted for at fair value. Currently the Company evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IAS 27 Separate Financial Statements (as 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.

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*. Revised standard 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 1 January 2013.

IAS 19 Employee Benefits (Amendment)

The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment makes significant changes in accounting for employee benefits, in particular it removes the possibility of deferred recognition in plan assets and liabilities (corridor mechanism). In addition, the amendment limits the change in net pension assets (liabilities) recognized in profit or loss, by net interest income (expense) and costs of services. The amendment will not have any impact on the financial position or performance of the Company.

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

The amendment to IAS 1 changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, net loss or income on financial assets available-for-sale) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. The amendments will not have any impact on the financial position or performance of the Company. The amendments are effective for annual periods beginning on or after 1 January 2013.

(In thousands of tenge unless otherwise is stated)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. It will be necessary to assess the impact for the Company by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While many settlement systems are expected to meet the new criteria, some may not. As the impact of the adoption depends on the Company’s examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects.

The amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, prospectively to government loans existing at the date of transition to IFRS. The amendment will have no impact on the Company’s financial statements.

Improvements to IFRSs

The amendments are effective for annual periods beginning on or after 1 January 2013. They will not have an impact on the Company:

- *IFRS 1 First-time Adoption of International Financial Reporting Standards:* This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.
- *IAS 1 Presentation of Financial Statement:* This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property, Plant and Equipment:* This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments: presentation:* This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.
- *IAS 34 Interim financial reporting:* The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

4. Significant accounting judgements and estimates

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

(In thousands of tenge unless otherwise is stated)

4. Significant accounting judgements and estimates (continued)

Allowance for impairment of finance leases and receivables

The Company analyses its leases and receivables to assess impairment on a monthly basis. The Company uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or local economic conditions that correlate with defaults on assets in the group. The Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of leases and receivables. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Taxation

Kazakhstan currently has a single Tax Code which regulates fundamental issues of taxation. Effective taxes include value added tax, corporate income tax, social and other taxes. Administrative instructions on application of regulatory legal are frequently inexplicit or completely absent, and an insignificant number of such cases were recorded. There are various opinions on interpretation of regulations between authorities as well as within authorities, which create some uncertainty and conflicts. 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 Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2012	2011
Cash on hand	580	53
Current accounts – Temirbank JSC	290,255	540,557
Cash and cash equivalents	290,835	540,610

6. Net investment in finance leases

Net investment in finance leases includes:

	2012	2011
Minimum lease payments receivable	2,985,690	3,105,523
Unearned finance income	(361,494)	(479,742)
Net minimum lease payments receivable	2,624,196	2,625,781
Less: allowance for impairment	(392,297)	(408,333)
Net investment in finance leases	2,231,898	2,217,448
Current portion	1,579,969	1,517,814
Less: allowance for impairment	(367,483)	(372,829)
Net current portion	1,212,486	1,144,985
Non-current portion	1,044,227	1,107,967
Less: allowance for impairment	(24,814)	(35,504)
Net non-current portion	1,019,413	1,072,463
Net investment in finance leases	2,231,899	2,217,448

In 2012 and 2011 the value of leased equipment transferred to finance lease amounted to KZT 1,261,348 thousand and KZT 1,128,790 thousand, respectively.

The interest rates on net investment in finance leases in 2012 range from 8% to 27% (2011: 8% to 21%) per annum. The effective interest rate on net investment in finance leases in 2012 is 16.63% p.a. (2011: 15.54%) per annum.

(In thousands of tenge unless otherwise is stated)

6. Net investment in finance leases (continued)

Remaining maturities of gross and net investment in finance leases at 31 December are as follows:

Years	2012		2011	
	General investments	Net investments	General investments	Net investments
2012	—	—	1,579,323	1,517,814
2013	1,646,718	1,579,969	769,050	623,101
2014	792,115	656,445	394,120	276,521
2015	404,808	297,410	236,675	142,802
2016	139,208	88,700	126,354	65,543
2017	2,841	1,672	—	—
	2,985,690	2,624,196	3,105,522	2,625,781

At the end of the lease term the ownership of the leased assets is transferred to the lessees.

The reconciliation of allowance for impairment of investment in finance leases is as follows:

	2012	2011
As at 1 January	408,333	395,235
(Reversal)/charge for the year	(16,036)	32,047
Write-off	—	(18,949)
As at 31 December	392,297	408,333
Individual impairment	346,311	353,921
Collective impairment	45,986	54,412
	392,297	408,333
Gross amount of investments in finance leases individually determined to be impaired, before deducting allowance for impairment	688,986	927,736

Individually impaired investments in finance leases

Interest income accrued on assets, individually determined as impaired, for the year ended 31 December 2012, amounted to KZT 48,388 thousand (in 2011: KZT 62,170 thousand).

The fair value of collateral for the Company's investments in finance leases that as at 31 December 2012 were individually determined as impaired comprises KZT 606,840 thousand (31 December 2011: KZT 694,375 thousand). Investment in leases may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

Collateral and other credit enhancements

The amount and type of collateral required by the Company depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment.

During 2012 the Company repossessed specialised equipment and motor vehicles totalling to KZT 90,046 thousand (in 2011: KZT 166,112 thousand), of which motor vehicles and equipment in the amount of KZT 84,782 thousand were classified as property and equipment for further transfer to operating leases (Note 10), the rest was classified as inventory for the purposes of further sale (Note 8). According to the Company's policies, the repossessed property is sold or transferred to secondary finance lease in accordance with the established procedure. The proceeds are used to reduce or repay the current debt.

Concentration of investments in finance leases

As at 31 December 2012, 10 largest lessees, accounted for 35% (December 2011: 52%) of the net minimum leases payments receivable or 48% (31 December 2011: 70%) of capital. The aggregate amount of these finance leases comprised KZT 943,714 thousand (31 December 2011: KZT 1,351,893 thousand). At 31 December 2012, the allowance in the amount of KZT 29,092 thousand was recognised for these investments (31 December 2011: KZT 38,961 thousand).

(In thousands of tenge unless otherwise is stated)

7. Embedded derivative financial instruments

The table below shows the fair values of derivative financial instruments reflected in financial statements together with their notional amounts.

	2012			2011		
	Notional principal amount	Fairvalue		Notional principal amount	Fairvalue	
		Asset	Liability		Asset	Liability
Currency option	–	–	–	115,893	14,270	–

As at 31 December 2012, the Company had no embedded derivative financial instrument, since it was redeemed in accordance with the indexed loans redemption terms. As at 31 December 2011, the Company had certain investment in finance leases that are foreign currency linked debt instruments with a floor feature, i.e. where interest and principal payments are linked to foreign currencies, in such a way, that the Company has an option to demand higher payments if the foreign currency specified in the contract will appreciate above certain floor (the floor is generally set at the spot rate that prevailed during the lease issue date). At the same time if the foreign currency rates will fall below the floor, interest and principal payments will remain at the original level.

The Company believes that the above feature comprising an embedded foreign currency option is an embedded derivative that should be separated from the host contract and recorded as a separate financial instrument measured at fair value through profit or loss in the financial statements.

8. Inventories

Inventories comprise finance lease items returned from lessees and either held for resale or for leasing out under finance leases. As at 31 December 2012, inventories amounted to KZT 113,121 thousand (31 December 2011: KZT 131,531 thousand) and fully consisted of motor vehicles and other specialised equipment.

9. Investment property

The movement in investment property:

	Land	Buildings	Total
Cost:			
At 31 December 2010	158,552	986,604	1,145,156
Disposal	(1,199)	(4,380)	(5,579)
At 31 December 2011	157,353	982,224	1,139,577
Additions	–	–	–
At 31 December 2012	157,353	982,224	1,139,577
Accumulated depreciation:			
At 31 December 2010	–	(127,476)	(127,476)
Charges	–	(24,721)	(24,721)
Disposal	–	639	639
At 31 December, 2011	–	(151,558)	(151,558)
Charges	–	(24,639)	(24,639)
At 31 December, 2012	–	(176,197)	(176,197)
Net book value:			
At 31 December, 2012	157,353	806,027	963,380
At 31 December 2011	157,353	830,666	988,019
At 31 December 2010	158,552	859,128	1,017,680

	2012	2011
Rental income derived from investment property	88,012	62,164
Investment property operating expenses	(16,429)	16,466

Investment property consists of buildings and adjacent land lots. The fair value of investment property, which was determined by a licensed appraiser using the comparative market prices as at 31 December 2012 amounts to KZT 2,789,585 thousand (31 December 2011: 2,697,902 KZT thousand). This investment property is leased under operating lease agreements, which mature on 31 December 2012.

(In thousands of tenge unless otherwise is stated)

10. Property and equipment

The movements in property and equipment were as follows:

	<i>Motor vehicles</i>	<i>Construction in progress</i>	<i>Other property and equipment</i>	<i>Total</i>
Cost:				
At 31 December 2010	—	—	13,119	13,119
Addition	—	—	971	971
Disposal	—	—	(1,517)	(1,517)
At 31 December 2011	—	—	12,573	12,573
Addition	84,782	14,147	1,319	100,248
Disposal	—	—	(1,642)	(1,642)
At 31 December 2012	84,782	14,147	12,250	111,179
Accumulated depreciation:				
At 31 December 2010	—	—	(7,617)	(7,617)
Charges	—	—	(1,076)	(1,076)
Disposal	—	—	863	863
At 31 December 2011	—	—	(7,830)	(7,830)
Charges	(5,299)	—	(1,064)	(6,363)
Disposal	—	—	1,601	1,601
At 31 December 2012	(5,299)	—	(7,293)	(12,592)
Net book value:				
At 31 December 2012	79,483	14,147	4,957	98,587
At 31 December 2011	—	—	4,743	4,743
At 31 December 2010	—	—	5,502	5,502

Depreciation and amortisation in the 2012 statement of comprehensive income comprises depreciation of property and equipment in the amount of KZT 6,363 thousand and intangible assets in the amount of KZT 678 thousand (2011: KZT 1,076 thousand and KZT 664 thousand, respectively). Motor vehicles are leased out under the operating lease agreements, which mature on 31 December 2012.

11. Other assets and liabilities

Other assets comprise the following:

	<i>2012</i>	<i>2011</i>
Accounts receivables for sold inventory	31,005	45,395
Accounts receivable for reimbursable expenses	16,454	10,769
Advances and prepayments	7,492	12,684
Taxes, other than corporate income tax	7,099	11,023
Other	2,726	3,999
	64,085	83,870
Less: allowance for impairment	(9,140)	(9,140)
Other assets	55,636	74,730

The movements in allowance for impairment of other assets are as follows:

	<i>Other assets</i>
At 1 January 2010	9,158
Write-off for the year	(18)
At 31 December 2011	9,140
Charge for the year	—
At 31 December 2012	9,140

Other liabilities comprise the following:

	<i>2012</i>	<i>2011</i>
Value added tax payable	68,954	64,640
Advances from lessees	25,432	15,941
Deferred revenues	19,810	—
Payables to suppliers	17,552	14,206
Professional services payable	1,820	3,206
Other	4,176	1,388
Other liabilities	137,744	99,381

(In thousands of tenge unless otherwise is stated)

12. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	2011
"Entrepreneurship Development Fund" Damu" JSC	964,525	907,647
Loans from Temirbank JSC, Tenge	608,346	497,151
Amounts due to credit institutions	1,572,871	1,404,798

As at 31 December 2012 and 2011 the Company had a credit facility provided by Temirbank JSC in the amount of KZT 2,300,000 thousand maturing in 2018. The credit facility is collateralised by investment properties owned by the Company with the carrying value of KZT 963,380 thousand at 31 December 2012 (2011: KZT 988,019 thousand). As at 31 December 2012 and 2011, nominal interest rates on loans received under this credit facility were 13.5% per annum.

The Company also received loans for finance leasing transactions with small and medium businesses from "Entrepreneurship Development Fund" Damu" JSC. As at 31 December 2012, such loans amount to KZT 969,633 thousand (31 December 2011: KZT 907,647 thousand), nominal interest rates vary from 3.5% to 6.5% per annum (31 December 2011: from 3.5% to 6.5%). Terms of this credit line comprise certain financial and non-financial covenants. In particular, the financial position of a borrower should not be defined as "Unstable" in accordance with the Resolution of the Government of the Republic of Kazakhstan, Clause 3, No. 2275 dated 30 December 2009. The default event also comprises the failure to comply with the terms of investment in finance leases. At 31 December 2011 and 2012, the Company was in compliance with covenants under the agreement terms.

13. Taxation

The corporate income tax ("CIT") expense comprises:

	2012	2011
Current CIT expenses	—	—
Deferred CIT (expense)/benefit - origination and reversal of temporary differences	(2,424)	4,243
CIT (expense)/benefit	(2,424)	4,243

In accordance with Kazakhstan legislation, income from financial lease for a period of more than three years, with subsequent transfer of the title of equipment to a lessee, is exempt from CIT. As a result, the Company deducts interest income from finance leases for the purpose of calculation of net taxable income liable to tax. This computation calculation results in tax losses that are not subject to carry forward to future periods.

In accordance with the tax legislation the applied corporate income tax rate is 20% in 2012 and 2011.

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

	2012	2011
Profit before CIT expense	52,121	26,390
Statutory CIT rate	20%	20%
Theoretical CIT expense at the statutory rate	10,424	5,278
Non-taxable income from finance leases	(11,396)	(10,216)
Expenses on derivative financial instruments	—	3,776
Allowance for impairment of assets	1,520	6,409
Other	188	(9,490)
CIT expense/(benefit)	2,424	(4,243)

(In thousands of tenge unless otherwise is stated)

13. Taxation (continued)

	<i>Origination and decrease of temporary differences in the statements of compre- hensive income</i>		<i>Origination and decrease of temporary differences in the statements of compre- hensive income</i>		
	2010	2011	2011	2012	2012
Tax effect of deductible temporary differences:					
Advances paid	605	36	641	(277)	364
Deferred tax asset	605	36	641	(277)	364
Tax effect of taxable temporary differences:					
Investment property and property and equipment	(52,927)	4,207	(48,720)	(2,147)	(50,867)
Deferred tax liability	(52,927)	4,207	(48,720)	(2,147)	(50,867)
Net deferred tax liability	(52,322)	4,243	(48,079)	(2,424)	(50,503)

As at 31 December 2011, current corporate income tax assets comprise KZT 3,750 thousand.

14. Share capital

As at 31 December 2012 and 2011, authorised and paid capital of the Company comprised 1,560,000 common shares. The placement value was KZT 1,000 per share. In 2012 and 2011 the Company did not declare and pay any dividends.

15. Fee and commission income

Commission income comprises the following:

	2012	2011
Income from expertise of potential lessee's projects	4.569	5.359
Income from agent agreements	4.432	2.572
Income from restructuring of payment schedules	146	268
Fee and commission income	9.147	8.199

16. Personnel and other operating expenses

Personnel and other operating expenses comprise the following:

	2012	2011
Salaries and bonuses	(110.652)	(95.019)
Social security costs	(10.712)	(9.172)
Personnel expenses	(121.364)	(104.191)
Professional fees	(17.719)	(10.367)
Rent expenses	(16.711)	(14.719)
Taxes other than corporate income tax	(16.390)	(13.694)
Utility expenses	(16.292)	(16.164)
Repair of vehicles	(13.071)	(792)
Bank charges	(3.842)	(10.527)
Business trip expenses	(3.353)	(1.868)
Advertising expenses	(1.755)	(1.046)
Communication	(1.544)	(1.775)
Other expenses	(1.906)	(1.587)
Other operating expenses	(92.583)	(72.539)

(In thousands of tenge unless otherwise is stated)

17. Earnings per share

Basic and diluted earnings per share is calculated by dividing the net income for the year attributable to common shareholders by the weighted average number of shares outstanding during the year. The Company does not have any options or convertible debt or equity instruments.

The following is the income and share data used in the basic and diluted earnings per share computations:

	2012	2011
Net income attributable to common shareholders	49,697	30,633
Weighted average number of common shares	1,560,000	1,560,000
Basic and diluted earnings per share (in tenge)	31.86	19.63

As at 31 December 2012 and 2011, the Company did not have any financial instruments diluting earnings per share.

18. Contingent liabilities

Legal actions and claims

In the ordinary course of business, the Company is subject to legal actions and complaints.

The management believes, that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the current financial position or the results of future financial and economic operations of the Company.

The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where 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 these financial statements for any of the above described contingent liabilities.

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.

The world financial crisis affected the Kazakhstan economy. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Company's future financial position, results of operations and business prospects.

19. Risk management

Introduction

Risk is inherent in the Company's activities. The Company manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Company is mainly exposed to credit risk, liquidity risk, currency risk and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process. The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles. The Company's internal risk management technique focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. The risks are managed by Finance function.

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations, arising primarily from the Company's net investments in finance leases. Concentrations of credit risk 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. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept by individual counterparty, industry concentration and type of asset, and by monitoring exposures in relation to such limits.

(In thousands of tenge unless otherwise is stated)

19. Risk management (continued)**Credit risk (continued)**

Exposure to credit risk is managed through regular analysis of the ability of lessees and potential lessees to meet financial obligations and by changing those limits where appropriate. Exposure to credit risk is also managed by insuring the leased assets. The Company has also established authorization structure and limits of credit approval. Adherence to credit policies formulated and approved by the Board of Directors is monitored by a separate Credit department, which is responsible for overseeing the Company's credit risk.

The carrying amount of components of the statement of financial position, including derivative instruments, without the influence of risk mitigation through the use of master netting agreements and collateral agreements, most accurately reflects the maximum credit exposure on these components.

Where financial instruments are recorded at fair value, their carrying amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit risk on gross amounts due in relation to investment in finance leases is further mitigated by the retention of title on leased assets and obtaining additional collateral, if necessary.

The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Company's credit rating system.

	2012			
	Standard grade		Impaired	Total
	Total	Including past due but not impaired		
Financial assets				
Cash and cash equivalents (excluding cash on hand)	290,255	—	—	290,255
Net investment in finance leases	1,935,210	8,604	688,986	2,624,196
Other assets	38,319	18,900	9,140	47,459
Total	2,263,784	27,504	698,126	2,961,910

	2011			
	Standard grade		Impaired	Total
	Total	Including past due but not impaired		
Financial assets				
Cash and cash equivalents (excluding cash on hand)	540,557	—	—	540,557
Amounts due from credit institutions	36,516	—	—	36,516
Net investment in finance leases	1,698,045	18,063	927,736	2,625,781
Embedded derivative financial instruments	14,270	—	—	14,270
Other assets	47,024	35,855	9,140	56,164
Total	2,336,412	53,918	936,876	3,273,288

(In thousands of tenge unless otherwise is stated)

19. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired assets is as follows:

	<i>Less than 30 days</i>	<i>From 30 to 90 days</i>	<i>Total</i>
31 December 2012			
Net investment in finance leases	8,604	–	8,604
Other financial assets	–	18,900	18,900
Total	8,604	18,900	27,504
31 December 2011			
Net investment in finance leases	18,063	–	18,063
Other financial assets	27,767	8,088	35,855
Total	45,830	8,088	53,918

Leases overdue by more than 30 days, but by less than 91 days are considered past due but not impaired, unless other objective information is available to classify the investment in finance leases as impaired. Impaired financial assets are those for which the Company determines that it is probable it will be unable to collect all principal and lease income due according to contractual terms of the finance lease agreements. Financial assets are considered impaired when they are past due by 91 days or more. The Company addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant lessee 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 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 impairment of investments in finance lease that are not individually significant and allowance for individually significant investments, where there is not yet objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio of finance leases 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. 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 uncured 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.

Financial assets with restructuring terms are those which have been restructured due to deterioration in the customer's financial position and where the Company has made concessions that it would not otherwise consider.

The carrying amount of net investments in finance leases renegotiated as at 31 December 2012 comprises KZT 7,960 thousand (31 December 2011: KZT 28,263 thousand).

Concentration of credit risk

Concentrations of credit risk 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.

By counterparties:

The Company focuses on small and medium sized business and its credit risk is diversified over a large number of clients. The concentration of risk by counterparties is disclosed in Note 6.

(In thousands of tenge unless otherwise is stated)

19. Risk management (continued)**Concentration of credit risk (continued)***By economic sectors:*

Economic sector risk concentrations for financial assets exposed to credit risk are as follows:

	2012	%	2011	%
Construction	555,745	21.18	415,120	15.81
Vehicles	728,567	27.76	571,750	21.77
Services	447,024	17.03	374,430	14.26
Road construction	195,929	7.47	206,923	7.88
Agriculture	116,842	4.45	506,540	19.29
Printing industry	183,043	6.98	137,829	5.25
Manufacturing	260,127	9.91	260,671	9.93
Food industry	112,035	4.27	131,616	5.01
Retail trading	24,884	0.95	20,902	0.80
	2,624,196	100.00	2,625,781	100.00

By geographic concentration:

At 31 December 2012 and 2011, all monetary assets and liabilities of the Company are concentrated in the Republic of Kazakhstan.

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, 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 secure additional funding if required. Fund management is carried out by Finance function. It includes managing and monitoring day to day cash flows and funding needs.

The liquidity position is assessed and managed by the Company based on the ratios of net liquid assets and liabilities. As at 31 December these ratios were as follows:

	2012	2011
Current liquidity ratio (assets receivable or realizable within one year/liabilities repayable within one year)	2,47	2,03
Long-term liquidity ratio (assets receivable or realisable in more than one year/liabilities repayable in more than one year)	1,95	1,87

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2012 and 2011, based on contractual undiscounted repayment obligations.

	2012			Total
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	
Financial liabilities				
Amounts due to credit institutions	100,060	478,259	1,408,835	1,987,154
Other liabilities	19,396	—	—	19,396
Total undiscounted financial liabilities	119,456	478,259	1,408,835	2,006,550
	2011			Total
	Less than 3 months	From 3 to 12 months	From 1 to 5 years	
Financial liabilities				
Amounts due to credit institutions	84,546	343,949	1,414,529	1,843,024
Debt securities issued	27,193	500,306	—	527,499
Other liabilities	17,412	—	—	17,412
Total undiscounted financial liabilities	129,151	844,255	1,414,529	2,387,935

(In thousands of tenge unless otherwise is stated)

19. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The Company's capability to meet its liabilities depends upon its ability to realise an equivalent amount of assets within the certain period of time.

Management believes that this level of funding will remain with the Company for the foreseeable future and that in the event of withdrawal of funds, the Company would be given sufficient notice so as to realise its liquid assets to enable repayment.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. Except for the concentrations within foreign currency, the Company 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 values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's statement of comprehensive income.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2012. The effect on the equity does not differ from the effect on the income statement. As at 31 December 2012, the Company had no financial assets and financial liabilities with floating rate.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company limits its exposure to currency risk by indexing the minimum lease payments receivable under finance leases to either USD or euro.

The tables below indicate the currencies to which the Company had significant exposure as at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on the statement of comprehensive income. The effect on equity does not differ from the effect on the statement of comprehensive income. The negative amount in the table reflects a potential net reduction in statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	2012			
	Increase in currency rate in %	Effect on profit before tax	Decrease in currency rate in %	Effect on profit before tax
USD	1.57	(208)	(1.57)	208
Currency	2011			
	Increase in currency rate in %	Effect on profit before tax	Decrease in currency rate in %	Effect on profit before tax
USD	10.72	(3,421)	(10.72)	3,421
Euro	16.33	(106)	(16.33)	106

Operational risk

Operational risk is the risk of loss 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 Company cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorisation and reconciliation procedures and staff education.

(In thousands of tenge unless otherwise is stated)

20. Fair value of financial instruments

Financial instruments recorded at fair value

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2012, the Company had no financial instruments presented in financial statements at fair value. As at 31 December 2011, financial instruments presented in the financial statements at fair value comprised derivative financial instruments classified to Level 2 according to hierarchy of fair value sources.

Derivative instruments valued using a valuation technique with market observable inputs are currency option. The techniques combine various inputs, including currencies forward rates.

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

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments that are not recorded at fair value in the statement of comprehensive income. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2012			2011		
	Carrying value	Fair value	Unrecognised gain/(loss)	Carrying value	Fair value	Unrecognised gain/(loss)
Financial assets						
Cash and cash equivalents	290,835	290,835	—	540,611	540,611	—
Amounts due from credit institutions	—	—	—	36,516	36,516	—
Net investment in finance leases	2,231,899	2,216,956	(14,943)	2,217,448	2,233,641	16,193
Other financial assets	38,319	38,319	—	47,224	47,224	—
Financial liabilities						
Amounts due to credit institutions	1,572,871	1,447,886	124,985	1,404,798	1,441,908	(37,110)
Debt securities issued	—	—	—	512,966	512,966	—
Other financial liabilities	19,396	19,396	—	17,412	17,412	—
Total unrecognised change in fair value			110,042			(20,917)

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

(In thousands of tenge unless otherwise is stated)

20. Fair value of financial instruments (continued)

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is not the subject to externally imposed capital requirements.

21. Maturity analysis of financial assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	2012			2011		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Assets:						
Cash and cash equivalents	290,835	—	290,835	540,610	—	540,610
Amounts due from credit institutions	—	—	—	36,516	—	36,516
Net investment in finance leases	1,212,486	1,019,413	2,231,899	1,120,133	1,097,315	2,217,448
Derivative financial instruments	—	—	—	6,908	7,362	14,270
Inventories	113,121	—	113,121	131,531	—	131,531
Investment property	—	963,380	963,380	—	988,019	988,019
Property and equipment	—	98,587	98,587	—	4,743	4,743
Current corporate income tax assets	3,750	—	3,750	3,750	—	3,750
Other assets	54,829	807	55,636	72,733	1,997	74,730
Total	1,675,021	2,258,342	3,757,208	1,912,181	2,099,436	4,011,617
Liabilities :						
Amounts due to credit institutions	464,659	1,108,212	1,572,871	328,629	1,076,169	1,404,798
Debt securities issued	—	—	—	512,966	—	512,966
Deferred corporate income tax liabilities	—	50,503	50,503	—	48,079	48,079
Other liabilities	137,744	—	137,744	99,381	—	99,381
Total	602,403	1,158,715	1,761,118	940,976	1,124,248	2,065,224
Net	1,072,618	923,472	1,996,090	971,205	975,188	1,946,393

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, and not merely the legal form.

Transactions with government-related entities

The Republic of Kazakhstan 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 under common control"). The Republic of Kazakhstan does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government.

Under these circumstances, the management of the Company disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge.

Related parties include Company's shareholders, key management personnel and organization in which shareholders or key management personnel of the Company directly or indirectly have the significant influence. Transactions between related parties are effected on the same terms, conditions and amounts as transactions between unrelated parties.

(In thousands of tenge unless otherwise is stated)

22. Related party transactions (continued)*Transactions with government-related entities (continued)*

The amount of related party transactions and balances as of 31 December 2012 and 31 December 2011 as well as the respective amounts of income and expenses for the years ended 31 December 2012 and 2011 are as follows:

	2012		2011	
	Shareholders	Entities under common control	Shareholders	Entities under common control
Current accounts, beginning of the year	540,557	—	96,480	—
Received	3,243,241	—	2,987,342	—
Paid	(3,493,543)	—	(2,543,265)	—
Current accounts, end of the year	290,255	—	540,557	—
Amounts due to credit institutions at the beginning of the period	497,151	907,647	648,225	360,468
Loans received	811,603	327,023	644,014	597,491
Loans repaid	(700,408)	(270,145)	(795,088)	(50,312)
Amounts due to credit institutions at the end of the period	608,346	964,525	497,151	907,647
Interest expenses	(90,518)	(106,140)	(109,558)	(51,659)
Income from operating lease	59,085	—	55,031	—
Other operating expenses	(3,842)	—	(10,527)	—

As described in Note 12, during 2012 the Company received a loan from the Fund for “Development of Entrepreneurship “Damu” JSC in the amount of KZT 245,800 thousand (2011: KZT 585,200 thousand). Temirbank JSC issued a guarantee for the mentioned above amount as a security for the loan.

In 2012 compensation to 4 members of key management personnel (2011: 3 members of key management personnel) comprised of the following:

	2012	2011
Salary and other short-term benefits	22,116	28,002
Social security costs	2,184	2,592
Total key management personnel compensation	24,300	30,594

23. Subsequent events

In April 2013 BTA Bank JSC increased its share in the Company to 54.53% from 44.96% as at 31 December 2012.