Kazakhstan Ijara Company JSC

Financial statements

Year ended 31 December 2018
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of
Kazakhstan Ijara Company JSC

Opinion

We have audited the financial statements of Kazakhstan Ijara Company JSC (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statements 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 International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

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 30 March 2018.

Responsibilities of management for the financial statements

Management of the Company 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.

The Board of Directors 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 the Company 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.

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Olga Khegay
Auditor

Gulmira Turmagambetova
General Director
Ernst & Young LLP

Auditor qualification certificate
No. МФ – 0000286 dated 25 September 2015

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

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3 April 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

(In thousands of tenge)

	Notes	*2018*	*2017*
Profit income on finance lease receivables		**953,146**	737,671
Profit income on placements with banks		**–**	1,352
Financial expenses	15	**(47,536)**	(11,856)
Net profit income		**905,610**	727,167
Net gain/(loss) from foreign currencies		**128,463**	(30,379)
Gain/(loss) from investment in joint venture	12	**1,748**	(8,724)
Income on Murabaha receivables		**13,256**	–
Other income		**70,166**	31,790
Operating income		**1,119,243**	719,854
Reversal of credit loss expense / (credit loss expense)	5	**7,339**	(120,546)
General administrative expenses	6	**(416,123)**	(369,348)
Profit before corporate income tax expense		**710,459**	229,960
Corporate income tax benefit	7	**–**	5,591
Profit for the year		**710,459**	235,551
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign currency translation differences		**58,149**	2,728
Other comprehensive income for the year, net of corporate income tax		**58,149**	2,728
Total comprehensive income for the year		**768,608**	238,279

Signed and authorised for issue on behalf of the Management of the Company

Yusuf Karsi
General Director

Aigerim Ilyassova
Chief Financial Officer

Janat Aubakirova
Chief Accountant

3 April 2019

The accompanying notes on pages 5 to 36 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(In thousands of tenge)

	Notes	2018	2017*
Assets			
Cash and cash equivalents	8	**230,853**	315,673
Finance lease receivables	9	**6,765,401**	5,645,894
Murabaha receivables	10	**65,008**	–
Advances paid under finance lease agreements		**130,357**	112,326
Assets to be transferred under finance lease agreements	11	**–**	41,054
Investment in joint venture	12	**490,371**	430,474
Property and equipment	13	**7,057**	11,932
Intangible assets	14	**15,558**	37,747
Current corporate income tax assets		**40,373**	43,502
Other assets		**33,105**	33,041
Total assets		**7,778,083**	6,671,643
Liabilities			
Advances received for finance leases		**91,781**	101,676
Accounts payable to suppliers		**9,000**	7,300
Financial arrangements	15	**805,924**	628,648
Other liabilities		**197,720**	47,748
Total liabilities		**1,104,425**	785,372
Equity			
Share capital	16	**4,224,362**	4,224,362
Foreign currency translation reserve		**206,379**	148,230
Reserve for pre-operational expenses	17	**(110,670)**	(110,670)
Retained earnings		**2,353,587**	1,624,349
Total equity		**6,673,658**	5,886,271
Total liabilities and equity		**7,778,083**	6,671,643

* *Certain amounts included in this column do not agree to the financial statements for 2017 as they reflect the reclassifications made and disclosed in Note 2.*

The accompanying notes on pages 5 to 36 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(In thousands of tenge)

	Share capital	*Foreign currency translation reserve*	*Reserve for pre-operational expenses*	*Retained earnings*	*Total equity*
As at 1 January 2017	4,224,362	145,502	(110,670)	1,388,798	5,647,992
Profit for the year	–	–	–	235,551	235,551
Other comprehensive income					
Foreign currency translation differences	–	2,728	–	–	2,728
Total comprehensive income for the year	–	2,728	–	235,551	238,279
As at 31 December 2017	4,224,362	148,230	(110,670)	1,624,349	5,886,271
Impact of adopting IFRS 9 *(Note 3)*	–	–	–	**18,779**	**18,779**
Restated opening balance under IFRS 9	**4,224,362**	**148,230**	**(110,670)**	**1,643,128**	**5,905,050**
Profit for the year	–	–	–	**710,459**	**710,459**
Other comprehensive income					
Foreign currency translation differences	–	**58,149**	–	–	**58,149**
Total comprehensive income for the year	–	**58,149**	–	**710,459**	**768,608**
As at 31 December 2018	**4,224,362**	**206,379**	**(110,670)**	**2,353,587**	**6,673,658**

The accompanying notes on pages 5 to 36 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(In thousands of tenge)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		**710,459**	235,551
Adjustments for:			
Profit income on finance lease receivables		**(953,146)**	(737,671)
Profit income on placement with banks		–	(1,352)
(Reversal of credit loss expense) / credit loss expense	6	**(7,339)**	120,546
Depreciation and amortisation expense		**29,895**	30,178
(Gain)/loss from investment in joint venture		**(1,748)**	8,724
Financial expenses		**47,536**	11,856
Net (gain)/loss from foreign currencies		**(128,463)**	30,379
Corporate income tax benefit		–	(5,591)
Cash flows used in operating activities before changes in operating assets and liabilities		**(302,806)**	(307,380)
(Increase)/decrease in operating assets			
Financial instruments at fair value through profit or loss		–	840,966
Finance lease receivables		**(896,094)**	(2,695,527)
Murabaha receivables		**(65,008)**	–
Advances paid under finance lease agreements		**(18,031)**	71,472
Assets to be transferred under finance lease agreements		–	132,917
Other assets		**(63)**	(20,971)
(Decrease)/increase in operating liabilities			
Advances received for finance leases		**(9,894)**	(50,138)
Accounts payable to suppliers		**1,700**	500
Other liabilities		**149,969**	22,198
Net cash flows used in operating activities before corporate income tax		**(1,140,227)**	(2,005,963)
Profit income received		**966,598**	725,459
Mark-up paid		**(45,658)**	(10,570)
Corporate income tax paid		–	(8,136)
Net cash flows used in operating activities		**(219,287)**	(1,299,210)
Cash flows from investing activities			
Proceeds from sale of property and equipment and intangible assets		**13**	20
Purchase of property and equipment	13	**(2,065)**	(1,635)
Purchase of intangible assets	14	**(766)**	–
Net cash flows used in investing activities		**(2,818)**	(1,615)
Cash flows from financing activities			
Proceeds from financial arrangements		**301,462**	689,231
Repayment of financial arrangements		**(221,008)**	(46,727)
Net cash flows from financing activities		**80,454**	642,504
Net decrease in cash and cash equivalents		**(141,651)**	(658,321)
Cash and cash equivalents, as at 1 January		**315,673**	1,018,229
Effect of exchange rates changes on cash and cash equivalents		**56,831**	(44,235)
Cash and cash equivalents, as at 31 December	8	**230,853**	315,673
Non-cash transactions			
Offsetting of current corporate income tax assets against other tax liabilities		**3,129**	–
Transfer of assets to be transferred under finance lease arrangement to clients		**41,054**	–

The accompanying notes on pages 5 to 36 are an integral part of these financial statements.

(In thousands of tenge)

1. Principal activities

Kazakhstan Ijara Company JSC (hereinafter – the "Company") was registered in the Republic of Kazakhstan as a joint stock company on 5 April 2013 (registration number 4291-1910-01-AO). On 24 September 2013, the Company was re-registered in connection with the approval of the adoption of a new shareholder, Al Hilal Leasing LLP, acceptance of the rights and powers under the New Memorandum and the statement of refusal to participate in the Company shareholders Murad-Mi Holding and Zerde, termination of their rights and authority on the Initial Memorandum.

The principal activities of the Company are:

- Financial leasing operations; and
- Professional activities on the Shariah complaint securities market, as well as other activities on financial market allowed by Kazakhstan law and Shariah principles and rules.

The Company performs lease financing of mid-term (from 3 to 5 years) leasing projects. The Company primarily leases machinery, equipment and transport vehicles that act as collateral.

The registered and actual address of the Company's head office is: 51/78 Kabanbay batyr street, Almaty, 050010, Republic of Kazakhstan. The majority of the Company's assets and liabilities are located in the Republic of Kazakhstan.

Shareholders

As at 31 December 2018 and 2017, the following legal entities were shareholders of the Company:

Shareholders	*2018 (%)*	*2017 (%)*
Islamic Corporation for the Development of the Private Sector	**35.77**	35.77
Zaman Leasing LLP	**17.85**	17.85
Aktif Yatirim Bankasi AS	**14.32**	14.32
Al Hilal Leasing Company LLP	**14.18**	14.18
Kolon World Investment Co., Limited	**10.73**	10.73
Eurasia Group AG	**7.15**	7.15
	100.0	100.0

Related party transactions are disclosed in *Note 21*.

Kazakhstan business environment

The Company's operations are located in Kazakhstan. Consequently, the Company is exposed to the economic and financial markets of Kazakhstan that display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Kazakhstan.

The financial statements reflect management's assessment of the impact of the Kazakhstan business environment on the operations and financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of preparation

General

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

Basis of measurement

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Functional and presentation currency

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

2. Basis of preparation (continued)

Functional and presentation currency (continued)

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

As at 31 December 2018 and 2017, market exchange rates were as follows:

	2018	*2017*
US Dollar (USD)	**384.2**	332.33
Euro (EUR)	**439.37**	398.23
Kyrgyz som (KGS)	**5.51**	4.83

The Company uses foreign currency exchange rates from official source - the National Bank of the Republic of Kazakhstan.

Reclassification

The statement of financial position as at 31 December 2017 was amended as follows to comply with the presentation as at 31 December 2018:

Statement of financial position as at 31 December 2017	*As previously reported*	*Amount reclassified*	*Adjusted amount*
Equipment and intangible assets	49,679	(49,679)	–
Property and equipment	–	11,932	11,932
Intangible assets	–	37,747	37,747

3. Summary of significant accounting policies

Changes in accounting policies

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

The Company applied for the first time certain amendments to the standards, 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. The nature and the 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. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and profit" (SPPP) 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 financing arrangement", such as instruments containing embedded conversion options or "non-recourse" financing instruments, are measured at FVPL. For debt financial assets that meet the SPPP 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 and loss.

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

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment

The adoption of IFRS 9 has changed the Company's accounting for financing 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 ECL for all debt instruments not held at FVPL. Equity instruments are not subject to impairment under IFRS 9.

Details of the Company's impairment method are disclosed in *Note 18*. 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 following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 measurement Amount	*Remeasurement ECL*	*IFRS 9 Amount*
Financial assets			
Finance lease receivables	5,645,894	18,779	5,664,673
Total financial assets	**5,645,894**	**18,779**	**5,664,673**

The impact of transition to IFRS 9 on retained earnings is as follows:

	Retained earnings
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**1,624,349**
Recognition of IFRS 9 ECLs	18,779
Restated opening balance under IFRS 9 (1 January 2018)	**1,643,128**
Total change in equity due to adopting IFRS 9	**18,779**

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowance at 31 December 2017	*Remeasurement*	*ECL under IFRS 9 at 1 January 2018*
Impairment allowance for			
Finance lease receivables	204,510	(18,779)	185,731
	204,510	**(18,779)**	**185,731**

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 recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the Company's revenue including profit income on finance lease which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. As a result, the Company's revenue are not impacted by the adoption of this standard.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

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 profit (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 recognises 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.

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained above, which addresses changes in accounting policies.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective profit and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss; a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or qualifying cash flow hedges to the extent that the hedge is effective, which are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of only part of its investment in joint venture that includes a foreign operation while retaining joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, foreign exchange gains and losses arising from such item form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

Cash and cash equivalents

Cash and cash equivalents consist of unrestricted current bank accounts and short-term deposits in banks that mature within ninety days of the date of origination.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities

Initial recognition

Date of recognition

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

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.

Measurement categories of financial assets and liabilities

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:

- Amortised cost;
- FVOCI;
- FVPL.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPP test

As a second step of its classification process the Company assesses the contractual terms of financial assets to identify whether they meet the SPPP test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

In assessing whether the contractual cash flows are SPPP, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are SPPP on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial recognition (continued)

Debt instruments at FVOCI

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 SPPP test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income. Profit revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in other comprehensive income are reclassified from other comprehensive income 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 amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Reclassification of financial assets and liabilities

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. The Company did not reclassify any of its financial assets and liabilities in 2018.

Fair value measurement

The Company measures financial instruments carried at FVPL and FVOCI and non-financial assets at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in *Note 22*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Leases

The Company's lease transactions are classified as either financing or operating leases at inception in accordance with IAS 17 *Leases*.

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

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

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

Leasing of identified assets ending with ownership transfer (also known as Ijara Muntahia Bitamleek) is an agreement whereby the Company buys an asset according to the customer's intention, presented in intent notice and then leases it, in its capacity as a lessor, to the customer as lessee for a specified rental over a specific period. The duration of the lease term, as well as the basis for rental, are set and agreed in the lease agreement. The Company possesses ownership of the asset throughout the lease term. The arrangement could end by transferring the ownership of the asset to the lessee upon completion by the lessee of it obligation during or at the end of lease term.

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

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business;
- The event of default; and
- The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Renegotiated financing instruments

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

From 1 January 2018, the Company derecognises a financial asset, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new financing, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financing instruments are classified as Stage 1 for ECL measurement purposes, unless the new financing is deemed to be purchased or originated credit impaired (POCI). When assessing whether or not to derecognise a financing to a customer, amongst others, the Company considers the following factors:

- Change in currency of the financing;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPP criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective profit rate, the Company records a modification gain or loss, presented within profit revenue calculated using effective profit rate in the statement of comprehensive income, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Company also reassesses whether here has been a significant increase in financing risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain under monitoring until payment discipline is proven.

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 lessee was experiencing significant financial difficulty, default or delinquency in income or principal payments, the probability that they would enter bankruptcy or other financial reorganisation 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 their 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. The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in *Note 18*.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities

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

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

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 recognised 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

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 cost of replacing part of the equipment when that cost is incurred if the recognition criteria are met.

Carrying amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that carrying amount may not be recoverable.

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

	Years
Computers	3
Office furniture	5 to 7
Motor vehicles	5

Intangible assets

Intangible assets include computer software and licenses. Intangible assets are carried at cost less any accumulated amortisation. Intangible assets are amortised on a straight-line basis over the useful economic lives of 5 years and assessed for impairment whenever there is an indication that the intangible assets may be impaired.

Non-financial assets

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Non-financial assets (continued)

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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

Provisions

Provisions are recognised 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.

Share capital

Common shares with discretionary dividends 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 the equity.

Dividends

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

Taxation

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

Current corporate income tax

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

Deferred corporate income tax

Deferred corporate income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred corporate income tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred corporate income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred corporate income tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred corporate income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred corporate income tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred corporate income tax assets and liabilities are offset if there is a legally enforceable right to offset current corporate income tax asset and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current corporate income tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Income and expense recognition

Finance lease origination fees, lease servicing fees and other fees that are considered to be integral to the overall profitability of a finance lease, together with the related transaction costs, are deferred and amortised to profit income over the estimated life of the financial instrument.

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

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Investment in joint venture

Joint ventures are arrangements over which the Company together with one or more other parties has joint control over the financial and operating policies. The financial statements include the Company's share of the total recognised gains and losses of joint ventures on an equity-accounted basis, from the date that significant influence and joint control effectively commences until the date that significant influence and joint control effectively ceases. When the Company's share of losses exceeds the Company's interest (including long-term financial arrangement) in the joint venture, that interest is reduced to nil and recognition of further losses is discontinued, except to the extent that the Company has incurred obligations in respect of the joint venture.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends, if necessary, to adopt these standards 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 recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the profit expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Company plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognised at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company is in the process of quantifying effect of adoption of IFRS 16; however, no reasonable estimate of this effect is yet available.

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 profit 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.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment (continued)

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. Since the Company operates in a complex tax environment, applying the Interpretation may affect its financial statements. In addition, the Company may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and profit on the principal amount outstanding' (the SPPP 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 SPPP 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.

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 profit 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 Company 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 recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised 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.

(In thousands of tenge)

3. Summary of significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

IAS 23 Financing Costs

The amendments clarify that an entity treats as part of general financing any financing 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 obligor 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 judgments and estimates

The preparation of financial statements requires from management to make estimates and assumptions that have an influence on reported amounts of assets and liabilities of the Company, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The Company's management conducts evaluations and judgments on an ongoing basis, based on previous experience and a number of other factors that are considered reasonable in the current environment. Actual results could differ from those estimates. The following estimates and assumptions are important to present financial position of the Company.

Impairment losses on net investment in finance leases and accounts receivable

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 financing 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.

5. Reversal of credit loss expense/(credit loss expense)

The table below shows the ECL charges on financial instruments recognised in the statement of profit or loss and other comprehensive income for the year ended 31 December 2018:

	Notes	*2018*
Finance lease receivables	9	**(4,874)**
Murabaha receivables	10	**(404)**
Other financial assets		**12,617**
		7,339

Impairment charges for the year ended 31 December 2017 are as follows:

	Notes	*2017*
Finance lease receivables	9	(107,908)
Other financial assets		(12,638)
		(120,546)

(In thousands of tenge)

6. General administrative expenses

General administrative expenses comprise:

	2018	*2017*
Personnel expenses	**267,715**	236,163
Depreciation and amortisation	**29,895**	30,178
Business trip and representative expenses	**19,904**	17,946
Professional services	**19,367**	13,297
Rent	**16,618**	15,059
Charity	**13,597**	–
Insurance	**7,568**	5,835
Taxes other than income tax	**6,904**	9,718
Management services fees	**6,147**	21,041
Office expenses	**5,932**	4,175
Information technology services	**5,931**	6,169
Bank charges	**2,884**	2,145
Transportation	**2,271**	1,630
Communication	**2,087**	1,549
Marketing and advertising	**1,956**	2,833
Other	**7,347**	1,610
	416,123	369,348

7. Taxation

The corporate income tax benefit comprises:

	2018	*2017*
Current corporate income tax charge	**–**	–
Deferred corporate income tax benefit – origination and reversal of temporary differences	**–**	5,591
Corporate income tax benefit	**–**	5,591

The Republic of Kazakhstan is the only tax jurisdiction in which the Company's income is taxable. In accordance with tax legislation the applied corporate income tax rate is 20% in 2018 and 2017. There was no current corporate income tax charge in 2017 and 2018 due to tax benefits for finance lease income.

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

	2018	*2017*
Profit before corporate income tax expense	**710,459**	229,960
Statutory tax rate	**20%**	20%
Theoretical corporate income tax expense at the statutory rate	**142,092**	45,992
Non-taxable income from finance lease receivables	**(116,222)**	(77,490)
Non-taxable gain from investment in joint venture	**(350)**	–
Non-deductible loss from investment in joint venture	**–**	1,745
Non-taxable reversal of credit loss expense	**(1,468)**	–
Non-deductible credit loss expense on financial assets	**–**	24,109
Non-taxable gain from foreign currencies	**(33,691)**	–
Non-deductible operating expenses	**1,813**	–
Other non-taxable income	**–**	(3,869)
Change in unrecognised deferred corporate income tax assets	**7,826**	3,922
Corporate income tax benefit	**–**	(5,591)

Deferred corporate income tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred corporate income tax assets and liabilities as at 31 December 2018 and 2017.

(In thousands of tenge)

7. Taxation (continued)

Deferred corporate income tax asset and liability (continued)

As at 31 December 2018 and 2017 deferred corporate income tax asset and liabilities are not recognised as:

- The Company is able to control the timing of the reversal of the temporary difference; and
- It is probable that the temporary difference will not be reversed in foreseeable future.

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

	2016	*Origination and reversal of temporary differences in profit or loss*	*2017*	*Origination and reversal of temporary differences in profit or loss*	*2018*
Tax effect of deductible temporary differences					
Accrued expenses on unused vacation	1,555	949	2,504	**589**	**3,093**
Accrued payables	430	1,782	2,212	**3,413**	**5,625**
Other liabilities	234	3,355	3,589	**637**	**4,226**
	2,219	6,086	8,305	**4,639**	**12,944**
Tax effects of taxable temporary differences					
Property and equipment and intangible assets	(7,810)	3,427	(4,383)	**3,187**	**(1,196)**
Deferred corporate income tax assets	(5,591)	9,513	3,922	**7,826**	**11,748**
Unrecognised deferred income tax assets	–	(3,922)	(3,922)	**(7,826)**	**(11,748)**
Net deferred corporate income tax (liabilities)/ assets	(5,591)	5,591	–	**–**	**–**

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2018	*2017*
Current accounts and demand deposits in banks		
Al Hilal Islamic Bank JSC	**167,402**	126,804
KZI Bank JSC	**63,447**	188,869
Islamic bank Zaman Bank JSC	**4**	–
Cash and cash equivalents	**230,853**	315,673

Concentration of cash and cash equivalents

As at 31 December 2018 and 2017, the Company had no banks which individual balances exceeded 10% of its equity.

(In thousands of tenge)

9. Finance lease receivables

As at 31 December, net investment in finance lease comprise the following:

	2018	*2017*
Within one year	**3,600,023**	2,895,121
From one to five years	**4,874,688**	4,244,773
Minimum finance lease payments receivables	**8,474,711**	7,139,894
Less: unearned finance income		
Within one year	**(503,890)**	(717,271)
From one to five years	**(1,014,815)**	(572,219)
	(1,518,705)	(1,289,490)
	6,956,006	5,850,404
Less: allowance for impairment	**(190,605)**	(204,510)
Net investment in finance lease	**6,765,401**	5,645,894

	2018	*2017*
Leases to large corporates	**987,928**	1,390,827
Leases to small and medium size companies	**5,968,078**	4,459,577
Less: allowance for impairment	**(190,605)**	(204,510)
Net investment in finance lease	**6,765,401**	5,645,894

Allowance for impairment

The Company applies simplified approach to the measurement of ECL for finance lease receivables. The Company measures the ECL at an amount equal to lifetime of ECL for finance lease receivables that are within the scope of IAS 17 *Leases*. The simplified approach does not require monitoring of changes in credit risk and ECL are modeled for the expected life of the financial asset.

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease receivables during the year ended 31 December 2018 is as follows:

	Finance lease receivables
Gross carrying value as at 1 January 2018	5,850,404
New assets originated	**3,271,155**
Assets repaid	**(2,334,007)**
Foreign exchange adjustments	**168,454**
As at 31 December 2018	**6,956,006**

	Finance lease receivables
ECL as at 1 January 2018	185,731
New assets originated	**60,791**
Assets repaid	**(58,244)**
Changes in ECL	**2,327**
Foreign exchange adjustments	**–**
As at 31 December 2018	**190,605**

The movement in the allowance for impairment of finance lease receivables during the year ended 31 December 2017 is as follows:

	Finance lease receivables
As at 1 January 2017	96,602
Charge for the year	**107,908**
As at 31 December 2018	**204,510**

(In thousands of tenge)

9. Finance lease receivables (continued)

Credit quality of finance lease portfolio

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2018:

	Gross investment in finance lease	*Allowance for impairment*	*Net investment in finance lease*	*Impairment as a percentage of gross finance lease %*
Leases to large corporates				
- not overdue	**987,928**	**(11,413)**	**976,515**	**1.16**
Total leases to large corporates	987,928	(11,413)	976,515	1.16
Leases to small and medium size companies				
- not overdue	4,975,680	(79,887)	4,895,793	1.61
Overdue leases:				
- overdue for less than 30 days	150,884	(2,145)	148,739	1.42
- overdue for 30-89 days	298,715	(16,754)	281,961	5.61
- overdue for 90-179 days	520,807	(69,410)	451,397	13.33
- overdue for over 180 days	21,992	(10,996)	10,996	50.00
Total leases to small and medium size companies	5,968,078	(179,192)	5,788,886	3.00
Total finance leases	6,956,006	(190,605)	6,765,401	2.74

The following table provides information on the credit quality of the finance lease portfolio as at 31 December 2017:

	Gross investment in finance lease	*Allowance for impairment*	*Net investment in finance lease*	*Impairment as a percentage of gross finance lease %*
Leases to large corporates				
Leases for which no impairment has been identified:				
- not overdue	1,390,827	(28,286)	1,362,541	2.03
Total leases to large corporates	1,390,827	(28,286)	1,362,541	2.03
Leases to small and medium size companies				
Leases for which no impairment has been identified:				
- not overdue	3,417,408	(71,476)	3,345,932	2.09
Impaired or overdue leases:				
- overdue for less than 30 days	119,025	(2,392)	116,633	2.01
- overdue for 30-89 days	232,018	(4,677)	227,341	2.02
- overdue for 90-179 days	94,685	(3,511)	91,174	3.71
- overdue for over 180 days	596,441	(94,168)	502,273	15.79
Total leases to small and medium size companies	4,459,577	(176,224)	4,283,353	3.95
Total finance leases	5,850,404	(204,510)	5,645,894	3.50

(In thousands of tenge)

9. Finance lease receivables (continued)

Analysis of collateral and other credit enhancements

The information on collateral and other credit enhancements securing financial leases, net of ECL allowance, by types of collateral as at 31 December 2018 comprise the following:

	Finance lease receivable, carrying amount	*Fair value of collateral - for collateral assessed as of lease reporting date*	*Fair value of collateral - for collateral assessed as of lease inception date*
Total leases not overdue	5,872,308	–	5,872,308
Overdue leases			
Plant and machinery	**127,003**	**127,003**	–
Equipment	**200,637**	**200,637**	–
Motor vehicles	**494,597**	**494,597**	–
Medical equipment	**63,914**	**63,914**	–
Real estate	**6,942**	**6,942**	–
Total overdue leases	**893,093**	**893,093**	–
Total finance leases	**6,765,401**	**893,093**	**5,872,308**

The following tables provides information on collateral and other credit enhancements securing financial leases, net of impairment, by types of collateral as at 31 December 2017:

	Finance lease receivable, carrying amount	*Fair value of collateral - for collateral assessed as of lease reporting date*	*Fair value of collateral - for collateral assessed as of lease inception date*
Total leases for which no impairment has been identified	4,708,473	–	4,708,473
Overdue or impaired leases			
Motor vehicles	503,854	503,854	–
Equipment	311,903	311,903	–
Plant and machinery	91,174	91,174	–
Real estate	30,490	30,490	–
Total overdue or impaired leases	937,421	937,421	–
Total finance leases	5,645,894	937,421	4,708,473

The tables above exclude the effect of overcollateralisation, which means that the collateral amount exceeds carrying amount of finance lease receivable. The collateral values include tangible assets only.

Based on risk exposure evaluation, the Company practices obtaining additional collateral. The table above excludes the effect of this additional collateral.

In accordance with Company's classification of collateral, motor vehicles and machinery group includes the following types of transport: automobiles or cars, buses, motorcycles, off highway vehicles, light trucks or light duty trucks, and trucks or lorries, combines, dumpers, tractors, diggers, auto-loaders, rollers, pavers and cranes.

The recoverability of leases which are not past due is primarily dependent on the creditworthiness of the borrowers rather than the value of collateral, and the Company does not necessarily update the valuation of collateral as at each reporting date.

The Company has leases, for which fair value of collateral was assessed at the leases inception date and it was not updated for further changes. Information on value of collateral is based on when this estimate was made.

For leases secured by multiple types of collateral, collateral that is most relevant for impairment assessment is disclosed.

Collateral obtained

During 2018 and 2017, the Company has not obtained assets by taking control of collateral securing leases.

(In thousands of tenge)

10. Murabaha receivables

In 2018, the Company launched new Islamic product Murabaha, which represents purchase and sale of assets with mark up (i.e. the difference between purchase price and sales price of the asset) repaid by instalments. Maximum term for Murabaha agreements is 18 months. Assets in Murabaha instalment sale transactions are similar to leased assets (vehicles, machinery and equipment). During 2018, the Company issued Murabaha to new 6 small and medium size companies denominated in tenge maturing in 2019-2020.

	2018	*2017*
Gross Murabaha receivables	**65,412**	–
Less: allowance for impairment	**(404)**	–
Net Murabaha receivables	**65,008**	–

Allowance for expected credit losses

An analysis of changes in the gross carrying value and corresponding ECL in relation to finance lease receivables during the year ended 31 December 2018 is as follows:

	Murabaha receivables
Gross carrying value as at 1 January 2018	–
New assets originated	**196,569**
Assets repaid	**(131,157)**
As at 31 December 2018	**65,412**

	Murabaha receivables
ECL as at 1 January 2018	–
New assets originated	**2,272**
Assets repaid	**(1,868)**
As at 31 December 2018	**404**

11. Assets to be transferred under finance lease agreements

As at 31 December 2017, assets to be transferred under finance lease agreements in the amount of KZT 41,054 thousand represents equipment to be transferred under these agreements. As at 31 December 2017 no impairment allowance was recognised in respect of these assets.

12. Investment in joint venture

In 2014, the Company invested KZT 273,123 thousand in a newly established company, Ijara Company Kyrgyzstan CJSC which was incorporated in Kyrgyz Republic on 29 September 2014. As at 31 December 2018 and 2017, the Company controlled 36.6% of the total shares of the joint venture. During 2018 the Company recognised gain from investment in joint venture in the amount of KZT 1,748 thousand (in 2017: loss of KZT 8,724 thousand) representing share in profit/(loss) of this joint venture. The main activity of the joint venture is finance lease operations. When assessing the existence of the joint control the Company used the following key judgment:

- The decisions about the relevant activities which significantly affect the returns of the arrangement require the unanimous consent of two third (66.7%) of the parties sharing the control of the arrangement.

The other three investors hold 36.6%, 14.6% and 12.2% of the total shares of the joint venture, respectively.

The movements of investment in joint venture comprise:

	2018	*2017*
Investment in joint venture, as at 1 January	**430,474**	436,470
Share in profit/(loss) of the joint venture	**1,748**	(8,724)
Currency translation of foreign operations financial statements	**58,149**	2,728
Investment in joint venture, as at 31 December	**490,371**	430,474

(In thousands of tenge)

12. Investment in joint venture (continued)

The following table summarises the financial information of Ijara Company Kyrgyzstan CJSC as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Company's interest in Ijara Company Kyrgyzstan CJSC.

	2018	*2017*
Percentage ownership interest	**36.6%**	**36.6%**
Non-current assets (including net investment in finance lease 2018: KZT 1,581,464 thousand, 2017: KZT 999,201 thousand)	**1,659,303**	1,109,968
Current assets (including cash and cash equivalents 2018: KZT 220,857 thousand, 2017: KZT 48,682 thousand)	**414,435**	122,518
Non-current liabilities (including financial arrangements 2018: KZT 594,452 thousand)	**(594,452)**	–
Current liabilities (including advances received 2018: KZT 127,479 thousand, 2017: KZT 46,696 thousand)	**(139,474)**	(56,327)
Net assets	**1,339,812**	1,176,159
Carrying amount of profit in joint venture	**490,371**	430,474

	2018	*2017*
Profit income	**144,004**	117,871
Net gain/(loss) from foreign currencies	**17,461**	(6,786)
Other operating expenses	**(156,357)**	(136,022)
Corporate income tax (expense)/benefit	**(331)**	1,101
Profit/(loss) for the year	**4,777**	(23,836)
Company's share of profit/(loss) for the year	**1,748**	(8,724)

13. Property and equipment

Movements in property and equipment were as follows:

	Computers	*Office furniture*	*Motor vehicles*	*Total*
Cost				
At 31 December 2016	8,008	20,563	11,663	40,234
Additions	222	1,413	–	1,635
Disposals	(19)	(296)	–	(315)
At 31 December 2017	8,211	21,680	11,663	41,554
Additions	**1,267**	**798**	–	**2,065**
Disposals	–	**(140)**	–	**(140)**
Transfers	**(330)**	**330**	–	–
At 31 December 2018	**9,148**	**22,668**	**11,663**	**43,479**
Accumulated depreciation				
At 31 December 2016	(6,570)	(9,200)	(6,754)	(22,524)
Charge for the year	(1,296)	(3,764)	(2,333)	(7,393)
Disposals	19	276	–	295
At 31 December 2017	(7,847)	(12,688)	(9,087)	(29,622)
Charge for the year	**(479)**	**(3,943)**	**(2,518)**	**(6,940)**
Disposals	–	**140**	–	**140**
Transfers	**330**	**(330)**	–	–
At 31 December 2018	**(7,996)**	**(16,821)**	**(11,605)**	**(36,422)**
Net book value				
At 31 December 2016	1,438	11,363	4,909	17,710
At 31 December 2017	364	8,992	2,576	11,932
At 31 December 2018	**1,152**	**5,847**	**58**	**7,057**

(In thousands of tenge)

14. Intangible assets

Movements in intangible assets were as follows:

	Computer software
Cost	
At 31 December 2016	113,936
Additions	–
At 31 December 2017	113,936
Additions	**766**
At 31 December 2018	**114,702**
Accumulated amortisation	
At 31 December 2016	(53,404)
Charge for the year	(22,785)
At 31 December 2017	(76,189)
Charge for the year	**(22,955)**
At 31 December 2018	**(99,144)**
Net book value	
At 31 December 2016	60,532
At 31 December 2017	37,747
At 31 December 2018	**15,558**

15. Financial arrangements

Financial arrangements comprise the following:

	2018	*2017*
Islamic Corporation for Development of the Private Sector	**805,924**	628,648
	805,924	628,648

As at 31 December 2018, financial arrangements include a long-term Commodity Murabaha financing facility from Islamic Corporation for Development of the Private Sector (ICD) in the total amount of USD 4,000 thousand. The first tranche of USD 2,000 thousand was received on 18 September 2017 at 5.67% per annum maturing in 2021. The second tranche of USD 750 thousand was received on 29 May 2018 at 6.67% per annum maturing in 2022. Remaining USD 1,250 thousand of the financing facility is available for financing within 9 months.

The Company is obliged to comply with financial covenants in relation to funds received from ICD. These covenants include debt to equity ratios and various other financial performance ratios. As at 31 December 2018 and 2017, the Company complied with these covenants.

During 2018 accrued mark-up expense was KZT 47,536 thousand (as at 31 December 2017: KZT 11,856 thousand) on facilities received from ICD.

16. Share capital

As at 31 December 2018, 2017 and 2016, authorised share capital comprised 6,040,000 common shares. Issued and fully paid share capital comprised 4,224,362 common shares at placement value of KZT 1 thousand per common share.

The holders of common shares are entitled to receive dividends on the basis of equal distribution and on the basis of the financial results reported in accordance with the IFRS. No dividends were declared or paid during 2018 and 2017.

(In thousands of tenge)

17. Reserve for pre-operational expenses

In 2013, the Company has recognised the amount of KZT 120,345 thousand that the Company needed to reimburse to the shareholders, based on the estimate of the pre-operational expenses incurred by the shareholders and amounts paid to an individual that was elected as a responsible person for the implementation of the financial and economic activities and responsible for the representation of shareholders before third parties prior to establishment of the Company. This decision was included in the minutes of the shareholders meeting. As at 31 December 2014, the amount was recognised as a reserve for pre-operational expenses in equity in the amount of KZT 110,670 thousand and as equipment for the total amount of KZT 9,675 thousand that was transferred to the Company.

As at 31 December 2018 and 2017, the amount of reserve for pre-operational expenses was KZT 110,670 thousand.

18. Risk management

Introduction

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

Risk management policies and procedures

The Company's risk management internal documents aim to identify, analyse and manage the risks faced by the Company. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, leasing products and services offered and emerging best practice.

The risk management strategy is reflected in the Company's internal documents.

The objectives of the risk management policy are:

- Timely risk identification within internal business processes;
- Appropriate performance of leasing transactions;
- Control over compliance with legislation, regulations as well as ethical and professional standards;
- Loss minimisation and decrease of current expense related to possible losses from leasing operations.

The Board of Directors of the Company has overall responsibility for the oversight of the risk management framework with usage of risk management limits and key indicators, overseeing the management of key risks and approving its risk management documents and procedures as well as approving significant large exposures.

The Executive Committee, as a sub-committee of the Board of Directors, has a duty to assess and control credit risks and oversees the optimal structure for assets and liabilities and risk management measures relating to assets placement.

The Board of Directors determines sectors for finance lease operations and monitors the quality of the finance lease portfolio.

The General Director is responsible for monitoring, management and implementation of risk mitigation measures.

The optimal structure of the Company's assets and liabilities is approved within the limits set in the budgets and business plan of the Company which are approved by the Board of Directors. The risk management system is set under the supervision of the Board of Directors and includes internal policies, procedures, risk limits and key risk indicators, which are regularly reported to the Board of Directors by the management and/or Board of Directors' and Management Committees. The market risk, liquidity risk as well as balance sheet management is performed by the Assets and Liabilities Committee on a monthly basis. The Executive Committee of the Board of Directors manages the credit risk of the Company.

Market risk

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

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

The market risk is managed by the Assets and Liabilities Committee.

(In thousands of tenge)

18. Risk management (continued)

Market risk (continued)

The Company manages its market risk through the limits and key risk indicators, which are set and approved by the Board of Directors, and include currency position limits, limits for the repricing risk based on the defined time buckets. These are monitored on a regular basis by the management and the Assets and Liabilities Committee and reported to the Board of Directors.

Profit rate risk

Profit rate risk is the risk that movements in profit rates will affect the Company's income or the value of its portfolios of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market profit rates on its financial position and cash flows. Net income may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

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

Profit rate gap analysis

Profit rate risk is managed principally through monitoring profit rate gaps. A summary of the profit gap position for major financial instruments as at 31 December 2018 and 2017 is as follows:

As at 31 December 2018	*Less than 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*From 1 to 5 years*	*Non-profit rate bearing*	*Carrying amount*
Assets						
Cash and cash equivalents	–	–	–	–	230,853	230,853
Finance lease receivables	681,152	777,239	1,508,018	3,798,992	–	6,765,401
	681,152	777,239	1,508,018	3,798,992	230,853	6,996,254

As at 31 December 2017	*Less than 3 months*	*From 3 to 6 months*	*From 6 to 12 months*	*From 1 to 5 years*	*Non-profit rate bearing*	*Carrying amount*
Assets						
Cash and cash equivalents	–	–	–	–	315,673	315,673
Finance lease receivables	368,724	621,885	1,053,212	3,602,073	–	5,645,894
	368,724	621,885	1,053,212	3,602,073	315,673	5,961,567

Currency risk

The Company has assets and liabilities denominated in several foreign currencies or in tenge adjusted for changes in foreign exchange rates. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The management and the Assets and Liabilities Committee manage currency risk by monitoring the open currency position based on assumed tenge devaluation and other macroeconomic indicators and approving mechanism of protection against the currency risks that enables the Company to minimise losses from significant foreign currency exchange rates fluctuations.

(In thousands of tenge)

18. Risk management (continued)

Market risk (continued)

Currency risk (continued)

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

	2018			2017		
	USD	*EUR*	*Total*	*USD*	*EUR*	*Total*
Assets						
Cash and cash equivalents	–	–	–	–	126	126
Finance lease receivables	**1,462,881**	–	**1,462,881**	1,771,581	–	1,771,581
Total assets	**1,462,881**	–	**1,462,881**	1,771,581	126	1,771,707
Liabilities						
Financial arrangements	**805,923**	–	**805,923**	628,648	–	628,648
Other liabilities	**8,645**	–	**8,645**	623	–	623
Total liabilities	**814,568**	–	**814,568**	629,271	–	629,271
Net position	**648,313**	–	**648,313**	1,142,310	126	1,142,436

During 2018 and 2017, the Company has entered into finance lease receivables agreements that are indexed to changes in US dollar exchange rate and are denominated in tenge.

The table below indicates the currencies to which the Company had significant exposure at 31 December on certain monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against tenge, with all other variables held constant on the profit or loss (due to the fair value of certain currency sensitive certain monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the statement of profit or loss, while a positive amount reflects a net potential increase.

	2018		2017	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	**+14%**	**90,764**	+20%	182,770
EUR	**+14%**	–	+20%	20

	2018		2017	
Currency	*Change in currency rate, in %*	*Effect on profit before tax*	*Change in currency rate, in %*	*Effect on profit before tax*
USD	**-10%**	**(64,831)**	-5%	(45,692)
EUR	**-10%**	–	-5%	(5)

Credit risk

Credit risk is the risk that the Company will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The basis for the credit risk management system is the organisation of the Company's leasing operations in accordance with the Company's internal documents.

To minimise credit risk while carrying out leasing operations the Company performs the following:

- Monitors lessees' financial position and safety of leased equipment and collateral to identify on a timely basis conditions or events that could negatively affect financial solvency of lessees;
- Monitors the proper use of leased equipment;
- Ensures the finance lease portfolio is diversified by distribution of investments among lessees from different geographical regions, business sectors and types of entities.

The credit risk management and control are performed by the General Director and the Executive Committee set by the Board of Directors.

(In thousands of tenge)

18. Risk management (continued)

Credit risk (continued)

The Company continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial and other information submitted by the customer, or otherwise obtained by the Company. Apart from individual customer analysis, the whole credit portfolio is assessed by the Board of Directors with regard to credit quality, credit concentration and market risks.

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

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

	2018	*2017*
Assets		
Cash and cash equivalents	**230,853**	315,673
Finance lease receivables	**6,765,401**	5,645,894
Murabaha receivables	**65,008**	–
Total maximum exposure to credit risk on balance sheet	**7,061,262**	5,961,567

Impairment assessment

From 1 January 2018, the Company uses the ECL model when determining the impairment allowance on financial assets.

The ECL amount is determined as the difference between the cash flows that are due to the Company in accordance with the contractual terms of an asset and the cash flows that the Company expects to receive, using the probability of default rate of an asset.

In determining the cash flows that the Company expects to receive, it adopts a sum of marginal losses approach whereby ECLs are calculated as the sum of the marginal losses that result from all possible default events over the lifetime of an asset. The marginal losses are derived from individual parameters that estimate exposures and losses in case of default and the marginal probability of default during a given period of time conditional upon an exposure having survived during this period.

ECLs are a probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

Generally, ECL calculations are based on four components:

- Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon, which the Company management sets based on the historical default rates over the expected life of the asset, adjusted for forward-looking estimates, like key macro- and micro-economic factors and management's assumptions about the relationship between these forecasts and the amounts and timing of recoveries from the clients.

- Exposure at Default (EAD) 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 profits, and expected drawdowns on committed facilities.

- Loss Given Default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including expected proceeds from collateral, if any. It is usually expressed as a percentage of the EAD.

- Discount Rate is the incremental lease rate at initial recognition used to discount an expected loss to a present value at the reporting date.

(In thousands of tenge)

18. Risk management (continued)

Credit risk (continued)

Impairment assessment (continued)

The Company, considering the nature of the business in which it operates, recognizes and measures the impairment in assets, applying simplified approach. This approach does not require monitoring for significant increases in credit risk and the Company measures lifetime ECL at initial recognition for the maximum contractual period, including the extension options, and allocate the impairment allowance on a monthly basis until full repayment/collection of the asset. After initial recognition, the impairment allowance is adjusted, up or down, through profit and loss at each balance sheet date as the probabilities of collection and recoveries may change. Default is defined as 90 days overdue or in case one of the following reasons/cases are in place:

- Irregular payments;
- Business failure;
- Weak financials / cash flows based on financial monitoring results;
- Closure of business;
- Bankruptcy;
- Dispute among partners;
- Litigation by third parties;
- Loss of collaterals;
- Key decision maker of the customer is dead, left the country or imprisoned, and such circumstances lead to business stuck;
- Fraudulent activities;
- Frequent (over two times in a calendar year) restructuring;
- No identified source of payment;
- Non co-operation of a customer with the Company.

Based on the ECL, the Company allocates impairment allowances for the performing assets and the ones, which are past due up to 89 days, are calculated at the end of each month over the outstanding balance of the assets using the impairment matrix below:

*Tenure**	*Impairment rate*
> 30 months	2.0%
25-30 months	1.5%
13-24 months	1.0%
up to 12 months	0.5%

* *The tenure left till the contractual date of repayment.*

Each non-performing asset is assessed individually based on the assessment forecasts the expected recoveries from the asset in the form of collections, proceeds from the sale of the leased assets or collateral. The assessment results are calculated using the future cash flow and include the following:

- The net present value of the future cash flows is the expected recoveries from collections, sale proceeds for the leased assets and collateral, if any, discounted to present value;
- The net outstanding balance of the asset;
- The positive difference between the net outstanding balance of the asset and the net present value of the cash flows is the amount of impairment allowances required to be recognised for the assessed non-performing asset;
- The negative difference between the net outstanding balance of the asset and the net present value of the cash flows is the amount of impairment allowances to be reversed on the assessed non-performing asset.

(In thousands of tenge)

18. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and profit rates of assets and liabilities is fundamental to the management of financial institutions, including the Company. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due.

The Assets and Liabilities Committee monitors and controls liquidity risk on a regular basis by analysis of liquidity risk level and takes measures to reduce the risk. Current liquidity management is performed by the Finance Department, which is responsible for operations in the financial markets with the purpose of maintaining current liquidity and optimising cash flows.

The liquidity management policy of the Company requires:

- Projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- Maintaining a diverse range of funding sources;
- Managing the concentration and profile of debts;
- Maintaining debt financing plans; and
- Maintaining liquidity and funding contingency plans.

The weekly liquidity position is monitored by the Assets and Liabilities Committee and decisions are taken on the Company's liquidity management in line with the Company's business strategy needs, market conditions and internal policies the Company.

As at 31 December 2018 and 2017, the Company was not exposed to significant liquidity risk. Please refer to *Note 24*.

19. Capital management

The Company's objective when managing capital is to maintain the financial stability of the Company for further development of its activities by optimisation of share capital. The Company is not exposed to any external capital requirements.

20. Commitments and contingencies

Insurance

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Company has a full coverage of a mandatory insurance as declared by the Kazakhstan Law as well as voluntary insurance for property and leased assets covering risks of damage, loss and third party liability. The Company does not have full coverage for business interruption.

Until the Company obtains adequate insurance coverage when become available in the Republic of Kazakhstan, there is a risk that the loss or destruction of certain assets resulting from business interruption could have a material adverse effect on the Company's operations and financial position.

Legal

In the ordinary course of business, the Company is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or future performance of the Company. As at 31 December 2018 and 2017, no provision has been recognised in these financial statements for any of such action or complaints.

Taxation

Various types of legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent opinions between local, regional and republican tax authorities are not unusual. The current regime of penalties and fines related to reported and discovered violations of Kazakhstan laws, decrees and related regulations are severe. Penalties include confiscation of the amounts at issue (for currency law violations), as well as fines of 50% of the taxes unpaid or more.

(In thousands of tenge)

20. Commitments and contingencies (continued)

Taxation (continued)

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

21. Related party disclosures

Control relationships

The Company is owned by the shareholders presented in *Note 1*. There is no ultimate controlling party.

Management remuneration

Remuneration of member of key management personnel expenses comprise:

	2018	*2017*
Key management personnel compensation	**86,100**	67,568
	86,100	67,568

Transactions and balances with other related parties

Other related parties include shareholders, other entities under control of the shareholders and joint venture. As at 31 December 2018, carrying amount and the related average effective profit rates and related profit or loss amounts of transactions other related parties are as follows:

	Shareholders		*Other entities under control of the shareholders*		*Joint venture*		
	Carrying amount	*Average effective profit rate, %*	*Carrying amount*	*Average effective profit rate, %*	*Carrying amount*	*Average effective profit rate, %*	*Total*
Statement of financial position							
Assets							
Finance lease receivables	–	–	**429,874**	**9.16**	–	–	**429,874**
Investment in joint venture	–	–	–	–	**490,371**	–	**490,371**
Liabilities							
Financial arrangements	**805,924**	**5.95**	–	–	–	–	**805,924**
Other liabilities	–	–	**7,732**	–	–	–	**7,732**
Profit or loss							
Profit income on finance lease receivables	–	–	**48,728**	–	–	–	**48,728**
Financial expenses	**(47,536)**	–	–	–	–	–	**(47,536)**
Net gain from foreign currencies	–	–	**72,603**	–	–	–	**72,603**
Gain from investment in joint venture	–	–	–	–	**1,748**	–	**1,748**
Other income	–	–	**14,998**	–	–	–	**14,998**
Credit loss expense	–	–	**8,387**	–	–	–	**8,387**
General administrative expenses	–	–	**(26,268)**	–	–	–	**(26,268)**
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	**58,149**	–	**58,149**

(In thousands of tenge)

21. Related party disclosures (continued)

Transactions and balances with other related parties (continued)

Other related parties include shareholders, other entities under control of the shareholders and joint venture. As at 31 December 2017, carrying amount and the related average effective profit rates and related profit or loss amounts of transactions other related parties are as follows:

	Shareholder		*Other entities under control of the shareholders*		*Joint venture*		
	Amount	*Average effective profit rate, %*	*Amount*	*Average effective profit rate, %*	*Amount*	*Average effective profit rate, %*	*Total*
Statement of financial position							
Assets							
Finance lease receivables	–	–	580,448	9.16	–	–	580,448
Investment in joint venture	–	–	–	–	430,474	–	430,474
Liabilities							
Financial arrangements	628,648	5.67	–	–	–	–	628,648
Profit or loss							
Profit income on finance lease receivables	–	–	16,474	–	–	–	16,474
Financial expenses	(11,856)	–	–	–	–	–	(11,856)
Loss from investment in joint venture	–	–	–	–	(8,724)	–	(8,724)
Other income	–	–	(14,971)	–	–	–	(14,971)
Impairment loss on finance lease receivables	–	–	(12,250)	–	–	–	(12,250)
General administrative expenses	–	–	(40,202)		–	–	(40,202)
Other comprehensive income							
Foreign currency translation differences	–	–	–	–	2,728	–	2,728

22. Fair values of financial instruments

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Company determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Company uses widely recognised valuation models for determining the fair values of financial instruments. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

(In thousands of tenge)

22. Fair values of financial instruments (continued)

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

		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 non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	–	**230,853**	–	**230,853**
Finance lease receivables	31 December 2018	–	–	**6,280,100**	**6,280,100**
Murabaha receivables	31 December 2018	–	–	**65,008**	**65,008**
Liabilities for which fair values are disclosed					
Accounts payable to suppliers	31 December 2018	–	**9,000**	–	**9,000**
Financial arrangements	31 December 2018	–	**785,494**	–	**785,494**

		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 non-observable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	–	315,673	–	315,673
Finance lease receivables	31 December 2017	–	4,905,949	416,967	5,322,916
Liabilities for which fair values are disclosed					
Accounts payable to suppliers	31 December 2017		7,300	–	7,300
Financial arrangements	31 December 2017	–	611,985	–	611,985

During 2018 and 2017, there were no transfers between levels of fair value hierarchy.

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

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

As at 31 December 2018	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	**230,853**	**230,853**	–
Finance lease receivables	**6,765,401**	**6,280,100**	**(485,301)**
Murabaha receivables	**65,008**	**65,008**	–
Financial liabilities			
Accounts payable to suppliers	**9,000**	**9,000**	–
Financial arrangements	**805,924**	**785,494**	**(20,430)**
Total unrecognised change in unrealised fair value			**(505,731)**

(In thousands of tenge)

22. Fair values of financial instruments (continued)

Fair value of financial assets and liabilities not carried at fair value (continued)

As at 31 December 2017	*Carrying amount*	*Fair value*	*Unrecognised gain/(loss)*
Financial assets			
Cash and cash equivalents	315,673	315,673	–
Finance lease receivables	5,645,894	5,322,916	(322,978)
Financial liabilities			
Accounts payable to suppliers	7,300	7,300	–
Financial arrangements	628,648	611,985	(16,663)
Total unrecognised change in unrealised fair value			(339,641)

23. Average effective profit rates

As at 31 December 2018 and 2017, the table below sets out the Company's profit bearing assets and liabilities and their corresponding average effective profit rates as at that date. These profit rates are an approximation of the yields to maturity of these assets and liabilities.

	2018		*2017*	
	KZT	*USD*	*KZT*	*USD*
Profit bearing assets				
Finance lease receivables	**17.92%**	**10.22%**	17.33%	10.13%
Profit bearing liabilities				
Financial arrangements	**–**	**5.95%**	–	5.67%

24. 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		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	**230,853**	**–**	**230,853**
Finance lease receivables	**2,966,409**	**3,798,992**	**6,765,401**
Murabaha receivables	**61,944**	**3,064**	**65,008**
Advances paid under finance lease agreements	**130,357**	**–**	**130,357**
Investment in joint venture	**–**	**490,371**	**490,371**
Property and equipment	**–**	**7,057**	**7,057**
Intangible assets	**–**	**15,558**	**15,558**
Current corporate income tax assets	**40,373**	**–**	**40,373**
Other assets	**21,585**	**11,520**	**33,105**
Total	**3,451,521**	**4,326,562**	**7,778,083**
Advances received for finance leases	**91,781**	**–**	**91,781**
Accounts payable to suppliers	**9,000**	**–**	**9,000**
Financial arrangements	**259,446**	**546,478**	**805,924**
Other liabilities	**197,720**	**–**	**197,720**
Total	**557,947**	**546,478**	**1,104,425**
Net assets	**2,893,574**	**3,780,084**	**6,673,658**

(In thousands of tenge)

24. Maturity analysis of assets and liabilities (continued)

	2017		
	Within one year	*More than one year*	*Total*
Cash and cash equivalents	315,673	–	315,673
Finance lease receivables	2,043,821	3,602,073	5,645,894
Advances paid under finance lease agreements	112,326	–	112,326
Assets to be transferred under finance lease agreements	41,054	–	41,054
Investment in joint venture	–	430,474	430,474
Property and equipment	–	11,932	11,932
Intangible assets	–	37,747	37,747
Current corporate income tax assets	43,502	–	43,502
Other assets	21,111	11,930	33,041
Total	2,577,487	4,094,156	6,671,643
Advances received for finance leases	101,676	–	101,676
Accounts payable to suppliers	7,300	–	7,300
Financial arrangements	155,843	472,805	628,648
Other liabilities	47,748	–	47,748
Total	312,567	472,805	785,372
Net assets	2,264,920	3,621,351	5,886,271

Due to the fact that substantially all the financial instruments of the Company are fixed rated contracts, these remaining contractual maturity dates also represent the contractual profit rate repricing dates.

The amounts in the tables above represent carrying amounts of the assets and liabilities as at the reporting date and do not include future profit payments.

25. Changes in liabilities arising from financing activities

Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2018 and 2017:

	Liabilities
	Financial arrangements
As at 1 January 2018	**628,648**
Proceeds from financial arrangements	**301,462**
Repayment	**(221,008)**
Foreign currency translation	**96,822**
As at 31 December 2018	**805,924**

	Liabilities
	Financial arrangements
As at 1 January 2017	–
Proceeds from financial arrangements	689,231
Repayment	(46,727)
Foreign currency translation	(13,856)
As at 31 December 2017	628,648