

**LLC IC FREEDOM FINANCE**

Financial Statements and Independent Auditor's Report  
For the years ended March 31, 2018 and 2017

**LLC IC FREEDOM FINANCE  
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CERTIFIED PUBLIC  
ACCOUNTANTS AND  
BUSINESS ADVISORS

## **INDEPENDENT AUDITOR'S REPORT**

### **Shareholders and Board of Directors LLC IC Freedom Finance Moscow, Russia**

We have audited the accompanying financial statements of LLC IC Freedom Finance, which comprise the standalone balance sheets as of March 31, 2018 and 2017, and the related standalone statements of operations and statements of other comprehensive income/(loss), changes in equity, and cash flows for the years then ended, and the related notes to the standalone financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Qualified Opinion**

As discussed in Note 3 to the financial statements, the Company reports its investments in JSC Freedom Finance, FFIN Bank, and LLC First Stock Store (Freedom 24), majority-owned subsidiaries, on the cost method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. If the financial statements of JSC Freedom Finance, FFIN Bank, and Freedom 24 had been consolidated with those of LLC IC Freedom Finance, as of March 31, 2018 and 2017 total assets would be increased by approximately \$207,434 and \$67,522, respectively, total liabilities would be increased by approximately \$176,324 and \$50,824, respectively; revenues would be increased by approximately \$38,288 and \$18,928, respectively, and expenses would be increased by approximately \$23,530 and \$8,895, respectively, for the years then ended.

### **Qualified Opinion**

In our opinion, except for the effects of not consolidating all majority-owned subsidiaries, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of LLC IC Freedom Finance as of March 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*WSRP, LLC*

Salt Lake City, Utah  
October 31, 2018

**LLC IC FREEDOM FINANCE**

**STANDALONE BALANCE SHEETS**

(All amounts in thousands of United States dollars, unless otherwise stated)

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,158	\$ 4,253
Restricted cash	1,396	2,139
Trading securities	21,627	16,230
Investment in subsidiaries	19,328	16,104
Brokerage and other receivables, net	3,134	218
Loans issued	9,004	3,786
Deferred tax assets	527	936
Fixed assets, net	302	204
Other assets, net	1,701	333
<b>TOTAL ASSETS</b>	<b>\$ 63,177</b>	<b>\$ 44,203</b>
<b>LIABILITIES AND EQUITY</b>		
Derivative liability	\$ -	\$ 495
Loans received	-	2
Customer liabilities	3,449	2,139
Current income tax liability	-	149
Trade payables	915	68
Securities repurchase agreement obligation	12,286	14,484
Other liabilities	569	175
<b>TOTAL LIABILITIES</b>	<b>17,219</b>	<b>17,512</b>
<b>EQUITY</b>		
Charter Capital	29,029	21,104
Additional paid in capital	14,787	9,072
Retained earnings/(accumulated deficit)	5,094	(721)
Accumulated Other Comprehensive Loss	(2,952)	(2,764)
<b>TOTAL EQUITY</b>	<b>45,958</b>	<b>26,691</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 63,177</b>	<b>\$ 44,203</b>

The accompanying notes are an integral part of these standalone financial statements.

On behalf of the Company:

Turlov T. R.  
Chief Executive Officer



Morozova N.A.  
Chief Accountant

LLC IC FREEDOM FINANCE

STANDALONE STATEMENTS OF OPERATIONS AND STATEMENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

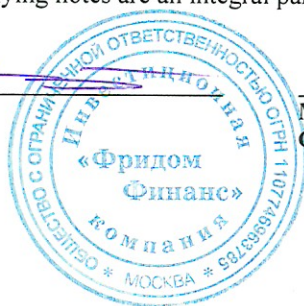
(All amounts in thousands of United States dollars, unless otherwise stated)

	Years ended March 31,	
	2018	2017
<b>Revenue:</b>		
Fee and commission income	\$ 3,924	\$ 2,226
Net gain/(loss) on trading securities	3,985	(6,439)
Interest income	4,982	2,546
Net gain on derivatives	482	1,905
Net gain on foreign exchange operations	761	220
Other income, net	294	8
<b>TOTAL REVENUE, NET</b>	<b>14,428</b>	<b>466</b>
<b>Expense:</b>		
Interest expense	1,200	-
Fee and commission expense	683	325
Operating expense	6,340	3,350
<b>TOTAL EXPENSE</b>	<b>8,223</b>	<b>3,675</b>
NET INCOME/ (LOSS) BEFORE INCOME TAX	6,205	(3,209)
Income tax (expense)/benefit	(390)	725
<b>NET INCOME/ (LOSS)</b>	<b>\$ 5,815</b>	<b>\$ (2,484)</b>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Foreign currency translation adjustments, net of tax	\$ (188)	\$ 1,596
<b>COMPREHENSIVE INCOME/(LOSS)</b>	<b>\$ 5,627</b>	<b>\$ (888)</b>

The accompanying notes are an integral part of these standalone financial statements.

On behalf of the Company:

Turlov T. R.  
Chief Executive Officer



Morozova N.A.  
Chief Accountant

LLC IC FREEDOM FINANCE

STANDALONE STATEMENTS OF CHANGES IN EQUITY

(All amounts in thousands of United States dollars, unless otherwise stated)

	Charter Capital	Additional Paid in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Equity
<b>Balance at March 31, 2016</b>	<b>\$ 18,663</b>	<b>\$ 4,115</b>	<b>\$ (4,361)</b>	<b>\$ 1,763</b>	<b>\$ 20,180</b>
Charter capital	2,441	4,957	-	-	7,398
Foreign currency translation gain	-	-	1,597	-	1,597
Net loss	-	-	-	(2,484)	(2,484)
<b>Balance at March 31, 2017</b>	<b>21,104</b>	<b>9,072</b>	<b>(2,764)</b>	<b>(721)</b>	<b>26,691</b>
Charter capital	7,925	5,715	-	-	13,640
Foreign currency translation loss	-	-	(188)	-	(188)
Net income	-	-	-	5,815	5,815
<b>Balance at March 31, 2018</b>	<b>\$ 29,029</b>	<b>\$ 14,787</b>	<b>\$ (2,952)</b>	<b>\$ 5,094</b>	<b>\$ 45,958</b>

The accompanying notes are an integral part of these standalone financial statements.

On behalf of the Company:

Turlov T. R.

Chief Executive Officer

Morozova N.A.  
Chief Accountant



## LLC IC FREEDOM FINANCE

### STANDALONE STATEMENTS OF CASH FLOWS

(All amounts in thousands of United States dollars, unless otherwise stated)

	For the Years ended	
	March 31, 2018	March 31, 2017
<b>Cash Flows From Operating Activities</b>		
Net income/(loss)	\$ 5,815	\$ (2,484)
Adjustments to reconcile net income/(loss) from operating activities:		
Depreciation and amortization	51	58
Gain on sale of fixed assets	-	8
Change in deferred taxes	391	(886)
Unrealized gain on trading securities	(1,634)	(218)
Net change in accrued interest	-	(1)
Net change in accrued commission receivable	-	(31)
Unrealized gain on derivatives	-	(1,905)
Changes in operating assets and liabilities:		
Derivatives	(482)	2,346
Trading securities	(3,953)	(9,834)
Brokerage and other receivables	(2,888)	257
Loans issued	(5,221)	11
Other assets	(1,359)	90
Customer liabilities	1,329	849
Current income tax liability	(145)	84
Trade payables	838	(95)
Securities repurchase agreement obligation	(1,953)	12,929
Other liabilities	390	1
Loans received	2	-
<b>Net cash flows (used in)/ from operating activities</b>	<b>(8,819)</b>	<b>1,179</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of fixed assets	(157)	(31)
Proceeds from sale of fixed assets	6	11
Investments in subsidiaries	(3,224)	(4,441)
<b>Net cash flows used in investing activities</b>	<b>(3,375)</b>	<b>(4,461)</b>
<b>Cash Flows From Financing Activities</b>		
Capital contributions	13,640	7,398
Proceeds from loans issued	-	2
<b>Net cash flows from financing activities</b>	<b>13,640</b>	<b>7,400</b>
Effect of changes in foreign exchange rates on cash and cash equivalents	(284)	659
<b>NET CHANGE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>1,162</b>	<b>4,777</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD</b>	<b>6,392</b>	<b>1,615</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD</b>	<b>\$ 7,554</b>	<b>\$ 6,392</b>



LLC IC FREEDOM FINANCE

STANDALONE STATEMENTS OF CASH FLOWS

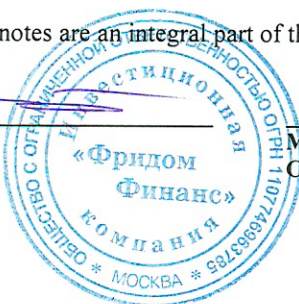
(All amounts in thousands of United States dollars, unless otherwise stated)

	For the years ended	
	March 31, 2018	March 31, 2017
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ (1,135)	\$ -
Income tax paid	\$ (455)	\$ (356)

The accompanying notes are an integral part of these standalone financial statements.

On behalf of the Company:

Turlov T. R.  
Chief Executive Officer



Morozova N.A.  
Chief Accountant

A handwritten signature in blue ink, likely belonging to Morozova N.A., Chief Accountant.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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#### **Note 1 – Description of Business**

##### *Overview*

LLC IC Freedom Finance (referred to herein as “Freedom RU” or the “Company”) is a Russian limited company that was organized in 2010. Since 2010, Freedom RU has been engaged in the securities brokerage and financial services business in the Russian Federation. Freedom RU is 100% owned by Freedom Holding Corp. (“Owner”).

Freedom RU provides brokerage and financial services in the capital markets in Russia, including maintaining customer accounts, managing investment portfolios, providing financial consulting and engaging in market making activities.

Freedom RU also maintains a representative office in Kazakhstan (referred to herein as “KZ Branch”). This office is located in Almaty, Kazakhstan. In addition to acting as the representative office of Freedom RU in Kazakhstan, the representative office offers educational courses, training materials and online resources to individuals interested in learning about stock markets and securities trading.

Unless otherwise specifically indicated or as is otherwise contextually required, Freedom RU and KZ Branch are collectively referred to herein as the “Company”.

#### **Note 2 – Summary of Significant Accounting Policies**

##### **Accounting principles**

The Company’s accounting policies and accompanying Standalone financial statements conform to accounting principles generally accepted in the United States of America (US GAAP).

These financial statements have been prepared on the accrual basis of accounting.

##### **Basis of presentation**

The Company’s Standalone financial statements present the Standalone accounts of Freedom RU.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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#### Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from those estimates.

#### Revenue and expense recognition

The Company earns interest and noninterest income from its proprietary trading accounts from various sources, including:

- Securities, derivatives and foreign exchange activities;
- Reverse repurchase agreements; and
- Bank deposits.

Revenue earned on interest-earning assets, including unearned income and the amortization/accretion of premiums or discounts recognized on debt securities, bank deposits and loans issued is recognized based on the constant effective yield of the financial instrument or based on other applicable accounting guidance.

Gains and losses on the sale of securities and certain derivatives are recognized on a trade-date basis.

The Company earns fees and commissions from its customers from:

- Providing brokerage services;
- Providing banking services (money transfers, foreign exchange operations and other); and
- Agency fees.

The Company also earns revenues from investment banking, underwriting, market making, and bondholders' representation services.

Service charges on brokerage, banking, agency, investment banking and market making services, are recognized when earned. Brokerage fees are recognized on a trade-date basis.

The Company recognizes revenue when four basic criteria have been met:

- Existence of persuasive evidence that an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed and determinable; and
- Collectability is reasonably assured.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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#### **Derivative financial instruments**

In the normal course of business, the Company invests in various derivative financial contracts including futures. Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Derivatives are included in assets and liabilities at fair value through profit or loss in the Stand - Alone balance sheet.

The Company purchases foreign currency futures contracts from financial institutions to minimize the risk caused by foreign currency fluctuation on its foreign currency receivables and payables. Futures are traded on Kazakhstan Stock Exchange and represent commitments to purchase or sell a particular foreign currency at a future date and at a specific price.

#### **Functional currency**

Management has adopted ASC 830, Foreign Currency Translation Matters as it pertains to its foreign currency translation. The Company's functional currency is the Russian ruble. The Company's Parent's functional currency and reporting currency is the United States dollars. Consistent with the group policy the Company's reporting currency is the United States dollars. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars using the exchange rate prevailing at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction. Average monthly rates are used to translate revenues and expenses. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in revenue.

#### **Cash and cash equivalents**

Cash and cash equivalents are generally comprised of certain highly liquid investments with maturities of three months or less at the date of purchase. Cash and cash equivalents include securities received under agreement to repurchase which are recorded at the amounts at which the securities were acquired or sold plus accrued interest.

#### **Securities reverse repurchase and repurchase agreements**

A reverse repurchase agreement is a transaction in which the Company purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller for an amount equal to the cash or other consideration exchanged plus interest at a future date. Securities purchased under reverse repurchase agreements are accounted for as collateralized financing transactions and are recorded at the contractual amount for which the securities will be

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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resold, including accrued interest. Financial instruments purchased under reverse repurchase agreements are recorded in the financial statements as cash placed on deposit collateralized by securities and classified as cash and cash equivalents in the Consolidated Balance Sheets.

A repurchase agreement is a transaction in which the Company sells financial instruments to another party, typically in exchange for cash, and simultaneously enters into an agreement to reacquire the same or substantially the same financial instruments from the buyer for an amount equal to the cash or other consideration exchanged plus interest at a future date. These agreements are accounted for as collateralized financing transactions. The Company retains the financial instruments sold under repurchase agreements and classifies them as trading securities in the Consolidated Balance Sheets. The consideration received under repurchase agreements is classified as securities repurchase agreement obligations in the Consolidated Balance Sheets.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to leverage and grow its proprietary trading portfolio, cover short positions and settle other securities obligations, to accommodate customers' needs and to finance its inventory positions. The Company enters into these transactions in accordance with normal market practice. Under standard terms for repurchase transactions, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

#### **Trading securities**

Financial assets are classified as trading securities if the financial asset has been acquired principally for the purpose of selling it in the near term.

Trading securities are stated at fair value, with any gains or losses arising on remeasurement recognized in revenue. Changes in fair value are recognized in the Standalone Statements of Operations and Statements of Other Comprehensive Income and included in net gain/(loss) on trading securities. Interest earned and dividend income are recognized in the Standalone Statements of Operations and Statements of Other Comprehensive Income and included in interest income, according to the terms of the contract and when the right to receive the payment has been established.

Investments in nonconsolidated managed funds are accounted for at fair value based on the net asset value ("NAV") of the funds provided by the fund managers with gains or losses included in net gain on trading securities in the Standalone Statements of Operations and Statements of Other Comprehensive Income.

#### **Brokerage and other receivables**

Brokerage and other receivables comprise commissions and receivables related to the securities brokerage and banking activity of the Company. At initial recognition, brokerage and other receivables are recognized at fair value. Subsequently, brokerage and other receivables are carried at cost net of any allowance for impairment losses.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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#### **Impairment of long lived assets**

In accordance with the accounting guidance for the impairment or disposal of long-lived assets, the Company periodically evaluates the carrying value of long-lived assets to be held and used when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the fair value from such asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair values are reduced for the cost of disposal. As of March 31, 2018 and 2017, the Company had not recorded any charges for impairment of long-lived assets.

#### **Income taxes**

The Company recognizes deferred tax liabilities and assets based on the difference between the financial statements and tax basis of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized.

Current income tax expenses are provided for in accordance with the laws of the relevant taxing authorities. As part of the process of preparing financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. The Company accounts for income taxes using the asset and liability approach. Under this method, deferred income taxes are recognized for tax consequences in future years based on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at each year-end and tax loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates applicable for the differences that are expected to affect taxable income.

The Company will include interest and penalties arising from the underpayment of income taxes in the Stand - Alone Statements of Operations and Statements of Other Comprehensive Income in the provision for income taxes. As of March 31, 2018 and 2017, the Company had no accrued interest or penalties related to uncertain tax positions.

#### **Financial instruments**

Financial instruments are carried at fair value as described below.

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. Fair value is the current

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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bid price for financial assets, current ask price for financial liabilities and the average of current bid and ask prices when the Company is both in short and long positions for the financial instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### Leases

Rent payable under operating leases is charged to expense on a straight-line basis over the term of the relevant lease.

#### Fixed assets

Fixed assets are carried at cost, net of accumulated depreciation. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range between three and seven years.

#### Advertising expense

For the years ended March 31, 2018 and 2017, the Company had expenses related to advertising in the amount of \$602 and \$498, respectively. All costs associated with advertising are expensed in the period incurred.

#### Recent accounting pronouncements

In June 2016, the FASB issued the ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Among other things, the amendments in this ASU require the measurement of all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The ASU also requires additional disclosures related to estimates and judgments used to measure all expected credit losses. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact of the adoption of this ASU on the financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedging Activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update apply to any entity that elects to apply hedge accounting in accordance with current GAAP. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the update. The Company is currently evaluating the impact of the new guidance on its financial statements.

In September 2017, the FASB issued ASU 2017-13, Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842). The main objective of this pronouncement is to clarify the effective date of the adoption of ASC Topic 606 and ASC Topic 842 and the definition of public business entity as stipulated in ASU 2014-09 and ASU 2016-02. ASU 2014-09 provides that a public business entity and certain other specified entities adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities are required to adopt ASC Topic 606 for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. ASU 2016-12 requires that “a public business entity and certain other specified entities adopt ASC Topic 842 for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. All other entities are required to adopt ASC Topic 842 for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020”. ASU 2017-13 clarifies that the SEC would not object to certain public business entities electing to use the non-public business entities effective dates for applying ASC 606 and ASC 842. ASU 2017-13, however, limits such election to certain public business entities that “otherwise would not meet the definition of a public business entity except for a requirement to include or inclusion of its financial statements or financial information in another entity’s filings with the SEC”. The Company expects that the adoption of this ASU will not have a material impact on its financial statements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, Revenue From Contracts With Customers (Topic 606) which creates a single, principle-based model for revenue recognition and expands and improves disclosures about revenue. The new guidance is effective for the Company beginning October 1, 2018, and must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The Company is currently evaluating the potential impact of this standard on its financial statements which, (1) for investment banking advisory arrangements may change the timing of revenue recognition depending on the number and nature of the performance obligations identified, (2) for underwriting expenses and costs of advisory services and related reimbursement revenue may need to be recognized on a gross basis, and (3) for costs to obtain and fulfill a contract may need to be capitalized, amortized and reviewed regularly for impairment.

In November 2017, the FASB issued ASU No. 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606). A new Accounting Standards Update (“ASU”) features



## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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amendments to select Securities and Exchange Commission (“SEC”) paragraphs under the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”). Issued as ASU No. 2017-14, Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606), the standard amends the Accounting Standards Codification to incorporate the SEC guidance.

In February 2018, the FASB issued ASU No. 2018-03 Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2018-03 provides reporting entities with the option to move from the measurement alternative to fair value through current earnings but stipulates that once the voluntary election is made to stop using the measurement alternative it can no longer be applied to any identical or similar investment from the same issuer. ASU 2018-03 also clarifies that when applying the measurement alternative to equity investments that do not have a readily determinable fair value the equity investment is remeasured to its fair value as of the date of the observable price/transaction.

ASU 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods beginning after June 15, 2018, but may be adopted concurrently with ASU 2016-01. The Company will be adopting ASU 2016-01 and ASU 2018-03 concurrently on June 15, 2018. The Company is currently evaluating the adoption impact of these standards, including whether to elect the measurement alternative for the investment in unregistered shares. The Company does not expect the impact of adoption to be material to the financial statements.

In January 2016, the FASB issued accounting pronouncement (FASB ASU 2016-01) related to financial instruments (FASB ASC Subtopic 825-10). This pronouncement, along with FASB 2018-03 issued in February 2018, requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net earnings. The pronouncements also impact financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The changes are effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. We do not expect it to have a material effect on our financial statements.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, March 2018. In this Update the Accounting Standards Codification is amended to reflect Income Tax Accounting Implications of the Tax Cuts and Jobs Act.

#### **Note 3 – Related Parties and Unconsolidated Subsidiaries**

The Company has made investments in certain wholly-owned subsidiaries: JSC Freedom Finance (Freedom KZ), an Almaty, Kazakhstan-based securities broker-dealer, FFIN Bank, a Moscow, Russia-based bank, KZ Branch, and LLC First Stock Store (Freedom 24). For the years ended March 31, 2018 and 2017, the investment balance was \$19,328 and \$16,104, respectively.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

The accompanying financial statements do not include the assets, liabilities and operations of Freedom KZ, FFIN Bank, and Freedom 24 as required by US GAAP. Consolidation of these subsidiaries in the accompanying financial statements at March 31, 2018 and 2017 would result in an increase of total assets of approximately \$207,434 and \$67,522, respectively, an increase in total liabilities of approximately \$176,324 and \$50,824, respectively, an increase in total equity of approximately \$31,111 and \$16,699, and revenues would be increased by \$38,288 and \$18,928, respectively, and expenses would be increased by \$23,530 and \$8,895, respectively, for the years then ended.

#### Note 4 – Cash and Cash Equivalents

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Current account with commercial banks	\$ 2,958	\$ 3,925
Brokerage accounts	1,578	-
Current account with National Settlement Depository	1,242	328
Securities purchased under agreement to resell	217	-
Accounts with stock exchange	162	-
Petty cash	1	-
<b>Total cash and cash equivalents</b>	<u>\$ 6,158</u>	<u>\$ 4,253</u>

As of March 31, 2018 and 2017, cash and cash equivalents were not insured. As of March 31, 2018 the cash and cash equivalents balance included collateralized securities received under reverse repurchase agreements on the terms presented below:

	<u>March 31, 2018</u>			<u>Total</u>
	<u>Interest rates and remaining contractual maturity of the agreements</u>			
<u>Average interest rate</u>	<u>Up to 30 days</u>	<u>30-90 days</u>		
<b>Securities purchased under reverse repurchase agreements</b>				
Corporate equity	11.00%	\$ 185	\$ -	\$ 185
Corporate debt	14.00%	-	32	32
<b>Total</b>		<u>\$ 185</u>	<u>\$ 32</u>	<u>\$ 217</u>

The securities received by the Company as collateral under reverse repurchase agreements are liquid trading securities with market quotes and significant trading volume. The fair value of collateral received by the Company under reverse repurchase agreements as of March 31, 2018 is \$297.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

#### Note 5 – Restricted Cash

As of March 31, 2018 and 2017, the Company's restricted cash consisted of cash segregated in a special custody account for the exclusive benefit of our brokerage customers in the amount of March 31, 2018 and 2017, 1,396 and 2,139, respectively.

#### Note 6 – Trading Securities

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
Equity securities	\$ 18,428	\$ 14,612
Debt securities	2,929	1,618
Mutual investment funds	270	-
<b>Total trading Securities</b>	<u>\$ 21,627</u>	<u>\$ 16,230</u>

The Company recognized no other than temporary impairment in accumulated other comprehensive income.

The fair value of assets and liabilities is determined using observable market data based on recent trading activity. Where observable market data is unavailable due to a lack of trading activity, the Company utilizes internally developed models to estimate fair value and independent third parties to validate assumptions, when appropriate. Estimating fair value requires significant management judgment, including benchmarking to similar instruments with observable market data and applying appropriate discounts that reflect differences between the securities that the Company is valuing and the selected benchmark. Depending on the type of securities owned by the Company, other valuation methodologies may be required.

Measurement of fair value is classified within a hierarchy based upon the transparency of inputs used in the valuation of an asset or liability. Classification within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The valuation hierarchy contains three levels:

- Level 1 - Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets.
- Level 2 - Valuation inputs are quoted market prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets, and other observable inputs directly or indirectly related to the asset or liability being measured.
- Level 3 - Valuation inputs are unobservable and significant to the fair value measurement.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

The following table presents trading securities assets and redeemable non-controlling interests in the standalone financial statements or disclosed in the notes to the financial statements at fair value on a recurring basis as March 31, 2018 and 2017:

	March 30, 2018	Fair Value Measurements at March 31, 2018 using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable units (Level 3)
Equity securities	\$ 18,428	\$ 18,428	\$ -	\$ -
Debt securities	2,929	2,929	-	-
Mutual investment funds	270	270	-	-
<b>Trading securities</b>	<b>\$ 21,627</b>	<b>\$ 21,627</b>	<b>\$ -</b>	<b>\$ -</b>

	March 31, 2017	Fair Value Measurements at March 31, 2017 using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant unobservable units (Level 3)
Equity securities	\$ 14,612	\$ 14,612	\$ -	\$ -
Debt securities	1,618	1,618	-	-
<b>Trading securities</b>	<b>\$ 16,230</b>	<b>\$ 16,016</b>	<b>\$ 214</b>	<b>\$ -</b>

#### Note 7 - Investments In Subsidiaries

The Company's principal subsidiaries as of March 31, 2018 and 2017 are set out below. The proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

	March 31, 2018		March 31, 2017		Country	Sector
	Ownership	Percentage, %	Ownership	Percentage, %		
JSC Freedom Finance	\$ 14,430	100 %	\$ 11,326	100 %	Republic of Kazakhstan	Brokerage and dealing services
FFIN Bank	4,718	100 %	4,718	100 %	Russian Federation	Banking services
LLC First Stock Store	180	99.5 %	60	99.5 %	Russian Federation	Brokerage and dealing services internet project
<b>Total investments in subsidiaries</b>	<u>\$ 19,328</u>		<u>\$ 16,104</u>			

#### Note 8 - Brokerage And Other Receivables, net

	March 31, 2018	March 31, 2017
Receivable from purchase or sale of securities	\$ 2,489	\$ -
Margin lending receivables	496	-
Receivables from brokerage clients	149	118
Other receivables	-	100
<b>Total brokerage and other receivables, net</b>	<u>\$ 3,134</u>	<u>\$ 218</u>

On March 31, 2018 amounts due from a single related party customer were 306 thousands USD or 10% . Based on past experience Company considers receivables with related party fully collectible. Company allowed to directly withhold it's brokerage commissions from client's broker accounts and thus evaluates collectability of receivables nearly 100% thereof no allowance for uncollectible amounts is recognized as of March 31, 2018 and 2017.

#### Note 9 - Loans Issued

As of March 31, 2018 and 2017, the Company had loans issued in the amount of \$9,004 and \$3,786, respectively. Loans issued as of March 31, 2018, consisted of \$5,371 collateralized loans issued with \$6,992 fair value of collateral due in January-February 2019 with 3% interest rate, \$3,633 subordinated loan issued to subsidiary with interest rate of 3% and undefined maturity date. Loans issued as of March 31, 2017, consisted of subordinated loan issued to subsidiary with interest rate of 3% and undefined maturity date in amount of \$3,690 and of treasury notes with subsidiaries in amount of \$96.

LLC IC FREEDOM FINANCE

NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

Note 10 - Deferred Tax Assets

The Company is subject to taxation in the Russian Federation and Kazakhstan.

The tax rates used for deferred tax assets and liabilities for the years ended March 31, 2018 and 2017, is the 20% for the Russian Federation and Kazakhstan.

Deferred tax assets and liabilities of the Company are comprised of the following:

	<u>March 31, 2018</u>	<u>March 31, 2017</u>
<i>Deferred tax assets:</i>		
Tax losses carryforward	\$ 875	\$ 930
Accrued liabilities	-	6
<b>Deferred tax assets</b>	<u>\$ 875</u>	<u>\$ 936</u>
<i>Deferred tax liabilities:</i>		
Revaluation on trading securities	\$ 348	\$ -
<b>Deferred tax liabilities</b>	<u>\$ 348</u>	<u>\$ -</u>
<b>Net deferred tax assets</b>	<u>\$ 527</u>	<u>\$ 936</u>

The income tax expense comprises:

	<b>Year ended March 31, 2018</b>	<b>Year ended March 31, 2017</b>
Current income tax charge/(benefit)	\$ (19)	\$ 497
Deferred income tax charge/(benefit)	409	(1,222)
<b>Income tax provision/(benefit)</b>	<u>\$ 390</u>	<u>\$ (725)</u>

During the years ended March 31, 2018 and 2017, the effective tax rate was equal to 6.29% and 22.59%, respectively. During the year ended March 31, 2018, the Company realized net income before income tax of \$6,205, primarily from non-taxable dividend income received from JSC Freedom Finance (Freedom KZ) in the amount of \$3,800. This resulted in the Company realizing an income tax expense for the year ended March 31, 2018 of \$390.

Tax losses carryforward as of March 31, 2018 comprises \$875 and are subject to income tax in Russia.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

#### Note 11 – Fixed Assets, Net

	March 31, 2018	March 31, 2017
Vehicles	\$ 305	\$ 280
Furniture	144	69
Office equipment	76	7
Intangible assets	2	2
Other	18	17
Less: Accumulated depreciation and amortization	(243)	(171)
Total fixed assets	<u>\$ 302</u>	<u>\$ 204</u>

Depreciation and amortization expense totaled \$51 and \$58 for the years ended March 31, 2018 and 2017, respectively.

#### Note 12 - Derivative Liability

On December 28, 2016, Freedom RU entered into a derivative instrument agreement with a related party that included a call option feature for the purchase of shares held by Freedom RU. This call option was classified as a derivative liability in the Standalone Balance Sheets and measured at each reporting period using the Black-Scholes Model. The gain associated with this derivative instrument is recognized as a gain on derivative instrument in the Standalone Statements of Operations and Statements of Other Comprehensive Income/(Loss). In exchange for a \$2,629 premium paid upfront, this derivative instrument granted the holder the right to purchase 11.8 million shares of a top rated Russian commercial bank – Sberbank, on June 14, 2017, at a strike price \$3.10 per share.

The Company recorded a derivative liability of \$495 as of March 31, 2017, as a result of the fair value of the call option. On June 14, 2017, the derivative instrument expired, unexercised by the option holder, and the Company recognized a gain on the derivative instrument of \$482. For the year ended March 31, 2017 the Company recognized gain on derivative in the amount of \$1,905.

#### Note 13 - Customer Liabilities

The Company recognizes customer liabilities associated with funds held by our brokerage customers. As of March 31, 2018 and 2017 the Company had customer liabilities in the amount of \$3,449 and \$2,139, respectively.

LLC IC FREEDOM FINANCE

NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

Note 14 – Securities Repurchase Agreement Obligations

As of March 31, 2018 and 2017, trading securities included collateralized securities subject to repurchase obligations as described in the following table:

March 31, 2018					
Interest rates and remaining contractual maturity of the agreements					
Average interest rate	Up to 30 days	30-90 days	Over 90 days	Total	
<i>Securities sold under repurchase agreements</i>					
Corporate equity	7.31%	\$ 4,004	\$ 993	\$ 7,149	\$ 12,146
Non-US sovereign debt	7.24%	140	-	-	140
<b>Total</b>		<u>\$ 4,144</u>	<u>\$ 993</u>	<u>\$ 7,149</u>	<u>\$ 12,286</u>

March 31, 2017					
Interest rates and remaining contractual maturity of the agreements					
Average interest rate	Overnight and continuous	Up to 30 days	30-90 days	Total	
<i>Securities sold under agreement to repurchase</i>					
Corporate equity	10.50%	\$ 14,484	\$ -	\$ -	\$ 14,484
<b>Total</b>		<u>\$ 14,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,484</u>

The fair value of collateral pledged under repurchase agreements as of March 31, 2018 and 2017, was \$14,679 and \$14,281, respectively.

Securities pledged as collateral by the Company under repurchase agreements are liquid trading securities with market quotes and significant trading volume.

Note 15 –Equity

As at March 31, 2018 and 2017 the authorized charter capital comprised \$29,029 and \$21,104, respectively. As at March 31, 2018 and 2017 the additional paid in capital comprised of \$14,787 and \$9,072, respectively.



## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

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During the years ended March 31, 2018, Mr. Turlov made capital contributions of \$7,925 and Freedom Holding Corp. made capital contributions of \$5,715.

During the years ended March 31, 2018, the shareholder of the Company Mr. Turlov made a decision to increase authorized charter capital by means of an equity injection in the amount of \$7,925 and shareholders of Freedom Holding Corp. made a decision to increase additional paid in capital in the amount of \$5,715.

As of March 31, 2017, the sole shareholder of Freedom RU was Mr. Turlov who is the founder and who was owner of 100% of the authorized charter capital of Freedom RU since November 25, 2010. On June 29, 2017, Freedom Holding Corp. and Mr. Turlov closed the acquisition of Freedom RU and Freedom RU became a wholly owned subsidiary of Freedom Holding Corp. Pursuant to the terms of the Acquisition Agreement, Mr. Turlov received a total of 20,665,023 shares of restricted common stock of Freedom Holding Corp. in exchange for his 100% interest in Freedom RU. As of March 31, 2018 the sole shareholder of Freedom RU was Freedom Holding Corp.

#### Note 16 – Related Party Transactions

On December 28, 2016, Freedom RU entered into a derivative instrument agreement with a related party which included a call option feature. The gain or loss associated with this agreement is recognized as gain on a derivative instrument in the Standalone Statements of Operations and Statements of Other Comprehensive Income/(Loss). The Company recorded a derivative liability of \$495 as of March 31, 2017. On June 14, 2017, the derivative instrument expired unexercised by the holder, and the Company recognized a gain on the derivative instrument of \$482.

During the years ended March 31, 2018 and 2017, the Company earned commission income from related parties in the amounts of \$2,754 and \$2,044, respectively. Commission income earned from related parties is comprised primarily of brokerage commissions and agency fees for referrals of new brokerage clients to other brokers. During the years ended March 31, 2018 and 2017, the Company also paid commission expense to related parties in the amounts of \$657 and \$198, respectively.

As of March 31, 2018, and 2017, the Company had brokerage and other receivables from related parties totaling \$119 and \$123, respectively. Brokerage and other receivables from related parties result principally from commissions receivable on the brokerage operations of related parties.

As of March 31, 2018, and 2017, the Company had brokerage account with related party totaling \$1,473 and \$0, respectively.

## LLC IC FREEDOM FINANCE

### NOTES TO STANDALONE FINANCIAL STATEMENTS

(All amounts in thousands of United States Dollars, unless otherwise stated)

As of March 31, 2018, and 2017, the Company had loans issued to related party totaling \$3,633 and \$3,786, respectively. During the years ended March 31, 2018 and 2017, the Company earned interest income from related parties in the amounts of \$108 and \$210, respectively. During the years ended March 31, 2018 and 2017, the Company earned dividend income from subsidiaries which is accounted for as interest income, in the amounts of \$3,800 and \$2,327, respectively.

As of March 31, 2018, and 2017, the Company had marginal lending receivables with related party totaling \$226 and \$0, respectively.

As of March 31, 2018, and 2017, the Company had trade payables with related parties totaling \$104 and \$26, respectively.

As of March 31, 2018, and 2017, the Company had customer liabilities on brokerage accounts of related parties totaling \$2,210 and \$1,556, respectively.

As of March 31, 2018, and 2017, the Company had restricted customer cash on brokerage accounts and cash on bank accounts of related parties totaling \$813 and \$1,556, respectively.

During the years ended March 31, 2018 and 2017, the Company earned rent income from related parties in the amounts of \$168 and \$135, respectively.

#### Note 17 - Commitments And Contingent Liabilities

The table below shows approximate lease commitments and other contingent liabilities of the Company as of March 31, 2018:

Contractual obligations	Total	Less than 1 year
Office leases <sup>(1)</sup>	\$ 1,904	\$ 1,904
<b>TOTAL</b>	<b>\$ 1,904</b>	<b>\$ 1,904</b>

<sup>(1)</sup> The Company has number of lease agreements for office spaces in different locations. In general, all agreements are made for a one-year period with extension or termination provisions, except two lease agreements with longer lease terms.

The Company's rent expense for office space was \$1,280 and \$752 for the year ended March 31, 2018 and 2017, respectively.

#### Note 18 – Subsequent Events

As of the date of the financial statements issue the Company evaluated all material events and transactions that occurred after March 31, 2018 through October 31, 2018. Other than as disclosed below, during this period the Company did not have any additional material recognizable subsequent events.

**LLC IC FREEDOM FINANCE**

**NOTES TO STANDALONE FINANCIAL STATEMENTS**

(All amounts in thousands of United States Dollars, unless otherwise stated)

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On May 28, 2018 Freedom RU completed the acquisition of brokerage company LLC Nettrader (“Nettrader”). Nettrader was 100% controlled by the Company’s shareholder Timur Turlov. The consideration for closing of the sale was \$3,816 which equals to the fair value of the net assets received by the Company as result of the acquisition.

On September, 28 Freedom RU closed the deal for sale of the 100% of subsidiary LLC First Stock Store.

On behalf of the Company:

Turlov T. R.  
Chief Executive Officer



Morozova N.A.  
Chief Accountant