ВОЗВРАТНЫЙ ЭКЗЕМПЛЯР

SkyBridge Invest JSC

Financial statements

For the year ended 31 December 2018

SKYBRIDGE INVEST JSC

CONTENTS

SKYBRIDGE INVEST JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management of SkyBridge Invest JSC (hereinafter – the "Company") is responsible for the preparation of the financial statements that present fairly the financial position as at 31 December 2018, the financial results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter – "IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- application of reasonable and expedient estimates and assumptions;
- additional disclosures when compliance with requirements of IFRS is insufficient to enable users of the financial statements to understand the impact of specific transactions, as well as other events and conditions on the financial position and results of the Company's operations;
- assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and the Company's sound system of internal controls;
- maintaining of proper accounting system, allowing preparation of the Company's financial position information at any time with reasonable accuracy, and to ensure compliance with IFRS;
- maintaining statutory accounting records in compliance with law of the Republic of Kazakhstan;
- adopting of measures within its competence to safeguard assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2018 were approved for issuance by management on 15 March 2019.

Ainabayeva Sh.R.
Chairman of the Management Board

Tsikunova O.B.
Chief accountant

15 March 2019
Almaty, the Republic of Kazakhstan

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and management of SkyBridge Invest JSC

Opinion

We have audited the financial statements of SkyBridge Invest JSC (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *"Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Republic of Kazakhstan and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 16 April 2018.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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 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 Company'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 Company'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 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 SkyBridge Invest JSC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control of SkyBridge Invest JSC that we identify during our audit.

Grant Thornton LLP

Evgeny Zhemaletdinov	Yerzhan Dossymbekov
Auditor/Engagement Partner	General Director Grant Thornton LLP
Certified Auditor of the Republic of Kazakhstan Qualification certificate №МФ-00000553 dated 20 December 2003 The Republic of Kazakhstan	State license №18015053 (date of initial issue -27 July 2011), for providing audit service on the territory of the Republic of Kazakhstan issued by the Internal Audit Committee of the Ministry of Finance of the Republic of Kazakhstan on 3 August 2018

15 March 2019
Almaty, the Republic of Kazakhstan

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

In thousands of tenge	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	5	**150,105**	470,776
Amounts due from credit institutions	6	**–**	150,782
Commission receivable	7	**98,221**	74,874
Financial instruments at fair value through other comprehensive income	8	**499,013**	Not applicable
Available-for-sale securities	8	**Not applicable**	399,025
Financial instruments at fair value through profit or loss	9	**808,863**	Not applicable
Trading securities	9	**Not applicable**	295,797
Property and equipment	10	**67,451**	60,763
Intangible assets	11	**9,685**	10,989
Deferred corporate income tax assets	12	**8,330**	4,507
Current corporate income tax assets		**26,448**	563
Other assets	13	**53,618**	30,314
TOTAL ASSETS		**1,721,734**	**1,498,390**
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**744,798**	744,798
Revaluation reserve and impairment of securities at fair value through other comprehensive income and available-for-sale securities		**(9,300)**	736
Retained earnings		**533,872**	337,160
Total equity		**1,269,370**	**1,082,694**
Liabilities			
Other liabilities	14	**452,364**	415,696
Total liabilities		**452,364**	**415,696**
TOTAL EQUITY AND LIABILITIES		**1,721,734**	**1,498,390**

The notes on pages 6 - 34 are an integral part of these financial statements.

Ainabayeva Sh.R. — Chairman of the Management Board

Казакстан Республикасы Алматы каласы Акционерлік қоғамы "SkyBridge Invest" Акционерное общество город Алматы Республика Казахстан

Tsikunova O.B. — Chief accountant

15 March 2019
Almaty, the Republic of Kazakhstan

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of tenge	Note	2018	2017
Fee and commission income from fiduciary assets	16	**567,756**	1,233,674
Income from consulting and underwriting services	17	**173,872**	49,929
Income from brokerage and nominal holder services	18	**517,180**	50,603
Interest income	19	**58,905**	235,215
Net (loss)/gain on financial instruments at fair value through profit or loss		**(27,491)**	10,562
Net income from foreign currencies operations		**183,524**	7,416
Net gain on financial instruments at fair value through other comprehensive income available-for-sale securities		**1,834**	1,932
Other (expenses)/income		**(13,563)**	1,777
Operating income		**1,462,017**	**1,591,108**
Personnel expenses	20	**(752,838)**	(711,885)
General and administrative expenses	21	**(262,738)**	(192,456)
Expenses on brokerage services		**(100,507)**	(99,500)
Depreciation of property and equipment and amortization of intangible assets		**(15,415)**	(13,819)
Operating expenses		**(1,131,498)**	**(1,017,660)**
Profit before corporate income tax expense		**330,519**	573,448
Corporate income tax expense	12	**(73,810)**	(113,142)
Profit for the year		**256,709**	**460,306**
Other comprehensive income			
Other comprehensive income to be reclassified subsequently to profit or loss when specific conditions are met:			
Unrealised gains on available-for-sale securities		**Not applicable**	2,668
Net change in fair value of instruments measured at fair value through other comprehensive income		**(8,202)**	Not applicable
Realised gains on available-for-sale securities		**Not applicable**	(1,932)
The amount reclassified to profit or loss as a result of the disposal of debt instruments measured at fair value through other comprehensive income		**(1,834)**	Not applicable
Other comprehensive (loss)/income for the year, net of tax		**(10,036)**	736
Total comprehensive income for the year		**246,673**	**461,042**

The notes on pages 6 - 34 are an integral part of these financial statements.

Ainabayeva Sh.R. — Chairman of the Management Board

Tsikunova O.B. — Chief accountant

15 March 2019
Almaty, the Republic of Kazakhstan

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of tenge	Share capital	Revaluation reserve and impairment of securities at fair value through other comprehensive income and available-for-sale securities	(Accumulated deficit)/ Retained earnings	Total
At 31 December 2016	**744,798**	**–**	**(123,146)**	**621,652**
Profit for the year	–	–	460,306	460,306
Other comprehensive income for the year	–	736	–	736
Total comprehensive income for the year	–	736	460,306	461,042
At 31 December 2017	**744,798**	**736**	**337,160**	**1,082,694**
Profit for the year	–	–	256,709	256,709
Other comprehensive loss for the year	–	(10,036)	–	(10,036)
Total comprehensive (loss)/income for the year	**–**	**(10,036)**	**256,709**	**246,673**
Dividends (Note 15)	–	–	(59,997)	**(59,997)**
At 31 December 2018	**744,798**	**(9,300)**	**533,872**	**1,269,370**

The notes on pages 6 - 34 are an integral part of these financial statements.

Ainabayeva Sh.R. — Chairman of the Management Board

Tsikunova O.B. — Chief accountant

15 March 2019
Almaty, the Republic of Kazakhstan

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of tenge	Note	2018	2017
Operating activities			
Profit before corporate income tax expense		**330,519**	573,448
Adjustments to reconcile profit before income tax to net cash flows			
Interest income accrued		**(58,905)**	(50,603)
Depreciation and amortisation	10,11	**15,410**	13,819
Loss on disposal of property and equipment		**353**	–
Net loss/(gain) from trading securities operations		**6,181**	(8,627)
Change in unused vacation accrual		**3,788**	2,233
Net unrealized gains on foreign currency transactions		**(24,384)**	(1,257)
Changes in working capital			
(Increase)/decrease in commission receivable		**(23,347)**	12,203
Increase in other assets		**(23,304)**	(8,838)
Increase in other liabilities		**32,880**	219,261
Cash flows from operating activities		**259,191**	**751,639**
Interest received		**56,941**	45,232
Corporate income tax paid		**(103,518)**	(79,265)
Net cash flows received from operating activities		**212,614**	**717,606**
Investing activities			
Purchase of property and equipment	10	**(19,910)**	(25,707)
Purchase of intangible assets	11	**(1,237)**	(3,756)
Proceeds from sale of property and equipment		**–**	5,122
Sale of financial assets at fair value through profit or loss		**3,689,028**	Not applicable
Sale of trading securities		**Not applicable**	117,491
Purchase of financial assets at fair value through profit or loss		**(4,183,892)**	Not applicable
Purchase of trading securities		**Not applicable**	(398,422)
Sale of financial assets at fair value through other comprehensive income		**66,576**	Not applicable
Sale of available-for-sale securities		**Not applicable**	79,921
Purchase of financial assets at fair value through other comprehensive income		**(166,564)**	Not applicable
Purchase of available-for-sale securities		**Not applicable**	(476,080)
Withdrawal of deposits		**152,746**	119,760
Net cash flows used in investing activities		**(473,794)**	**(581,671)**

In thousands of tenge	Note	2018	2017
Financing activities			
Dividends paid	15	**(59,997)**	–
Net cash flows used in financing activities		**(59,997)**	–
Net change in cash and cash equivalents		**(321,177)**	135,935
Effect of changes in exchange rates on cash and cash equivalents		**506**	(601)
Cash and cash equivalents as at 1 January		**470,776**	**335,442**
Cash and cash equivalents as at 31 December	5	**150,105**	**470,776**

The notes on pages 6 - 34 are an integral part of these financial statements.

Ainabayeva Sh.R. — Chairman of the Management Board

Tsikunova O.B. — Chief accountant

15 March 2019
Almaty, the Republic of Kazakhstan

1. GENERAL INFORMATION

SkyBridge Invest Joint Stock Company (hereinafter – the "Company") was registered in accordance with the legislation of the Republic of Kazakhstan in 2003. The Company's activities are regulated by the National Bank of the Republic of Kazakhstan (hereinafter – the "NBRK") and are performed based on the license No. 4.2.192/113 dated 20 July 2016, which allows to perform the following activities:

1. Brokerage and dealing activities at the securities market with the right to keep clients' accounts as a nominal holder;
2. Investment portfolio management activities, including investment management without the right to attract voluntary pension contributions.

The Company's main activities include management of investment portfolios of joint stock investment and mutual funds, investment of clients' assets in fiduciary management as well as brokerage and dealing activities with the right to keep clients' accounts as a nominal holder and financial consulting services.

As at 31 December 2018 and 2017, the shareholders of the Company were as follows:

	31 December 2018	*31 December 2017*
Yeskindirov Adl Makhmudovich	**91.0%**	91.0%
SB Solution LLP	**9.0%**	–
Sky Securities LLP	**–**	9.0%
	100.0%	100.0%

The address of the Company's registered office is: 12 floor, Essentai Tower Business Center, 77/7, Al-Farabi ave., 050040, Republic of Kazakhstan.

These financial statements were approved for issue by the management of the Company on 15 March 2018.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments.

Functional and presentation currency

The financial statements were presented in tenge, the currency of the economic environment in which the Company operates. For the purposes of these financial statements, the financial results and financial position of the Company are expressed in tenge (hereinafter - "tenge"), which is the functional and presentation currency for these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy

The Company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Several other amendments and interpretations applied by the Company for the first time in 2018, which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policy (continued)

The nature and impact of each amendment is described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit or loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Company has been recording the allowance for expected credit losses for debt financial assets not held at FVPL. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

The impact of adopting IFRS 9 as a result of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL for the statement of other comprehensive income and retained earnings as of 1 January 2018, is included in equity items in the statement of changes in equity in 2018. As at 31 December 2018, there were no significant changes in the reserve for expected credit losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policy (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized 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. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Company's revenue including interest revenue, gains/(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*.

IFRS 15 Revenue from Contracts with Customers and the corresponding clarification to IFRS 15 replaces IAS 18 Revenue, IAS 11 Construction Contracts and the corresponding clarification and applies to any revenue arising from contracts with customers, except when the contracts fall within the scope of other standards. According to IFRS 15, revenue is recognized in an amount reflecting the compensation that an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires organizations to apply judgment and take into account all relevant facts and circumstances when applying each stage of the model to contracts with customers. The standard also contains requirements for the accounting of additional costs for the conclusion of the contract and costs directly related to the execution of the contract.

The Company applied IFRS 15 retrospectively, recognizing the cumulative effect of the initial application of this standard. As one of the Company's activities is providing brokerage services, the Company recognizes revenue on a monthly basis based on the actual documents received, which meets the requirements of IFRS 15, in turn, the reflection of revenue in accordance with IFRS 15 was not material on the Company's financial statements. Accordingly, the comparative information for the period from 1 January 2017 was not restated.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Company's financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Company's financial statements.

Amendments to 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 organization, 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, then it 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 recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Company measures such financial instruments carried at FVPL and FVOCI, at fair value at each reporting date.

The fair value is a 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

In the event of assets and liabilities recognized in the financial statements on a regular basis, the Company determines the fact of transfer between levels of hierarchy sources by analysing the classification once again (based on initial data of the lowest level that are significant for fair value evaluation in whole) at the end of each reporting period.

Financial assets

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Initial measurement (continued)

Measurement categories of financial assets and liabilities

From 1 January 2018, the Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost;
- FVOCI;
- FVPL.

The Company classifies and measures its derivative and trading portfolio at FVPL. The Company may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Company classified its financial assets to following categories: receivables (amortized cost), assets assessed by FVPL, available-for-sale or held-to-maturity assets (at amortized cost).

Financial liabilities are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Debt instruments at FVOCI

From 1 January 2018, the Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest revenue and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit or loss upon derecognition of the asset.

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available-for-sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognized in other comprehensive income until the investment was derecognized or until the investment was determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the statement of profit or loss. However, interest calculated using the effective interest method was recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Amounts due from credit institutions

In the normal course of its activities, the Company places deposits in banks for various periods. Contributions are carried at amortized cost using the effective interest method.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as cash and cash equivalents. The difference between sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Amounts due from credit institutions

In the normal course of business, the Company maintains current accounts or places deposits for various periods of time with different banks. Amounts from credit institutions with fixed maturity are subsequently measured at amortized cost using an effective interest rate. Amounts without fixed maturity are stated at cost. Amounts due from credit institutions are recorded less any allowances for impairment.

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Company intended to sell immediately or in the near term;
- That the Company, upon initial recognition, designated as at FVPL or as available-for-sale;
- For which the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Company only measures amounts due from credit institutions, loans to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Reclassification of financial assets and liabilities

From 1 January 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company changes the business model for managing financial assets. Financial liabilities are never reclassified.

Leases

Operating lease – Company as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets under IAS 39

Before 1 January 2018, the Company assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated.

Evidence of impairment may have included indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in fair value of investment below its cost. The Company assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was an objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using original effective interest rate, or, for financial assets available-for-sale, as the difference between cost of investment and its fair value. The carrying amount of the asset was reduced and the amount of the loss was recognized in profit or loss. Interest revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available-for-sale, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there is no realistic prospect of future recovery and all collateral had been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognized, the previously recognized impairment loss was reversed in statement of profit or loss, except for equity investments available-for-sale, for which increase in their fair value after impairment were recognized in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Company's internal credit grading system that considered credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Taxation

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

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

A deferred corporate income 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 corporate income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

The Republic of Kazakhstan also has various operating taxes that are assessed on the Company's activities. These taxes, exclusive of corporate income tax, are included in the statement of comprehensive income as operating expenses.

Property and equipment

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

The carrying amounts of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment (continued)

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful life
Capital improvements of leased office	4-5
Machinery and equipment	3-10
Motor vehicles	10
Furniture	5-10

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

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

Intangible assets

Intangible assets consist of software.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic lives of 2-7 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Company does not have any pension arrangements separate from the State pension system of the Republic of Kazakhstan, which requires current contributions by the employer calculated as a percentage of current gross salary payments. These expenses are charged in the period the related salaries are earned. The Company has no post-retirement benefits requiring accrual.

Share capital

Share capital

Common shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

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

Fiduciary assets

Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent assets and liabilities

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

Revenue and expense recognition

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

Interest and similar income and expense

From 1 January 2018, the Company calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by applying EIR to the amortized cost of financial assets). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts.

The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Company calculates interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest revenue on a gross basis.

Revenue

The Company earns income from a diverse range of services it provides to its customers.

Fee and commission income

Fee and commission income obtained for rendering the services during a certain period of time are accrued during this period. These items include commission income and fees.

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as where the Company's performance obligation is the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognized after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved.

Fees earned for the provision of services over a period of time are accrued over that period as respective performance obligations are satisfied. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

Expenses

Expenses are recognised on an accrual basis when the services are provided.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency

The financial statements are presented in Kazakhstani tenge, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency market rate at the date of the transaction established by the National Bank of the Republic of Kazakhstan. Monetary assets and liabilities denominated in foreign currencies are retranslated in the functional currency at the official exchange rate established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and valid at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of comprehensive income as gains less losses from foreign currencies – translation differences.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the official exchange rates established by KASE as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the official exchange rates established by KASE at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the market exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The market exchange rates as at 31 December 2018 and 2017 were 384.2 tenge and 332.33 tenge to 1 USD, respectively.

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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

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 recognize 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 recognize 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 recognize 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.

In addition, IFRS 16, which is effective for annual periods beginning January 1, 2019 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 the Company decided not to apply the standard in advance. The Company plans to apply IFRS 16 from 1 January 2019 using a modified retrospective approach. Under this approach, the cumulative effect of the initial application of IFRS 16 is recognized as a capital adjustment at the date of initial application. The Company assessed the effect of the adoption and concluded that the effect of applying IFRS 16 for the Company's financial statements is not significant. In this regard, comparative information will not be restated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. The main objective of IFRS 17 is to provide an accounting model for insurance contracts that is more efficient and consistent for insurers. Unlike the requirements of IFRS 4, which are mainly based on previous local accounting policies, IFRS 17 provides a comprehensive accounting model for insurance contracts, covering all relevant aspects of accounting. This standard is not applicable to the Company.

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.

An entity has to 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 Company will apply the interpretation from its effective date. This interpretation will not affect the Company's financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the financial statements of the Company.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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 recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized 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 Company will apply these amendments when they become effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards issued but not yet effective (continued)

Amendments to IAS 28 Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. Since the Company does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its financial statements.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Company.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Annual improvements 2015-2017 cycle (issued in December 2017)

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

For application of the Company's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Expected credit losses/impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Company's internal credit grading model, which assigns PDs to the individual grades;
- The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Taxation

Kazakhstan currently has a single Tax Code that regulates main taxation matters. The existing taxes include value added tax, corporate income tax, social and other taxes. Implementation of these regulations is often unclear or non-existent and insignificant amount of precedents has been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. These facts create tax risks in Kazakhstan substantially more significant than typically found in countries with more developed tax systems.

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

5. CASH AND CASH EQUIVALENTS

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

In thousands of tenge	31 December 2018	31 December 2017
Current accounts in Kazakhstani banks in USD	**91,289**	28,395
Reverse REPO transactions	**30,036**	418,666
Current accounts in Kazakhstani banks in tenge	**28,173**	23,112
Cash on hand	**607**	603
	150,105	**470,776**

As at 31 December 2018 and 2017, cash and cash equivalents were neither overdue nor impaired. As at 31 December 2017, the Company concluded reverse REPO agreements at Kazakhstan Stock Exchange. Governmental securities were received as collateral under these agreements. As at 31 December 2018 and 2017, fair value of collateral under these agreements made up 30,036 thousand tenge and 418,666 thousand tenge, respectively.

6. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As at 31 December 2017, the Company had short-term deposit with Kazakhstan bank in the total amount of 150,598 thousand tenge with interest rate of 1.7% per annum. During 2018, cash on short-term deposits was received by the Company at maturity.

7. COMMISSION RECEIVABLE

As at 31 December, commission receivable comprised the following:

In thousands of tenge	31 December 2018	31 December 2017
Commission receivable for brokerage services	**100,949**	21,859
Commission receivable for asset management	**188**	53,015
Less: allowance for expected credit losses	**(2,916)**	–
	98,221	**74,874**

As at 31 December 2018 and 2017, commission receivable was denominated in tenge and was neither overdue nor impaired.

For the years ended 31 December 2018 and 2017, the movement in allowance for expected credit losses on receivables compromised the following:

In thousands of tenge	2018	2017
As at 1 January	–	–
The effect of applying IFRS 9	–	–
1 January (recalculated)	–	–
Accrued	2,916	–
As at 31 December	**2,916**	–

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2018 and 2017, financial instruments at fair value through other comprehensive income and available-for-sale securities compromised the following:

In thousands of tenge	31 December 2018	31 December 2017
Debt securities at fair value through other comprehensive income		
Eurobonds of Kazakhstan financial institutions		
With credit rating from B- to B+	**161,460**	X
Eurobonds of Kazakhstan non-financial institutions		
With credit rating from BB- to BB+	**150,934**	X
With credit rating from BBB to BBB+	**186,619**	X
	499,013	X

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

In thousands of tenge	31 December 2018	31 December 2017
Available-for-sale investment securities		
Eurobonds of Kazakhstan financial institutions		
With credit rating from B- to B+	X	229,453
Eurobonds of Kazakhstan non-financial institutions		
With credit rating from BB- to BB+	X	169,572
With credit rating from BBB to BBB+	X	–
	X	**399,025**

Below is an analysis of the changes in gross book value and the corresponding estimated allowance for ECL for debt securities valued at FVOCI:

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Gross book value as at 1 January 2018	399,025	–	–	**399,025**
Reserve adjustment	(3,772)	–	–	**(3,772)**
Purchased assets	66,576	–	–	**66,576**
Changes in accrued interest	3,077	–	–	**3,077**
Fair value revaluation	(39,854)	–	–	**(39,854)**
Forex gain	73,961	–	–	**73,961**
31 December 2018	**499,013**	–	–	**499,013**

Debt securities at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total
Estimated allowance as at 1 January 2018	–	–	–	–
Allowance adjustment	(3,772)	–	–	**(3,772)**
31 December 2018	**(3,772)**	–	–	**(3,772)**

9. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

As at 31 December, financial instruments at fair value through profit or loss compromised the following:

In thousands of tenge	31 December 2018	31 December 2017
Foreign companies equity instruments at fair value through profit or loss		
With credit rating from AAA- to AAA+	**24,562**	X
With credit rating from AA- to AA+	**95,922**	X
With credit rating from A- to A+	–	X
With credit rating from BBB- to BBB+	**195,497**	X
With credit rating from BB- to BB+	**17,782**	X
Without rating	**469,412**	X
Kazakhstan financial institutions debt instruments at fair value through profit or loss		
With credit rating from BB- to BB+	**5,688**	X
	808,863	X

9. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS (CONTINUED)

In thousands of tenge	31 December 2018	31 December 2017
Trading securities of foreign companies		
With credit rating from AAA- to AAA+	X	18,054
With credit rating from AA- to AA+	X	54,644
With credit rating from A- to A+	X	59,165
With credit rating from BBB- to BBB+	X	36,024
With credit rating from BB- to BB+	X	25,213
Without rating	X	97,321
Corporate bonds of Kazakhstani financial institutions measured at fair value through profit and loss		
With credit rating from BB- to BB+	X	5,376
	X	**295,797**

The credit ratings are presented in accordance with the standards of the Standard and Poor's rating agency or with similar standards of other international rating agencies.

10. PROPERTY AND EQUIPMENT

As at 31 December 2018 and 2017, property and equipment compromised the following:

In thousands of tenge	Vehicles	Machinery and equipment	Other	Total
Cost				
At 31 December 2016	44,029	25,908	8,857	**78,794**
Additions	17,011	6,393	2,303	**25,707**
Disposals	(7,899)	(2,510)	(1,205)	**(11,614)**
At 31 December 2017	**53,141**	**29,791**	**9,955**	**92,887**
Additions	–	**16,370**	**3,540**	**19,910**
Disposals	–	**(2,054)**	**(600)**	**(2,654)**
At 31 December 2018	**53,141**	**44,107**	**12,895**	**110,143**
Accumulated depreciation				
At 31 December 2016	(11,944)	(10,761)	(4,394)	**(27,099)**
Charge for the year	(4,410)	(5,682)	(1,427)	**(11,519)**
Disposals	5,267	378	849	**6,494**
At 31 December 2017	**(11,087)**	**(16,065)**	**(4,972)**	**(32,124)**
Charge for the year	(5,288)	(5,964)	(1,617)	**(12,869)**
Disposals	–	2,044	257	**2,301**
At 31 December 2018	**(16,375)**	**(19,985)**	**(6,332)**	**(42,692)**
Net book value				
At 31 December 2016	**32,085**	**15,147**	**4,463**	**51,695**
At 31 December 2017	**42,054**	**13,726**	**4,983**	**60,763**
At 31 December 2018	**36,766**	**24,122**	**6,563**	**67,451**

11. INTANGIBLE ASSETS

As at 31 December 2018 and 2017, intangible assets compromised the following:

In thousands of tenge	Licenses	Software	Other intangibles	Total
Cost				
At 31 December 2016	7,282	11,683	51	**19,016**
Additions	1,280	–	2,476	**3,756**
At 31 December 2017	8,562	11,683	2,527	**22,772**
Additions	1,213	24	–	**1,237**
At 31 December 2018	**9,775**	**11,707**	**2,527**	**24,009**
Accumulated depreciation				
At 31 December 2016	(6,604)	(2,854)	(25)	**(9,483)**
Charge for the year	(541)	(1,749)	(10)	**(2,300)**
At 31 December 2017	(7,145)	(4,603)	(35)	**(11,783)**
Charge for the year	(803)	(1,728)	(10)	**(2,541)**
At 31 December 2018	**(7,948)**	**(6,331)**	**(45)**	**(14,324)**
Net book value				
At 31 December 2016	678	8,829	26	**9,533**
At 31 December 2017	1,417	7,080	2,492	**10,989**
At 31 December 2018	**1,827**	**5,376**	**2,482**	**9,685**

12. TAXATION

The corporate income tax expenses comprised the following:

In thousands of tenge	2018	2017
Current income tax expense	**77,810**	111,896
Deferred tax expense	**(3,823)**	1,246
Corporate income tax expense	**73,987**	**113,142**

	2018	2017
Profit before corporate income tax expense	**330,519**	573,448
Statutory tax rate	**20%**	20%
Theoretical income tax expenses at the statutory rate	**66,104**	**114,690**
Non-taxable income		
Non-taxable income from securities listed on KASE at the date of such income accrual	**(3,045)**	(2,499)
Non-deductible expenses		
Other non-deductible expenses	**10,928**	951
	73,987	**113,142**

Kazakhstan legal entities are obliged to file corporate income tax declarations. In accordance with the tax legislation of the Republic of Kazakhstan, corporate income tax rate for 2018 and 2017 was 20%.

12. TAXATION (CONTINUED)

Deferred corporate income tax assets and liabilities as of 31 December and their movements for the respective years comprise the following:

In thousands of tenge	2016	Origination and reversal of temporary differences in the statement of profit or loss	2017	Origination and reversal of temporary differences in the statement of profit or loss	2018
Tax effect of deductible temporary differences					
Property and equipment and intangible assets	899	(899)	–	–	–
Impairment of available-for-sale securities	2,000	–	2,000	–	**2,000**
Provision for unused vacations	1,652	446	2,098	344	**2,442**
Consulting services	1,200	(118)	1,082	235	**1,317**
Taxes other than income tax	2	163	165	3,732	**3,897**
Deferred tax asset	**5,753**	**(408)**	**5,345**	**4,311**	**9,656**
Tax effect of deductible temporary differences					
Property and equipment and intangible assets	–	(838)	(838)	(488)	**(1,326)**
Deferred tax liability	–	**(838)**	**(838)**	**(488)**	**(1,326)**
Net deferred tax assets	**5,753**	**(1,246)**	**4,507**	**3,823**	**8,330**

13. OTHER ASSETS

As at 31 December, other assets comprised the following:

In thousands of tenge	31 December 2018	31 December 2017
Advances paid for goods and services	**27,046**	7,836
Office rental guarantee payments	**13,832**	10,981
Advance payments to employees	**5,204**	3,775
Deferred expenses	**4,654**	5,261
Guarantee deposit to KASE	**2,519**	1,000
Other assets	**363**	1,461
	53,618	**30,314**

14. OTHER LIABILITIES

As at 31 December, other liabilities comprised the following:

In thousands of tenge	31 December 2018	31 December 2017
Amounts due to employees	**356,912**	358,439
Taxes payable other than corporate income tax	**47,633**	37,261
Accounts payable	**23,580**	1,090
Accrual for unused vacations	**14,280**	10,492
Other liabilities	**9,959**	8,414
	452,364	**415,696**

15. SHARE CAPITAL

As at 31 December 2018 and 2017, the Company has 800,000 issued common shares, 729,798 of which are fully paid by the shareholders.

	Placement quantity 2018	**Placement price in tenge**	**Placement amount, in thousands of tenge 2018**	Placement quantity 2018	Placement price in tenge	Placement amount, in thousands of tenge 2018
Number of authorised, issued and paid common shares at 1 January	664,116	1,021	677,766	664,116	1,021	677,766
Number of authorised, issued and paid common shares at 1 January	65,682	1,021	67,032	65,682	1,021	67,032
Total number of authorised, issued and paid common shares at 1 January	**729,798**		**744,798**	**729,798**		**744,798**
Common shares authorised, issued and paid during the year	–		–	–		–
Number of authorised, issued and paid common shares at 31 December	**729,798**		**744,798**	**729,798**		**744,798**

Each common share is entitled to one vote and shares rank equally for dividends. On 31 May 2018 the annual general meeting of shareholders decided to pay dividends on common shares in the amount of 59,997 thousand tenge from net income for 2017. The size of the dividend per one common share of the Company amounted to 82.21 tenge.

16. FEE AND COMMISSION INCOME FROM FIDUCIARY ASSETS

Revenue from contracts with customers

The Company's revenue under contracts with customers is mainly represented by commission income. Revenue from contracts with customers recognized in the statement of profit or loss for the year ended 31 December 2018 was:

Fee and commission income for the years ended 31 December comprised the following:

In thousands of tenge	**2018**	2017
Fee and commission income from individual investors asset management	**567,756**	1,233,674
	567,756	**1,233,674**

In accordance with the contract for asset management, the Company receives a commission for success from the actual income received / client remuneration on financial instruments, depending on the type of income received. In accordance with contracts for asset management, the commission depends on size of assets under management.

During 2017-2018, the Company placed assets under fiduciary management in short-term deposits in SB Sberbank JSC and Halyk Bank JSC at market rates, as well as in securities in foreign markets and loans issued to Kazakhstan companies. Commission income from asset management under these agreements for 2018 amounted to 547,128 thousand tenge (2017: 1,230,066 thousand tenge).

17. INCOME FROM CONSULTING AND UNDERWRITING SERVICES

Income from consulting and underwriting services for the years ended 31 December comprised the following:

In thousands of tenge	**2018**	2017
Fee and commission income from consulting and underwriting services	**173,872**	49,929
	173,872	**49,929**

18. INCOME FROM BROKERAGE AND NOMINAL HOLDER SERVICES

Income from brokerage and nominal holder services for the years ended 31 December comprised the following:

In thousands of tenge	2018	2017
Fee and commission income from brokerage and nominal holder services	**517,180**	235,215
	517,180	**235,215**

19. INTEREST INCOME

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

In thousands of tenge	2018	2017
Financial instruments at fair value through profit or loss	**41,715**	12,518
Reverse REPO transactions	**15,226**	30,270
Amounts due from credit institutions	**1,964**	7,815
	58,905	**50,603**

20. PERSONNEL EXPENSES

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

In thousands of tenge	2018	2017
Salaries and other benefits	**687,913**	643,480
Social security contributions	**64,925**	68,405
	752,838	**711,885**

21. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	2018	2017
Rent expenses	**96,638**	65,959
Office maintenance	**37,425**	30,100
Informational services	**35,644**	36,531
Professional services	**34,505**	8,241
Taxes other than corporate income tax	**28,552**	22,883
Travel expenses	**6,261**	6,502
Communication	**4,968**	3,979
Bank charges	**4,728**	4,584
Representative expenses	**3,924**	3,502
Security and insurance	**3,657**	3,307
Advertisement	**1,672**	2,007
Membership fee	**1,143**	817
Personnel training and recruiting	**845**	807
Stationary and other supplies	**476**	728
Charity	**300**	1,200
Other	**2,000**	1,309
	262,738	**192,456**

22. COMMITMENTS AND CONTINGENCIES

The environment in which the financial and economic activities of the Company are carried out

The economy of the Republic of Kazakhstan continues to show the features inherent in developing countries. Among others, such characteristics include the absence of a freely convertible national currency outside the country and a low level of liquidity of bonds and shares in the markets.

Prospects for the economic stability of the Republic of Kazakhstan substantially depend on the effectiveness of economic measures taken by the Government, as well as the development of the legal, regulatory and political systems that are outside the scope of control of the Company.

The financial condition and future activities of the Company may deteriorate due to continuing economic problems inherent in a developing country. Management cannot predict either the degree or duration of economic difficulties or assess their impact, if any, on these financial statements.

The Company's management believes that it is taking all the necessary measures to maintain the economic sustainability of the Company in these conditions. However, further deterioration of the situation in the areas described above may adversely affect the results and financial position of the Company. At the present time it is impossible to determine exactly what this influence might be.

Legal actions and Claims

In the ordinary course of business, the Company is subject to legal actions and complaints. The Company believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or results of operations of the Company.
The Company assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated.

23. RISK MANAGEMENT

Risk is inherent in the Company's activities. The Company manages these risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into currency and interest rate risks and equity price risk. It also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk management structure

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

Board of Directors

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

Management Board

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

23. RISK MANAGEMENT (CONTINUED)

Risk management

The Risk Management Unit has the overall responsibility for the development of the risk strategy, implementing and maintaining risk related procedures to ensure an independent control process. This unit is also responsible for monitoring risks associated with the Company's compliance with risk principles, frameworks, policies and limits.

Risk measurement and reporting systems

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

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

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

Excessive risk concentration

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

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

Credit risk

Financial assets, which potentially subject the Company to credit risk, consist principally of cash and cash equivalents, amount due from credit institutions and commission receivable. While the Company may be subject to losses in the event of non-performance by its counterparties, the management of the Company does not expect such losses to occur in the selection of counterparties.

At the year end, leading international rating agencies lowered their long-term counterparty ratings for a large number of Kazakhstani banks and corporations. In the management's view, the maximum exposure to the credit risk arising from the cash and cash equivalents, amount due from credit institutions held with local banks is equal to the carrying amounts of these assets.

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

23. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Impairment assessment

From 1 January 2018, the Company calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD — The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD — The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD — The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Company has devoleped a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Individually assessed allowances

The table below presents an analysis of the credit quality in terms of asset classes for the credit-related items of the statement of financial position based on the Company's credit rating system.

31 December 2018	**Note**		**High grade**	**Standard grade**	**Sub-standard grade**	**Impaired**	**Total**
Cash and cash equivalents (except for cash on hand)	5	Stage 1	–	149,498	–	–	**149,498**
Commission receivable	7	Stage 1	–	100,943	–	–	**100,943**
		Stage 3	–	–	–	6	**6**
Financial instruments at fair value through other comprehensive income	8	Stage 1	–	499,013	–	–	**499,013**
Financial instruments at fair value through profit or loss	9	Stage 1	120,484	218,968	469,411		**808,863**
		Stage 2	–	–	–	–	–
Total			**120,484**	**968,422**	**469,411**	**6**	**1,558,323**

23. RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Individually assessed allowances (continued)

Below is the classification of the Company's financial assets based on credit ratings as at 31 December 2017:

31 December 2017	AAA	AA	A	BBB	BB	B	No credit rating	Total
Cash and cash equivalents (except for cash on hand)	–	–	–	–	470,173	–	–	**470,173**
Amounts due from credit institutions	–	–	–	–	150,782	–	–	**150,782**
Commission receivable	–	–	–	–	–	–	74,874	**74,874**
Available-for-sale securities	–	–	–	–	169,572	229,453	–	**399,025**
Trading securities	18,054	54,644	59,165	36,024	30,589	–	97,321	**295,797**

Geographical concentration

Investment Committee of the Company exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Company's activity. Investment Committee is an advisory body of the Company created and approved by the Management Board, which makes investment decisions in respect of own assets and assets under trust management. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Republic of Kazakhstan. The financial assets and financial liabilities of the Company are concentrated in the Republic of Kazakhstan.

Liquidity risk and funding management

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. Also, it manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The tables below indicate the currencies to which the Company had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the tenge, with all other variables held constant on the statement of comprehensive income. The negative amount in the table reflects a potential net reduction in the income, while a positive amount reflects a net potential increase.

Currency	Change in exchange rates in % 2018	Effect on profit before tax 2018	Change in exchange rates in % 2017	Effect on profit before tax 2017
US dollar	**10.00%**	**127,725**	10.00%	87,858
	-15.00%	**(191,587)**	-10.00%	(87,858)

23. RISK MANAGEMENT (CONTINUED)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual shares. The non-trading equity price risk exposure arises from the Company's investment portfolio.

Operational risk

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

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Procedures of fair value measurement

The Company determines the policies and procedures for both recurring fair value measurement, such as unquoted financial assets at fair value through profit or loss and financial assets through other comprehensive income, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as properties, trading and available-for-sale securities and derivatives. Involvement of external valuers is decided upon annually after discussion with and approval by the Company's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the investment committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. Together with the external appraisers, the Company also compares each change in fair value of each asset and liability with relevant external sources to determine whether this change is reasonable. The Company and its external appraisers provide the assessment results on a periodic basis to the audit committee and independent auditors of the Company. In addition, main assumptions used during the appraisal are discussed.

Fair value hierarchy

For the purpose of disclosing the fair values, the Company determined classes of assets and liabilities based on the assets and liabilities nature, characteristics and risks as well as the hierarchy of fair value sources.

The Company uses the following hierarchy for determining the fair value of financial instruments and disclosing information about it, depending on the valuation technique:

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

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued

		Fair value measurement using			
As at 31 December 2018	**Date of valuation**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets at fair value					
Financial instruments at fair value through profit or loss	31 December 2018	**499,013**	–	–	**499,013**
Financial instruments at fair value through other comprehensive income	31 December 2018	**808,863**	–	–	**808,863**
Assets and liabilities for which fair value is disclosed					
Cash and cash equivalents	31 December 2018	**150,105**	–	–	**150,105**
Commission receivable	31 December 2018	–	–	**98,221**	**98,221**
Other liabilities	31 December 2018	–	–	**(23,580)**	**(23,580)**

		Fair value measurement using			
As at 31 December 2017	**Date of valuation**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assetsat fair value					
Trading securities	31 December 2017	295,797	–	–	**295,797**
Available-for-sale securities	31 December 2017	399,025	–	–	**399,025**
Assets and liabilities for which fair value is disclosed					
Cash and cash equivalents	31 December 2017	470,776	–	–	**470,776**
Amounts due from credit institutions	31 December 2017	–	–	150,782	**150,782**
Commission receivable	31 December 2017	–	–	74,874	**74,874**
Other liabilities	31 December 2017	–	–	(1,090)	**(1,090)**

Fair value of financial assets and liabilities not carried at fair value

Fair value of financial assets and liabilities not carried at fair value approximates to their carrying amount.

Valuation methods and assumptions

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

Assets for which fair value approximates carrying value

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

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	2018			2017		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Assets						
Cash and cash equivalents	**150,105**	–	**150,105**	470,776	–	470,776
Amounts due from credit institutions	–	–	–	150,782	–	150,782
Commission receivable	**98,221**	–	**98,221**	74,874	–	74,874
Financial instruments at fair value through profit or loss	**808,863**	–	**808,863**	X	X	X
Trading securities	**X**	**X**	**X**	295,797	–	295,797
Financial instruments at fair value through other comprehensive income	–	**499,013**	**499,013**	X	X	X
Available-for-sale securities	**X**	**X**	X	–	399,025	399,025
Property and equipment	–	**67,451**	**67,451**	–	60,763	60,763
Intangible assets	–	**9,685**	**9,685**	–	10,989	10,989
Deferred tax assets	–	**8,330**	**8,330**	–	4,507	4,507
Current corporate income tax assets	**26,448**	–	**26,448**	563	–	563
Other assets	**53,618**		**53,618**	30,314	–	30,314
Total	**1,137,255**	**584,479**	**1,721,734**	**1,023,106**	**475,284**	**1,498,390**
Liabilities						
Other liabilities	**452,364**	–	**452,364**	415,696	–	415,696
Total	**452,364**	–	**452,364**	415,696	–	415,696
Net position	**684,891**	**584,479**	**1,269,370**	**607,410**	**475,284**	**1,082,694**

27. RELATED PARTY TRANSACTIONS

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties.

In 2016, the Company concluded an agreement on fiduciary management with one of the Company's shareholders. The Company received commission income for the total amount of 815,5 thousand tenge in 2018 under this agreement (2017: 1,633 thousand tenge), as well as the income from financial consulting and nominal holding services in the amount of 1,075 thousand tenge (2017: null tenge).

Compensation to key management personnel

Below is information about remuneration to 3 members of key management personnel (in 2017: 3 members):

In thousands of Tenge	2018	2017
Salaries	**198,954**	197,610
Social security contributions	**18,663**	21,743
Total compensation to key management personnel	**217,617**	**219,353**

28. CAPITAL ADEQUACY

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

During 2018, the Company had complied in full with all its capital requirements established by the NBRK.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The NBRK requires from companies managing the investment portfolio to maintain a capital adequacy ratio of not less than 1. Liquid assets and liabilities calculated in accordance with the NBRK requirements were derived from the Company's financial statements.

At 31 December 2018 and 2017, the Company's capital adequacy ratio exceeded the regulatory minimum.

At 31 December, the Company's capital adequacy ratio calculated according to the NBRK requirements was as follow:

	2018	**2017**
Liquid assets	**1,140,912**	1,269,722
Liabilities	**(452,364)**	(415,696)
Net liquid assets	**688,548**	854,026
Minimum capital established by the NBRK	**259,200**	259,200
Capital adequacy ratio	**2.66**	3.29

29. FIDUCIARY MANAGEMENT

The Company provides asset management services to mutual funds and other companies, which implies that the Company makes decisions on allocation of assets received. Assets that are held in a fiduciary capacity are not included in these financial statements.

On 11 January 2019, the National Bank of the Republic of Kazakhstan announced changes to the Rules of the SkyBridge Khan Tengri Closed Share Investment Fund for Risk Investing, established in 2007. On 28 December 2018, the Company established and registered on 19 February 2019 the Interval Mutual Investment Fund SBI Sustainable.

At the date of issuance of the financial statements, the initial placement of fund units was not carried out and no funds were received in trust.