"Sovereign Wealth Fund "Samruk-Kazyna" JSC

Separate financial statements

For the year ended 31 December 2017,
with independent auditor's report

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Independent Auditor's Report

To the Shareholder and Management of "Sovereign Wealth Fund "Samruk-Kazyna" JSC

Opinion

We have audited the separate financial statements of "Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter - the "Fund"), which comprise the separate balance sheet as at 31 December 2017, the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Fund as at 31 December 2017 and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter - ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (hereinafter - IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate financial statements.

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Key audit matters	How our audit addressed the key audit matters
Measurement of financial assets	
The Fund has significant balances of financial assets, which are mainly represented by loans issued and other receivables, as at the reporting date. Most of the loans were issued on non-market terms. Terms of repayment of some other receivables are also non-market. In addition, terms of some loans and other receivables were modified in 2017. Fair value of such loans and other receivables at initial recognition and at significant modification was determined with the use of assumptions and estimates. Significant judgement was involved in determination of the discount rate, and, in some cases, the estimated period of repayment. In addition, assessment of the recoverable amount of these assets is complex, judgmental and based on assumptions, in particular, on a forecast of the counterparties' ability to pay contractual cash flows. Therefore, this matter was one of the most significance in our audit. The information on measurement of financial assets is disclosed in *Notes 8, 9, 11* and *12* to the separate financial statements.	We assessed valuation methodologies used in determination of the fair value of the loans issued and other receivables. We compared the discount rate applied with external sources as well as compared the estimated repayment period with the Fund's cash flow expectations. We also assessed the Fund's approach in respect of determination of the recoverable amount of the loans and other receivables, analysed subsequent cash receipts, ageing and overdue receivables, considering historical data. We also discussed with the management their expectations and plans in respect of recoverability. We analysed available information on solvency and net worth of counterparties and assessed recoverability of other receivables. We assessed the information disclosed in the separate financial statements.
Compliance with loan covenants	
In accordance with the terms of the loan agreement, the Fund should maintain and comply with certain financial and non-financial covenants. Due to fact that compliance with covenants is largely based on management assessment and estimates and since non-compliance may result in the loans becoming payable on demand we consider compliance with covenants requirements as one of the key audit matters. Information on compliance with covenants is disclosed in *Note 15* to the separate financial statements.	We examined the terms of the loan covenants. We compared data used in the calculations with the financial statements. We assessed arithmetic accuracy of financial covenants calculations. In addition, we analysed non-financial covenants, such as limitations on disposals and acquisitions, retaining control over assets and absence of insolvency proceedings. We analysed communication with creditors in respect of compliance with financial and non-financial covenants as at 31 December 2017. We also assessed the information disclosed in the financial statements.

Other information included in the Fund's 2017 Annual Report

Other information consists of the information included in the Fund's 2017 Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Fund's 2017 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the separate financial statements

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

In preparing the separate financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Adil Syzdykov
Auditor

Auditor qualification certificate
No. МФ-0000172 dated 23 December 2013

Gulmira Turmagambetova
General Director
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of finance of the Republic of Kazakhstan on 15 July 2005

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21 May 2018

SEPARATE BALANCE SHEET

As at 31 December 2017

In millions of tenge	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment		**266**	329
Intangible assets	5	**16,675**	13,960
Investments in subsidiaries	6	**4,152,759**	4,032,432
Investments in joint venture	7	**1,494,941**	1,494,941
Loans issued	8	**383,417**	372,788
Amounts due from credit institutions	9	**439,120**	601,198
Other non-current financial assets	10	**1,164**	19,647
Other non-current assets	11	**31,134**	25,660
		6,519,476	6,560,955
Current assets			
Income tax prepaid		**4,969**	7,274
Loans issued	8	**215,626**	227,721
Amounts due from credit institutions	9	**178,425**	194,751
Other current financial assets	10	**–**	5,784
Other current assets	12	**52,108**	98,351
Cash and cash equivalents	13	**354,577**	236,546
		805,705	770,427
Assets classified as held for sale		**18,455**	18,455
Total assets		**7,343,636**	7,349,837
Equity and liabilities			
Equity			
Share capital	14	**5,133,476**	5,058,658
Revaluation reserve for available-for-sale investments		**(1,498)**	4,018
Retained earnings		**274,055**	205,360
Total equity		**5,406,033**	5,268,036
Non-current liabilities			
Borrowings	15	**577,375**	1,001,356
Loans from the Government of the Republic of Kazakhstan	16	**776,141**	912,180
Financial guarantee liabilities	18	**33,443**	27,958
Deferred tax liability	25	**238**	6
Other non-current liabilities	17	**7,553**	10,787
		1,394,750	1,952,287
Current liabilities			
Borrowings	15	**507,892**	88,342
Loans from the Government of the Republic of Kazakhstan	16	**5,907**	6,231
Financial guarantee liabilities	18	**7,461**	6,098
Other current liabilities		**21,593**	28,843
		542,853	129,514
Total liabilities		**1,937,603**	2,081,801
Total equity and liabilities		**7,343,636**	7,349,837

Managing Director for Economy and Finance

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

The accounting policies and notes on pages 5 to 41 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In millions of tenge	Notes	2017	2016
Interest income	19	**220,137**	73,219
Interest expense	20	**(184,577)**	(117,027)
Dividend income	21	**138,970**	79,031
Gross profit		**174,530**	35,223
General and administrative expenses	22	**(34,103)**	(33,370)
Finance income	23	**66,192**	117,839
Finance expenses	24	**(29,553)**	(11,352)
Impairment of impairment of financial and other current assets, net	9	**(12,686)**	(14,434)
Impairment and loss on sale of securities held in "Kazkommertsbank" JSC	10	**(12,828)**	–
Gain on disposal of financial assets		**–**	43
Foreign exchange gain, net		**1,483**	5,628
Other operating income		**2,610**	2,423
Profit before income tax		**155,645**	102,000
Income tax expenses	25	**(9,948)**	(14,850)
Net profit for the year		**145,697**	87,150
Other comprehensive loss on for the year, net of tax			
Unrealized loss on revaluation of available-for-sale investments		**(12,175)**	(1,113)
Realized loss on available-for-sale investments	10	**6,659**	–
Other comprehensive loss to be reclassified to profit or loss in subsequent periods, net of income tax		**(5,516)**	(1,113)
Total comprehensive income for the year, net of tax		**140,181**	86,037

Managing Director for Economy and Finance

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

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SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In millions of tenge	Notes	2017	2016
Cash flows from operating activities			
Dividend received	21	**138,969**	109,224
Loans received	15	**47,020**	44,162
Redemption/(placement) of amounts due from credit institutions, net		**254,702**	(5,069)
Repayment of loans issued		**97,168**	48,791
Receipt from issued bonds		**25,000**	102,500
Redemption of financial assets		**5,985**	996
Other cash receipts		**2,059**	1,603
Redemption of issued bonds	16	**(239,771)**	–
Repayment of loans received	15	**(74,995)**	–
Loans given to subsidiaries		**(29,779)**	(107,113)
Acquisition of bonds issued by subsidiaries	8	**(25,000)**	–
Acquisition of bonds issued by third parties and related parties	8	**(21,100)**	–
Payments to suppliers		**(10,370)**	(10,665)
Payroll payments		**(4,199)**	(3,381)
Sponsorship	22	**(15,000)**	(15,000)
Withholding income tax	25	**(9,716)**	(11,510)
Other taxes and payments		**(4,442)**	(3,982)
Interest received		**77,886**	91,587
Interest paid		**(74,255)**	(73,786)
Net cash flows from operating activities		**140,162**	168,357
Cash flows from investing activities			
Withdrawal of bank deposits, net		**23,203**	55,135
Contributions to subsidiaries and joint venture	6	**(107,899)**	(367,234)
Proceeds from sale of investments in subsidiaries	12	**51,211**	–
Purchase of property, plant and equipment		**(76)**	(201)
Purchase of intangible assets		**(7,378)**	(7,578)
Net cash flows used in investing activities		**(40,939)**	(319,878)
Cash flows from financing activities			
Contributions to the share capital	14	**74,552**	137,923
Distributions to the Shareholder		**(44,094)**	(39,525)
Dividends paid to the Shareholder	14	**(11,899)**	(10,393)
Loans received		**–**	159,726
Net cash flows received from financing activities		**18,559**	247,731
Net increase in cash and cash equivalents		**117,782**	96,210
Net foreign exchange difference		**249**	(239)
Cash and cash equivalents, at the beginning of the period		**236,546**	140,575
Cash and cash equivalents, at the end of the period		**354,577**	236,546

* *Separate statement of cash flows for the year ended 31 December 2016 does not correspond to the report presented in the financial statements for the year 2016, as the Fund changed the method of presenting separate statement of cash flow as described in Note 3.*

Managing Director for Economy and Finance

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

The accounting policies and notes on pages 5 to 41 are an integral part of these separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In millions of tenge	Notes	Share capital	Revaluation reserve for available-for-sale investments	Retained earnings / (accumulated loss)	Total
Balance as at 31 December 2015		4,916,269	5,131	164,673	5,086,073
Net profit for the year		–	–	87,150	87,150
Other comprehensive loss		–	(1,113)	–	(1,113)
Total comprehensive income for the year		–	(1,113)	87,150	86,037
Issue of shares	14	142,389	–	–	142,389
Discount on loans from the Government		–	–	4,007	4,007
Other transactions with the Shareholder		–	–	(552)	(552)
Dividends	14	–	–	(10,393)	(10,393)
Other distributions to the Shareholder	14	–	–	(39,525)	(39,525)
Balance as at 31 December 2016		5,058,658	4,018	205,360	5,268,036
Net profit for the year		–	–	**145,697**	**145,697**
Other comprehensive loss		–	**(5,516)**	–	**(5,516)**
Total comprehensive income for the year		–	**(5,516)**	**145,697**	**140,181**
Issue of shares	14	**74,818**	–	–	**74,818**
Other transactions with the Shareholder		–	–	**(10,684)**	**(10,684)**
Dividends	14	–	–	**(11,899)**	**(11,899)**
Other distributions to the Shareholder	14	–	–	**(54,419)**	**(54,419)**
Balance as at 31 December 2017		**5,133,476**	**(1,498)**	**274,055**	**5,406,033**

Managing Director for Economy and Finance

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

The accounting policies and notes on pages 5 to 41 are an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

"Sovereign Wealth Fund "Samruk-Kazyna" Joint Stock Company (the "Fund" or "Samruk-Kazyna") was established on 3 November 2008 in accordance with the Decree of the President of the Republic of Kazakhstan dated 13 October 2008 and the Resolution of the Government of the Republic of Kazakhstan dated 17 October 2008. The Fund was created by the merger of "Sustainable Development Fund "Kazyna" JSC ("Kazyna") and "Kazakhstan Holding Company for State Assets Management "Samruk" JSC ("Samruk") and the additional transfer to the Fund of ownership in certain entities owned by the Government of the Republic of Kazakhstan (the "Government" or the "State"). The founder of the Fund is the Government, represented by State property and privatization committee of the Ministry of finance of the Republic of Kazakhstan. The Government is the sole shareholder of the Fund (the "Shareholder").

The main objective of the Government during the merger of "Kazyna" and "Samruk" was to increase management's efficiency and to optimize organizational structure of the Fund's subsidiaries for them to successfully achieve strategic objectives set out in the respective Government programs and development plans.

According to the Law of the Republic of Kazakhstan enacted on 1 February 2012 *On Sovereign Wealth Fund*, the Fund's activities are focused on improving the sovereign wealth of the Republic of Kazakhstan by increasing long-term value of the Fund's group companies and by effective management of the Fund's group assets.

The Fund is a holding company with investments in a number of entities listed in *Notes 6* and *7*.

The administrative address of the Fund: the Republic of Kazakhstan, Astana, Kunayev Street, 8.

These separate financial statements were authorized for issue by the Managing Director for Economy and Finance and Chief accountant of the Fund on 17 May 2018.

These separate financial statements were issued in addition to the consolidated financial statements of the Fund. The consolidated financial statements were authorized for issue by the Managing Director for Economy and Finance and Chief accountant of the Fund on 17 May 2018.

2. BASIS OF PREPARATION

These separate financial statements have been prepared on a historical cost basis, except as described in the accounting policies and notes to these separate financial statements. The Fund maintains its accounting records in Kazakhstani tenge ("tenge"). All amounts in these separate financial statements are rounded to the nearest million tenge, except when otherwise indicated

Statement of compliance

These separate financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standard Board ("IASB").

The preparation of separate financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The preparation of financial statements also requires management to exercise its judgment in applying the accounting policies of the Fund. The areas involving a higher degree of judgment or complexity, as well as areas where assumptions and estimates are significant to the separate financial statements are disclosed in *Note 4*.

Foreign currency translation

Functional and presentation currency

These separate financial statements are presented in tenge, which is functional and presentation currency of the Fund's separate financial statements.

Transactions and balances

Transactions in foreign currency are initially recorded at the functional currency rate effective at the date of transaction. Monetary assets and liabilities denominated in the foreign currency are translated to the functional currency using exchange rate effective at the balance sheet date. All translation differences are taken to the separate statement of comprehensive income. Non-monetary items measured on a historical cost basis in a foreign currency are translated using the exchange rates at the date of initial transactions. Non-monetary items measured at the fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

Exchange rates

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in Kazakhstan.

As at 31 December 2017 the currency exchange rate of KASE was 332.33 tenge to 1 US dollar. This rate was used to translate monetary assets and liabilities denominated in US dollars as at 31 December 2017 (as at 31 December 2016: 333.29 tenge to 1 US dollar). The currency exchange rate of KASE as at 17 May was 327.11 tenge to 1 US dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amendments to accounting policies and disclosure principles

The Fund changed its method of presentation of separate cash flow statement from indirect method to direct method for the period from 1 January 2017 to 31 December 2017 since the fund believes that the direct method allows the information to be more appropriate for users of financial statements. The Fund adopted a method of presenting a separate statement of cash flows on a retrospective basis.

The separate statement of financial position and separate statement of cash flows have been revised to present more detailed classification of certain items based on their nature to provide the users of the financial statements with more relevant information about the financial position and cash flows of the Fund.

Effect on comparative information of separate statement of financial position for the year ended 31 December 2016

In millions of tenge	As it was presented	Reclassifications	Currently presented
Other non-current liabilities	10,793	(6)	10,787
Deferred tax liabilities	–	6	6

Effect on comparative information of separate statement of cash flows for the year ended 31 December 2016

In millions of tenge	As it was presented	Reclassifications	Currently presented
Net cash flows from operating activities	168,118	239	168,357
Net foreign exchange difference	–	(239)	(239)

New standards, interpretations and amendments adopted by the Fund

The Fund applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. Although the new standards and amendments were applied for the first time in 2017, they did not have a significant impact on the annual separate financial statements of the Fund. The nature and the impact of each amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments result in the additional disclosures provided in *Note 27*.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments adopted by the Fund (continued)

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (continued)

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Annual improvements cycle – 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. These amendments did not affect the Fund's financial statements.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's consolidated financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

Starting from 2018, the Fund will apply IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting.

Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Fund plans to start applying the new standard from the required effective date and will not recalculate comparative information. As at the reporting date the Fund has not completed detailed impact assessment of all three aspects of IFRS 9. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Fund in 2018 when IFRS 9 is fully adopted.

(a) Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available-for-sale financial assets.

Based on its assessment, the Fund does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

(b) Impairment – financial assets and contract assets

Under IFRS 9, the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment – financial assets and contract assets (continued)

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date; or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Fund has chosen to apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on credit risk characteristics and the days past due.

In relation to long-term bank deposits, loans to related party and other financial assets at amortized cost, the Fund will apply general approach to such financial assets.

The Fund is currently developing unified approach for all the entities within Fund's Group with respect to application of IFRS 9 and as at the date of these financial statements continues to analyze all available information in order to assess the effect of IFRS 9 adoption.

(c) Hedge accounting

The Fund did not have hedging transactions, which are currently designated as hedging transactions, and therefore the application of hedging requirements for IFRS 9 will not have an impact on the Fund's financial statements.

IFRS 15 Revenues under Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Based on the Fund's analysis of IFRS 15, the method for recognizing revenue under contracts will not change due to the application of the new standard.

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Fund will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a new comprehensive standard for financial reporting for insurance contracts that addresses the recognition and measurement, presentation and disclosure of information. When IFRS 17 enters into force, it will replace IFRS 4 *Insurance Contracts*, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (that is, life insurance and insurance other than life insurance, direct insurance and reinsurance), regardless of the type of organization that issues them, as well as certain guarantees and financial instruments with conditions discretionary participation. There are several exceptions to the scope of application. The main purpose of IFRS 17 is to provide a model for accounting for insurance contracts, which is more efficient and consistent for insurers. Unlike IFRS 4, which is mainly based on previous local accounting policies, IFRS 17 provides a comprehensive model for accounting for insurance contracts, covering all relevant aspects of accounting.

IFRS 17 is based on a general model, supplemented by the following:

- Certain modifications for insurance contracts with direct participation in investment income (variable compensation method);
- Simplified approach (award-based approach) mainly for short-term contracts.

IFRS 17 becomes effective for accounting periods beginning on or after 1 January 2021, and comparative information is required. Earlier application is permitted provided that the organization also applies IFRS 9 and IFRS 15 at the date of the first application of IFRS 17 or before it. This standard is not applicable to the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an organization should transfer real estate objects, including real estate in the process of construction or development, into a category or from the category of investment real estate. The amendments state that a change in the nature of use occurs when a property starts or ceases to comply with the definition of investment property and there is evidence of a change in the nature of its use. The change in management's intentions regarding the use of the property itself does not indicate a change in the nature of its use. Organizations should apply these amendments prospectively for changes in the nature of use that occur at the commencement date of the annual reporting period in which the organization applies the amendments for the first time, or after that date. The organization shall re-analyze the classification of the real estate held at that date and, if applicable, effect the transfer of the property to reflect the conditions that exist on that date. Retrospective application is permitted in accordance with IAS 8, but only if possible without the use of more recent information. The amendments become effective for annual periods beginning on or after 1 January 2018. Early application is permitted subject to disclosure. The Fund will apply these amendments when they come into force. However, as the Group's current business is eligible for clarification, the Fund does not expect that it will have an impact on its consolidated financial statements.

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards – removal of short-term exemptions for first-time adopters of IFRS

The short-term exemptions provided for in paragraphs E3-E7 of IFRS 1 have been removed because they have fulfilled their function. These amendments come into force on 1 January 2018. These amendments do not apply to the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Annual improvements 2014-2016 cycle (issued in December 2016) (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact.

These amendments are not applicable to the Fund.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

These amendments eliminate the problems arising from the application of the new standard on financial instruments, IFRS 9, before the introduction of IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments provide for two options for organizations, issuing insurance contracts: a temporary exemption from the application of IFRS 9 and the method of imposition. Temporary exemption applies for the first time for reporting periods beginning on or after 1 January 2018. The organization may decide to apply the imposition method when it first applies IFRS 9 and apply this method retrospectively to financial assets classified at the entity's discretion when moving to IFRS 9. In doing so, the organization recounts the comparative information to reflect the method of imposing, if and only if it recalculates comparative information when applying IFRS 9. These amendments do not apply to the Fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries, joint ventures and associates

The Fund's investments in its subsidiaries, joint ventures and associates are accounted for at cost, less any accumulated impairment losses. Associate is an entity in which the Fund has significant influence and which is neither a subsidiary nor joint venture of the Fund.

Impairment of non-financial assets

At each reporting date, the Fund assesses non-financial assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Fund makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

At each reporting date an assessment is made to identify any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated by the Fund. A previously recognized impairment losses are reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the separate statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

Investments in subsidiaries, joint ventures and associates

The Fund determines at each reporting date whether there is any objective evidence that the investment in subsidiaries, associates and joint ventures are impaired. If impairment indicators exist, the Fund conducts impairment test and calculates impairment loss as the difference between the recoverable amount and carrying amount of investments.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, available-for-sale financial assets, or as derivative instruments. The Fund determines the classification of its financial assets at initial recognition.

Financial assets are initially recognized at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Fund's financial assets include cash and cash equivalents, bank deposits, loan issued, amounts due from credit institutions, investments available for sale and other receivables. The subsequent measurement of financial assets depends on their classification as follows:

Amounts due from credit institutions, loans issued and other receivables

Amounts due from credit institutions, bank deposits, loans issued and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement such financial assets are carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the separate statement of comprehensive income. Losses arising from impairment are recognized as a separate line in the separate statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Fund has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortized cost determined using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in interest income in the separate statement of comprehensive income. The losses arising from impairment are recognized as a separate line in the separate statement of comprehensive income.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity securities classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which the Fund intends to hold for an indefinite period and which may be sold for the purpose of providing liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investments revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in income from disposal of financial assets, or determined to be impaired, at which time the cumulative loss is reclassified to impairment loss in the separate statement of comprehensive income and removed from the available-for-sale investment revaluation reserve.

Fair value determination

The fair value of financial instruments that are traded in active market at each reporting date is determined by reference to quoted market prices or dealers price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques include cash flow discounting model, reference to the current fair value of another instrument that is substantially the same, option valuation models or other valuation models.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized on the separate balance sheet when:

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

When the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset.

In that case, the Fund also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Financial liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

Amounts due from credit institutions, loans to customers and bank deposits

For amounts due from credit institutions, loans and bank deposits carried at amortized cost the Fund first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of estimated future cash flows is discounted at the financial assets' original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the separate statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The interest income is recorded as part of revenue in the separate line of the separate statement of comprehensive income.

Loans issued together with the associated allowance are written off when there are no realistic prospects of future recovery and all collateral has been sold or has been transferred to the Fund. If, in a subsequent year, the amount of the estimated impairment losses increases or decreases because of an event occurring after the impairment losses were recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit and losses in the separate statement of comprehensive income.

Investments available-for-sale

If there is objective evidence that the initial cost may not be recovered, an available-for-sale equity security is considered to be impaired. Objective evidence that the initial cost may not be recovered, in addition to qualitative impairment criteria, includes a significant or extended decline in the fair value below the initial cost.

If an available-for-sale equity security is impaired, according to qualitative and quantitative impairment criteria, determined by the Fund, any further declines in the fair value at subsequent reporting dates are recognized as impairment. Therefore, at each reporting date, for an equity security that was determined to be impaired according to the impairment criteria of the Fund, impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairment.

Non-current assets classified as held for distribution to the Shareholder

Assets are classified as non-current assets held for transfer to the Shareholder if they meet the following criteria:

- Are available for immediate transfer in their current condition;
- There is a firm intention to ensure their planned transfer;
- Actions have been undertaken to complete the plan;
- There is a high probability of making a transfer, and it is expected that the transfer will be completed within 1 (one) year from the date of classification.

Non-current assets classified as held for transfer to the Shareholder have been presented separately within current assets category in the separate balance sheet.

Non-current assets (or disposal groups) classified as held for transfer to the Shareholder are measured at the lower of carrying amount and fair value less costs to transfer.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets classified as held for distribution to the Shareholder (continued)

Non-current asset that ceases to be classified as held for transfer to the Shareholder is measured at the lower of:

- Its carrying amount before the asset (or disposal group) was classified as held for transfer to the Shareholder, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset (or disposal group) not been classified as held for transfer to the Shareholder; and
- Its recoverable amount at the date of the subsequent decision not to transfer.

Value added tax (VAT)

The tax authorities permit the settlement of sales and purchases VAT on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero-rated.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash on demand deposits, other short-term highly liquid investments with original maturities not greater than 3 (three) months.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Fund's financial liabilities include trade and other payables, borrowings, loans from the Government of the Republic of Kazakhstan, financial guarantee contracts and other liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Borrowings and loans from the Government of the Republic of Kazakhstan

After initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest rate method. Gains and losses on such financial liabilities are recognized in the separate statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account discounts or premiums on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in interest expenses in the separate statement of comprehensive income.

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or other financial assets, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of own equity instruments. Such instruments include amounts due to the Government and loan due to credit institutions, which are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

Subsequently, amounts received are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the separate statement of comprehensive income over the period of the borrowings using the effective interest method. If the Fund purchases its own debt, it is then removed from the separate balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognized in interest income.

Debt securities issued

Debt securities issued represent bonds issued by the Fund. They are accounted for according to the same principles used for borrowings and loans from the Government of the Republic of Kazakhstan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Fund represent those contracts that require a payment to be made to reimburse the holder for losses the party incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the following measures: best estimate of the expenditures required to settle the present obligation at the reporting date and the amount of liability recognized less cumulative amortization.

Options arising on investments acquisition

If at acquisition of the investments the Fund issues to a seller a call option on acquired interest in the business, the Fund assesses whether being a party to such option gives to a third party access to benefits and risks associated with ownership of such interest.

If a call-option does not provide a holder of the option with access to benefits and risks of acquired interest, this call option is not accounted for the purpose of determination of Fund's significant influence.

Fair value of the liability for the Fund under the option is recognized as a part of acquired investments. The financial liability is subsequently measured in accordance with the requirements of IAS 39. Changes in the fair value of a financial liability as well as any gains or losses related to the settlement of these options are recorded directly in separate statement of comprehensive income.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Total gain or loss is recognized in the separate statement of comprehensive income unless the derivative is designated and effective as a hedging instrument, in such event the timing of the recognition in the separate statement of comprehensive income depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is classified as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 (twelve) months and it is not expected to be realized or settled within 12 (twelve) months. Other derivatives are classified as current assets or current liabilities.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Fund and the amount of revenue can be reliably measured.

Interest and similar income and expenses

Interest income on financial instruments, except for interest income on placement of temporarily excess cash, represent income from operating activity of the Fund and is disclosed as interest income. Interest income on placement of temporarily excess cash is disclosed as finance income.

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

The carrying amount of the financial asset or financial liability is adjusted if there is reassessment of payments and cash receipts by the Fund. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividends

Dividends income is recognized when the Fund's right to receive the payment is determined.

Government grants

Due to the fact that the Government of the Republic of Kazakhstan is the sole shareholder of the Fund, the Fund analyses all transactions with the Government to assess its role: where the Government acts primarily in its capacity of the Shareholder or where it acts as a regulator. If it is determined that in a specific transaction the Government acts in capacity of the Shareholder any gains or losses incurred by the Group as a result of such transaction are reflected directly in equity as either a contribution or withdrawal of equity by the Shareholder.

If it is determined that in a specific transaction the Government does not act in capacity of the Shareholder such transactions are accounted for using provisions of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. In such circumstances, government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the separate statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments. Grants related to income are presented separately in the separate statement of comprehensive income within revenues from operating activities.

Expense recognition

Expenses are recognized as incurred and are recorded on the accrual basis in the separate financial statements in the period to which they relate.

Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the separate statement of comprehensive income except to the situations when it relates to items charged or credited directly to the equity, in which case it is recognized in equity.

Current income tax expenses are the expected taxes payable on the taxable profit for the year and any adjustments to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the separate financial statements, except where the deferred income tax arises as a result of the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, which at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Equity

Share capital

Common shares are classified as equity. Expenses payable for services to third parties directly attributable to the issue of new shares, other than on a business combinations, are shown as a deduction from the proceeds of this issuance in equity. Any excess of the fair value of consideration received over the par value of shares issued is charged to retained earnings.

Dividends

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the separate financial statements of the Fund requires management to make judgments, estimates and assumptions that affect the reported in the separate financial statements amounts of revenue, expenses, assets and liabilities, and disclosure of contingent liabilities and assets as at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the separate balance sheet cannot be derived from active markets, it is determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments reported in the separate financial statements.

Allowance for impairment of loans issued, amounts due from credit institutions and deposits

The Fund reviews its individually significant loans issued, amounts due from credit institutions and deposits at each reporting date to assess the need of recognizing impairment loss in the profit and losses. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating such cash flows, the Fund makes judgment about the borrower's financial position and the net realizable value of collateral if applicable. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Taxation

In assessing tax risks, management considers the known areas of non-compliance with tax legislation as a possible obligation which the Fund would not appeal or does not believe it could successfully appeal, if additional taxes will be accrued by tax authorities. Such determination requires significant judgments and is subject to changes as a result of changes in tax legislation and regulations, amendments to the taxation terms, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities.

Deferred tax assets

Deferred tax assets were recognized for all allowances on provisions and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as successful application of tax planning strategies. The unrecognized deferred tax assets were equal to 45,622 million tenge as at 31 December 2017 (as at 31 December 2016: 34,846 million tenge) *(Note 25)*.

Impairment of investments in subsidiaries

Impairment exists when the carrying amount of an investment in subsidiary exceeds its recoverable amount, which is the higher of the following: its fair value less costs to sell and its value in use. In 2017, the Fund did not recognize any impairment of investments in subsidiaries.

Impairment of assets classified as held for sale

Non-current assets classified as held for sale should be measured at the lower of the following: their carrying amount or fair value less costs to sell. Fair value is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Costs to sell are determined as the incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

In 2017, the Fund recognized an impairment loss on assets classified as held for sale in the amount of 6,169 million tenge (31 December 2016: 0 tenge) *(Note 10)*.

5. INTANGIBLE ASSETS

In 2015 the Fund concluded a long-term agreement with SAP Kazakhstan LLP for acquisition of licenses and maintenance of the SAP software for the purposes of automation of business processes. The Fund concluded a trust management agreement with its subsidiary "Samruk-Kazyna Business-Service" LLP to distribution the licenses to the companies within the group of the Fund.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

6. INVESTMENTS IN SUBSIDIARIES

The following table represents investments in subsidiaries of the Fund, their activity, country of incorporation or location, as well as the Fund's share in these subsidiaries:

In millions of tenge	Activity	Country	Carrying amount 31 December 2017	Carrying amount 31 December 2016	Ownership 31 December 2017	Ownership 31 December 2016
"National Company "Kazakhstan Temir Zholy" JSC	Cargo and passengers railway transportation	Kazakhstan	**1,449,535**	1,382,683	**100.00%**	100.00%
"National Company "KazMunayGas" JSC	Oil and gas industry	Kazakhstan	**1,187,541**	1,187,542	**90.09%**	90.00% – 1
"Samruk-Energy" JSC	Production and transportation of heat and electricity	Kazakhstan	**452,608**	452,608	**100.00%**	100.00%
"National Mining Company "Tau-Ken Samruk" JSC	Mining	Kazakhstan	**293,135**	293,135	**100.00%**	100.00%
"United Chemical Company" LLP	Chemical industry	Kazakhstan	**274,119**	233,516	**100.00%**	100.00%
"National Atomic Company "KazAtomProm" JSC	Uranium production	Kazakhstan	**147,634**	147,368	**100.00%**	100.00%
"Kazakhstan Electricity Grid Operating Company" JSC	Electricity transmission	Kazakhstan	**120,648**	120,648	**90.00% + 1**	90.00% + 1
"Kazakhtelecom" JSC	Fixed line telecommunication	Kazakhstan	**93,212**	93,212	**51.00%**	51.00%
"Kazpost" JSC	Postal and financial services	Kazakhstan	**38,183**	29,362	**100.00%**	100.00%
"Real Estate Fund "Samruk-Kazyna" JSC	Real estate	Kazakhstan	**31,849**	31,849	**100.00%**	100.00%
"National Company "Kazakhstan Engineering" JSC	Mechanical and defence engineering	Kazakhstan	**23,595**	23,595	**100.00%**	100.00%
"Samruk-Kazyna Invest" LLP	Professional services on investment projects	Kazakhstan	**23,088**	19,258	**100.00%**	100,00%
"Air Astana" JSC	Passengers air transportation	Kazakhstan	**7,276**	7,276	**51.00%**	51.00%
"International Airport Aktobe" JSC	Airport services	Kazakhstan	**6,029**	6,029	**100.00%**	100.00%
"Airport Pavlodar" JSC	Airport services	Kazakhstan	**1,454**	1,454	**100.00%**	100.00%
"Samruk-Kazyna Business Service" LLP (former "Samruk-Kazyna Finance" LLP)	Transformation services	Kazakhstan	**1,219**	–	**100.00%**	100.00%
"International Airport Atyrau" JSC	Airport services	Kazakhstan	**1,196**	1,196	**100.00%**	100.00%
"KOREM" JSC	Operator of electricity market	Kazakhstan	**161**	161	**100.00%**	100.00%
"Aviation Company "Air Kazakhstan" JSC	Passengers air transportation	Kazakhstan	**136**	136	**53.55%**	53.55%
"Qazaq Air" JSC	Passengers air transportation	Kazakhstan	**120**	120	**100.00%**	100.00%
"Samruk-Kazyna Contract" LLP	Project management	Kazakhstan	**21**	1,284	**100.00%**	100.00%
			4,152,759	4,032,432		

6. INVESTMENTS IN SUBSIDIARIES (continued)

Changes in investments in subsidiaries

"National Company "Kazakhstan Temir Zholy" JSC ("KTZh")

In 2017 the Fund made contributions to the share capital of KTZh of 66,852 million tenge in cash using funds received from the Republican budget *(Note 14)*.

"United Chemical Company" LLP ("UCC")

In 2017 the Fund made contributions to the share capital of UCC of 40,603 million tenge. Contributions were made in cash 27,178 million tenge, including amount of 7,700 million tenge received from the Republican budget *(Note 14)* and 12,946 million tenge related to recognition of an issued guarantee.

In addition in 2017 the Fund issued loan to UCC with interest rate below market rate *(Note 8)*, the discount in amount of 479 million tenge calculated as the difference between fair value at the date of loan issue and its nominal value, was recognized as an increase in investments.

National Atomic Company "KazAtomProm" JSC ("KazAtomProm")

In 2017 the Fund made a contribution to the share capital of KazAtomProm in the amount of 266 million tenge in the form of property contribution *(Note 14)*.

"Kazpost" JSC

In 2017 the Fund made a contribution to the share capital of "Kazpost" JSC in the amount of 8,821 million tenge in cash.

"Samruk-Kazyna Invest" LLP

In 2017 the Fund made a contribution to the share capital of "Samruk-Kazyna Invest" LLP in the amount of 3,829 million tenge in cash.

"Samruk-Kazyna Business Service" LLP

In 2017 the Fund made contribution to the share capital of "Samruk-Kazyna Business Service" LLP in the amount of 1,219 million tenge in cash.

"Samruk-Kazyna Contract" LLP

In 2017 the Fund made a decision to decrease share capital of "Samruk-Kazyna Contract" LLP by 1,263 million tenge, the amount of decrease was recognized as receivable.

7. INVESTMENTS IN JOINT VENTURE

As at 31 December investments in joint venture were presented as follows:

In millions of tenge	**31 December 2017**	31 December 2016
Joint-venture		
"KMG Kashagan B.V." PLLC	**1,494,941**	1,494,941
	1,494,941	1,494,941

Activities of joint venture, country of residence and the Fund's share in this company as of 31 December is presented as follows:

			Ownership	
Company	Activity	Country	**31 December 2017**	31 December 2016
"KMG Kashagan B.V." PLLC	Oil and gas industry	Netherlands	**50.00%**	50.00%

8. LOANS ISSUED

As at 31 December loans issued comprised the following:

In millions of tenge	31 December 2017	31 December 2016
Loans issued to subsidiaries	**360,259**	391,418
"Real Estate Fund "Samruk-Kazyna" JSC	**163,756**	141,177
"Samruk-Energy" JSC	**83,435**	81,670
"National Company "Kazakhstan Temir Zholy" JSC	**79,086**	76,614
"Qazaq Air" JSC	**22,814**	13,304
"National Company "Kazakhstan Engineering" JSC	**6,000**	–
"National Mining Company "Tau-Ken Samruk" JSC	**3,101**	2,898
"United Chemical Company" LLP	**1,454**	–
"International Airport Atyrau" JSC	**613**	755
"Kaztemirtrans" JSC	**–**	60,000
"Lokomotiv" JSC	**–**	15,000
Loans issued to third parties and related parties	**204,003**	210,319
"Eurasian Resources Group" LLP (former "Eurasian Natural Resources Corporation" PLC)	**166,165**	166,645
"Elorda Damu" LLP	**18,691**	16,613
"Doszhan Temir Zholy" JSC	**8,240**	8,396
"Ayt Housing Complex" LLP	**7,099**	6,937
Other	**3,808**	5,251
"Kazakhstan Petrochemical Industries Inc." LLP	**–**	6,477
Bonds issued by subsidiaries	**25,000**	–
"National Company "Kazakhstan Temir Zholy" JSC	**25,000**	–
Bonds issued by third parties and related parties	**13,680**	2,873
"NMH Baiterek" JSC	**10,596**	–
"Development Bank of Kazakhsan" JSC	**3,084**	2,873
Interest receivable	**10,828**	10,768
Less: impairment provision	**(14,727)**	(14,869)
Total loans issued	**599,043**	600,509
Less: current portion	**(215,626)**	(227,721)
Non-current portion	**383,417**	372,788

Loans issued comprised of the following currencies:

In millions of tenge	31 December 2017	31 December 2016
Loans denominated in tenge	**429,313**	430,288
Loans denominated in US dollars	**169,730**	170,221
	599,043	600,509

Loans issued to subsidiaries

"Real Estate Fund "Samruk-Kazyna" JSC ("Real Estate Fund")

On 27 May 2016 the Fund concluded a loan framework agreement with Real Estate Fund for 97,000 million tenge. Under this framework agreement in 2017, the Fund provided 12,108 million tenge with a maturity at 1 April 2026 and rate of 0.15%, for financing commercial housing construction within the framework of the program "Nurly Zher" (previously – "Nurly Zhol" Govenmental program). The loan was provided using the loan receipt from the National Fund. At initial recognition the loan was measured at a fair value of 9,018 million tenge using market interest rates.

In accordance with the terms of the addendum dated 20 September 2017, to the loan agreement dated 27 May 2016, in the event Real Estate Fund receives repayments of the funds invested for its intended purpose, the Real Estate Fund should, on a quarterly basis, use these funds for early repayment of the loan. The Real Estate Fund has provided a schedule of expected cash flows, according to which part of the principal debt of 46,293 million tenge was classified as short-term.

In 2017, the Real Estate Fund made a partial repayment of loans of 9,773 million tenge (2016: 31,625 million tenge). As at 31 December 2017, the total carrying amount of the principal and interest receivable was equal to 165,076 million tenge (2016: 142,266 million tenge).

8. LOANS ISSUED (continued)

Loans issued to subsidiaries (continued)

"Qazaq Air" JSC

On 13 March 2017 the Fund concluded a loan agreement with "Qazaq Air" JSC, to convert existing interest-free debt of 13,303 million tenge into a loan.

On 29 March 2017, the Fund also concluded a loan agreement with "Qazaq Air" JSC for financing working capital, including payment of operating lease expenses and maintenance of engineering – technical support of aircraft, aviation insurance and hiring of flight personnel. During 2017 the Fund issued 10 tranches totaling 6,523 million tenge.

Loans given to "Qazaq Air" JSC mature on 31 December 2018 and can be converted into shares after the adoption of appropriate corporate decisions, in accordance with the addendums to loan agreements dated 30 October 2017 interest rates were decreased from 5.5% per annum to 0.01% per annum with repayment at the end of loan's terms.

In addition, on 7 December 2017, the Fund provided interest-free financial aid of 2,987 million tenge to "Qazaq Air" JSC to finance payment of 20% of two new aircrafts. Maturity date of financial aid is 6 December 2018.

"National Company "Kazakhstan Engineering" JSC ("Kazakhstan Engineering")

On 27 July 2017, the Fund provided an interest-free financial aid of 6,000 million tenge to Kazakhstan Engineering to finance repayment of the principal amount another due loan. The maturity date of financial aid is 15 April 2018. However, in accordance with the minutes of the Board of Directors dated 26 September 2017 and minutes of the Board of the State Commission for the Modernization of the Economy of the Republic of Kazakhstan dated 23 November 2017, it is planned to make a repayment of the interest free financial aid agreement by providing a loan using funds of the National Fund and maturity on 31 December 2021. In this regard, the Fund has classified the loan as long-term.

"United Chemical Company" LLP ("UCC")

On 15 December 2017, the Fund entered into a loan facility agreement with UCC for a total amount of not more than 9,100 million tenge. During 2017 under the loan agreement the Fund issued the first tranche of 1,930 million tenge, with a maturity date on 21 December 2027 and interest rate of 0.1%. At initial recognition loan was recognized at fair value of 1,451 million tenge that was determined by discounting future cash flows at 8.8%.

Loans issued to third parties and related parties

"Kazakhstan Petrochemical Industries Inc." LLP

On 17 January 2017 "Kazakhstan Petrochemical Industries Inc." LLP made an early repayment of the loan of 7,500 million tenge. Due to the early repayment of the loan by Kazakhstan Petrochemical Industries Inc." LLP, the amortization of the discount of 1,023 million tenge was recognized in the separate statement of comprehensive income.

Bonds issued by subsidiaries

"National Company Kazakhstan Temir Zholy" JSC ("KTZh")

On 24 October 2017, the Fund acquired 25,000,000 coupon bonds issued by KTZh, with a nominal value of 1,000 tenge each for a total of 25,000 million tenge maturing on 24 July 2027 with a coupon rate of 11% per annum.

Bonds issued by third parties and related parties

"National Managing Holding "Baiterek"

On 18 October 2017, the Fund purchased bonds of "National Managing Holding" Baiterek" JSC in the amount of 21,100 million tenge with maturity on 29 March 2026 and interest rate 0.15%. The funds from the bonds placement are provided for granting a loan to the subsidiary organization of the issuer "Baiterek Development" JSC for the redemption of debt securities of local executive bodies of Astana and Almaty cities, regions issued for housing construction purposes, financed from the National Fund.

Upon initial recognition, this bond was assessed at a fair value of 10,416 million tenge, using appropriate market interest rates. The difference between the nominal value and the fair value of the loan at the date of recognition of 10,684 million tenge was recognized as a transactions with the Shareholder *(Note 14)*.

9. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As at 31 December amounts due from credit institutions comprised the following:

In millions of tenge	31 December 2017	31 December 2016
10 largest local banks	**528,740**	526,533
Other local credit institutions	**84,616**	268,279
Interest accrued	**4,189**	8,735
Less: impairment provision	**–**	(7,598)
Total amounts due from credit institutions	**617,545**	795,949
Less: current portion	**(178,425)**	(194,751)
Non-current portion	**439,120**	601,198

Movement in the impairment provision was as follows:

In millions of tenge	2017	2016
At 1 January	**7,598**	–
Charge for the year	**–**	7,598
Reclassification to other current assets	**(7,598)**	–
At 31 December	**–**	7,598

In millions of tenge	31 December 2017	31 December 2016
Rating from BBB-(Baa3) to BB-(Ba3)	**63,898**	93,257
Rating from B+(B1) to B-(B3)	**520,455**	325,212
Rating from CCC+(Caa1) to CC(Ca)	**–**	214,293
No rating	**33,192**	170,785
Less: impairment provision	**–**	(7,598)
	617,545	795,949

No ratings are assigned to "Zhilstroysberbank" JSC and "Kazpost" JSC as at 31 December 2017 (2016: "BTA Bank" JSC, "Zhilstroysberbank" JSC and "Kazinvestbank" JSC).

Amounts due from credit institutions were denominated in the following currencies:

In millions of tenge	31 December 2017	31 December 2016
Amounts due from credit institutions, in tenge	**581,909**	756,596
Amounts due from credit institutions, in US dollars	**35,636**	39,353
	617,545	795,949

Amounts due from credit institutions are mainly represented by funds placed in banks and other financial institutions for financing activities within the framework approved by the Government (targeted loans), as well as bank deposits placed under the policy of temporary available cash:

In millions of tenge	31 December 2017	31 December 2016
Bank deposits placed under the policy of temporary available cash	**423,719**	432,699
Funds for financing activities within the framework approved by the Government	**193,826**	363,250
Total amounts due from credit institutions	**617,545**	795,949
Less: current portion	**(178,425)**	(194,751)
Non-current portion	**439,120**	601,198

9. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)

Bank deposits placed under the policy of temporary available cash

In accordance with the policy of temporary available cash management, the Fund places the deposits in Kazakhstani second tier banks. As of 31 December 2017 the weighted average interest rate on long-term bank deposits amounts to 5.12% per annum (31 December 2016: 5.36%), weighted average interest rate on short-term bank deposits denominated in tenge amounts to 8.41% per annum (31 December 2016: 8.8%), weighted average interest rate on short-term bank deposits denominated in dollar amounts to 2.66% per annum (31 December 2016: 3.11%).

Funds placed with "Delta Bank" JSC

As at 31 December 2017 the Fund held a deposit of 16,000 million tenge in "Delta Bank" JSC. On 17 February 2017 the Standard & Poor's long-term and short-term counterparty credit rating was downgraded from "CC/C" to "D/D" ("default") and the ratings of the priority unsecured bonds from "CC" to "D".

On July 4, 2017, the Agreement on assignment of the right of claim (cession) was concluded and the transfer of the debt between the Fund, Delta bank JSC, Kazpost JSC and Leader Invest Company LLP. As of the date of conclusion of the Agreement, the deposit of the Fund was transferred to Delta Bank JSC for the amount of KZT 3,150 million at Kazpost JSC. At the same time, a credit loan was issued from Delta Bank JSC to Kazpost JSC, previously issued by the bank of Leader Invest Company LLP for a similar amount and to which the transferred deposit of the Fund was provided. The borrower "Leader Invest Company" LLP on a periodic basis made an obligation to make transfers to "Kazpost" JSC within 18 months, "Kazpost" JSC refunds deposits to the Fund after receiving funds from the debtor.

In accordance with the Resolution of the Board of Management of the National Bank of the Republic of Kazakhstan No. 194 dated 2 November 2017, a decision was made to deprive Delta bank JSC of its license on 3 November 2017 to conduct banking and other transactions and activities on the securities market.

Based on this information, the Fund made a decision on the need to review the previously accrued reserve for the depreciation of deposits and increase it to 100% of the value of deposits and recognized the impairment losses of deposits in the statement of comprehensive income of profit and loss in amount of 10,570 million tenge.

Currently, the National Bank of the Republic of Kazakhstan is working to appoint a liquidation commission.

Given the uncertainty in the recoverability of overdue deposits in Delta bank JSC as of 31 December 2017, the Fund re-classified deposits with interest receivable in the amount of 16,270 million tenge and impairment in the amount of 100% of the amount of deposits to other assets *(Note 12)*.

Funds placed with "Kazinvestbank" JSC

As of 31 December 2017, the Fund has bank deposits in amount of 2,110 million tenge in "Kazinvestbank" JSC.

In May 2017, under the control of the National Bank of the Republic of Kazakhstan, operations on the simultaneous transfer of part of Kazinvestbank's assets and liabilities to Alfa-Bank JSC were started and completed on June 29, within the framework of which the Fund transferred part of the deposit in the amount of 390 million tenge to "Alfa-Bank" JSC.

The Fund adjusted the provision for impairment of funds placed with this bank to 100%, and recognized an additional impairment of 388 million tenge in losses from impaired deposits in the statement of comprehensive income.

As of 31 December 2017 the Fund reclassified deposits placed with "Kazinvestbank" JSC to other assets with interest receivable of 2,286 million tenge and accrued impairment of 100% of placed deposit *(Note 12)*.

Funds for financing activities within the framework approved by the Government (targeted loans)

As at 31 December 2017 amounts placed with banks and other financial organizations, for purposes of financing approved by the Government, were mainly represented by loans denominated in tenge issued to the following banks and other financial entities:

- "Entrepreneurship Development Fund "Damu" JSC of 25,450 million tenge (31 December 2016: 25,279 million tenge) in order to finance small and medium businesses. Interest on these loans was charged at rates from 2% to 5.5% per annum.
- "Development Bank of Kazakhstan" JSC to decrease financing costs of investment projects in priority segments of economy and to decrease funding costs on finance leases and to stimulate export of Kazakhstani locomotives of 2,764 million tenge, 17,977 million tenge and 3,908 million tenge, respectively (31 December 2016: 2,908 million tenge, 17,020 million tenge and 3,746 million tenge, respectively). Interest on these loans was charged at rates from 0.2% to 0.6% per annum.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

9. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)

Funds for financing activities within the framework approved by the Government (targeted loans) (continued)

- To the second tier banks for refinancing mortgage loans, student loans, construction of housing in Astana and Almaty and provision of intermediary housing loans in the amount of 81,579 million tenge, 31,307 million tenge and 30,841 million tenge, respectively (as at 31 December 2016: 88,614 million tenge, 38,250 million tenge and 29,634 million tenge, respectively). Interest on these loans was charged at rates from 1% to 7.28% per annum.

As of 31 December 2016 funds placed with financial institutes also includes loan issued to "BTA Bank" JSC for the purpose of the restructuring of the financial liabilities of the BTA bank of 138,621 million tenge. On 3 July 2017 "BTA Bank" JSC made a partial repayment of the loan. Due to the early repayment of the loan, amortization of the discount in amount of 101,454 million tenge was recognized in statement of comprehensive income as of 31 December 2017. These funds were used for early repayment of bonds purchased by National Bank of Republic of Kazakhstan *(Note 16)*.

As of 31 December 2017 the Fund has no overdue amounts placed in financial institutions.

10. OTHER FINANCIAL ASSETS

As at 31 December other financial assets comprised the following:

In millions of tenge	**31 December 2017**	31 December 2016
Financial assets available-for-sale		
Equity securities of "Astana Finance" JSC	**6,516**	6,516
Debt securities	**1,164**	6,788
Equity securities of "Kazkommertsbank" JSC (KKB)	**–**	18,643
Less: impairment provision	**(6,516)**	(6,516)
Total other financial assets	**1,164**	25,431
Less: current portion	**–**	(5,784)
Non-current portion	**1,164**	19,647

Equity securities of KKB

On 15 June 2017 the Fund concluded the share purchase agreement with "Halyk Bank of Kazakhstan" JSC on sale of 85,517,241 ordinary shares of KKB, which comprised 10.72% of KKB's outstanding shares. Sale of KKB shares was completed on 5 July 2017 for the consideration of 1 tenge.

The total effect of the realized loss from impairment of investments available-for-sale was 6,659 million tenge, which was reclassified from revaluation reserve for available-for-sale investments to loss in the statement of comprehensive income.

In addition, as a result of sale of securities held in KKB, the Fund recognized loss on sale for 6,169 million tenge.

11. OTHER NON-CURRENT ASSETS

As at 31 December other non-current assets comprised the following:

In millions of tenge	**31 December 2017**	31 December 2016
Non-current receivables	**23,118**	17,374
Property held for sale	**833**	1,717
Other	**7,183**	7,040
Less: impairment provision	**–**	(471)
	31,134	25,660

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

11. OTHER NON-CURRENT ASSETS (continued)

Non-current receivables

As at 31 December 2017 non-current receivables represented by discounted value of deferred payments from Mr. Utemuratov for the shares of the following banks:

- For the shares of "Temirbank" JSC in the amount of 17,727 million tenge until 15 May 2019 (as at 31 December 2016: 13,391 million tenge);
- For the shares of "Alliance Bank" JSC in the amount of 5,391 million tenge until 3 March 2020 (as at 31 December 2016: 3,983 million tenge), respectively.

Other

On 5 May 2014 the Fund received property in the form of real estate in residential complexes in Almaty as repayment of loans issued to "Ayt Housing Complex" LLP. All the property is transferred to the Fund's subsidiary Real Estate Fund for the trust management that acts as agent for the sales of real estate on behalf of the Fund. Other non-current assets include the amount of receivables for payment of payments for this property and amount to 6,791 million tenge as of 31 December 2017 (as of 31 December 2016: 6,568 million tenge).

12. OTHER CURRENT ASSETS

As at 31 December other current assets comprised the following:

In millions of tenge	**31 December 2017**	31 December 2016
Receivables from sales of "BTA Bank" JSC shares	**29,397**	76,751
Funds placed with "Delta Bank" JSC and "Kazinvestbank" JSC	**18,556**	–
Dividends receivable	**16,426**	16,600
Other trade receivables	**11,137**	7,614
Other	**997**	1,986
Less: impairment provision	**(24,405)**	(4,600)
	52,108	98,351

Movement in the impairment provision was as follows:

In millions of tenge	**2017**	2016
At 1 January	**4,600**	3,821
Charge for the year	**12,207**	779
Reclassification from amounts due from credit institutions *(Note 9)*	**7,598**	–
At 31 December	**24,405**	4,600

Receivables from sales of "BTA Bank" JSC shares

Receivables from sales of "BTA Bank" JSC shares as of 31 December 2017 is represented by receivables due from Mr. Rakishev in the total amount of 29,397 million tenge with a maturity date of 31 December 2018.

On 29 June 2017 Mr. Rakishev made partial repayment of 3,325 million tenge.

On 1 July 2017 KKB made a repayment of short-term accounts receivable for shares of BTA Bank JSC in the amount of 41,075 million tenge.

Receivables from "BTA Bank" JSC for BTA Bank shares of 6,811 million tenge were repaid in May-June 2017.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

13. CASH AND CASH EQUIVALENTS

As at 31 December cash and cash equivalents comprised the following:

In millions of tenge	31 December 2017	31 December 2016
Current accounts with banks in tenge	**198,300**	130,295
Term bank deposits with banks in tenge	**106,874**	76,197
Term bank deposit with National bank in tenge	**27,001**	27,001
Current accounts with banks in US dollars and other foreign currency	**20,121**	335
Current accounts with banks in euro	**2,281**	2,718
	354,577	236,546

As at 31 December 2017 the weighted average interest rate on current accounts is equal to 0.0001% per annum (as at 31 December 2016: 0.001%), the weighted average interest rate on term deposits with banks is equal to 8.91% per annum (as at 31 December 2016: 11.93%).

14. EQUITY

Share capital

During 2017 and 2016 the Fund issued common shares which were paid as follows:

Payment for shares	Number of shares authorized and issued	Par value per share, in tenge	Share capital in millions of tenge
As at 31 December 2015	3,481,667,508		4,916,269
Cash contributions	3,000	36,400,000; 20,000,000; 81,523,000	137,923
Property contributions	250	17,862,160	4,466
As at 31 December 2016	**3,481,670,758**		**5,058,658**
Cash contributions	**1,577**	**16,852,000; 100,000,000**	**74,552**
Property contributions	**265,983**	**1,000**	**266**
As at 31 December 2017	**3,481,938,318**		**5,133,476**

As at 31 December 2017 3,481,938,318 shares of the Fund were fully paid (as at 31 December 2016: 3,481,670,758 shares).

2017

Cash contributions

In 2017 the Shareholder made cash contribution to the Fund's share capital of 74,552 million tenge. These amounts were aimed to finance projects implemented by the subsidiaries of the Fund, KTZh and UCC *(Note 6)*.

Property contributions

On 18 March 2017 the State property and privatization committee contributed property of 266 million tenge to the Fund's share capital. This property was transferred to the charter capital of subsidiary "National Company Kazatomprom" JSC *(Note 6)*.

Transactions with Shareholder

In accordance with the Minutes of the meeting of the Council on the management of the National Fund of the Republic of Kazakhstan dated 7 August 2017, the Fund used available funds of 21,100 million tenge for the acquisition of bonds of National holding company Baiterek JSC. The difference between the nominal value and the fair value of 10,684 million tenge was recognized as transaction with the Shareholder in the separate statement of changes in equity *(Note 8)*.

14. EQUITY (continued)

Share capital (continued)

2016

Cash contributions

In 2016 the Shareholder made cash contribution to the Fund's share capital of 137,923 million tenge. These amounts were aimed to finance projects implemented by the subsidiaries of the Fund.

Property contributions

In May 2016 the State property and privatization committee made in-kind contribution to the Fund's share capital in the form of design estimate documentation of gas-turbine station, which has been developed for implementation of strategic investment project "Construction of the infrastructure of the first integrated gas chemical complex in Atyrau region" of 4,466 million tenge. This property was transferred to the charter capital of subsidiary UCC. Accordingly, the Fund classified this asset as investments in subsidiary.

Dividends

On 21 November 2017 the Fund paid dividends to the Shareholder of 11,899 million tenge based on results of 2016 according to the Resolution of the Government dated 13 November 2017 (2016: 10,393 million tenge).

Other distributions to the Shareholder

In 2017, in accordance with the orders of the Shareholder, the Fund committed to finance various social projects of 54,419 million tenge (2016: 39,525 million tenge). This commitment was recognised as other distribution to the Shareholder in separate statement of changes in equity *(Note 17)*.

Book value of shares

In accordance with the decision of the Exchange Board of the "Kazakhstan Stock Exchange" JSC ("KASE") dated 4 October 2010 financial statements shall disclose book value per share (common and preferred) as at the reporting date, calculated in accordance with the KASE rules.

In millions of tenge	**31 December 2017**	31 December 2016
Total assets	**7,343,636**	7,349,837
Intangible assets	**(16,675)**	(13,960)
Total liabilities	**(1,937,603)**	(2,081,801)
Net assets for common shares	**5,389,358**	5,254,076
Number of common shares as at 31 December	**3,481,938,318**	3,481,670,758
Book value per common share (tenge)	**1,548**	1,509

15. BORROWINGS

As at 31 December borrowings, including interest payable, comprised the following:

In millions of tenge	**31 December 2017**	31 December 2016
Loans received	**755,779**	689,374
Bonds issued and purchased by other companies	**310,638**	357,477
Bonds issued and purchased by subsidiaries:		
- KMG	**18,346**	42,624
- "Samruk Energy" JSC	**504**	223
Total borrowings	**1,085,267**	1,089,698
Less: amounts due for settlement within 12 months	**(507,892)**	(88,342)
Amounts due for settlement after 12 months	**577,375**	1,001,356

15. BORROWINGS (continued)

Borrowings comprised the following currencies:

In millions of tenge	**31 December 2017**	31 December 2016
Borrowings, denominated in tenge	**587,956**	592,642
Borrowings, denominated in US dollars	**497,311**	497,056
	1,085,267	1,089,698

Loans received

Interest free loan from NC KazMunayGas JSC

In 2015 the Fund and KMG concluded interest free loan agreement, accordingly to which the Fund received 240,838 million tenge during 2015-2016. The loan was received to finance the Fund's commitments to increase the share capital of "KMG Kashagan B.V." PLLC and to refinance loans attracted by the Fund for the purchase of shares of "KMG Kashagan B.V." PLLC.

On 30 May 2016 the Fund signed an addendum to the loan agreement to increase the principal amount to 700,000 million tenge and extend maturity of the loan till 25 December 2018. The loan can be further extended till the repurchase of KMG Kashagan B.V. shares from the Fund. The loan is issued without security, commissions and is interest free. After 1 January 2018 the loan may be repaid via settling-off counter claims to the KMG or Cooperative KazMunaiGaz U.A. upon repurchase of shares of "KMG Kashagan B.V." PLLC from the Fund.

In 2017 the Fund received additional tranches from KMG of 47,020 million tenge that were used for repayment of the Fund's coupon bonds. The difference between the nominal amount of principal and its fair value at the dates of the loan tranches 5,719 million tenge was recognized as finance income in the separate statement of comprehensive income.

As at 31 December 2017 carrying value of the principal equaled to 258,468 million tenge net of the discount of 29,390 million tenge (31 December 2016: 192,318 million tenge). As of 31 December 2017 this loan has been classified as part of long-term loans received due to the intention of the Fund and KMG to extend financial aid agreement.

Loan from the Bank Tokyo-Mitsubishi UFJ, LTD

On 30 October 2015 the Fund entered into a loan agreement with the Bank Tokyo-Mitshubishi UFJ, LTD of 1,500 million US dollars (equivalent to 466,350 million tenge converted using the exchange rate as at the payment date) to acquire a 50% of "KMG Kashagan B.V." PLLC shares (loan agreement).

As at 31 December 2017 total amount of the principal and interest payable equaled 497,311 million tenge (31 December 2016: 497,056 million tenge). The loan is issued for a period of 5 years with a grace period of 3.5 years at annual rate of 1.8% + 6 month Libor.

The loan received from Bank Tokyo-Mitsubishi UFJ, LTD contains a financial covenant that was met, as at 31 December 2017.

In addition to the financial covenant, the loan agreement contains a number of general undertakings and limitations. Due to the lien placed on the KMG Kashagan B.V. shares *(Note 28)*, the Fund did not comply with the requirements of the loan agreement related to prohibition of arrest of any assets with market value exceeding in aggregate 100 million dollars (or its equivalent in any other currency) of the Fund, or any material subsidiary and proceedings on such matters lasting more than 40 days. As a result, the Fund reclassified the full amount of the loan from Bank Tokyo Mitsubishi of 494,462 million tenge to short-term liabilities. On 7 March 2018, the Fund received a waiver from the Bank of Tokyo-Mitsubishi. Accordingly, from 7 March 2018, the Fund reclassified liabilities under this loan to the long-term.

Bonds issued to finance internal loans to "KTZh" group

In August 2017, the Fund placed bonds with a coupon of 10.5%, with a nominal value of 25 billion tenge. The received funds in the amount of 25 billion tenge, which were fully used to purchase KTZh bonds.

As at 31 December 2017, the carrying value of bonds and accrued interest payable amounted to 26,079 million tenge.

15. BORROWINGS (continued)

Loans received (continued)

Bonds issued to finance acquisition of share in "KMG Kashagan B.V." PLLC

In 2015, the Fund issued 6% coupon bonds with nominal value of 210 billion tenge and yield to maturity of 8% per annum with maturity on 13 March 2020 through specialized trades, open to all market participants. The Fund received 197 billion tenge in cash as a result of bonds issue. These funds were used to finance the acquisition of shares and further investments in "KMG Kashagan B.V." PLLC.

As at 31 December 2017 the carrying value of the principal amount of bonds and interest payable amounted to 205,138 million tenge (31 December 2016: 202,307 million tenge).

Other bonds issued

In 2010 the Fund placed bonds on the open market of 75,000 million tenge. The bonds have a maturity of 10 years and the coupon rate of 6.5% per annum. As 31 December 2017 the carrying value of these bonds and interest payable amounted to 76,333 million tenge (31 December 2016: 76,332 million tenge).

In 2011 the Fund has placed bonds on the open market for 75,000 million tenge. The bonds have a maturity of 7 years and the interest rate of 5.9% per annum.

On October 3, 2017 the Fund repaid liabilities on bonds of 74,995 million tenge.

Bonds issued and purchased by subsidiaries

In 2009 KMG acquired bonds issued by the Fund of 111 billion tenge. Bonds have a maturity of 35 years and coupon rate of 4% per annum. These bonds were discounted at a rate of 12.5%, which was approximately equal to the market interest rate applied to KMG as at the transaction date.

On 25 December 2017 in the prospectus of the second bond issue, changes were introduced to reduce the interest rate from 4% to 0.5% of the nominal value. These bonds were discounted at a rate of 10%. The Fund recognized the income from discounting of the financial liability in the amount of 24,569 million tenge as interest income *(Note 19)*.

16. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

As at 31 December loans from the Government of the Republic of Kazakhstan comprised the following:

In millions of tenge	**31 December 2017**	31 December 2016
Bonds repurchased by the National Bank of the Republic of Kazakhstan using the funds of the National Fund	**719,410**	796,273
Bonds repurchased by the National Bank of the Republic of Kazakhstan	**–**	62,101
Other loans from the Government	**62,638**	60,037
Total amounts due to the Government of the Republic of Kazakhstan	**782,048**	918,411
Less: current portion	**(5,907)**	(6,231)
Non-current portion	**776,141**	912,180

2017

Bonds, purchased by the National Bank of the Republic of Kazakhstan

In accordance with the terms of the Master agreement dated 2 June 2017 signed between Ministry of Finance of the Republic of Kazakhstan acting on behalf of the Government of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan, SWF Samruk-Kazyna JSC, the Fund of Problem Loans JSC, Kazkommertsbank JSC, BTA Bank JSC, Halyk Bank of Kazakhstan JSC and Mr. Rakishev, on 3 July 2017 BTA Bank JSC made an early repayment of the loan due to Samruk-Kazyna of 239,771 million tenge *(Note 9)*. The Master agreement also specifies the Fund's obligation to further repayment of current liabilities due to the National Bank using these funds.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

16. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN (continued)

2017 (continued)

Bonds, purchased by the National Bank of the Republic of Kazakhstan (continued)

In this connection, in accordance with the corporate decisions of the Fund, it was decided to implement the following:

- On 5 July 2017 to make a full early repayment of the bonds in the nominal amount of 70,196 million tenge within the eighth bond issue program of the Fund;
- On 15 August 2017 to make a full early repayment of the bonds in the nominal amount of 73,000 million tenge within the seventh bond issue program of the Fund;
- On 15 August 2017 to make a partial early repayment of the bonds at fair value in the amount of 96,575 million tenge within the tenth bond issue program of the Fund.

Due to the abovementioned decision regarding early repayment of the loan to the National Bank, the Fund recognized amortization of the discount of 79,449 million tenge as interest expense in the separate statement of comprehensive income.

2016

Bonds, purchased by the National Bank of the Republic of Kazakhstan using the funds of the National Fund

In May 2016 the Fund issued 0.1% 10-year bonds for the total amount of 97,000 million tenge to finance low interest rate loans to be given to construction companies under "Nurly Zher" State infrastructure development program through its subsidiary Real Estate Fund.

The fair value of the funds received amounted to 44,681 million tenge at the date of bonds placement. The difference between the nominal value and fair value of the bonds of 52,319 million tenge was recognised as other liabilities with a long-term portion of 10,787 million tenge and a short-term portion of 41,532 million tenge. The difference is to be amortised through profit and loss when accounting for the loans to the Real Estate Fund and "National Managing Holding "Baiterek" JSC under "Nurly Zher" State infrastructure development program *(Note 8)*.

17. OTHER LIABILITIES

In 2017 on the basis of the Shareholder's order, the Fund recognized a provision for financing of various social projects of 54,419 million tenge *(Note 14)*.

Actual amount of financing during 2017 totaled to 44,094 million tenge. Accordingly, as 31 December 2017 the amount of the carrying value of the liabilities for distribution to the Shareholder was equal to 11,566 million tenge, with a current liability of 4,013 million tenge and a long-term liability of 7,553 million tenge, respectively.

In addition, the Fund has other liabilities related to the funds of the Government of 11,282 million tenge as 31 December 2017 (31 December 2016: 29,193 million tenge). The decrease in other liabilities of 17,911 million tenge was due to discounting upon initial recognition of loans to the Real Estate Fund in the amount of 3,090 million tenge *(Note 8)* and accrual of income from government grant of 3,440 million tenge in interest income in separate statement of comprehensive income, as well as from income from government grant in amount of 11,381 million tenge as a result of bonds issue to "National Managing Holding "Baiterek" JSC *(Note 8)* and recognized in separate statement of comprehensive income.

18. FINANCIAL GUARANTEE LIABILITIES

As at 31 December the financial guarantee liabilities comprised the following:

In millions of tenge	2017	2016
As at 1 January	**34,056**	32,498
Guarantees issued during the year	**12,946**	5,371
Amortization of financial guarantee liabilities	**(6,098)**	(3,813)
As at 31 December	**40,904**	34,056
Less: current portion	**(7,461)**	(6,098)
Non-current portion	**33,443**	27,958

Financial guarantee liabilities include the Fund's liabilities on guarantees issued to financial institutions for financing activities and significant contracts of its subsidiaries *(Note 6)*. Financial guarantees are mainly free-of charge. Total outstanding amount of guarantees as at 31 December 2017 was equal to 2,204 million US dollars, 45,188 million tenge and 2,589 million Russian rubles (31 December 2016: 2,125 million US dollars, 40,398 million tenge and 2,589 million Russian rubles, respectively).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

19. INTEREST INCOME

Interest income for the years ended 31 December comprised the following:

In millions of tenge	2017	2016
Unwinding of discount on loans issued	143,736	27,882
Interest on loans issued	36,481	45,326
Discounting of financial liabilities	24,569	–
Interest on bonds	530	11
Other	14,821	–
	220,137	73,219

20. INTEREST EXPENSES

Interest expenses for the years ended 31 December comprised the following:

In millions of tenge	2017	2016
Unwinding of discount on financial liabilities	108,322	32,595
Interest on bonds issued	57,880	60,888
Interest on borrowings	18,375	17,192
Loss on discounting of financial assets at initial recognition	–	5,771
Other	–	581
	184,577	117,027

21. DIVIDEND INCOME

In millions of tenge	2017	2016
National Atomic Company "KazAtomProm" JSC	65,849	12,031
National Company "KazMunayGas" JSC	41,331	53,774
"Kazakhstan Electricity Grid Operating Company" JSC	17,908	5,834
"National mining company "Tau-Ken Samruk" JSC	5,617	–
"Samruk-Energy" JSC	4,705	2,041
"Kazakhtelecom" JSC	2,254	1,848
"Air Astana" JSC	–	2,642
Other subsidiaries	1,306	861
	138,970	79,031

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December comprised the following:

In millions of tenge	2017	2016
Sponsorship and charitable donations	15,000	15,000
Personnel costs	3,067	2,362
Consulting (audit) services and information expenses	2,308	3,670
Non-refundable VAT	2,102	2,069
Taxes, fines and penalties	494	380
Other	11,132	9,889
	34,103	33,370

Sponsorship and charitable donations

In 2017 and 2016 the Fund made target donations in accordance with the Charity program of 15 billion tenge annually. The target charity transfers were provided for financing the number of projects implemented through a single Operator – Corporate Fund "Samruk-Kazyna Trust".

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

22. GENERAL AND ADMINISTRATIVE EXPENSES (continued)

Other

Other expenses include other administrative expenses, including the compensation to the members of the management body – the Board of Directors of 704 million tenge (in 2016: 630 million tenge), members of the International Consulting Board of 811 million tenge (in 2016: 798 million tenge), transfers to subordinate organizations to sustain the operating activities of 1,669 million tenge (in 2016: 737 million tenge) and other administrative expenses for maintaining operating activities of the Fund.

23. FINANCE INCOME

Finance income for the year ended 31 December comprised the following:

In millions of tenge	2017	2016
Interest on bank deposits	**37,081**	45,359
Amortisation of discount on financial assets	**13,688**	14,541
Income from financial guarantees	**6,192**	5,616
Discount on borrowings	**5,719**	51,870
Interest on current bank accounts	**86**	–
Other	**3,426**	453
	66,192	117,839

24. FINANCE EXPENSES

Finance expenses for the year ended 31 December comprised the following:

In millions of tenge	2017	2016
Unwinding of discount on loan from KMG	**24,850**	8,074
Other	**4,703**	3,278
	29,553	11,352

25. INCOME TAX EXPENSE

Income tax expense for the years ended 31 December comprised the following:

In millions of tenge	2017	2016
Withholding tax expense	**9,716**	11,510
Deferred income tax expense	**232**	3,340
Corporate income tax expense	**–**	–
	9,948	14,850

As at 31 December 2017 the Fund used official current income tax rate of 20% (as at 31 December 2016: 20%).

A reconciliation of income tax expenses applicable to its profit/loss before income tax at the statutory income tax rate to actual income tax expense was as follows:

In millions of tenge	2017	2016
Profit before income tax	**155,645**	102,000
Statutory income tax rate	**20%**	20%
Theoretical income tax expense	**31,129**	20,400
Change in unrecognised deferred tax assets	**10,776**	11,047
Adjustments for previous periods	**–**	3,035
Non-taxable income from dividends	**(27,794)**	(15,806)
Impairment of loans issued and amounts due from credit institutions	**5,438**	2,888
Discounting and amortisation of discount on financial assets and financial liabilities	**(13,442)**	(9,094)
Charitable donations	**3,000**	3,000
Income from financial guarantees	**(1,220)**	(1,238)
Other	**2,061**	618
Corporate income tax expense presented in the separate statement of comprehensive income	**9,948**	14,850

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

25. INCOME TAX EXPENSE (continued)

Deferred income tax balances, calculated by applying the statutory tax rates effective at the reporting date to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the separate financial statements, are comprised of the following:

In millions of tenge	2017	2016
Deferred tax assets		
Excess of corporate income tax withheld at the source of payment over the amount of the corporate income tax	**44,562**	34,846
Tax loss carryforward	**1,060**	–
Property, plants and equipment	**2**	–
Other liabilities	**24**	28
Less: unrecognized deferred tax assets	**(45,622)**	(34,846)
Deferred tax assets	**26**	28
Deferred tax liabilities		
Other accounts receivable	**(264)**	–
Property, plant and equipment	**–**	(34)
Deferred tax liabilities	**(264)**	(34)
Net deferred tax assets/(labilities)	**(238)**	(6)

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

26. RELATED PARTY TRANSACTIONS

Related parties include entities of the Fund's group and other entities controlled by the Government, the Fund's key management personnel, and other related parties. Related party transactions were made on terms agreed between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs applicable to related and third parties.

The following tables provide the total transactions that have been entered into with related parties during 2017 and 2016 and the balances as at 31 December 2017 and 31 December 2016, respectively:

In millions of tenge		Due from related parties	Due to related parties	Cash and deposits placed with related parties
Subsidiaries	**31 December 2017**	**406,696**	**299,171**	**3,254**
	31 December 2016	410,573	245,282	–
Associates and joint ventures of subsidiaries	**31 December 2017**	**8,244**	**–**	**–**
	31 December 2016	14,941	–	–
Other entities controlled by the Government	**31 December 2017**	**283,375**	**889,866**	**243,826**
	31 December 2016	268,763	1,072,374	156,423

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

26. RELATED PARTY TRANSACTIONS (continued)

In millions of tenge		Dividends income	Purchases from related parties	Sales to related parties
Subsidiaries	**2017**	**138,970**	**46,421**	**48,886**
	2016	79,031	4,389	2,204
Associates and joint ventures of subsidiaries	**2017**	**–**	**–**	**–**
	2016	–	–	–
	2017			
Other entities controlled by the Government	2016	–	–	–
	2017	–	–	–

In millions of tenge		Interest accrued to related parties	Interest incurred to related parties	Finance income accrued to related parties	Finance expenses incurred to related parties
Subsidiaries	**2017**	**41,150**	**4,741**	**6,933**	**24,850**
	2016	25,053	4,757	52,795	8,074
Associates and joint ventures of subsidiaries	**2017**	**592**	**–**	**–**	**–**
	2016	876	–	–	–
Other entities controlled by the Government	**2017**	**34,624**	**5,196**	**143,148**	**–**
	2016	20,300	79,063	5,014	1,702

The nature of transactions entered into with related parties during 2017 and 2016 is disclosed in the respective notes to the separate financial statements.

Total compensation to key management personnel included in general and administrative expenses in the accompanying separate statement of comprehensive income was equal to 1,244 million tenge for year ended 31 December 2017 (2016: 923 million tenge). The indicated amount includes the compensation to the members of management personnel, the Management Board of 541 million tenge for year ended 31 December 2017 (2016: 293 million tenge). Compensation to key management personnel consists of salary expenses including taxes, pension contributions and other yearly performance based payments.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund's principal financial liabilities consist of borrowings from credit institutions and the Government, bonds issued, financial guarantees and other accounts payable. The main purpose of these financial instruments is to raise financing for the Fund's operations. The Fund's financial assets comprise loans issued to subsidiaries and credit institutions, bank deposits, other financial assets, other accounts receivable, bonds and government securities acquired, cash and cash equivalents arising directly from its operating activity.

The Fund is exposed to market risk, interest rate risk, credit risk, currency risk and liquidity risk.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Fund's exposure to interest rate risk relates primarily to the Fund's loans received with floating interest rate *(Note 15)*. Sensitivity of the Fund's profit before income tax to the potential changes in interest rates with all other variables held constant. There is no impact on the Fund's equity.

In millions of tenge	Increase/ decrease in basis points	Impact on profit before tax
2017		
US dollar	**+0.7**	**(3,461)**
	-0.08	**378**
2016		
US dollar	+0.6	(2,967)
	-0.08	396

Credit risk

Credit risk arising from the inability of parties to meet terms of the Fund's financial instrument contracts is generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of the Fund to those parties.

It is the Fund's policy to enter into financial instruments with a number of creditworthy parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. The Fund considers that its maximum exposure is reflected by the amount of loans issued *(Note 8)*, amount due from credit institutions *(Note 9)*, other financial assets *(Note 10)*, other current assets *(Note 12)*, and cash and cash equivalents *(Note 13)*, net of allowances for impairment recognized at the reporting date.

Concentration of credit risk may arise from exposure to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected by changes in economic or other conditions.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may arise as a result of inabilities to sell a financial asset quickly at cost close to its fair value.

Liquidity requirements are monitored on a regular basis and management of the Fund ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the maturity profile of the Fund's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments.

In millions of tenge	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	>5 years	Total
As at 31 December 2017						
Borrowings	**–**	**10,062**	**315,507**	**849,317**	**275,081**	**1,449,967**
Loans from the Government of the Republic of Kazakhstan	**13**	**24**	**29,026**	**171,752**	**2,474,807**	**2,675,622**
Financial guarantees	**22,126**	**–**	**31,543**	**505,760**	**227,434**	**786,863**
Other liabilities	**–**	**–**	**3,323**	**9,970**	**–**	**13,293**
Total	**22,139**	**10,086**	**379,399**	**1,536,799**	**2,977,322**	**4,925,745**

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

In millions of tenge	Less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	>5 years	Total
As at 31 December 2016						
Borrowings	4,440	7,313	97,732	987,731	330,642	1,427,858
Loans from the Government of the Republic of Kazakhstan	13	24	35,640	189,319	2,827,145	3,052,141
Total	4,453	7,337	133,372	1,177,050	3,157,787	4,479,999

Currency risk

Except for current accounts with banks in foreign currency, the Fund attracts substantial amount of foreign currency denominated long-term loans and borrowings and is thus exposed to currency risk.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currencies' exchange rate, with all other variables held constant, of the Fund's profit/(loss) before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Fund's equity.

In millions of tenge	Increase/ (decrease) in currency rate	Effect on loss/profit before income tax
2017		
Euro	**13.5%**	**289**
	(9.5%)	**(203)**
US dollar	**10.00%**	**(28,522)**
	(10.00%)	**28,522**
2016		
Euro	15.00%	402
	(15.00%)	(402)
US dollar	13.00%	(37,359)
	(13.00%)	37,359

Capital management

The primary objective of the Fund's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize value of parties concerned. The Fund manages its capital structure and makes adjustments to structure and volume in light of changes in economic conditions. To maintain optimal structure of the capital, the Fund may issue new shares or attract borrowings.

The Fund performs capital management through attracting financial resources at optimally advantageous conditions for further financing of its activity and to invest it for achieving strategic tasks assigned to the Fund. The process of capital management also includes regular monitoring of current conditions at the capital market, of cost of borrowed funds and risks related to the each class of capital.

The Fund has established the debt to equity ratio which should not exceed a ratio of 4:1. This coefficient was satisfied during the reporting period and as at the reporting date. According to the Fund's Policy of debt management the cost of borrowed funds include fair value of obligations incurred due to receiving loans, issuing securities, financial leases, acquisition or sale of derivative financial instruments and deferred payables for non-current financial assets in accordance with IFRS, and nominal amounts of guaranteed principal of liabilities due to legal entities.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

Debt to equity ratio is presented as follows as at 31 December:

In millions of tenge	2017	2016
Share capital	**5,133,476**	5,058,658
Reserves	**(1,498)**	4,018
Accumulated loss	**274,055**	205,360
Total equity	**5,406,033**	5,268,036
Total borrowings and financial guarantees	**2,654,177**	2,770,926
Total assets	**7,343,636**	7,349,837
Debt to equity ratio	**0.5**	0.5

Fair value hierarchy

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

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

A comparison of all of the Fund's financial instruments by category of carrying amounts and fair values (presented at fair value in the separate balance sheet) is set out below:

In millions of tenge	31 December 2017	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets available-for-sale *(Note 10)*	**1,164**	**1,164**	**–**	**–**

	31 December 2016	Level 1	Level 2	Level 3
Assets measured at fair value				
Financial assets available-for-sale *(Note 10)*	25,431	25,431	–	–

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments

The carrying (current) amount of the financial instruments of the Fund as at 31 December 2017 and 2016 is a reasonable estimate of their fair value except for the financial instruments presented below:

	2017				
			Fair value by level of assessment		
In millions of tenge	Carrying amount	Fair value	Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Financial assets					
Amounts due from credit institutions	463,419	448,869	–	448,869	–
Loans with fixed interest rate *(Note 8)*	599,043	555,486	–	555,486	–
Accounts receivable *(Note 11, 12)*	52,515	51,825	–	–	51,825
Financial liabilities					
Borrowings with fixed interest rate/bonds issued *(Note 15)*	587,956	581,851	–	581,851	–
Loans from the Government of the Republic of Kazakhstan *(Note 16)*	782,048	596,584	–	596,584	–
Financial guarantee liabilities *(Note 18)*	40,904	43,042	–	43,042	–
Other liabilities	11,167	10,876	–	–	10,876

	2016				
			Fair value by level of assessment		
In millions of tenge	Carrying amount	Fair value	Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Financial assets					
Amounts due from credit institutions	624,051	608,983	–	608,983	–
Loans with fixed interest rate *(Note 8)*	600,509	553,524	–	553,524	–
Accounts receivable *(Note 11, 12)*	94,125	92,174	–	–	92,174
Financial liabilities					
Borrowings with fixed interest rate/bonds issued *(Note 15)*	592,642	571,050	–	571,050	–
Loans from the Government of the Republic of Kazakhstan *(Note 16)*	918,411	729,061	–	729,061	–
Financial guarantee liabilities *(Note 18)*	34,056	42,780	–	42,780	–

Changes in liabilities arising from financing activities

In millions tenge	1 January 2017	Cash flows	Foreign exchange movement	New liabilities	31 December 2017
Other liabilities	–	(44,094)	1,241	54,419	11,566
Dividends payable	–	(11,899)	–	11,899	–
Total liabilities from financing activities	–	(55,993)	1,241	66,318	11,566

28. FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Due to uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017.

As at 31 December 2017, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Fund's tax positions will be sustained, except as provided for or otherwise disclosed in these separate financial statements.

Legal proceedings

The proceedings initiated against Mr Stati and related parties on the suit of the Fund in connection with the arrest of the shares KMG Kashagan B.V. belonging to the Fund

On 14 September 2017 the pre-judgement attachment was levied on 50% shares in KMG Kashagan B.V. held by the Fund as per decision of Amsterdam Court (the "Pre-judgement Attachment").

The named Pre-judgement Attachment was levied as a security for claim on recognition and enforcement of the arbitral award issued in 2013 by Arbitral tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce in the case of Anatolie Stati, Gabriel Stati, Ascom Group S.A. and Terra Raf Trans Trading Ltd. versus the Republic of Kazakhstan.

In interim proceedings initiated by the Fund on lifting the Pre-judgement Attachment, the Amsterdam Court on 5 January 2018 by way of a preliminary judgment ruled that the aforesaid attachment remains effective. This decision of Amsterdam Court does not create any additional restrictions to the Fund's rights in respect of KMG Kashagan B.V. shares.

Currently, the Fund makes all necessary arrangements to protect its interest in accordance with the applicable procedure and will continue to defend its rights.

Commitments on secondary use of anti-crisis funds

In accordance with the decision of the State commission on economy modernization issues of the Republic of Kazakhstan dated 5 April 2012, dated 30 January 2013 and dated 7 October 2013 the Fund has commitment to finance certain remaining investment projects of 174,954 million tenge.

As at 31 December 2017 Fund's commitments included commitments to finance the program "Affordable housing – 2020" in the amount of 22,434 million tenge and commitments to finance investment projects of 152,520 million tenge, including the following:

- Financing of acquisition of UCC of 48% share in "Almex plus company" LLP of share capital of "KPI Inc" LLP in the amount not greater than 56,770 million tenge.
- Financing the implementation of the investment project "Construction of an integrated gas and chemical complex in Atyrau region". The first phase in the amount of not greater than 92,316 million tenge, including using funds previously allocated for the implementation of the investment project "Construction of an integrated gas and chemical complex in Atyrau region". The second phase in the amount of 12,495 million tenge.
- Financing of the project "Creation of a special economic zone "Taraz Chemical Park" in the amount of 3,434 million tenge.

Commitments under investment projects using the funds from Republican budget

As at 31 December 2017 Fund's commitments on implementation of investment projects using funds from the Republican budget were equal to 2,030 million tenge (as at 31 December 2016: 2,030 million tenge).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

28. FINANCIAL OBLIGATIONS AND CONTINGENT LIABILITIES (continued)

Commitments under investment projects using the funds from Republican budget

As at 31 December 2017 Fund's commitments on implementation of investment projects using funds from the Republican budget were equal to 2,030 million tenge (as at 31 December 2016: 2,030 million tenge).

29. SUBSEQUENT EVENTS

Loans issued

On 28 February 2018 and 24 April 2018, the Fund issued to Qazaq Air JSC two another tranches under a loan agreement concluded on 29 March 2017, for the total amount of 3,000 million tenge for the purposes of leasing of aircrafts, engineering and technical support, insurance and recruitment of flight personnel.

On 13 March 2018, the Fund issued a another tranche to Real Estate Fund in the amount of 2,654 million tenge to finance construction of commercial housing under the "Nurly Zher" program by the funds of the National fund.

On 3 April 2018 "National Mining Company "Tau-Ken Samruk" JSC made early repayment of loan of 7,752 million tenge including capitalized interest income.

Borrowings

In accordance with the Decision of the Board of Management of the Fund dated 3 March 2018, the increase in the amount of obligations to 800,000 million tenge stipulated in the agreement of financial aid from KMG and extention of maturity period of the loan to 7 years from the date of receipt of the first tranche was approved. Addendum will be concluded after the adoption of a positive decision of the Board of Directors of the Fund.

During March – April 2018 the Fund has received additional tranches from KMG in amount of 23,952 million tenge.