

**“Damu” Entrepreneurship
Development Fund JSC**

Financial Statements
for the year ended
31 December 2010

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Independent Auditors' Report

To the Board of Directors and Management Board of "Damu" Entrepreneurship Development Fund JSC

We have audited the accompanying financial statements of "Damu" Entrepreneurship Development Fund JSC (the "Fund"), which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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


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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter


The financial statements of the Fund as at and for the year ended 31 December 2009 were audited by other auditors whose report dated 25 March 2010 expressed an unmodified opinion on those statements.

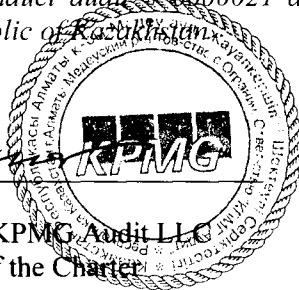

Abibullayeva E. Sh.
Certified Auditor
of the Republic of Kazakhstan
Auditor's Qualification Certificate
No.0000288 of 11 November 1996



KPMG Audit LLC

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


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




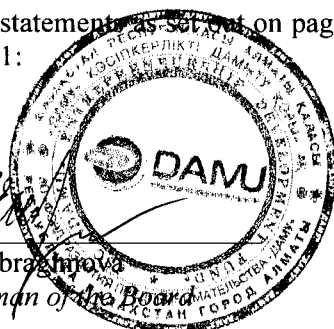
25 March 2011


“Damu” Entrepreneurship Development Fund JSC
Statement of Comprehensive Income for the year ended 31 December 2010

	Note	2010 '000 KZT	2009 '000 KZT
Interest income	4	19,712,391	21,618,882
Interest expense	4	(12,379,350)	(12,900,116)
Net interest income		7,333,041	8,718,766
Net foreign exchange income/(loss)		260	(7,543)
Net gain on financial instruments at fair value through or loss	5	388,302	78,472
Net gain/(loss) on available-for-sale financial assets		66,745	(1,044,356)
Other operating income	6	301,493	12,096
Operating income		8,089,841	7,757,435
Net impairment recoveries/(losses)	7	11,643,378	(17,992,858)
Personnel expenses	8	(1,347,854)	(928,663)
Other general administrative expenses	9	(942,184)	(592,125)
Profit/(loss) before income tax		17,443,181	(11,756,211)
Income tax (expense)/benefit	10	(3,394,451)	1,371,882
Profit/(loss) for the year		14,048,730	(10,384,329)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		598,630	(195,862)
Net change in fair value of available-for-sale financial assets transferred to profit or loss		(66,745)	-
Impairment of available-for-sale financial assets transferred to profit or loss		-	1,044,356
Other comprehensive income for the year		531,885	848,494
Total comprehensive income for the year		14,580,615	(9,535,835)

The financial statements as set out on pages 5 to 52 were approved by the Management Board on 25 March 2011:


Ms. Lyazzat Ibrahimoğlu
Acting Chairman of the Board




Ms. Bakyt Rahmatullina
Chief Accountant

The statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 - 52.

“Damu” Entrepreneurship Development Fund JSC
Statement of Financial Position as at 31 December 2010

	Note	2010 '000 KZT	2009 KZT'000
ASSETS			
Cash and cash equivalents	11	23,649,327	15,843,071
Financial instruments at fair value through profit or loss	12	14,319,128	-
Loans and advances to financial institutions	13	167,357,229	227,911,013
Loans to customers	14	3,386,969	7,614,639
Available-for-sale financial assets	15	5,181,261	4,543,203
Investments in associates		12,000	12,000
Property and equipment	16	579,117	484,796
Intangible assets		76,051	79,106
Current tax asset		2,828,758	2,386,441
Deferred tax asset	9	967,373	1,860,185
Other assets	17	142,410	78,173
Total assets		218,499,623	260,812,627
LIABILITIES			
Amounts due to the Shareholder's Group	18	162,878,380	224,908,993
Amounts due to credit institutions and state bodies	19	10,606,573	5,741,820
Other liabilities	20	536,543	264,302
Total liabilities		174,021,496	230,915,115
EQUITY			
Share capital	21	44,920,273	44,920,273
Revaluation reserve for available-for-sale financial assets		(578,084)	(1,109,969)
General reserve		316,430	316,430
Accumulated losses		(180,492)	(14,229,222)
Total equity		44,478,127	29,897,512
Total liabilities and equity		218,499,623	260,812,627

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 - 52.

“Damu” Entrepreneurship Development Fund JSC
Statement of Cash Flows for the year ended 31 December 2010

	2010 '000 KZT	2009 '000 KZT
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest receipts	18,246,436	18,523,320
Interest payments	(13,301,239)	(12,882,833)
Net receipts from financial instruments at fair value through profit or loss	-	78,473
Personnel expenses paid	(1,211,089)	(1,029,979)
Recovery of loans to customers previously written-off	289,971	153,634
Other general administrative expenses payments	(456,936)	(523,659)
(Increase)/decrease in operating assets		
Amounts receivable under reverse repurchase agreements	-	5,739,671
Loans and advances to financial institutions	71,068,308	(132,228,501)
Financial instruments at fair value through profit or loss	(13,806,572)	-
Loans to customers	3,340,130	952,788
Other assets	103,872	(88,002)
Increase/(decrease) in operating liabilities		
Other liabilities	(39,894)	8,160
Cash flows from/(used in) operations	64,232,987	(121,296,928)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available-for-sale financial assets	-	(88,289)
Sale and repayment of available-for-sale financial assets	-	62,225
Proceeds from investments in associates	-	5,099
Purchases of property and equipment	(187,302)	(28,311)
Purchases of intangible assets	(19,102)	(5,313)
Cash flows used in investing activities	(206,404)	(54,589)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts of amounts due to the Shareholder's Group	-	142,428,000
Repayment of amounts due to the Shareholder's Group	(61,143,978)	(6,000,000)
Receipts of amounts due to credit institutions and state bodies	12,085,496	68,900
Repayment of amounts due to credit institutions and state bodies	(7,161,845)	(2,032,083)
Dividends paid	-	(39,260)
Cash flows (used in)/from financing activities	(56,220,327)	134,425,557
Net increase in cash and cash equivalents	7,806,256	13,074,040
Cash and cash equivalents as at the beginning of the year	15,843,071	2,769,031
Cash and cash equivalents as at the end of the year (Note 11)	23,649,327	15,843,071

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 – 52.

"Damu" Entrepreneurship Development Fund JSC
Statement of Changes in Equity for the year ended 31 December 2010

'000 KZT	Share capital	Revaluation reserve for available-for- sale financial assets	General reserve	Accumulated losses	Total equity
Balance at 1 January 2009	44,920,273	(1,958,463)	316,430	(3,805,633)	39,472,607
Total comprehensive income					
Loss for the year	-	-	-	(10,384,329)	(10,384,329)
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	-	(195,862)	-	-	(195,862)
Impairment of available-for-sale financial assets transferred to profit or loss	-	1,044,356	-	-	1,044,356
Total other comprehensive income	-	848,494	-	-	848,494
Total comprehensive income for the year	-	848,494	-	(10,384,329)	(9,535,835)
Transactions with owners, recorded directly in equity					
Dividends paid	-	-	-	(39,260)	(39,260)
Total transactions with owners	-	-	-	(39,260)	(39,260)
Balance as at 31 December 2009	44,920,273	(1,109,969)	316,430	(14,229,222)	29,897,512
Balance at 1 January 2010	44,920,273	(1,109,969)	316,430	(14,229,222)	29,897,512
Total comprehensive income					
Profit for the year	-	-	-	14,048,730	14,048,730
Other comprehensive income					
Net change in fair value of available-for-sale financial assets	-	598,630	-	-	598,630
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	(66,745)	-	-	(66,745)
Total other comprehensive income	-	531,885	-	-	531,885
Total comprehensive income for the year	-	531,885	-	14,048,730	14,580,615
Balance as at 31 December 2010	44,920,273	(578,084)	316,430	(180,492)	44,478,127

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 - 52.

1 Background

(a) Principal activities

“Damu” Entrepreneurship Development Fund JSC (the “Fund”) was established in accordance with a Decree of the Government of the Republic of Kazakhstan #665 dated 26 April 1997. The Fund is incorporated and domiciled in the Republic of Kazakhstan as a joint stock company and provides financial services. The Fund is the state institution through which the government of the Republic of Kazakhstan realises policy of support and development of small and medium entrepreneurship. The main activity of the Fund is lending to small and medium size enterprises and microfinance organisations through funding of commercial banks. Credit risk on loans to end-borrowers is transferred to commercial banks. The Fund uses its own and borrowed funds to finance small and medium sized entities throughout Kazakhstan.

The Fund has 16 regional branches. The Head office is located in Almaty, Kazakhstan. The Fund’s registered legal address is 111, Gogol Street, Almaty, 050000, Kazakhstan.

(b) Shareholders

As at 31 December 2010 the sole shareholder of the Fund is Sovereign Wealth Fund “Samruk-Kazyna” JSC (the “Parent”). The Parent and its subsidiaries are jointly called as the “Shareholder’s Group”.

The Fund is ultimately controlled by the Government of the Republic of Kazakhstan. Information on transactions with related parties is presented in Note 26.

(c) Business environment

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

2 Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available-for-sale assets are stated at fair value.

(c) Functional and presentation currency

The functional currency of the Republic of Kazakhstan is the Kazakhstan Tenge (“KZT”). Management has determined the Fund’s functional currency to be the KZT as it reflects the economic substance of the underlying events and circumstances of the Fund. The KZT is also the Fund’s presentation currency for the purposes of these interim condensed financial statements.

Except as indicated, financial information presented in KZT has been rounded to the nearest thousand.

2 Basis of preparation, continued

(d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- deferred tax asset – note 9,
- loan impairment estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the tenge at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the tenge at the foreign exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the tenge at the foreign exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, current bank accounts and short-term deposits in banks with original maturity of less than three months.

(c) Financial instruments

(i) Classification

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(i) Classification, continued

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

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Fund has the positive intention and ability to hold to maturity, other than those that:

- the Fund upon initial recognition designates as at fair value through profit or loss;
- the Fund designates as available-for-sale or,
- meet the definition of loans and receivables.

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial instruments at fair value through profit or loss.

(ii) Recognition

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

(iii) Measurement

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Measurement, continued

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

(iv) Fair value measurement principles

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

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

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

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

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

3 Significant accounting policies, continued

(c) Financial instruments, continued

(v) *Gains and losses on subsequent measurement*

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

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

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

(vi) *Derecognition*

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

The Fund writes off assets deemed to be uncollectible.

(vii) *Repurchase and reverse repurchase agreements*

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

(viii) *Offsetting*

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

3 Significant accounting policies, continued

(d) Foreclosed assets

Foreclosed assets are measured at the lower of cost and net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of underlying lease base at foreclosure date.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(e) Equipment

(i) Owned assets

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

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

(ii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Buildings	up to 100 years
Computers, equipment and fixtures and fittings	up to 8 years
Vehicles	up to 7 years
Other	up to 10 years

(f) Intangible assets

Intangible assets, which are acquired by the Fund, are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life of intangible assets is 7 years.

(g) Impairment

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, finance lease receivables and other receivables ("loans and receivables"). The Fund reviews its loans and receivables, to assess impairment on a regular basis. A loan or receivable is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan or receivable and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of finance lease conditions, restructuring of a lease or advance by the Fund on terms that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3 Significant accounting policies, continued

(g) Impairment, continued

(i) *Financial assets carried at amortised cost, continued*

The Fund first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

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

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

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

(ii) *Non-financial assets*

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

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

3 Significant accounting policies, continued

(h) Leases

The Fund’s lease transactions are classified as either finance or operating leases at inception in accordance with IAS 17 *Leases*.

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease is classified as a finance lease if, individually or in combination:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

The Fund, as a lessor, initially measures finance leases at an amount equal to the net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Fund’s net investment in the finance lease.

(i) Provisions

A provision is recognised in the statement of financial position when the Fund has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

(j) Share capital

Dividends

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

(k) Taxation

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

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

3 Significant accounting policies, continued

(k) Taxation, continued

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

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

(l) Income and expense recognition

With the exception of financial instruments at fair value through profit or loss, interest income and expense are recognised in the statement of income using the effective interest method. Interest income on financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss.

Finance lease organisation fees, lease servicing fees and other fees that are considered to be integral to the overall profitability of a finance lease, together with the related direct costs, are deferred and amortised to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the profit or loss on the date that the dividend is declared.

(m) Comparative information

Comparative information has been reclassified to conform to changes in presentation in the current year. In the statement of cash flows for the year ended 31 December 2009 the cash inflow of amounts due to the Shareholder's Group of KZT 136,428,000 thousand and cash outflow of amounts due to credit institutions and state bodies of KZT 1,963,183 thousand have been reclassified from operating activities to financing activities. Also in the statement of cash flows for the year ended 31 December 2009 income tax paid of KZT 2,120,772 thousand have been reclassified to interest paid as this amount represents withholding tax, withheld at the source.

The above reclassification does not impact the statement of financial position and the profit for the year or equity.

Management has considered the requirement, in the case of changes in classifications to provide three statements of financial position and related notes, and determined that the changes in classifications do not impact the statement of financial position.

3 Significant accounting policies, continued

(n) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2010, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Fund’s operations. The Fund plans to adopt these pronouncements when they become effective. The Fund has not yet analysed the likely impact of the new Standards on its financial statements.

- Revised IAS 24 *Related Party Disclosures* (2009) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during the first half of 2011. The Fund recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the Fund’s financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.
- *Improvements to IFRSs 2010* resulting from the International Accounting Standards Board’s third annual improvements project are to be dealt with on a standard-by-standard basis. The effective date of each amendment is included in the IFRSs affected.

4 Net interest income

	2010 '000 KZT	2009 '000 KZT
Interest income		
Loans and advances to financial institutions	18,263,914	19,286,849
Loans to customers	747,218	1,257,369
Available-for-sale financial assets	576,840	774,431
Financial instruments at fair value through profit or loss	124,256	-
Amounts receivable under reverse repurchase agreements	163	300,233
	19,712,391	21,618,882
Interest expense		
Amounts due to the Shareholder’s Group	(12,045,825)	(12,489,854)
Amounts due to credit institutions and state bodies	(333,525)	(410,262)
	(12,379,350)	(12,900,116)
Net interest income	7,333,041	8,718,766

Included within various line items under interest income for the year ended 31 December 2010 is a total of KZT 447,540 thousand (2009: KZT 4,953,480 thousand) accrued on impaired financial assets.

5 Net gain on financial instruments through profit or loss

	2010 '000 KZT	2009 '000 KZT
Debt financial instruments	388,302	78,472

6 Other operating income

	2010 '000 KZT	2009 '000 KZT
Servicing fee from Ministry of Economics of the Republic of Kazakhstan	324,354	-
Other (expenses)/income	(22,861)	12,096
	301,493	12,096

7 Net impairment recoveries/(losses)

	2010 '000 KZT	2009 '000 KZT
Loans and advances to financial institutions	12,233,592	(13,663,822)
Loans to customers	(484,834)	(2,822,973)
Available-for-sale financial assets	(67,326)	(1,512,889)
Guarantees	(58,150)	202,353
Other	20,096	(195,527)
	11,643,378	(17,992,858)

8 Personnel expenses

	2010 '000 KZT	2009 '000 KZT
Employee compensation	1,226,602	845,428
Payroll related taxes	121,252	83,235
	1,347,854	928,663

9 Other general administrative expenses

	2010 '000 KZT	2009 '000 KZT
Advertising and marketing	190,527	58,177
Legal and consultancy	119,777	43,211
Occupancy and rent	116,857	82,168
Depreciation and amortization	111,094	102,666
Repairs and maintenance	106,064	49,232
Business travel	70,036	45,283
Education	54,738	37,070
Communications	34,976	38,281
Insurance expenses	21,850	18,284
Security	12,720	8,244
Office supplies	9,563	33,951
Utilities	9,441	13,470
Bank charges	8,686	8,398
Taxes other than income tax	5,369	6,273
Brokerage fees	2,663	14,517
Other	67,823	32,900
	942,184	592,125

10 Income tax expense/(benefit)

	2010 '000 KZT	2009 '000 KZT
Current tax expense		
Current period	2,501,639	-
Under provided in prior years	-	56,437
	2,501,639	56,437
Deferred tax expense		
Origination and reversal of temporary differences	892,812	(1,428,319)
Total income tax expense/(benefit)	3,394,451	(1,371,882)

The Fund's applicable tax rate in 2010 is the income tax rate of 20% for Kazakhstan companies (2009:20%). In 2009 the Government announced that the income tax rates for Kazakhstan companies were 20% in 2009-2012, 17.5% in 2013 and 15% in later years. These rates were used in the calculation of deferred tax assets and liabilities as at 31 December 2009. In November 2010 the Government cancelled the reduction and announced that the income tax rate will remain at 20%. The 20% tax rate has been used in the calculation of deferred tax assets and liabilities as at 31 December 2010.

Reconciliation of effective tax rate:

	2010 '000 KZT	%	2009 '000 KZT	%
Profit/(loss) before taxes	17,443,181	100.0	(11,756,211)	100.0
Income tax at the applicable tax rate	3,488,636	20.0	(2,351,242)	20.0
Non-taxable income on financial instruments through profit or loss and available-for-sale financial assets	(222,978)	(1.3)	(164,053)	1.4
Non-taxable income on finance leasing	(16,255)	(0.1)	(15,074)	0.1
Non-deductible costs - impairment losses	-	-	415,932	(3.5)
Non-deductible costs - interest expense	-	-	404,099	(3.4)
Non-deductible costs – other	145,048	0.8	282,199	(2.5)
Under provided in prior years	-	-	56,437	(0.5)
Change in tax rate	-	-	(180)	-
	3,394,451	19.4	(1,371,882)	11.6

Deferred tax assets and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at 31 December 2010 and 2009. These deferred tax assets have been recognised in these financial statements. The future tax benefits will only be realised if profits will be available against which the unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Fund's ability to claim the deductions in future periods.

10 Income tax expense/(benefit), continued

Movements in temporary differences during the periods ended 31 December 2010 and 2009 are presented as follows:

'000 KZT	Balance 1 January 2010	Recognised in profit or loss	Balance 31 December 2010
Loans and advances to financial institutions	(2,337,848)	2,358,394	20,546
Loans to customers	982,484	(22,892)	959,592
Property and equipment	(17,957)	(3,946)	(21,903)
Vacation reserve	6,427	1,311	7,738
Taxes other than income tax	730	(730)	-
Other liabilities	2,384	(984)	1,400
Tax loss carry-forwards	3,223,965	(3,223,965)	-
	1,860,185	(892,812)	967,373

'000 KZT	Balance 1 January 2009	Recognised in profit or loss	Balance 31 December 2009
Loans to customers	424,724	557,760	982,484
Tax loss carry-forwards	16,375	3,207,590	3,223,965
Vacation reserve	11,731	(5,304)	6,427
Taxes other than income tax	1,006	(276)	730
Loans and advances to financial institutions	-	(2,337,848)	(2,337,848)
Property and equipment	(21,970)	4,013	(17,957)
Other liabilities	-	2,384	2,384
	431,866	1,428,319	1,860,185

11 Cash and cash equivalents

	2010 '000 KZT	2009 '000 KZT
Cash on hand	795	667
Nostro accounts with the NBRK	-	4,553
Nostro accounts with other banks		
- rated from BBB- to BBB+	3,017	1,425
- rated from B- to B+	22,489,983	15,827,157
- not rated	1,155,532	9,269
Total nostro accounts with other banks	23,648,532	15,837,851
	23,649,327	15,843,071

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

As at 31 December 2010 the Fund has 3 banks (2009: 3 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 is KZT 19,702,847 thousand (2009: KZT 15,682,527 thousand).

12 Financial instruments at fair value through profit or loss

	2010 '000 KZT	2009 '000 KZT
Held by the Fund		
ASSETS		
Debt and other fixed-income instruments		
- Government and municipal bonds		
Treasury bills of the Ministry of Finance of Republic of Kazakhstan	1,986,656	-
- Total government and municipal bonds	1,986,656	-
- Corporate bonds		
Rated at BBB-	11,152,190	-
Rated at B	1,180,282	-
- Total corporate bonds	12,332,472	-
	14,319,128	-

None of financial assets at fair value through profit or loss are past due.

13 Loans and advances to financial institutions

	2010 '000 KZT	2009 '000 KZT
Loans		
Rated from BBB- to BBB	29,374,567	35,346,139
Rated from B- to B+	134,318,888	135,171,345
Rated at D	-	65,349,029
Rated at RD (default rating)	1,430,229	2,404,632
Not rated	3,974,690	3,868,929
Total loans	169,098,374	242,140,074
Impairment allowance	(1,741,145)	(14,229,061)
Net loans and advances to financial institutions	167,357,229	227,911,013

(a) Credit quality of loans and advances to financial institutions

The following table provides information on the credit quality of loans and advances to financial institutions' portfolio as at 31 December 2010:

'000 KZT	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Loans without individual signs of impairment	167,357,229	-	167,357,229	-
Impaired loans:				
- overdue more than 90 days and less than 360 days	1,430,229	(1,430,229)	-	100.00
- overdue more than 360 days	310,916	(310,916)	-	100.00
Total impaired loans	1,741,145	(1,741,145)	-	100.00
	169,098,374	(1,741,145)	167,357,229	1.03

13 Loans and advances to financial institutions, continued

(a) Credit quality of loans and advances to financial institutions, continued

The following table provides information on the credit quality of loans and advances to financial institutions' portfolio as at 31 December 2009:

'000 KZT	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Loans without individual signs of impairment	172,057,885	-	172,057,885	-
Impaired loans:				
- not overdue	69,771,273	(13,918,145)	55,853,128	19.95
- overdue more than 360 days	310,916	(310,916)	-	100.00
Total impaired loans	70,082,189	(14,229,061)	55,853,128	20.30
	242,140,074	(14,229,061)	227,911,013	5.88

(b) Analysis of movements in the impairment allowance

	2010 '000 KZT	2009 '000 KZT
Balance at the beginning of the year	14,229,061	521,095
(Recovery)/net charge	(12,233,592)	13,663,822
Write-offs	(254,324)	-
Translation difference	-	44,144
Balance at the end of the year	1,741,145	14,229,061

The entire amount of impairment loss in 2009 relates to loans and advances to defaulted local banks. During the year ended 31 December 2009 the Fund identified objective evidence of impairment in respect of these loans and advances to financial institutions. As a result impairment loss of KZT 13,663,822 thousand was recognised in profit or loss.

During 2010 the Fund reversed an impairment of KZT 13,663,822 thousand on loans and advances to BTA Bank JSC, Alliance Bank JSC, Bank Astana Finance JSC and Temir Bank JSC due to the finalisation of their restructuring processes and absence of other impairment indicators. At the same time, the Fund provided impairment for loans and advances to Astana Finance JSC of KZT 1,430,230 thousand due to further deterioration of their creditworthiness and limited progress within restructuring plans.

The loans issued by the Fund to the above defaulted banks were scope out from the restructuring and therefore the Fund expects to receive them in full.

(c) Concentration of loans and advances to banks

As at 31 December 2010 the Fund has 9 banks (2009: 12 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2010 are KZT 162,279,291 thousand (2009: KZT 238,315,141 thousand).

14 Loans to customers

	2010 '000 KZT	2009 '000 KZT
Loans to small and medium size entities	4,754,720	6,713,361
Loans to microfinance organisations	2,924,807	4,113,797
Net investments in finance lease	635,228	858,723
Loans to others	54,218	135,957
Gross loans to customers	8,368,973	11,821,838
Impairment allowance	(4,982,004)	(4,207,199)
Net loans to customers	3,386,969	7,614,639

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2010 are as follows:

'000 KZT	Small and medium entities	Microfinance organisations	Net investments in finance lease	Other	Total
Balance at the beginning of the year	2,282,875	1,474,485	430,097	19,742	4,207,199
Net charge/(recovery)	(155,030)	632,534	(10,973)	18,303	484,834
Recovery of previously written-off loans	289,971	-	-	-	289,971
Balance at the end of the year	2,417,816	2,107,019	419,124	38,045	4,982,004

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2009 are as follows:

'000 KZT	Small and medium entities	Microfinance organisations	Net investments in finance lease	Other	Total
Balance at the beginning of the year	1,482,728	576,307	415,230	7,799	2,482,064
Net charge/(recovery)	1,227,462	1,169,375	393,691	32,445	2,822,973
Recovery of previously written off	153,634	-	-	-	153,634
Write-offs	(580,949)	(271,197)	(378,824)	(20,502)	(1,251,472)
Balance at the end of the year	2,282,875	1,474,485	430,097	19,742	4,207,199

(a) Net investments in finance lease

The components of net investments in finance lease as at 31 December 2010 and 2009 are the follows:

	2010	2009
Within one year	172,470	741,098
Later than one year, but not later than five years	557,682	192,569
Minimum lease payments	730,152	933,667
Less unearned finance income	(94,924)	(74,944)
	635,228	858,723
Less impairment allowance	(419,124)	(430,097)
Net investments in finance lease	216,104	428,626

14 Loans and advances to financial institutions

(b) Credit quality of loans to customers

The following table provides information on the credit quality of the loans to customer's portfolio as at 31 December 2010:

'000 KZT	<u>Gross loans</u>	<u>Impairment</u>	<u>Net loans</u>	<u>Impairment to gross loans, %</u>
Loans to small and medium size entities				
Loans without individual signs of impairment	2,018,359	(224,960)	1,793,399	11.15
Impaired loans:				
- overdue less than 90 days	325,339	(74,971)	250,368	23.04
- overdue more than 90 days and less than 360 days	306,957	(185,164)	121,793	60.32
- overdue more than 360 days	2,104,065	(1,932,721)	171,344	91.86
Total impaired loans	<u>2,736,361</u>	<u>(2,192,856)</u>	<u>543,505</u>	<u>80.14</u>
Total loans to small and medium size entities	<u>4,754,720</u>	<u>(2,417,816)</u>	<u>2,336,904</u>	<u>50.85</u>
Loans to microfinance organisations				
Loans without individual signs of impairment	585,866	(59,117)	526,749	10.09
Impaired loans:				
- overdue less than 90 days	192,441	(54,895)	137,546	28.53
- overdue more than 90 days and less than 360 days	511,103	(451,218)	59,885	88.28
- overdue more than 360 days	1,635,397	(1,541,789)	93,608	94.28
Total impaired loans	<u>2,338,941</u>	<u>(2,047,902)</u>	<u>291,039</u>	<u>87.56</u>
Total loans to microfinance organisations	<u>2,924,807</u>	<u>(2,107,019)</u>	<u>817,788</u>	<u>72.04</u>

14 Loans to customers, continued

(b) Credit quality of loans to customer's portfolio, continued

'000 KZT	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Net investments in finance lease				
Loans without individual signs of impairment	205,724	(26,936)	178,788	13.09
Impaired loans:				
- overdue less than 90 days	19,337	(8,842)	10,495	45.73
- overdue more than 90 days and less than 360 days	20,711	(19,190)	1,521	92.66
- overdue more than 360 days	389,456	(364,156)	25,300	93.50
Total impaired loans	429,504	(392,188)	37,316	91.31
Total net investments in finance lease	635,228	(419,124)	216,104	65.98
Loans to others				
Loans without individual signs of impairment	2,320	-	2,320	-
Impaired loans:				
- overdue less than 90 days	1,866	-	1,866	-
- overdue more than 90 days and less than 360 days	36,442	(24,455)	11,987	67.11
- overdue more than 360 days	13,590	(13,590)	-	100.00
Total impaired loans	51,898	(38,045)	13,853	73.31
Total loans to others	54,218	(38,045)	16,173	70.17
Total loans to customers	8,368,973	(4,982,004)	3,386,969	59.53

14 Loans to customers, continued

(b) Credit quality of loans to customer's portfolio, continued

The following table provides information on the credit quality of the loans to customer's portfolio as at 31 December 2009:

'000 KZT	Gross loans	Impairment	Net loans	Impairment to gross loans, %
Loans to small and medium size entities				
Loans without individual signs of impairment	4,764,350	(682,747)	4,081,603	14.33
Impaired loans:				
- overdue less than 90 days	993,325	(644,442)	348,883	64.87
- overdue more than 90 days and less than 360 days	821,288	(821,288)	-	100.00
- overdue more than 360 days	134,398	(134,398)	-	100.00
Total impaired loans	1,949,011	(1,600,128)	348,883	82.09
Total loans to small and medium size entities	6,713,361	(2,282,875)	4,430,486	34.01
Loans to microfinance organisations				
Loans without individual signs of impairment	2,401,644	(259,754)	2,141,890	10.82
Impaired loans:				
- overdue less than 90 days	809,195	(516,434)	292,761	63.82
- overdue more than 90 days and less than 360 days	818,746	(614,085)	204,661	75.00
- overdue more than 360 days	84,212	(84,212)	-	100.00
Total impaired loans	1,712,153	(1,214,731)	497,422	70.95
Total loans to microfinance organisations	4,113,797	(1,474,485)	2,639,312	35.84

14 Loans to customers, continued

(b) Credit quality of loans to customer’s portfolio, continued

’000 KZT	<u>Gross loans</u>	<u>Impairment</u>	<u>Net loans</u>	<u>Impairment to gross loans, %</u>
Net investments in finance lease				
Loans without individual signs of impairment	448,396	(84,377)	364,019	18.82
Impaired loans:				
- overdue less than 90 days	228,981	(170,372)	58,609	74.40
- overdue more than 90 days and less than 360 days	169,141	(163,143)	5,998	96.45
- overdue more than 360 days	12,205	(12,205)	-	100.00
Total impaired loans	<u>410,327</u>	<u>(345,720)</u>	<u>64,607</u>	<u>84.25</u>
Total net investments in finance lease	<u>858,723</u>	<u>(430,097)</u>	<u>428,626</u>	<u>50.09</u>
Loans to others				
Loans without individual signs of impairment	116,215	-	116,215	-
Impaired loans:				
- overdue more than 90 days and less than 360 days	19,742	(19,742)	-	100.00
Total impaired loans	<u>19,742</u>	<u>(19,742)</u>	<u>-</u>	<u>100.00</u>
Total loans to others	<u>135,957</u>	<u>(19,742)</u>	<u>116,215</u>	<u>14.52</u>
Total loans to customers	<u>11,821,838</u>	<u>(4,207,199)</u>	<u>7,614,639</u>	<u>35.58</u>

As at 31 December 2010 included in the loan portfolio are renegotiated loans to customers that would otherwise be past due or impaired of KZT 1,101,132 thousand (2009: KZT 1,031,267 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in the category of assets without individual signs of impairment in the tables above, unless the borrower fails to comply with the renegotiated terms.

(c) Key assumptions and judgments for estimating the loan impairment

The Fund estimates loan impairment for loans to customers based on its past historical loss experience on each type of loan. The significant assumptions used by management in determining the impairment losses for loans to retail customers include loss migration rates which are constant and can be estimated based on the historic loss migration pattern for the past 12 months.

Changes in these estimates could effect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flows differs by plus minus three percent, the impairment allowance on loans to retail customers as at 31 December 2010 would be KZT 101,609 thousand lower/higher (2009: KZT 228,439 thousand).

14 Loans to customers, continued

(d) Analysis of collateral

As at 31 December 2010 66% of loans to customers are secured by real estate (2009: 66%).

(e) Industry and geographical analysis of the loan portfolio

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

	2010 <u>'000 KZT</u>	2009 <u>'000 KZT</u>
Services	2,325,337	3,745,050
Manufacturing	817,361	1,899,540
Trade	105,435	175,925
Agriculture	84,656	253,810
Construction	46,287	113,745
Other	7,893	1,426,569
	<u>3,386,969</u>	<u>7,614,639</u>

(f) Significant credit exposures

As at 31 December 2010 and 2009 the Fund has no borrowers or groups of connected borrowers, whose loan balances exceed 10% of equity.

15 Available-for-sale financial assets

	2010 <u>'000 KZT</u>	2009 <u>'000 KZT</u>
Held by the Fund		
Debt and other fixed-income instruments		
- Corporate bonds		
rated from BBB- to BBB+	410,097	403,687
rated from B- to B+	4,678,953	3,573,123
rated at D	-	554,851
rated at RD (Default rating)	273,809	228,733
not rated	3,184,857	3,081,938
Total corporate bonds	<u>8,547,716</u>	<u>7,842,332</u>
Impairment allowance	(3,366,455)	(3,299,129)
Total net corporate bonds	<u>5,181,261</u>	<u>4,543,203</u>

Analysis of movements in the impairment allowance:

	2010 <u>'000 KZT</u>	2009 <u>'000 KZT</u>
Balance at the beginning of the year	3,299,129	1,786,240
Net charge	67,326	1,512,889
Balance at the end of the year	<u>3,366,455</u>	<u>3,299,129</u>

16 Property and equipment

'000 KZT	Land and buildings	Equipment	Fixtures and fittings	Vehicles	Total
<i>Cost</i>					
Balance at 1 January 2010	307,271	297,855	99,173	29,270	733,569
Additions	-	90,239	7,235	89,828	187,302
Disposals	-	(7,913)	(215)	(7,548)	(15,676)
Balance at 31 December 2010	307,271	380,181	106,193	111,550	905,195
<i>Depreciation and impairment losses</i>					
Balance at 1 January 2010	(91,126)	(112,254)	(30,588)	(14,805)	(248,773)
Depreciation for the year	(40,399)	(33,555)	(9,064)	(5,919)	(88,937)
Disposals	-	7,074	151	4,407	11,632
Balance at 31 December 2010	(131,525)	(138,735)	(39,501)	(16,317)	(326,078)
<i>Carrying amount</i>					
At 31 December 2010	175,746	241,446	66,692	95,233	579,117

16 Property and equipment, continued

'000 KZT	Land and buildings	Equipment	Fixtures and fittings	Vehicles	Total
<i>Cost</i>					
Balance at 1 January 2009	308,070	279,884	90,971	29,270	708,195
Additions	-	19,267	9,044	-	28,311
Disposals	(799)	(1,296)	(842)	-	(2,937)
At 31 December 2009	307,271	297,855	99,173	29,270	733,569
<i>Depreciation and impairment losses</i>					
Balance at 1 January 2009	(50,728)	(82,597)	(22,955)	(10,620)	(166,900)
Depreciation for the year	(40,398)	(30,323)	(8,018)	(4,185)	(82,924)
Disposals	-	666	385	-	1,051
Balance at 31 December 2009	(91,126)	(112,254)	(30,588)	(14,805)	(248,773)
<i>Carrying amounts</i>					
At 31 December 2009	216,145	185,601	68,585	14,465	484,796
At 1 January 2009	257,342	197,287	68,016	18,650	541,295

There are no capitalised borrowing costs related to the acquisition or construction of buildings and equipment during 2010 (2009: nil).

17 Other assets

	2010 '000 KZT	2009 '000 KZT
Accounts receivable	233,722	198,353
Financial aid	50,000	70,000
Impairment allowance	(223,220)	(246,157)
Total other financial assets	60,502	22,196
Materials and supplies	68,303	46,535
Taxes other than on income	8,164	299
Other	5,441	9,143
Total other non-financial assets	81,908	55,977
Total other assets	142,410	78,173

Analysis of movements in the impairment allowance

	2010 '000 KZT	2009 '000 KZT
Balance at the beginning of the year	246,157	51,085
Net (recovery) charge	(20,096)	195,527
Write-offs	(2,841)	(455)
Balance at the end of the year	223,220	246,157

As at 31 December 2010, included in other assets are overdue receivables of KZT 223,220 thousand (2009: KZT 246,157 thousand), all of which are overdue for more than one year.

18 Amounts due to Shareholder's Group

	2010 '000 KZT	2009 '000 KZT
Loans from the Parent	149,650,880	205,681,493
Subordinated loan from the Parent	13,227,500	13,227,500
Loans from JSC "Kazyna Capital Management"	-	6,000,000
	162,878,380	224,908,993

Subordinated borrowings

As at 31 December 2010 and 2009 subordinated borrowings comprise loans received from the Parent maturing in 2014 and carry an annual interest rate of 7%. In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Fund.

Loans from the Shareholder's Group were received with the purpose of the providing loans to local banks to support financing of small and medium sized entities.

19 Amounts due to credit institutions and state bodies

	2010 '000 KZT	2009 '000 KZT
Amounts due to local municipal bodies	8,401,095	5,572,621
Amounts due to Distressed Assets Fund JSC	2,005,000	-
Amounts due to the Ministry of Finance of the Republic of Kazakhstan	167,857	124,690
Amounts due to Asian Development Bank	32,621	44,509
	10,606,573	5,741,820

Loans from credit institutions and state bodies were received with the purpose of providing funds to local banks to support financing of small and medium sized entities.

20 Other liabilities

	2010 '000 KZT	2009 '000 KZT
Payables to suppliers	179,038	93,550
Provision for guarantees	84,940	26,790
Payables to employees	57,568	2,623
Pension fund payable	15,107	8,092
Professional fees payables	221	11,920
Total other financial liabilities	336,874	142,975
Other taxes payable	123,402	85,539
Unused vacation reserve	38,691	32,138
Advances received	24,507	-
Other non-financial liabilities	13,069	3,650
Total other non-financial liabilities	199,669	121,327
Total other liabilities	536,543	264,302

21 Equity

(a) Share capital

As at 31 December 2010 and 2009, authorised share capital comprised:

'000 KZT	Number of shares	Placement value per share	Placement value
Issued and paid ordinary shares:			
	26,847,537	1,000	26,847,537
	282,244	47,405	13,379,778
	52,463	89,453	4,692,958
Balance at the end of the year	27,182,244		44,920,273

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

(b) General reserve

The general reserve is created, as required by the statutory regulations of the Republic of Kazakhstan, for general risks, including future losses and other unforeseen risks or contingencies. During the 2010 year, no transfers to general reserve were made (2009: nil).

21 Equity, continued

(c) Dividends

Dividends payable are restricted to the maximum retained earnings of the Fund, which are determined according to legislation of the Republic of Kazakhstan. In accordance with the legislation of the Republic of Kazakhstan, as at the reporting date, the Fund did not have any reserves available for distribution of dividends.

At the Shareholders' meeting on 6 August 2009, the Fund declared and paid dividends in respect of the year ended 31 December 2008, totalling to KZT 39,260 thousand (KZT 1.44 per share). No dividends were declared or distributed during 2010.

22 Risk management

Management of risk is fundamental to the Fund's business and is an essential element of its operations. The Fund manages risks in the course of the ongoing process of risk identification, monitoring, assessment and control as well as by establishment of the risk limits and other internal control arrangements. The risk management process is critical to support the Fund's stable profitability and each employee of the Fund is responsible for the risks associated with his/her duties. The Fund is exposed to the credit risk, liquidity risk and market risk, which comprises the market price risk, interest rate risk and foreign currency risk.

(a) Risk management policies and procedures

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

The risk management strategy is set forth in the Fund's risk management policy, which has been worked out in accordance with the risk management strategy of the Fund's sole shareholder – “National Wealth Fund “Samruk-Kazyna” JSC.

The aims of the risk management policy are as follows:

- To build up an effective integrated system and create an integrated process of risk management as an element of the Fund management and continuously improve the Fund's operations on the basis of the unified standardized approach to the risk management methods and procedures;
- To ensure that the Fund takes the acceptable risks adequate to the scale of its operations;
- To determine the retention ability and ensure the effective management of the risk accepted;
- To identify risk in good time; and
- To minimise losses and reduce current expenses on potential losses.

Risk management structure:

The Fund's risk management structure is represented by risk management at a few levels with involvement of the following bodies and business units of the Fund: Board of Directors, Management Board, Risk Committee, Risk Management Function, Internal Audit Service, collegial bodies and other business units.

Board of Directors

The first level of risk management is represented by the Fund's Board of Directors. The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and system of the corporate risk management.

22 Risk management, continued

(a) Risk management policies and procedures, continued

Board of Directors, continued

The Board of Directors sets the aims of the Fund operations and approved the documents related to risk management, retention ability and risk appetite.

Management Board

The second level of the risk management is represented by the Fund’s Management Board. The Management Board is responsible for establishment of the effective risk management system and structure for the risk control to ensure compliance with the corporate policy requirements. The Management Board is responsible for creation of the “risk awareness” culture, which reflects the Fund’s risk management and philosophy. The Management Board is also responsible for implementation of the effective risk management system in which all employees have well-defined responsibilities for risk management and are held liable for proper fulfillment of their duties. The Management Board is authorized to carry out a part of its functions in the area of risk management through establishment of the appropriate committees.

Risk Committee

The Committee is a permanent collegial advisory body of the Fund, which coordinates the process of the risk management system functioning. The key aims of the Committee are as follows: to build up an effective integrated system and create an integrated risk management process within the Fund and continuously improve operations of the Fund on the basis of a unified standardized approach to the risk management methods and procedures.

Credit Committee

The Credit Committee is the Fund’s permanent body responsible for implementation of the internal credit policy. The Credit Committee competence is limited within the framework of the thresholds set by the Fund’s Management Board. The key objective of the Credit Committee is to form a high-quality loan portfolio.

Asset and Liability Management Committee (ALCO)

ALCO is a permanent collegial body of the Fund, which is accountable to the Management Board and which carries out its activity within the powers assigned by the Management Board. ALCO key aims are as follows: to ensure making of timely and appropriate decisions in the sphere of the Fund’s asset and liability management; attract partners to cooperate with the Fund; maintain the sufficient level of the financial stability; increase the Fund profitability and minimise risks when making the investment decisions.

Risk Management Business Unit

The third level of the risk management process is represented by the Risk Management Department. The aims of the Risk Management Department include general risk management and exercise of control over compliance with the current legislation, as well and control of implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

Internal Audit Function

The Fund’s Internal Audit Function, in the course of the risk management, conducts audit of the risk management procedures and risk assessment methods and works out proposals aimed at raising of efficiency of the risk management procedures. It provides reports on the risk management system for the Fund’s Board of Directors and performs other functions in accordance with the approved normative documents.

22 Risk management, continued

(a) Risk management policies and procedures, continued

Business Units

One of the important elements in the structure of the risk management is the Fund's business units represented by each employee. The business units (risk owners) play a key role in the risk management process. The Fund's employees, on a daily basis, deal with risks, manage risks and monitor its potential impact within their sphere of action. The business units are responsible for implementation of the risk management action plan, timely identification and informing about large risks in their sphere of action and working out of proposals related to the risks management to be included in the action plan.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, credit spreads and equity prices will affect the Fund's income or the value of its holdings of financial instruments. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

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

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

The Fund manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Management Board.

The Fund also uses different stress tests and back testing to simulate possible financial impact of certain exceptional market scenarios on certain trading portfolios and general position of the Fund. Stress tests make possible to determine the potential amount of losses that may arise under extreme circumstances. Stress tests used by the Fund includes the following: stress tests of the risk factors, as a part of these tests each risk category is subject to stress changes and special stress tests, which include application of possible stress events with regard to separate positions. Back test is the testing of accuracy of evaluation of interest rate risk modes on the basis of the actual data on the net interest income.

(i) Interest rate risk

Interest rate risk is the risk that changes in the interest rates will affect the Fund's income or the value of its holdings of financial instruments.

The Fund is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

Interest rate risk management is based on the principles of the full coverage of expenses – the interest income earned should cover the expenses related to attraction and placement of the funds and ensure generation of the net income and competitiveness.

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

The interest rate risk report presents the distribution of assets, liabilities, off-balance assets and liabilities sensitive to changes in the interest rates grouped into the economically homogeneous and material items, by time periods depending on their maturity dates (in case of the fixed rates), or time remaining until the next regular review (in case of floating rates). Time period and items of the assets to be accounted, liabilities, off-balance assets and liabilities may be changed by the Fund's Management Board.

Interest rate gap analysis

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

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2010						
ASSETS						
Cash and cash equivalents	22,474,582	-	-	-	-	22,474,582
Financial instruments at fair value through profit or loss	2,194,996	39,111	22,009	4,310,942	7,752,070	14,319,128
Loans and advances to financial institutions	2,838,140	-	30,000	161,092,214	3,396,875	167,357,229
Loans to customers	33,858	75,554	125,156	2,978,021	-	3,212,589
Available-for-sale financial assets	152,903	2,288,341	-	1,228,591	1,511,426	5,181,261
	27,694,479	2,403,006	177,165	169,609,768	12,660,371	212,544,789
LIABILITIES						
Amounts due to the Shareholder's Group	(12,706,338)	(6,973,839)	(14,864,095)	(128,334,108)	-	(162,878,380)
Amounts due to credit institutions and state bodies	(4,262,092)	(485,998)	(535,978)	(4,065,265)	(1,257,240)	(10,606,573)
Total liabilities	(16,968,430)	(7,459,837)	(15,400,073)	(132,399,373)	(1,257,240)	(173,484,953)
Net position as at 31 December 2010	10,726,049	(5,056,831)	(15,222,908)	37,210,395	11,403,131	39,059,836

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

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

'000 KZT	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Carrying amount
31 December 2009						
ASSETS						
Cash and cash equivalents	15,830,352	-	-	-	-	15,830,352
Loans and advances to financial institutions	-	-	75	116,647,644	111,263,294	227,911,013
Loans to customers	36,915	43,778	1,359,625	5,721,930	452,391	7,614,639
Available-for-sale financial assets	85,599	2,107,063	-	-	2,350,541	4,543,203
	15,952,866	2,150,841	1,359,700	122,369,574	114,066,226	255,899,207
LIABILITIES						
Amounts due to the Shareholder's Group	(13,879,478)	(9,000,000)	(12,827,952)	(189,201,563)	-	(224,908,993)
Amounts due to credit institutions and state bodies	(648,482)	(239,550)	(412,450)	(4,262,795)	(178,543)	(5,741,820)
Total liabilities	(14,527,960)	(9,239,550)	(13,240,402)	(193,464,358)	(178,543)	(230,650,813)
Net position as at 31 December 2009	1,424,906	(7,088,709)	(11,880,702)	(71,094,784)	113,887,683	25,248,394

22 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2010 and 2009. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2010	2009
	Average effective interest rate	Average effective interest rate
	KZT	KZT
Interest bearing assets		
Cash and cash equivalents	6.50%	8.70%
Financial instruments at fair value through profit or loss	7.70%	-
Loans and advances to financial institutions	8.08%	7.91%
Loans to customers	8.51%	9.80%
Available-for-sale financial assets	8.21%	8.77%
Interest bearing liabilities		
Amounts due to the Shareholder's Group	6.19%	6.08%
Amounts due to credit institutions and state bodies	4.43%	6.10%

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate repricing risk based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2010 and 2009 is as follows:

	2010		2009	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	19,352	19,352	(49,231)	(49,231)
100 bp parallel fall	(19,352)	(19,352)	49,231	49,231

Fair value sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2010		2009	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	(867,802)	(1,098,306)	-	(235,530)
100 bp parallel fall	902,025	1,147,321	-	248,825

22 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund has no assets and liabilities denominated in a few foreign currency at the same time. Assets and liabilities denominated in the US Dollars do not exceed the amount equivalent to USD 1 million. Currency risk arises when the actual or forecasted assets denominated in the foreign currency are either greater or less than the actual or forecasted liabilities denominated in the same currency. The Fund's Management Board, with due consideration of the currency risk assessment, makes decisions concerning the structure of the Fund's assets and liabilities by the financial instruments in foreign currency, and sets a permissible amount of the currency risk and limit on the open currency position.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2010:

	KZT '000 KZT	USD '000 KZT	Total '000 KZT
ASSETS			
Cash and cash equivalents	23,521,368	127,959	23,649,327
Financial instruments at fair value through profit or loss	14,319,128	-	14,319,128
Loans and advances to financial institutions	167,357,229	-	167,357,229
Loans to customers	3,386,950	19	3,386,969
Available-for-sale financial assets	5,181,261	-	5,181,261
Other financial assets	60,502	-	60,502
Total assets	213,826,438	127,978	213,954,416
LIABILITIES			
Amounts due to the Shareholder's Group	(162,878,380)	-	(162,878,380)
Amounts due to credit institutions and state bodies	(10,438,716)	(167,857)	(10,606,573)
Other financial liabilities	(336,874)	-	(336,874)
Total liabilities	(173,653,970)	(167,857)	(173,821,827)
Net position as at 31 December 2010	40,172,468	(39,879)	40,132,589

22 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the currency structure of financial assets and liabilities as at 31 December 2009:

	KZT '000 KZT	USD '000 KZT	Total '000 KZT
ASSETS			
Cash and cash equivalents	15,714,728	128,343	15,843,071
Loans and advances to financial institutions	227,911,013	-	227,911,013
Loans to customers	7,614,620	19	7,614,639
Available-for-sale financial assets	4,543,203	-	4,543,203
Other financial assets	22,196	-	22,196
Total assets	255,805,760	128,362	255,934,122
LIABILITIES			
Amounts due to the Shareholder's Group	(224,908,993)	-	(224,908,993)
Amounts due to credit institutions and state bodies	(5,572,870)	(168,950)	(5,741,820)
Other financial liabilities	(142,975)	-	(142,975)
Total liabilities	(230,624,838)	(168,950)	(230,793,788)
Net position as at 31 December 2009	25,180,922	(40,588)	25,140,334

A strengthening of the KZT, as indicated below, against the following currencies at 31 December 2010 and 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Fund considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2010		2009	
	Profit	Equity	Profit	Equity
10% appreciation of USD against KZT	(3,190)	(3,190)	(3,247)	(3,247)

(c) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Fund has developed policies and procedures for the management of credit exposures (both for balance and off-balance positions) and determined the powers related to the decision making by the Board of Directors and Management Board with regard to the large loans and established a Credit Committee, which is responsible for making decisions on loan issues within the set limits, loan restructuring and which actively monitors credit risk. The credit policy is reviewed and approved by the Board of Directors.

The Fund's credit policy sets the key parameters of the lending in terms of the credit risk management and is aimed at identification, analysis and management of the credit risks faced by the Fund.

22 Risk management, continued

(c) Credit risk, continued

The rules of credit risk management covers the following areas:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (medium and small size businesses); credit documentation requirements
- requirements to the loan documentation;
- methodology for the credit assessment of counterparty banks, issuers and insurance companies
- methodology for the evaluation of collateral
- setting of limits on the total credit risks in the amount not exceeding 25% of the Fund's equity
- procedures for the ongoing monitoring of loans and other credit exposures.

The Fund continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Fund. The current market value of collateral is regularly assessed by either independent appraisal companies or internal specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

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

	2010 '000 KZT	2009 '000 KZT
ASSETS		
Cash and cash equivalents	23,648,532	15,837,851
Financial instruments at fair value through profit or loss	14,319,128	-
Loans and advances to financial institutions	167,357,229	227,911,013
Loans to customers	3,386,969	7,614,639
Available-for-sale financial assets	5,181,261	4,543,203
Other financial assets	60,502	22,196
Total maximum exposure	213,953,621	255,928,902

22 Risk management, continued

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity risk exists when the maturities of assets and liabilities do not match, which will affect the availability of the sufficient liquid funds in the Fund at the price acceptable for the Fund to honor its balance and off-balance liabilities as they become due. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the financial institutions, including Fund. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Fund maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The Fund’s Rules on managing liquidity risks is approved by the Board of Directors.

The Fund manages liquidity risk as a part of the Fund’s Rules for Liquidity Loss Risk Management approved by the Board of Directors. The Rules determine the key processes and procedure of the liquidity loss risk management as well as function and powers of the Fund’s business units involved in this process with a view of effective liquidity loss risk management and ensuring that the Fund has sufficient funds to honor all its liabilities. The Rules are mandatory for use by all employees, business units and collegial bodies of the Fund.

As a party of said Rules the liquidity loss risk is measured and monitored by means of the following tools/analytical reports: statutory and contractual liquidity ratios; analysis of the current balances of liquid funds; planned inflows/outflows of liquid funds; internal liquidity ratios; liquidity gap analysis. To avoid the surplus or shortage of liquid funds the Asset and Liability Management Committee monitors the activities related to attraction and use of the liquid funds. Current and short-term liquidity of the Fund is managed by the business unit in charge of the risk management on the basis of the analysis of the current balances of liquid funds and planned inflows/outflows of liquid funds. Based on the analysis made, said business unit makes the report “The time structure of assets and liabilities” on the consolidated based and submit to the Fund’s Management Board.

Asset and Liability Management Committee monitors the liquidity risk by means of analysis of the liquidity risk levels to take measures for reduction of the liquidity loss risk of the Fund. Current liquidity is managed by the Treasury, which carries out operations in the financial markets in order to maintain current liquidity and optimize the cash flows.

The liquidity management policy of the Fund requires:

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

The Treasury Department monitors liquidity position in the financial market on a daily basis. Under the normal market conditions, liquidity reports covering the liquidity position are regularly presented to senior management. Decisions on liquidity management policy are made by the Management Board and ALCO.

22 Risk management, continued

(d) Liquidity risk, continued

The following tables show the undiscounted cash flows on the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial asset, liability or commitment. Future cash flows of the Fund may differ significantly from said analysis

The maturity analysis for financial liabilities as at 31 December 2010 is as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Amounts due to the Shareholder's Group	2,462,272	10,583,982	9,455,268	19,826,954	178,545,461	220,873,938	162,878,380
Amounts due to credit institutions and state bodies	3,894,862	367,931	327,591	919,423	6,185,601	11,695,408	10,606,573
Other financial liabilities	336,874	-	-	-	-	336,874	336,874
Total liabilities	6,694,008	10,951,913	9,782,859	20,746,377	184,731,062	232,906,220	173,821,827
Credit related commitments	391,405	-	-	-	-	391,405	391,405

The maturity analysis for financial liabilities as at 31 December 2009 is as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Amounts due to the Shareholder's Group	2,224,827	12,894,517	6,611,666	18,600,000	205,785,173	246,116,183	224,908,993
Amounts due to credit institutions and state bodies	416,019	343,254	388,245	652,000	4,507,984	6,307,502	5,741,820
Other financial liabilities	142,975	-	-	-	-	142,975	142,975
Total liabilities	2,783,821	13,237,771	6,999,911	19,252,000	210,293,157	252,566,660	230,793,788
Credit related commitments	194,981	-	-	-	-	194,981	194,981

22 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2010:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	23,649,327	-	-	-	-	-	-	23,649,327
Financial instruments at fair value through profit or loss	14,319,128	-	-	-	-	-	-	14,319,128
Loans and advances to financial institutions	-	2,838,140	30,000	161,092,214	3,396,875	-	-	167,357,229
Loans to customers	16,716	17,142	200,710	2,978,021	-	-	174,380	3,386,969
Available-for-sale financial assets	60,690	2,210	58,402	1,634,803	3,425,156	-	-	5,181,261
Investments in associates	-	-	-	-	-	12,000	-	12,000
Current tax asset	-	-	-	-	-	579,117	-	579,117
Property and equipment	-	-	-	-	-	76,051	-	76,051
Intangible assets	-	-	-	2,828,758	-	-	-	2,828,758
Deferred tax asset	-	-	-	967,373	-	-	-	967,373
Other assets	-	11,827	20,268	10,708	-	99,607	-	142,410
Total assets	38,045,861	2,869,319	309,380	169,511,877	6,822,031	766,775	174,380	218,499,623
LIABILITIES								
Amounts due to the Shareholder's Group	(2,349,855)	(10,356,482)	(21,837,934)	(128,334,109)	-	-	-	(162,878,380)
Amounts due to credit institutions and state bodies	(3,899,163)	(362,929)	(1,021,976)	(4,065,265)	(1,089,383)	(167,857)	-	(10,606,573)
Other liabilities	-	(376,338)	(160,205)	-	-	-	-	(536,543)
Total liabilities	(6,249,018)	(11,095,749)	(23,020,115)	(132,399,374)	(1,089,383)	(167,857)	-	(174,021,496)
Net position	31,796,843	(8,226,430)	(22,710,735)	37,112,503	5,732,648	598,918	174,380	44,478,127

22 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2009:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	15,843,071	-	-	-	-	-	-	15,843,071
Loans and advances to financial institutions	-	-	75	116,647,644	111,263,294	-	-	227,911,013
Loans to customers	36,915	43,778	1,359,625	5,721,930	250,000	-	202,391	7,614,639
Available-for-sale financial assets	61,799	2,254	60,997	399,086	4,019,067	-	-	4,543,203
Investments in associates	-	-	-	-	-	12,000	-	12,000
Current tax asset	-	-	-	-	-	484,796	-	484,796
Property and equipment	-	-	-	-	-	79,106	-	79,106
Intangible assets	-	-	-	2,386,441	-	-	-	2,386,441
Deferred tax asset	-	-	-	1,860,185	-	-	-	1,860,185
Other assets	-	17,238	-	-	-	60,935	-	78,173
Total assets	15,941,785	63,270	1,420,697	127,015,286	115,532,361	636,837	202,391	260,812,627
LIABILITIES								
Amounts due to the Shareholder's Group	(4,879,478)	(9,000,000)	(21,827,952)	(189,201,563)	-	-	-	(224,908,993)
Amounts due to credit institutions and state bodies	(408,932)	(239,550)	(652,000)	(4,262,795)	-	(178,543)	-	(5,741,820)
Other liabilities	(26,790)	(237,512)	-	-	-	-	-	(264,302)
Total liabilities	(5,315,200)	(9,477,062)	(22,479,952)	(193,464,358)	-	(178,543)	-	(230,915,115)
Net position	10,626,585	(9,413,792)	(21,059,255)	(66,449,072)	115,532,361	458,294	202,391	29,897,512

23 Commitments

The Fund provides financial guarantees to guarantee the performance of customers to third parties.

The contractual amounts of commitments are set out in the following table by category. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2010 '000 KZT	2009 KZT'000
Contracted amount		
Guarantees	476,345	221,771
Less – provisions	(84,940)	(26,790)
	391,405	194,981

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

Analysis of movements in the impairment allowance

	2010 '000 KZT	2009 '000 KZT
Balance at the beginning of the year	26,790	229,143
Net charge (recovery)	58,150	(202,353)
Balance at the end of the year	84,940	26,790

24 Operating leases

The Fund leases a number of premises and vehicles under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During 2010 year KZT 116,857 thousand is recognised as an expense in profit or loss in respect of operating leases (2009: KZT 82,168 thousand).

25 Contingencies

Insurance

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

25 Contingencies, continued

Litigation

In the ordinary course of business, the Fund is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Fund.

Taxation contingencies

The taxation system in the Republic of Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years but under certain circumstances a tax year may remain open longer.

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

26 Related party transactions

(a) Control relationships

The Fund’s Parent is “Samruk-Kazyna” Sovereign Wealth Fund JSC. The party with ultimate control over the Fund is the Government of the Republic of Kazakhstan.

Publicly available financial statements are produced by the Fund’s Parent, however, no publicly available financial statements are produced by the Fund’s ultimate controlling party.

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

Total remuneration included in personnel expenses:

	2010 '000 KZT	2009 '000 KZT
Short-term employee benefits	36,964	43,532
Social benefits	508	4,151
	37,472	47,683

These amounts include non-cash benefits in respect of the members of the Management Board.

26 Related party transactions, continued

(c) Transactions with other related parties

Other subsidiaries of the Parent company include fellow subsidiaries of “Samruk-Kazyna” Sovereign Wealth Fund JSC. Other related parties include state entities and associates.

The outstanding balances and the related average interest rates as of 31 December 2010 and related profit or loss amounts of transactions for the year ended 31 December 2010 with other related parties are as follows:

	Parent company		Other subsidiaries of the Parent company		Other		Total '000 KZT
	'000 KZT	Average interest rate, %	'000 KZT	Average interest rate, %	'000 KZT	Average interest rate, %	
Statement of financial position							
ASSETS							
Cash and cash equivalents	-	-	23,321	-	8,884,387	-	8,907,708
Financial instruments at fair value through profit or loss	-	-	3,388,730	5.40	1,986,656	5.60	5,375,386
Loans and advances to financial institutions	-	-	59,041,797	8.03	16,301,465	7.67	75,343,262
Available-for-sale financial assets	-	-	3,520,795	7.99	-	-	3,520,795
Investments in associates	-	-	-	-	12,000	-	12,000
LIABILITIES							
Amounts due to the Shareholder’s Group	162,878,380	6.19	-	-	-	-	162,878,380
Amounts due to credit institutions and state bodies	-	-	-	-	8,379,898	6.00	8,379,898
Other borrowed funds	-	-	-	-	2,005,000	1.00	2,005,000
Profit/(loss)							
Interest income	-	-	5,114,243	-	1,630,570	-	6,744,813
Interest expense	(11,809,767)	-	(236,058)	-	(333,525)	-	(12,379,350)
Net impairment recoveries	-	-	12,233,592	-	-	-	12,233,592
Other general and administrative expenses	-	-	(55,363)	-	-	-	(55,363)

26 Related party transactions, continued

(c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2009 and related profit or loss amounts of transactions for the year ended 31 December 2009 with other related parties are as follows:

	Parent company		Other subsidiaries of the Parent company		Other		Total '000 KZT
	'000 KZT	Average interest rate, %	'000 KZT	Average interest rate, %	'000 KZT	Average interest rate, %	
Sstatement of financial position							
ASSETS							
Cash and cash equivalents	-	-	5,481,753	-	4,553	-	5,486,306
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-
Available-for-sale financial assets	-	-	3,093,383	7.0-10.9	-	-	3,093,383
Loans and advances to financial institutions	-	-	88,133,000	8.04	-	-	88,133,000
Investments in associates	-	-	-	-	12,000	-	12,000
Other assets	-	-	-	-	4,246,626	-	4,246,626
LIABILITIES							
Amounts due to the Shareholder's Group	218,908,993	6.11	6,000,000	6.5	-	-	224,908,993
Amounts due to credit institutions and state bodies	-	-	-	-	5,741,820	1.0-7.1	5,741,820
Other liabilities	-	-	-	-	97,281	-	97,281
Profit/(loss)							
Interest income	-	-	8,892,955	-	-	-	8,892,955
Net impairment charge	-	-	(13,663,822)	-	-	-	(13,663,822)
Interest expense	(12,030,803)	-	(458,250)	-	(389,867)	-	(12,878,920)

27 Financial assets and liabilities

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2010:

'000 KZT	Trading	Loans and receivables	Available-for- sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	-	23,649,327	-	-	23,649,327	23,649,327
Financial instruments at fair value through profit or loss	14,319,128	-	-	-	14,319,128	14,319,128
Loans and advances to financial institutions	-	167,357,229	-	-	167,357,229	173,717,872
Loans to customers	-	3,386,969	-	-	3,386,969	3,182,472
Available-for-sale financial assets	-	-	5,181,261	-	5,181,261	5,181,261
Other financial assets	-	-	-	60,502	60,502	60,502
	14,319,128	194,393,525	5,181,261	60,502	213,954,416	220,110,563
Amounts due to the Shareholder's Group	-	-	-	(162,878,380)	(162,878,380)	(155,027,263)
Amounts due to credit institutions and state bodies	-	-	-	(10,606,573)	(10,606,573)	(9,218,457)
Other financial liabilities	-	-	-	(336,874)	(336,874)	(336,874)
	-	-	-	(173,821,827)	(173,821,827)	(164,582,594)

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2009:

'000 KZT	Loans and receivables	Available-for- sale	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	15,843,071	-	-	15,843,071	15,843,071
Loans and advances to financial institutions	227,911,013	-	-	227,911,013	238,981,704
Loans to customers	7,614,639	-	-	7,614,639	7,386,234
Available-for-sale financial assets	-	4,543,203	-	4,543,203	4,543,203
Other financial assets	-	-	22,196	22,196	22,196
	251,368,723	4,543,203	22,196	255,934,122	266,776,408
Amounts due to the Shareholder's Group	-	-	(224,908,993)	(224,908,993)	(211,128,617)
Amounts due to credit institutions and state bodies	-	-	(5,741,820)	(5,741,820)	(5,611,435)
Other financial liabilities	-	-	(142,975)	(142,975)	(142,975)
	-	-	(230,793,788)	(230,793,788)	(216,883,027)

27 Financial assets and liabilities, continued

Accounting classifications and fair values, continued

The estimated fair value of the Fund's financial assets and liabilities, as required to be disclosed by IFRS 7 "Financial Instruments: Disclosures", is as follows.

The estimated fair values of financial instruments at fair value through profit or loss are based on quoted market prices at the reporting date without any deduction for transaction costs.

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

The estimated fair values of all financial instruments approximates their carrying values.

The Fund measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorised:

'000 KZT	Level 2	Total
Financial assets		
Financial instruments at fair value through profit or loss	14,319,128	14,319,128
Available-for-sale financial assets	5,181,261	5,181,261
	19,500,389	19,500,389

The table below analyses financial instruments measured at fair value at 31 December 2009, by the level in the fair value hierarchy into which the fair value measurement is categorised:

'000 KZT	Level 2	Total
Financial assets		
Available-for-sale financial assets	4,543,203	4,543,203
	4,543,203	4,543,203

Due to changes in market conditions, quoted prices in active markets were no longer available, including government securities listed on Kazakhstan Stock Exchange. Accordingly, as at 31 December 2010 and 2009 the estimated fair value of financial instruments has been based on the results of valuation techniques involving the use of observable market inputs.

As at 31 December 2010 the Fund does not have any financial instruments for which fair value is based on valuation techniques involving the use of non-market observable inputs.