

# ANNUAL REPORT - 2019

Mortgage Organisation  
Kazakhstan Mortgage Company JSC



---

“INCREASING  
THE AFFORDABILITY OF  
HOUSING IN KAZAKHSTAN”



# Table of contents

Message from the Chairman of the Board of Directors	4
Message from the Chairman of the Management Board	5
Key Events in 2019	7
1. About the Company	10
2. Macroeconomic Overview of Kazakhstan and the Sector	17
3. Progress of the Implementation of the Company's Development Strategy	30
4. Company Position on the Mortgage Lending Market	40
5. Operating Results	42
6. Sustainable Company Development	51
7. Corporate Governance	64
8. Financial Statements and Audit Opinion	85
Glossary	212
Contact Information	213





TIMUR AMANTAIULY ZHANKE

**Chairman of the Board of Directors of Mortgage Organisation "Kazakhstan Mortgage Company" JSC**

## Message from the Chairman of the Board of Directors

Dear clients, partners and investors!



We are pleased to have this opportunity to present the Mortgage Organisation "Kazakhstan Mortgage Company" JSC Annual Report for 2019.

This last year has been very important and revealing. We managed to achieve all of our corporate goals, growing Company assets by 2% and doubling net income. Mortgage debt claim acquisitions grew 483% thanks to the acquisition of over 3,000 commercial bank loans. Total loans provided under the Company's own mortgage programme amounted to 9.6 bln. KZT.

The Company's mortgage portfolio grew 45.5% to 62.7 bln. KZT, while its rental portfolio increased to 143.8 bln. KZT. At the same time, problem loans accounted for 5.52% and 1.26% of the total, respectively. It is worth pointing out that historically the Company's share of inactive loans was one of the lowest in the country, which is testimony to the quality of the loan portfolio and the Company's effective debt management.

Last year, the Company raised in excess of 11.4 bln. KZT, twice listing bonds on KASE.

In addition to achieving its financial goals, the Company has continued to pursue its main mission, which is to increase housing affordability.

An important step in implementing the government's social policy to ensure affordable and quality housing was the signing of a number of agreements to provide "rent-to-own" housing to teachers, medical workers and civil servants.

Since it was created, KMC has rightly earned the a reputation of being one of the best performing financial operators in the country, clearly achieving its goals, strategically approaching the resolution of its objectives and always attaining excellent results.

It is thanks to the immense amount of work done in the last 19 years that in 2020 Kazakhstan will be able to establish an Integrated Housing Construction Operator within Kazakhstan Mortgage Company, which will become a major, strategic government tool in the realisation of state housing policy. It is a milestone for KMC and also for the Kazakhstan housing market as a whole.

On behalf of the Board of Directors, I would like to thank Company partners and clients for their collaboration; the Sole Shareholder for the trust shown in me; the management team and all Company employees for the excellent job done and the high level of professionalism shown.





ADIL MUKHAMEDZHANOV

**Chairman of the Management Board of Mortgage Organisation "Kazakhstan Mortgage Company" JSC**



## Message from the Chairman of the Management Board

Dear clients, partners and investors!

First of all, I would like to take this opportunity to thank you for the trust shown in me and for your productive cooperation in 2019. It is thanks to our joint efforts and loyalty to the Company's development strategy that we have managed to achieve all of our intended goals.

During the year, Mortgage Organisation "Kazakhstan Mortgage Company" JSC demonstrated positive growth, with assets valued at 273 bln. KZT and net profit reaching record levels of 8.6 bln. KZT. The Company raised 11.2 bln. KZT by issuing bonds on KASE. We once again confirmed our credit rating with two of the leading international ratings agencies, Moody's and Fitch, at Baa3 and BBB-, respectively.

In 2019, the Company continued its implementation of the state Nurdy Zher Programme to provide "rent-to-own" housing, so far managing to allocate 1,174 apartments among the socially vulnerable sections of the population.

The Company has also entered into an agreement with the Kazakhstan Ministry of Health and the Ministry of Education and Science, the Mangistau, Kostanai and Karaganda Region Akimats to provide "rent-to-own" housing for health workers and teachers. An agreement has

also been reached with the Aktobe Akimat to provide "rent-to-own" housing for employees of the Akimat and related organisations. Under this initiative, the Company will allocate 40 bln. KZT of its own funds in 2019-2021 to purchase approximately 2,500 apartments.

Even though our main efforts currently focus on implementing the state Nurdy Zher Programme, the Company continues to work with partner banks to maintain their liquidity. And to that end, in 2019, KMC purchased debt claims worth roughly 23.7 bln. KZT. Through its own Orda Mortgage Programme, the Company provided 768 loans through partner banks worth 9.6 bln. KZT.

Current clients have also benefitted. Thanks to a memorandum that was signed, the Kazakhstan National Association of Elevator Workers has carried out a comprehensive review of elevator equipment in all residential buildings built under the state programme throughout Kazakhstan. Clients have also been given access to a mobile application called "My Account".

We also continue to work with overseas colleagues, participating in a range of international associations and sector events. For example, we have been elected to chair ASMMA in 2021.

In 2020, KMC will be celebrating an anniversary and symbolically creating the Integrated Housing Construction Operator within the framework of President Kassym-Zhomart Tokayev's message. I am sure that the team's great efforts, KMC's many years of experience and the invaluable support of the government will all be vital in allowing us to fulfil the key role entrusted to us by the President, the Government and the Sole Shareholder.

In this new role, we will continue striving towards our main mission – to resolve the important social issue of providing affordable housing to the people of Kazakhstan.





## Key events

in 2019



- To deal with the number of accidents linked to the use of elevators in residential buildings built under the state Nurly Zher Housing Construction Programme (“Nurly Zher Programme”), Mortgage Organisation “Kazakhstan Mortgage Company” JSC (the “Company” or “KMC”) signed a memorandum of cooperation with the Kazakhstan National Association of Elevator Workers to carry out unscheduled, comprehensive reviews of elevator equipment in residential buildings built under the Nurly Zher Programme. In all, over 200 elevators in 20 cities across Kazakhstan were inspected.



- The Company launched a “My Account” mobile application for its clients allowing them to receive information on contracts, payments and deadlines at any time, and also receive feedback.



- The Company’s Sole Shareholder, Baiterek Holding, terminated the authority of member of the Board of Directors Jacek Brzezinski, replacing him with a new independent director and member of the Board of Directors, Askar Raushanuly Yelemesov.



- The Company signed a partnership agreement with Eurasian Bank JSC to realise the Orda Mortgage Programme.



- The Company raised 10.8 bln. KZT by issuing bonds (KZ2C00003333 (KZIKb27)) on KASE on 18 July at 10.27% per annum.
- The Company's Sole Shareholder, Baiterek Holding, terminated the authority of member of the Board of Directors Damir Serkbayevich Suentayev.



- The Company's Sole Shareholder, National Management Holding "Baiterek" JSC, terminated the authority of member of the Board of Directors Galymzhan Bisengaliyevich Tadzhiyakov.
- In Kostanai, the Company gave 99 families keys to new "rent-to-own" housing under the Nurlly Zher Programme. The recipients included families with many children, handicapped people and families bringing up handicapped children, orphans and children without guardians and other people considered vulnerable.



- On 15 August 2019, Moody's International Ratings Agency confirmed the Company's long-term and short-term national and foreign currency ratings at Baa3, and issuer rating on the national scale at Aa1.kz. The issuer forecast remains stable



- The Company raised 593.9 mln. KZT by placing 20-year bonds (KZ2C00004356 (KZIKb28)) on KASE on 21 June at 2.99% per annum.
- The Company's Sole Shareholder, Baiterek Holding, terminated the authority of member of the Board of Directors Zhandos Nurlanovich Shaimardanov, replacing him with new members of the Board of Directors Timur Amantaiuly Zhanke and Olzhas Zhaidosovich Salykov.
- The Central Utilities Service hosted a signing ceremony for agreements between the Company and the Ministry of Health and the Ministry of Education and Science to provide employees of the ministries and related organisations with "rent-to-own" housing under the Nurlly Zher Programme.



- At the 6th ASMMA Annual Meeting, the Company was elected to chair ASMMA in 2021.





- On 3 October 2019, Fitch Ratings confirmed the long-term IDR in foreign and national currencies at BBB- with a stable forecast. The short-term IDR in foreign currency was confirmed at F3. Fitch also confirmed the long-term rating of the Company's priority debt liabilities in circulation at BBB-.



- The Kazakhstan National Bank registered Company bonds KZ2C00006393 and KZ2C00006401.
- Company bonds KZ2C00006393 (KZIKb30) and KZ2C00006401 (KZIKb31) were listed on KASE in the main trading floor "bonds" category.
- Aktobe hosted a ceremony to provide the keys to new apartments for education and health workers within the framework of the Nurly Zher Programme and a memorandum signed in June 2019 between the Company and ministries. A total of 40 apartments with an area of 1,579 m2 were provided.
- In Ust-Kamenogorsk, 198 families received keys to "rent-to-own" housing under the Nurly Zher Programme.





# 01 / About the Company

## General Information

Mortgage Organisation “Kazakhstan Mortgage Company” JSC (“KMC”) was created in accordance with Resolution of the Management Board of the Kazakhstan National Bank No. 469 dated 20 December 2000 to realise the concept for the long-term financing of housing construction and develop mortgage lending, and is one of the first mortgage organisations in the post-Soviet region with operations focusing on the implementation of state housing policy.

The Company’s aim is to ensure the public has access to mortgages and develop the secondary mortgage market, including by acquiring mortgage debt claims from commercial banks and mortgage organisations through capital market investment. The Company bases its business model on the experience of well-known US companies such as Fannie Mae and Freddie Mac.

The Company launched its main operations in 2001 and is now one of the largest non-banking financial institutions in Kazakhstan.

In addition to developing the secondary mortgage market, the Company has successfully launched the state Nurly Zher Programme<sup>1</sup> which offers lessees the option to purchase property when their rental period. It also subsidises part of the interest on mortgages provided by commercial banks.

The Company’s sole shareholder is National Management Holding “Baiterek” JSC (“Baiterek Holding”), which as at 1 January 2020, held 100% of voting shares in the Company.



<sup>1</sup> Resolution of the Kazakhstan Government No. 372 dated 22 June 2018 On the Approval of the State Nurly Zher Housing Construction Programme (“Nurly Zher Programme”)



Share capital structure as at 1 January 2020	
Authorised shares	13 681 600
Outstanding shares	6 331 380
Repurchased shares	250 000



The share par value is 10,000 tenge.

Ordinary shares give the holder the right to participate in a general meeting of shareholders and voting rights in any issues put to the vote; the right to receive dividends if the company generates net income and the corresponding decision is taken at a general meeting of shareholders, and also to a part of company

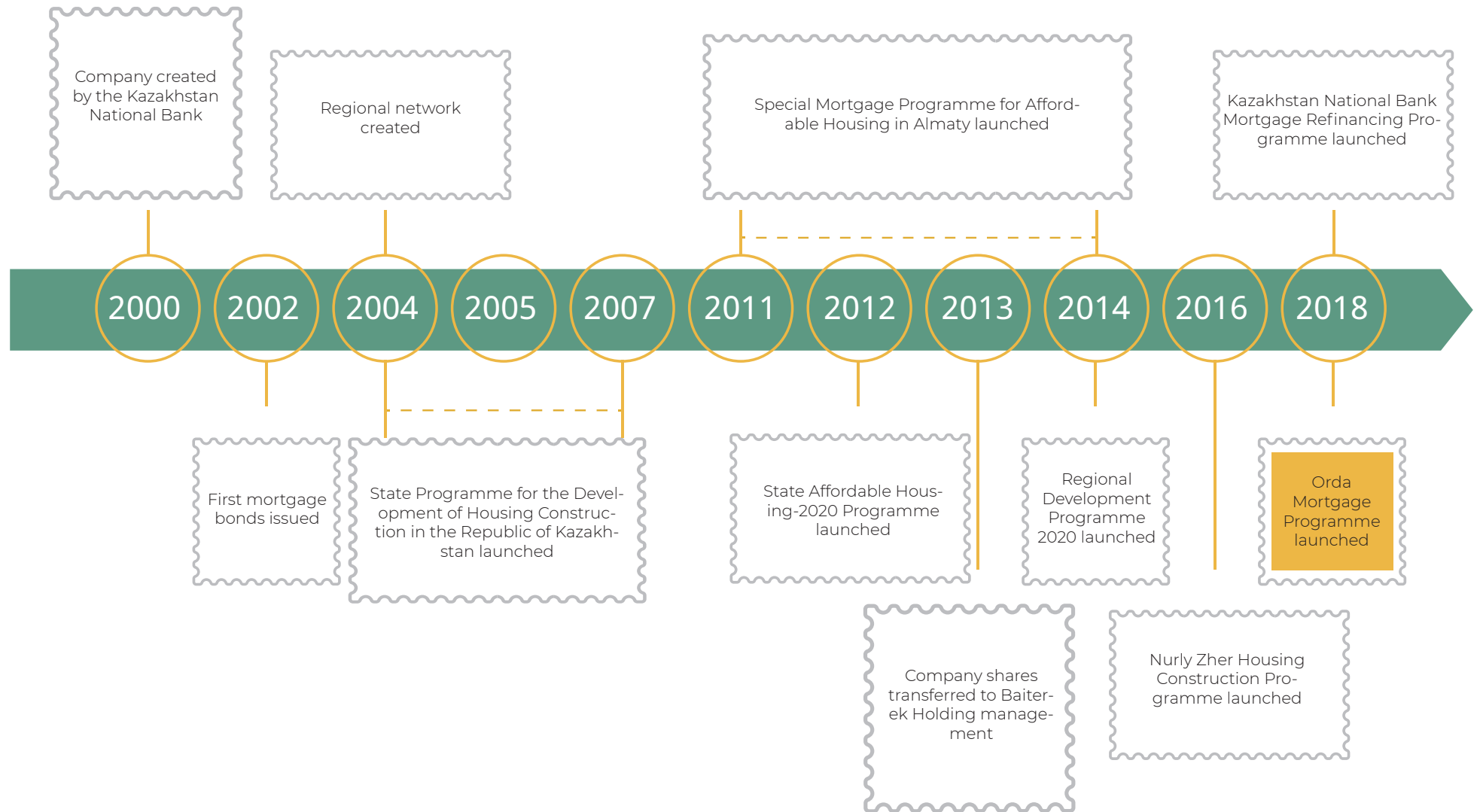
assets following its liquidation in accordance with the procedure established by Kazakhstan law.

The Company's head office is in Almaty, and it has representative offices in 16 regions of Kazakhstan and in Nur-Sultan.



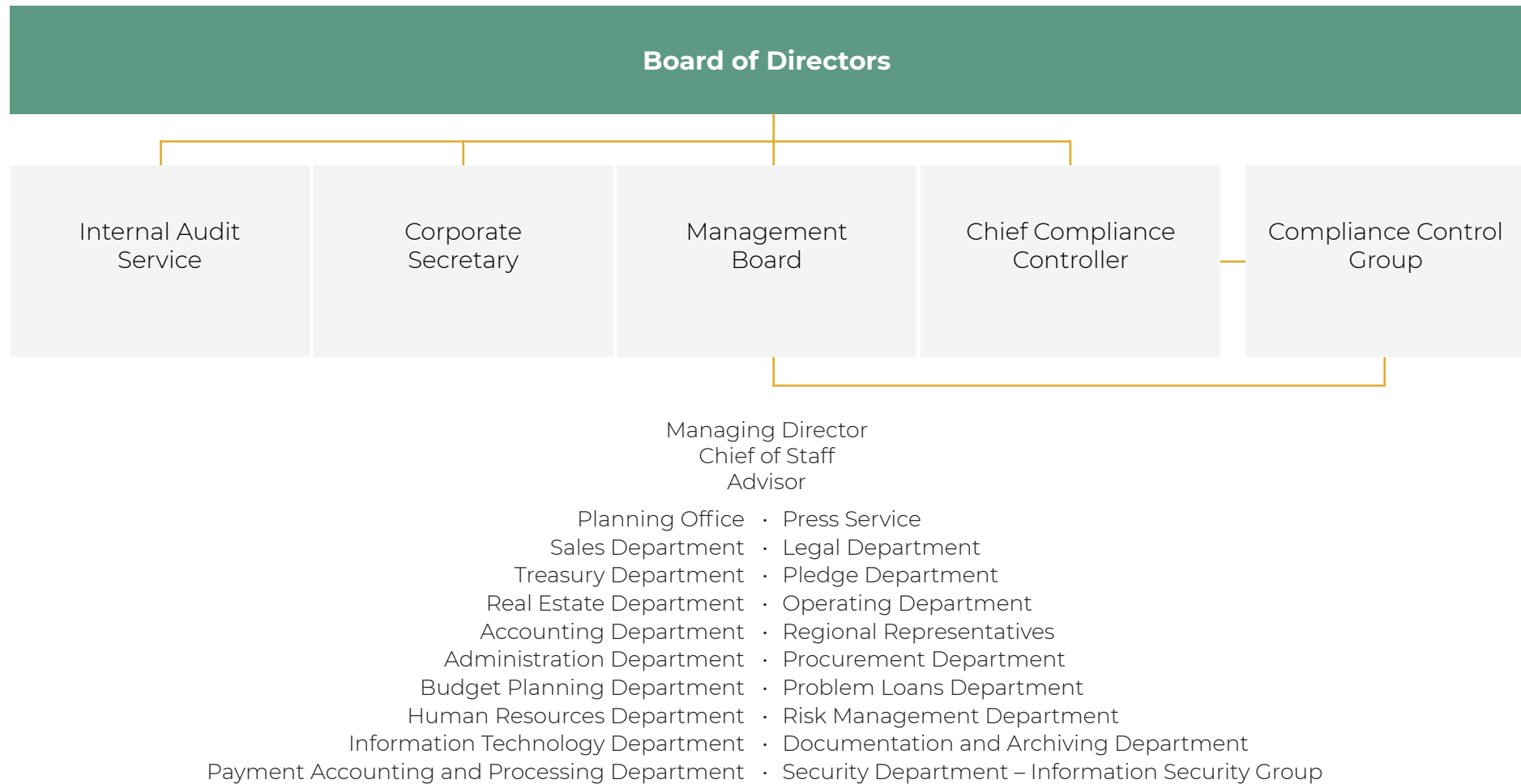


# Development History



# Organisational structure

introduced from 1 January 2019



# Mission, vision, strategic goals and objectives



The Company's mission, strategic goals and objectives follow state policy to increase the availability of affordable housing in Kazakhstan, and focus on the strategic development priorities of Baiterek Holding.

**KMC's mission** is to increase the availability of affordable housing.

**Its vision** is to be an effective financial operator of the state policy to provide affordable housing to the people of Kazakhstan through the mechanisms of mortgage lending and rental housing.

The Company has developed a development strategy for 2014 -2023<sup>2</sup> that sets out three key objectives:

1. to stimulate development of the mortgage market;
2. to achieve the KPIs set by state programmes pertaining to KMC;
3. to improve KMC performance

Alongside the above strategic priorities, the Company also provides mortgages through bank agents and participates in a Mortgage Refinancing Programme

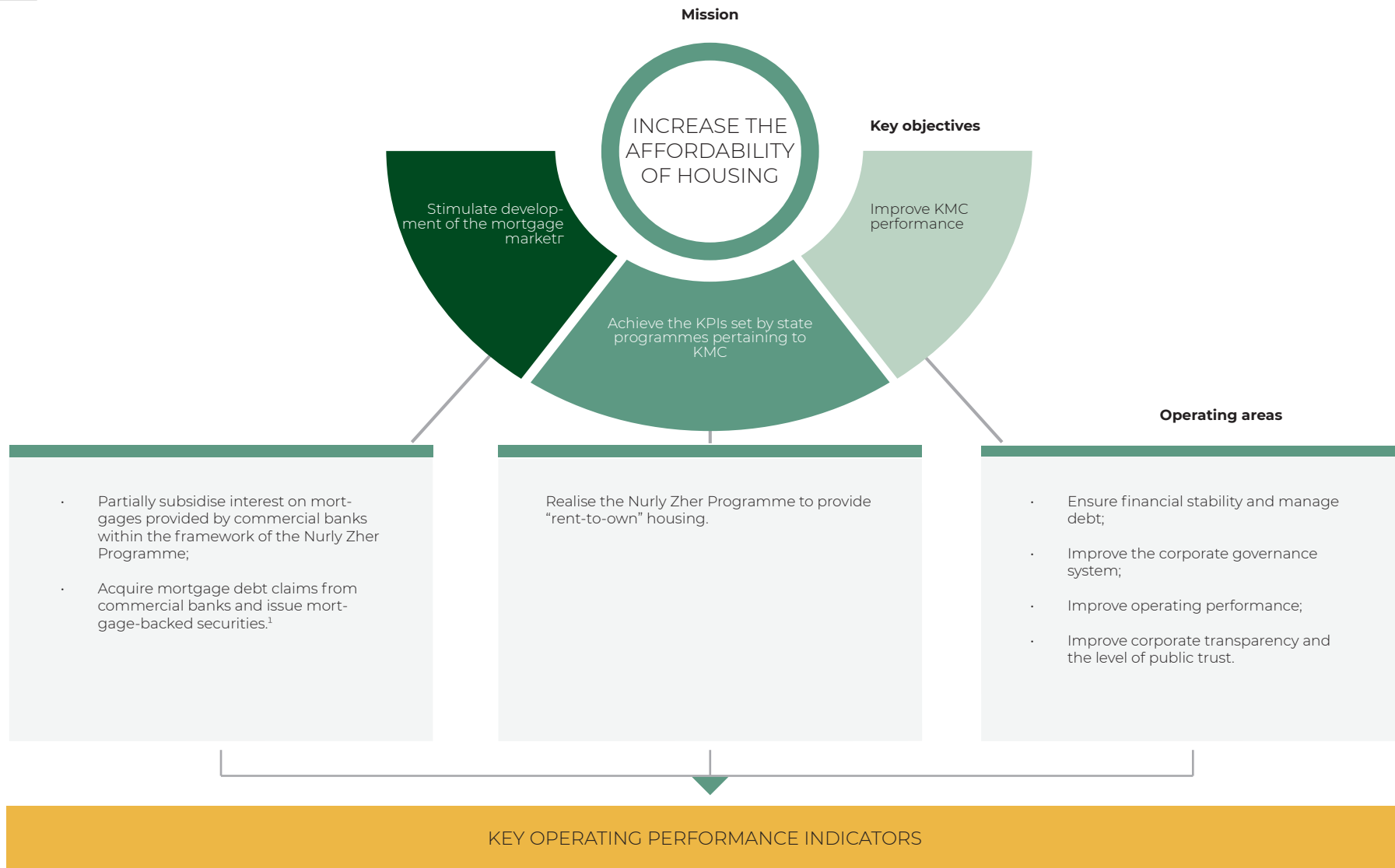
To achieve its key objectives, KMC should focus on three strategic areas, which involves:

1. acquiring mortgage debt claims from commercial banks and issuing mortgage-backed securities;
2. realising the Nurlly Zher Programme to provide "rent-to-own" housing;
3. subsidising part of the interest on mortgages provided by commercial banks within the framework of the Nurlly Zher Programme.

approved by Resolution of the Management Board of the Kazakhstan National Bank No. 69 dated 24 April 2015 ("Mortgage Refinancing Programme").

<sup>2</sup> approved by Resolution of the Board of Directors of Mortgage Organisation "Kazakhstan Mortgage Company" JSC No. 6 dated 1 July 2014

# KMC Development Strategy for 2014-2023





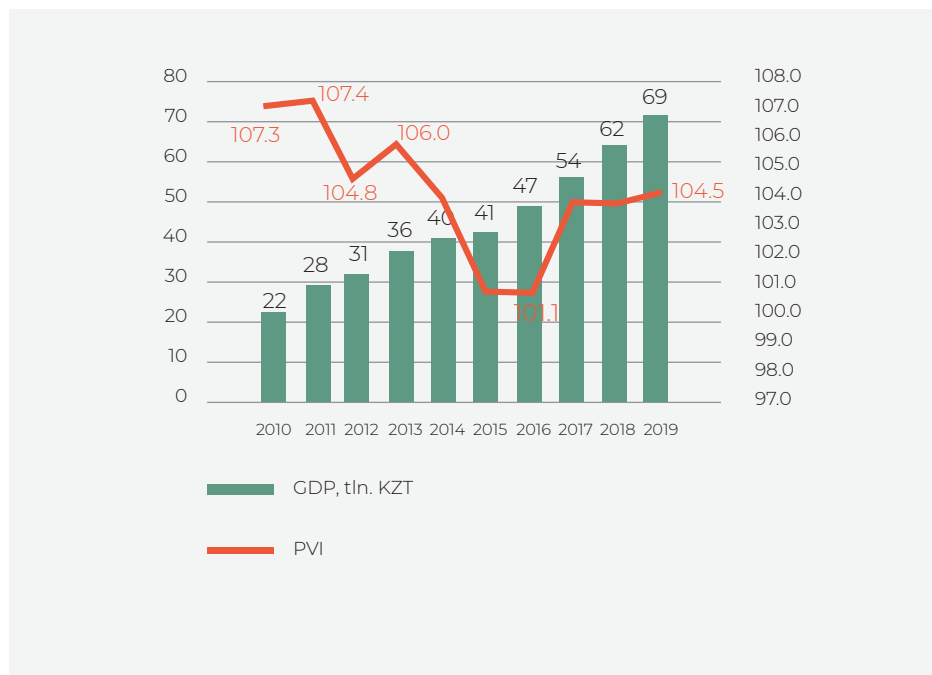


**02** | Macroeconomic  
Overview of Kazakhstan  
and the Sector

# Kazakhstan Statistics, 2019

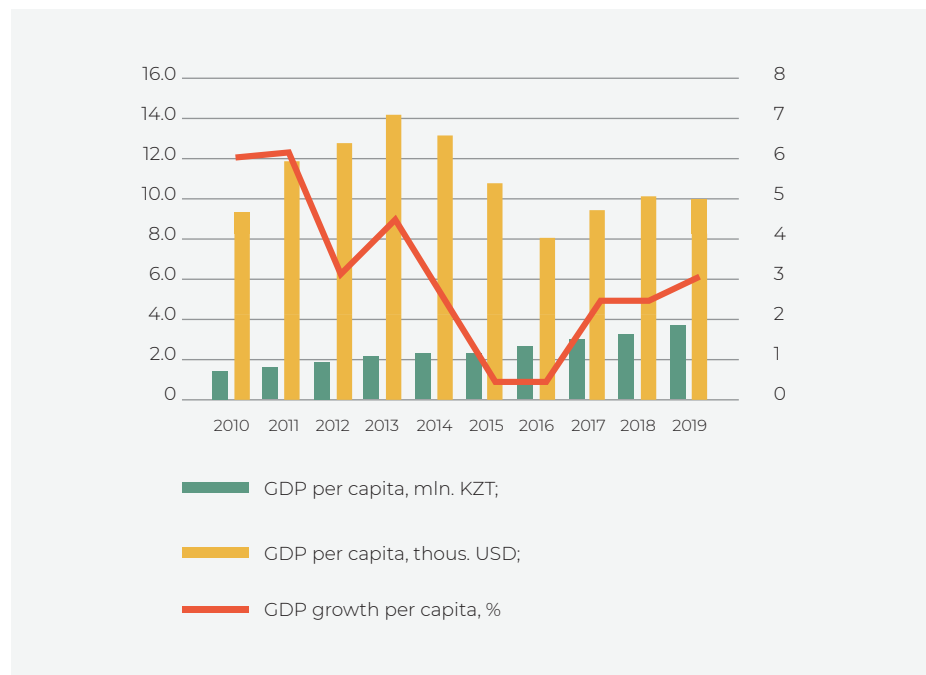
Source: <https://stat.gov.kz>

## Changes in GDP



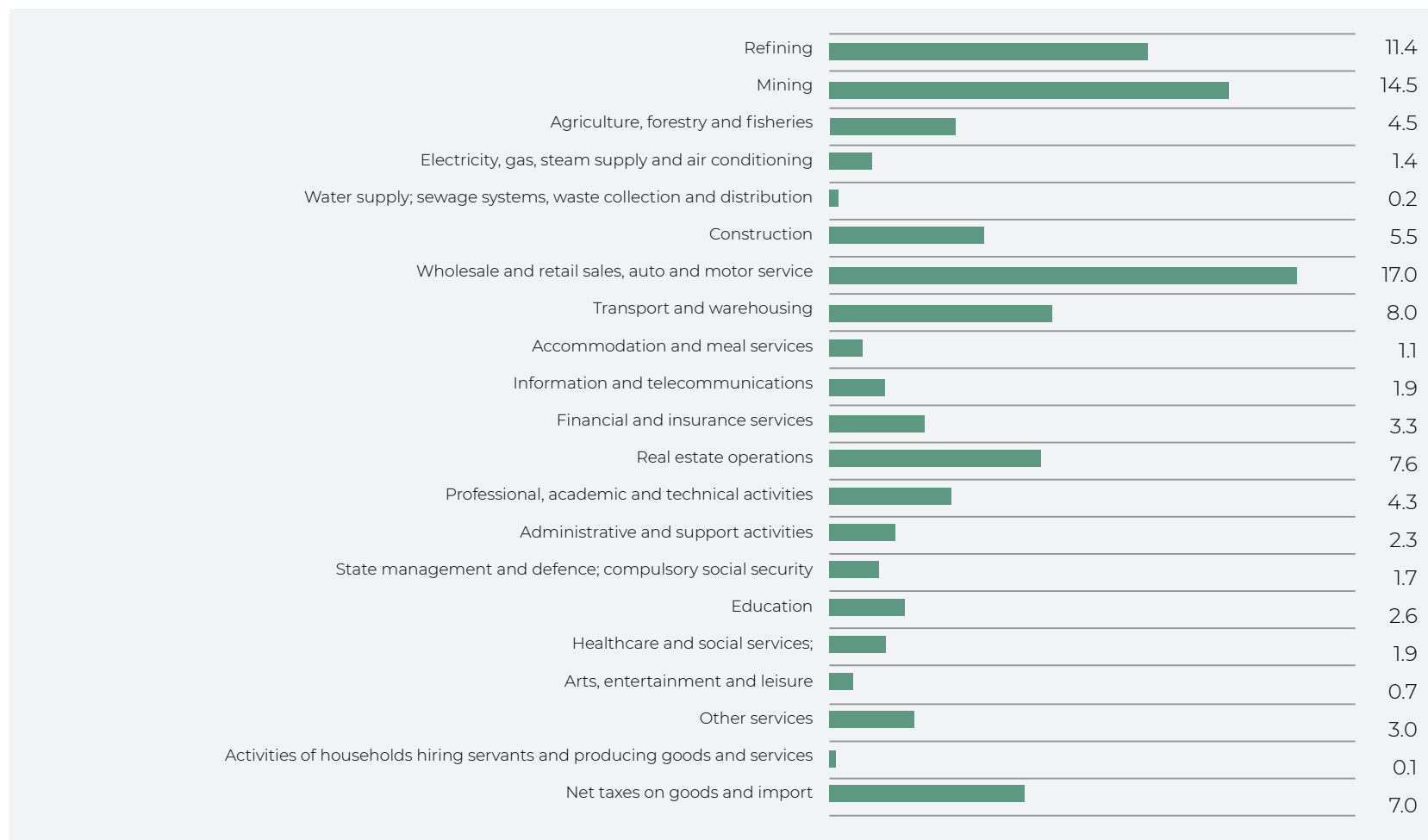
According to initial estimates, GDP in 2019 was 69 tln. KZT; the GDP physical volume index was 104.5.

## GDP per capita



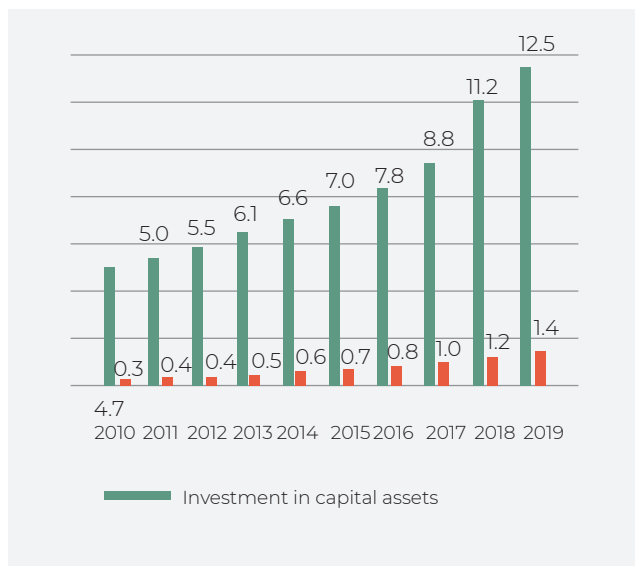
According to initial estimates, GDP per capita in 2019 was 3.7 mln. KZT (9.7 thous. USD). GDP growth per capita was 3.2%

## GDP contribution by sector, %



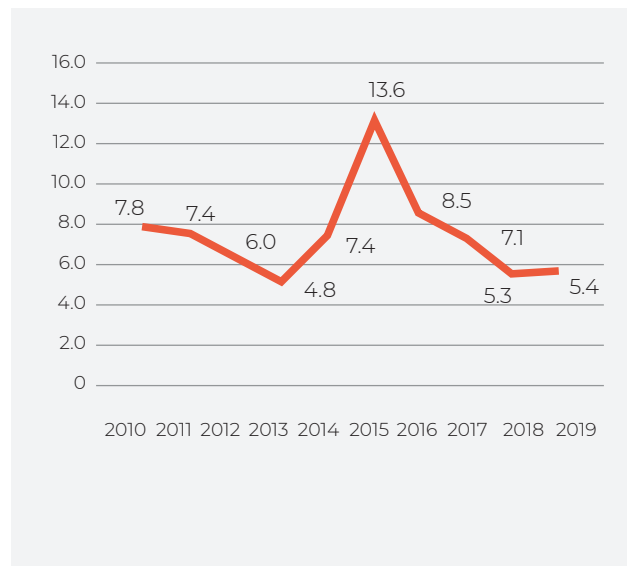
The refining and mining industry accounted for the greatest contribution to GDP, along with wholesale and retail sales. The share of financial and insurance services was 3.3% and the construction sector – 5.5%.

### Changes in investment, tln. KZT



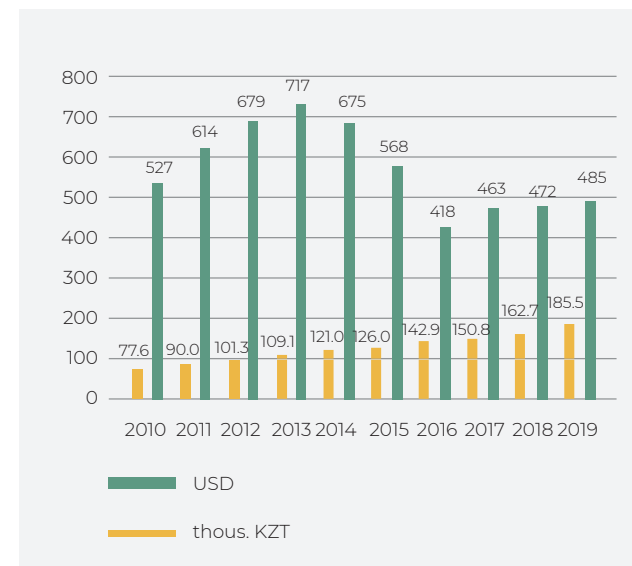
Investment capital assets amounted to 12.5 tln. KZT (11.8% growth compared to the previous period), while investment in housing construction amounted to 1.4 tln. KZT (growth – 16.5%).

### Inflation



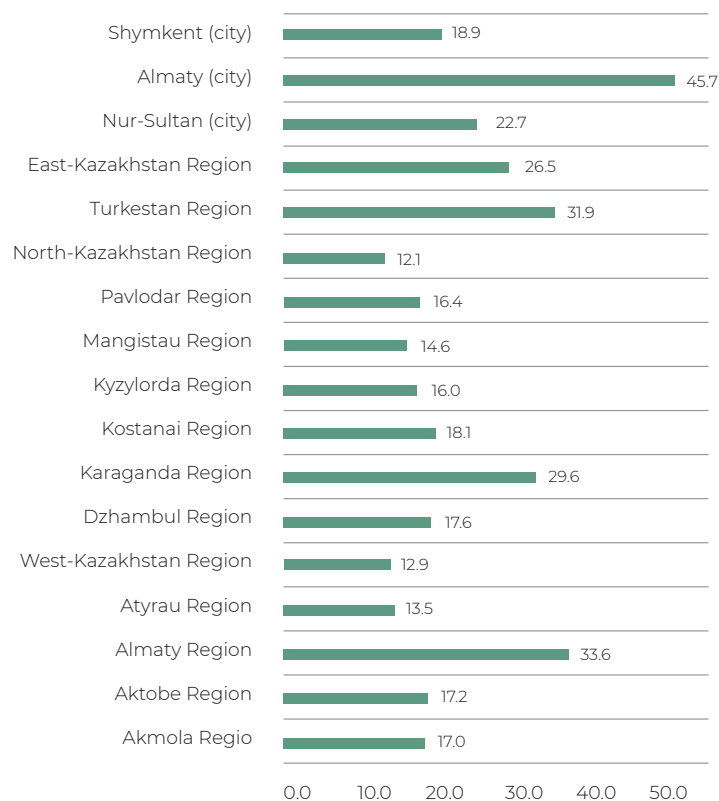
Inflation was at 5.4% and is within the target corridor of 4-6%. Food prices increased by 9.6%, and non-food prices – by 5%, while the cost of paid services fell by 0.7%.

### Average monthly salary per employee



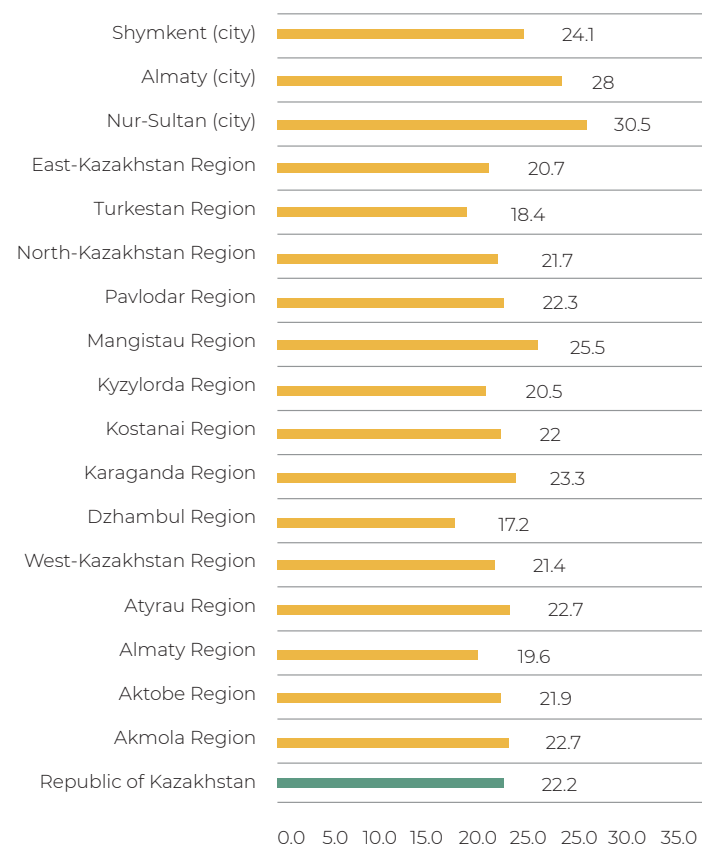
The average monthly nominal salary per employee was 185.5 thous. KZT or 485 USD. The minimum salary in Kazakhstan is 42,500 KZT.

### Total housing fund, mln. m2



Total housing fund area in Kazakhstan was 364.3 mln m2

### Housing supply per person, m2/person

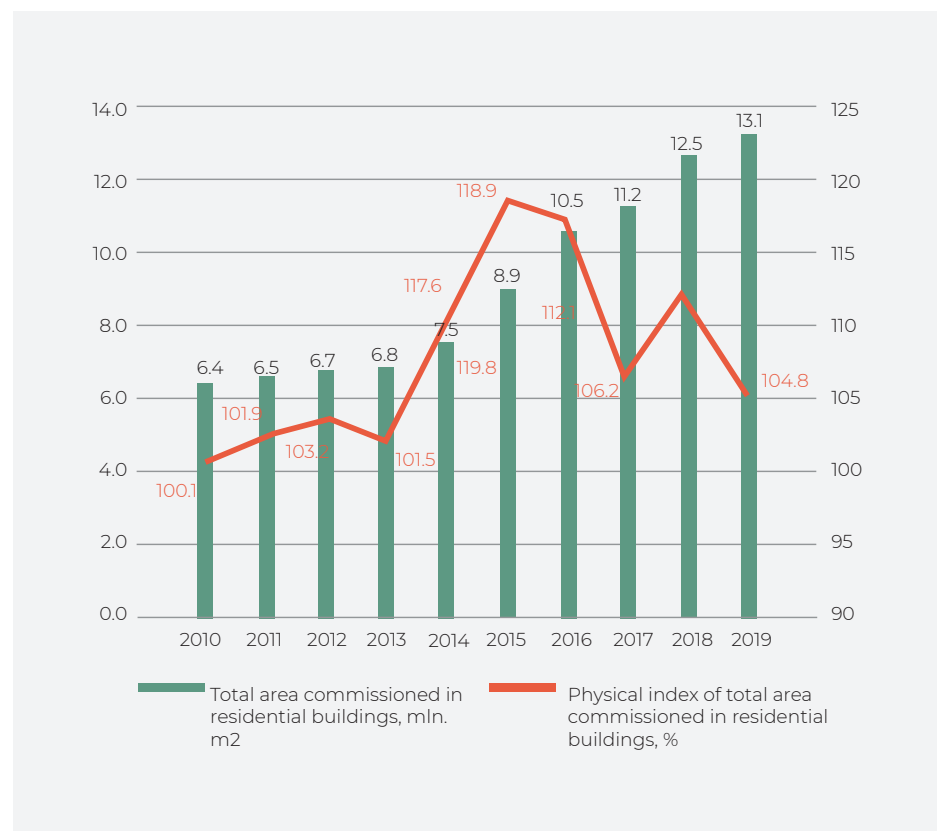


Average available housing per person<sup>3</sup> was 22.2 m2/person

<sup>3</sup> Available housing per person is determined as the ratio of the total area of residential space (apartments) divided by the number of people living in them (total living space in empty or ownerless properties is not considered)



### Changes in the commissioning of housing



13.1 million m<sup>2</sup> of housing was commissioned in 2019, which is a 4.8% increase on 2018. However, to cover the housing deficit based on UN standards (30 m<sup>2</sup> per person), the annual commissioning of new housing should be at least 25 mln m<sup>2</sup>.

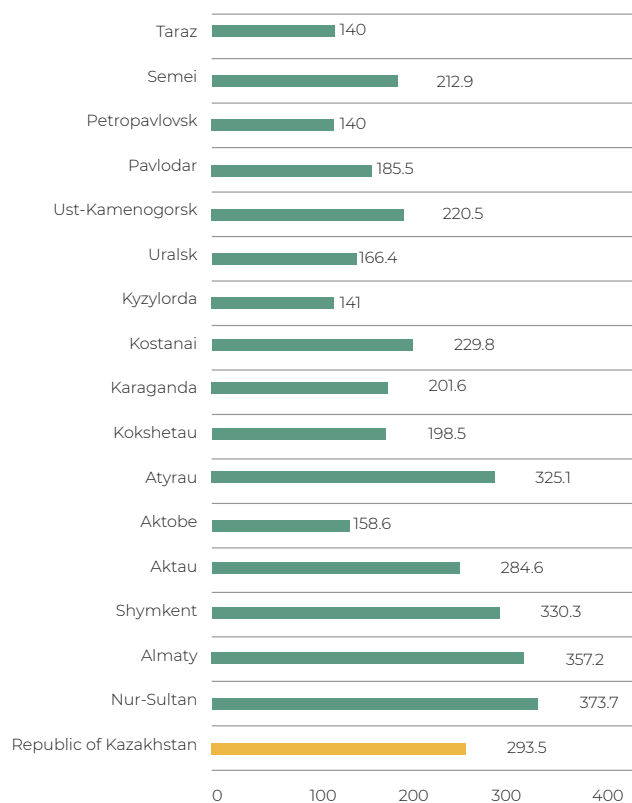
### Change in housing market prices, as a % against the previous period



The selling price for housing grew in 2019 by 6.4% compared to 2018, while the same figure for resales of secondary housing was 6.2%.

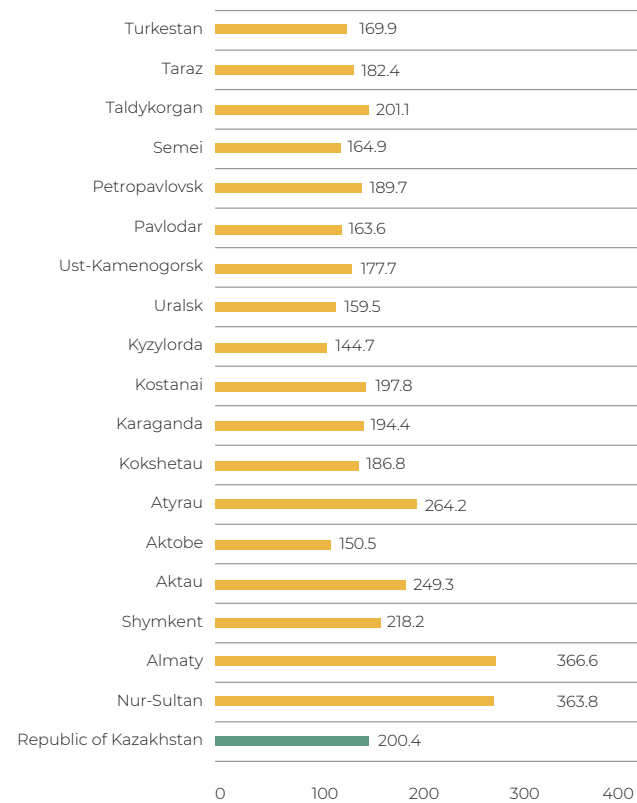


### Selling prices for new housing in December 2019, thous. KZT/m<sup>2</sup>



The average selling price for new housing in December 2019 was 293.5 thous. KZT/m<sup>2</sup>.

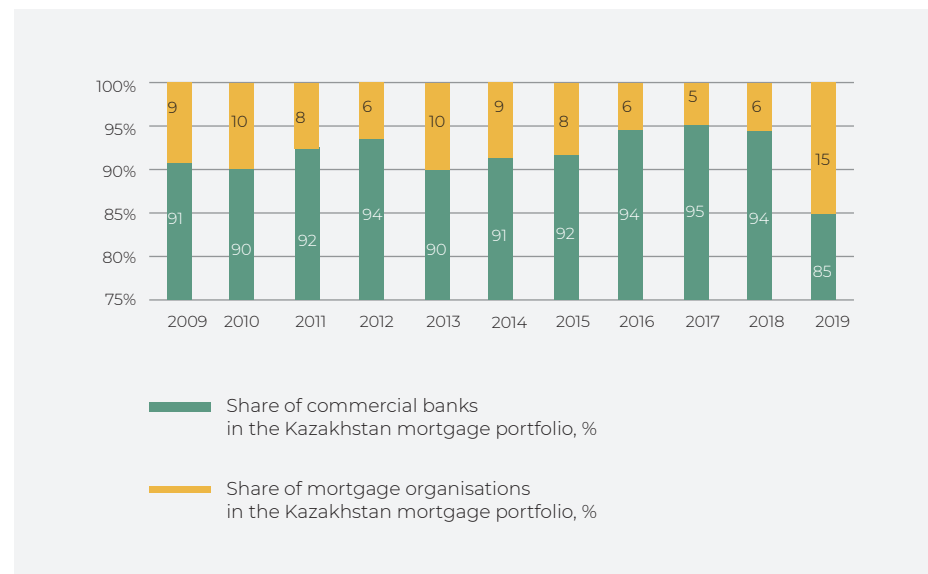
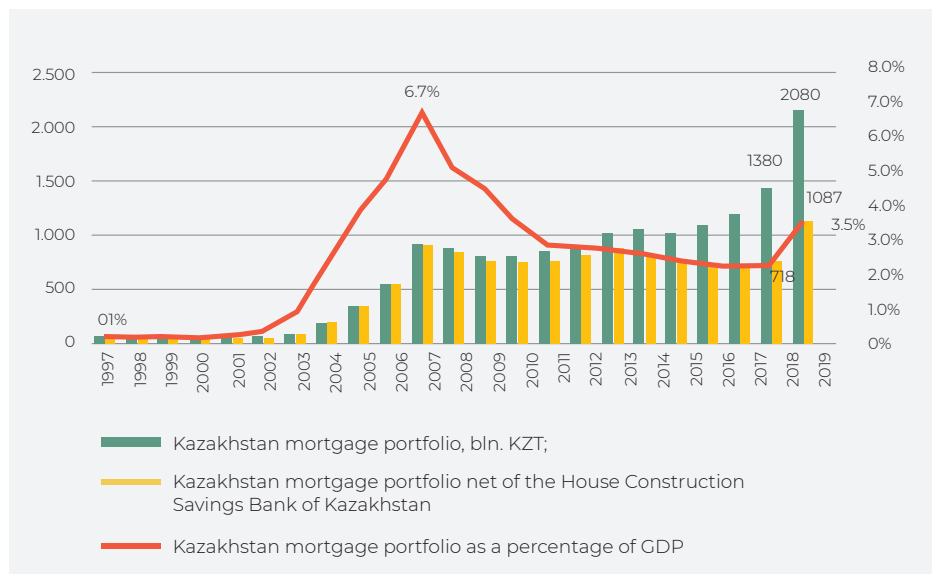
### Selling price for secondary housing in December 2019, thous. KZT/m<sup>2</sup>



The average selling price for secondary housing in December 2019 was 200.4 thous. KZT/m<sup>2</sup>.

# Sector Statistics, 2019

Source: Kazakhstan National Bank



## Kazakhstan mortgage portfolio

The Kazakhstan mortgage portfolio includes commercial bank mortgage portfolios and mortgage organisation mortgage portfolios. As at 1 January 2020, Kazakhstan's total mortgage portfolio amounted to 2,080 bln. KZT, of which:

- commercial bank mortgage portfolios amounted to 1,767 bln. KZT<sup>4</sup>
- mortgage organisation mortgage portfolios amounted to 312.6 bln. KZT<sup>5</sup>

The Kazakhstan mortgage portfolio grew 51% year-on-year. At the end of the year, mortgages accounted for 3.5% of GDP.

## Ratio of commercial bank to mortgage organisation mortgage portfolios

The mortgage organisation share in the mortgage portfolio has been growing. Commercial banks account for 85% of the total mortgage portfolio and mortgage organisations - 15%.

<sup>4</sup> Mortgage lending to individuals by region as at 1 January 2020 // <https://nationalbank.kz/>

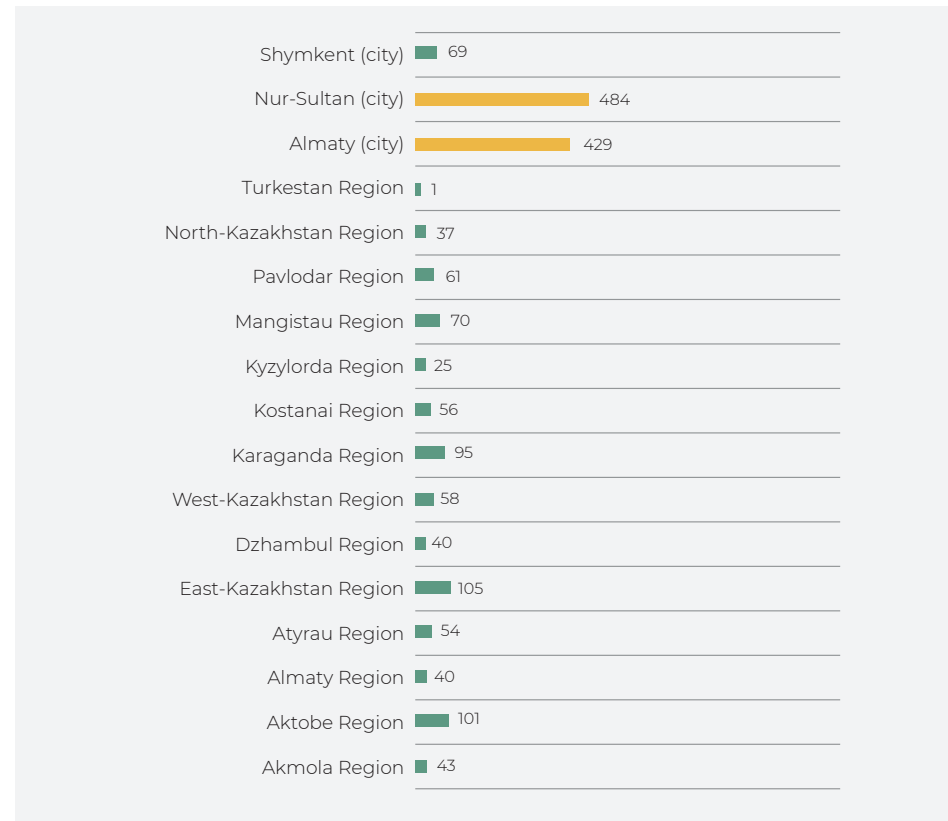
<sup>5</sup> According to the "Details on the structure and quality of mortgage organisation loan portfolios as at 1 January 2020" report, provided on the Kazakhstan National Bank website (<https://nationalbank.kz/>), mortgages in mortgage organisation loan portfolios amounted to 312.6 bln KZT as at 25 January 2020

### Changes in commercial bank mortgage lending to individuals in 2009-2019



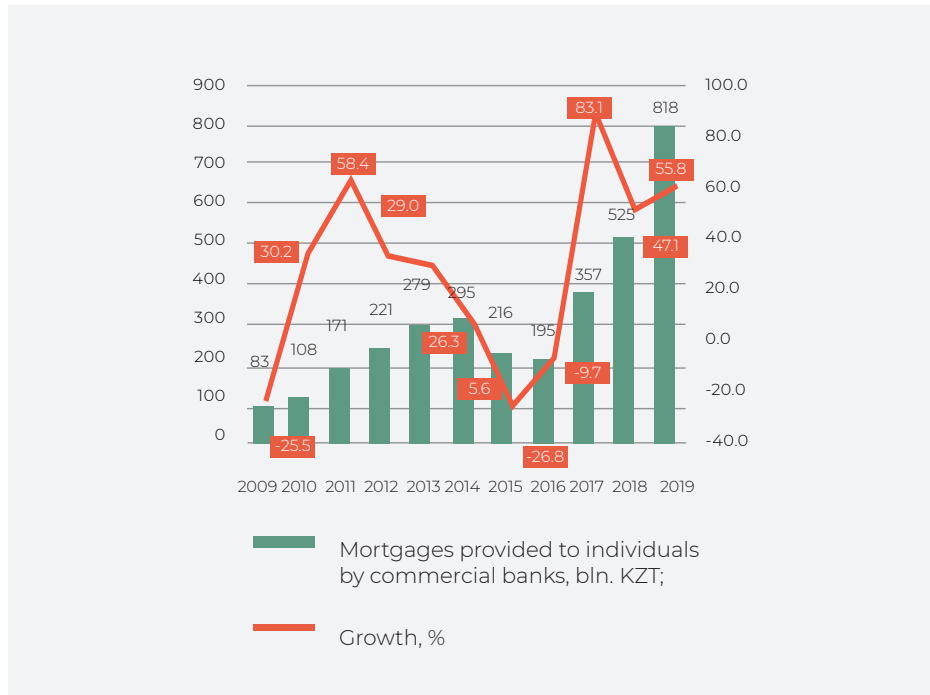
In 2019, commercial bank mortgage lending to individuals grew year-on-year by 35.6% to 1,767 bln. KZT. In the last decade, commercial bank mortgage lending has more than doubled in volume.

### Commercial bank mortgage portfolios by region, bln. KZT



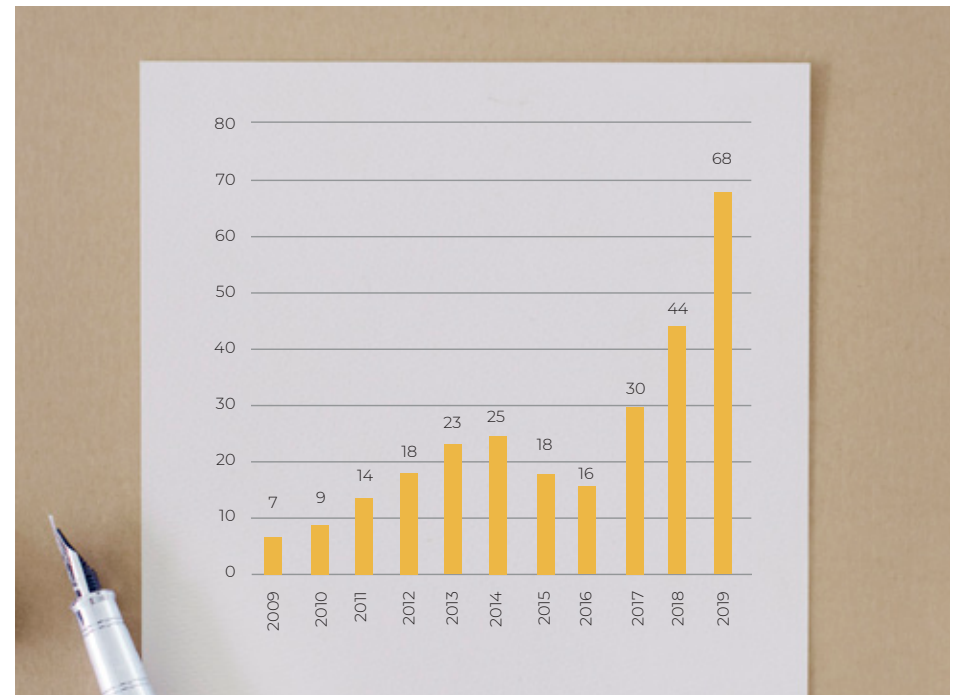
Nur-Sultan and Almaty account for 52% of the total commercial bank mortgage portfolio

### Changes in mortgages provided by commercial banks



In 2019, mortgages provided to the public amounted to 818 bln. KZT, which is a 56% increase on the previous year. In the last decade, the volume of mortgages provided by commercial banks increased practically ten-fold.

### Changes in average monthly mortgages provided by commercial banks



The average monthly value of mortgages provided in 2019 was 68 bln. KZT, which is a 150% increase year-on-year.

According to First Credit Bureau LLP, 75 thous. mortgage agreements were concluded in 2018, with an average value of 7 mln. KZT. In 2019, a total of 98.3 thous. mortgages were provided<sup>6</sup>. Accordingly, the average mortgage value in 2019 was 8.3 mln. KZT.

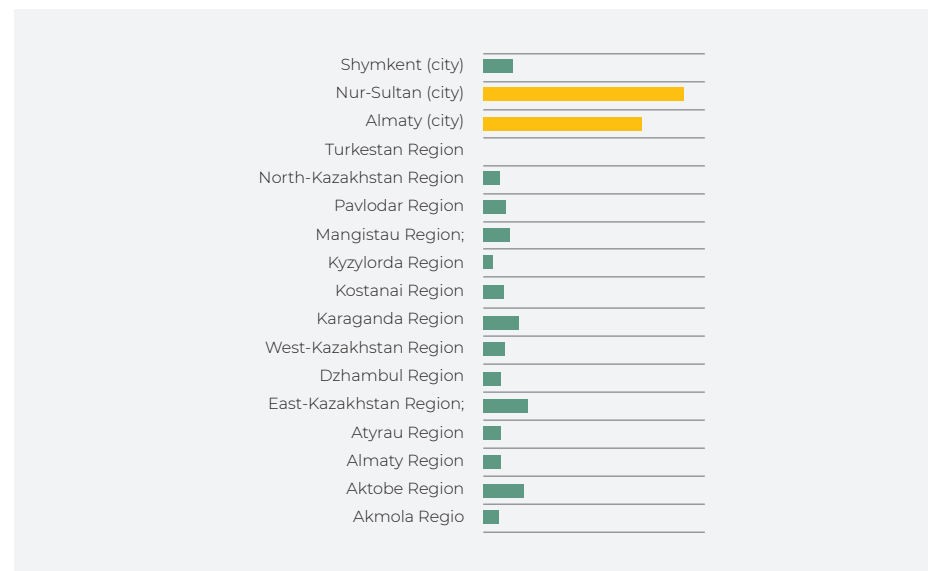
### Share of mortgages provided in the total mortgage portfolio



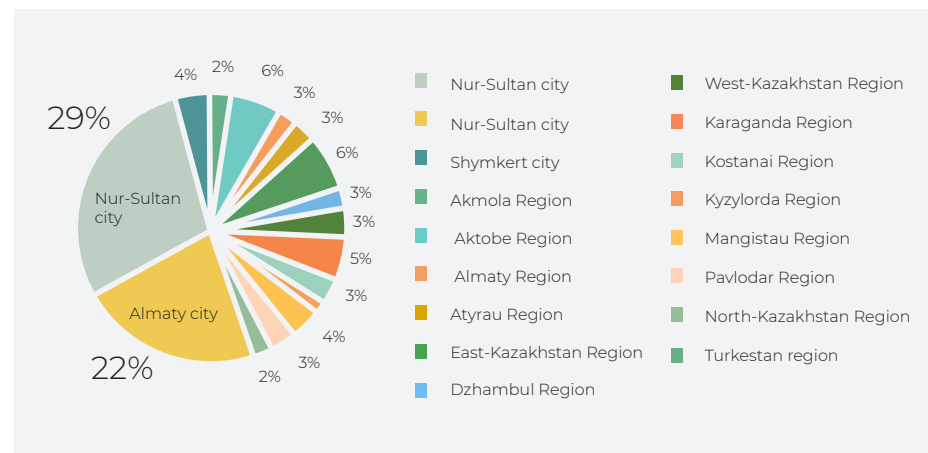
The share of mortgages provided in 2019 in the total commercial bankmortgage portfolio has grown to 46%.

<sup>6</sup> [https://forbes.kz//stats/bolee\\_80\\_ekonomicheski\\_aktivnyih\\_kazahstantsev\\_imeyut\\_kredityj/](https://forbes.kz//stats/bolee_80_ekonomicheski_aktivnyih_kazahstantsev_imeyut_kredityj/)

### Mortgages provided by commercial banks to individuals (bln. KZT) and regional shares in total mortgages provided in 2019 (%)

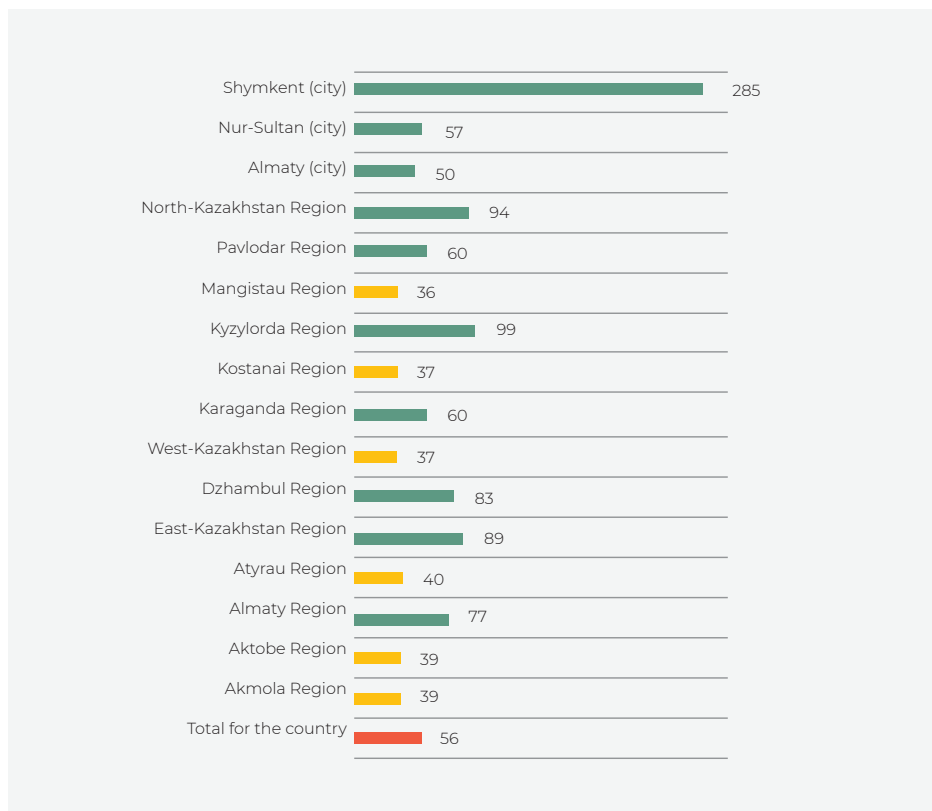


Nur-Sultan and Almaty account for 51% of all mortgages provided.





### Increase in mortgages provided in 2018-2019, by region, %



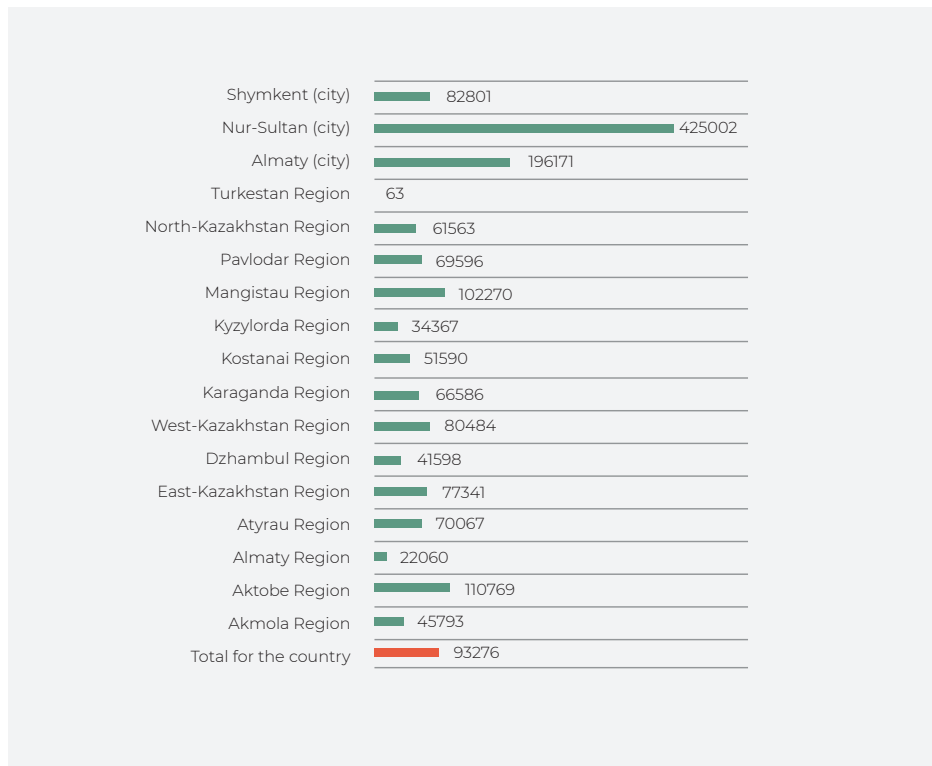
Eleven regions recorded a greater than 50% increase in loans provided in 2018-2019. These were the cities of Shymkent, Nur-Sultan and Almaty, and North-Kazakhstan, Pavlodar, Kyzylorda, Kostanai, Karaganda, Dzhambul, East-Kazakhstan and Almaty Regions. For all other regions, the growth in mortgages provided varied between 36% and 40%. In Shymkent, mortgage provision quadrupled.

### Share of mortgages in loans provided by commercial banks



Mortgages accounted for 5% of all loans provided by commercial banks in 2019. By region, mortgages accounted for between 2% and 20% of loans provided. In Nur-Sultan, the share of mortgages in total loans provided grew from 6.8% in 2015 to 20.4% in 2019, which is the highest in the country. The high percentage of mortgages in loans provided is evidence of the high demand for and popularity of mortgages across the country.

### Total mortgages provided per employed person in Kazakhstan in 2019, KZT



The value of mortgages provided per employed person averaged 93,276 KZT, which is a 55% growth year-on-year from 2018. The highest debt figures are seen in Nur-Sultan (425 thous. KZT per employed person) and Almaty (city) (196.2 thous. KZT per employed person).

### Weighted average interest rate on bank loans provided to individuals to build and purchase housing, %



In 2019, the average mortgage interest rate was 8%, which is 1.3% lower than in 2018.





**03**

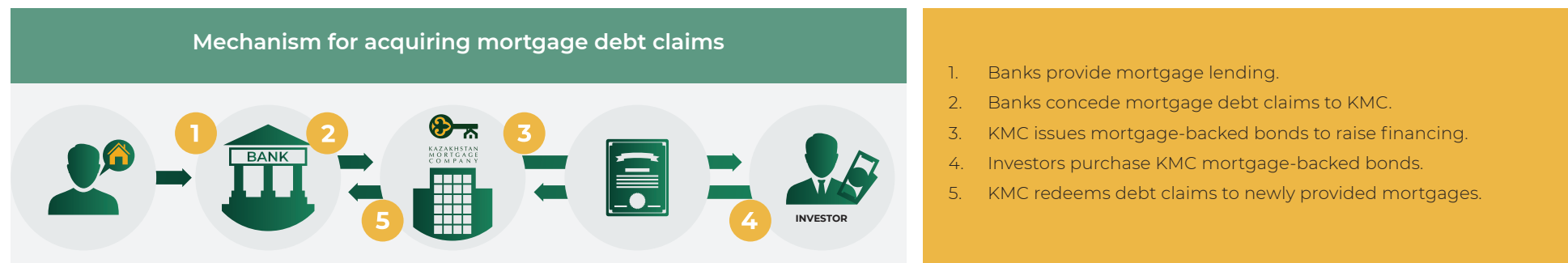
Progress of the  
Implementation of the  
Company's Development  
Strategy

**As we noted earlier, the Company focuses its operations on:**

- 1 Acquiring mortgage debt claims from commercial banks and issuing mortgage-backed securities;
- 2 Realising the Nurly Zher Programme to provide “rent-to-own” housing;
- 3 Partially subsidising interest on mortgages provided by commercial banks within the framework of the Nurly Zher Programme;
- 4 Making mortgages available to the public through agents;
- 5 Refinancing mortgages.



## Acquiring mortgage debt claims from commercial banks and issuing mortgage-backed securities



In 2019, the Company acquired debt claims to 3,005 mortgages worth 23.746 bln. KZT. The total value of redeemed mortgages since 2001 is 224.4 bln. KZT.

CHANGES IN REDEEMED MORTGAGE DEBT CLAIMS AS AT THE END OF THE YEAR, BLN. KZT



The total loan portfolio and mortgage-backed securities purchased as at 1 January 2020 amounted to 72.7 bln. KZT, of which the mortgage portfolio portion was 62.7 bln. KZT.



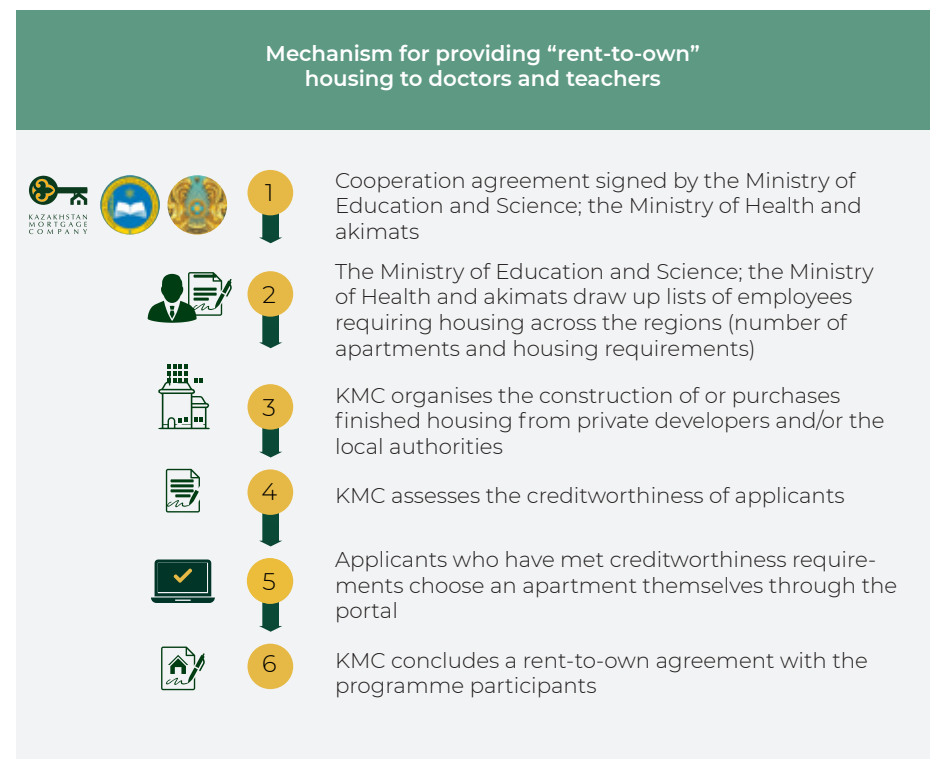
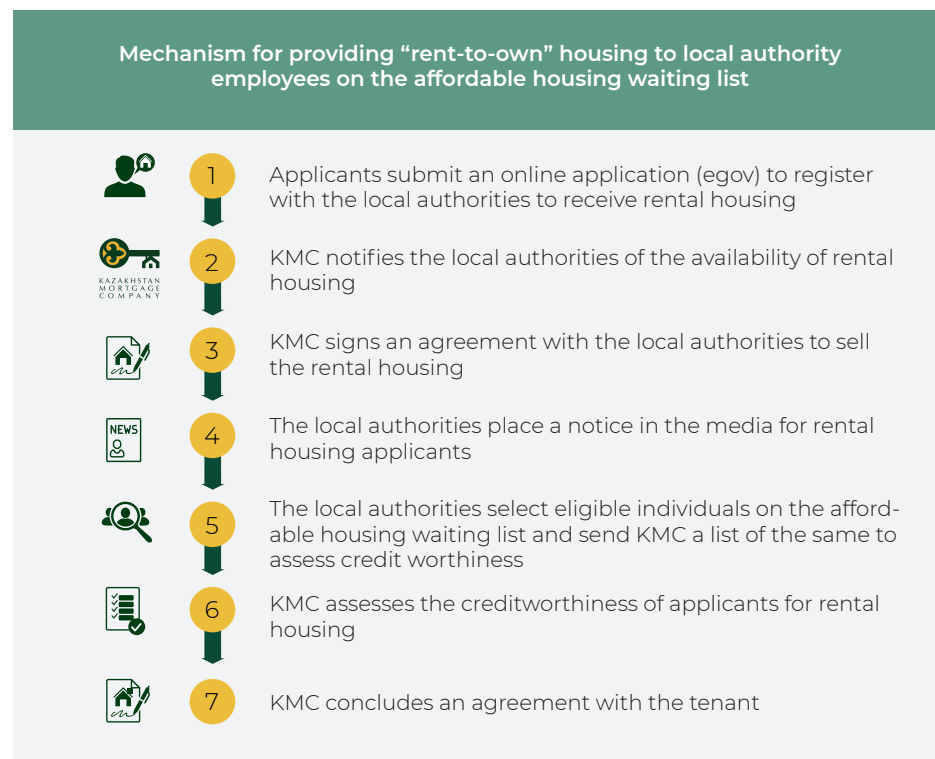
## Realising the Nurly Zher Programme to provide “rent-to-own” housing

At the start of 2014, the Company began actively building, purchasing and selling “rent-to-own” housing within the framework of the Nurly Zher Programme.

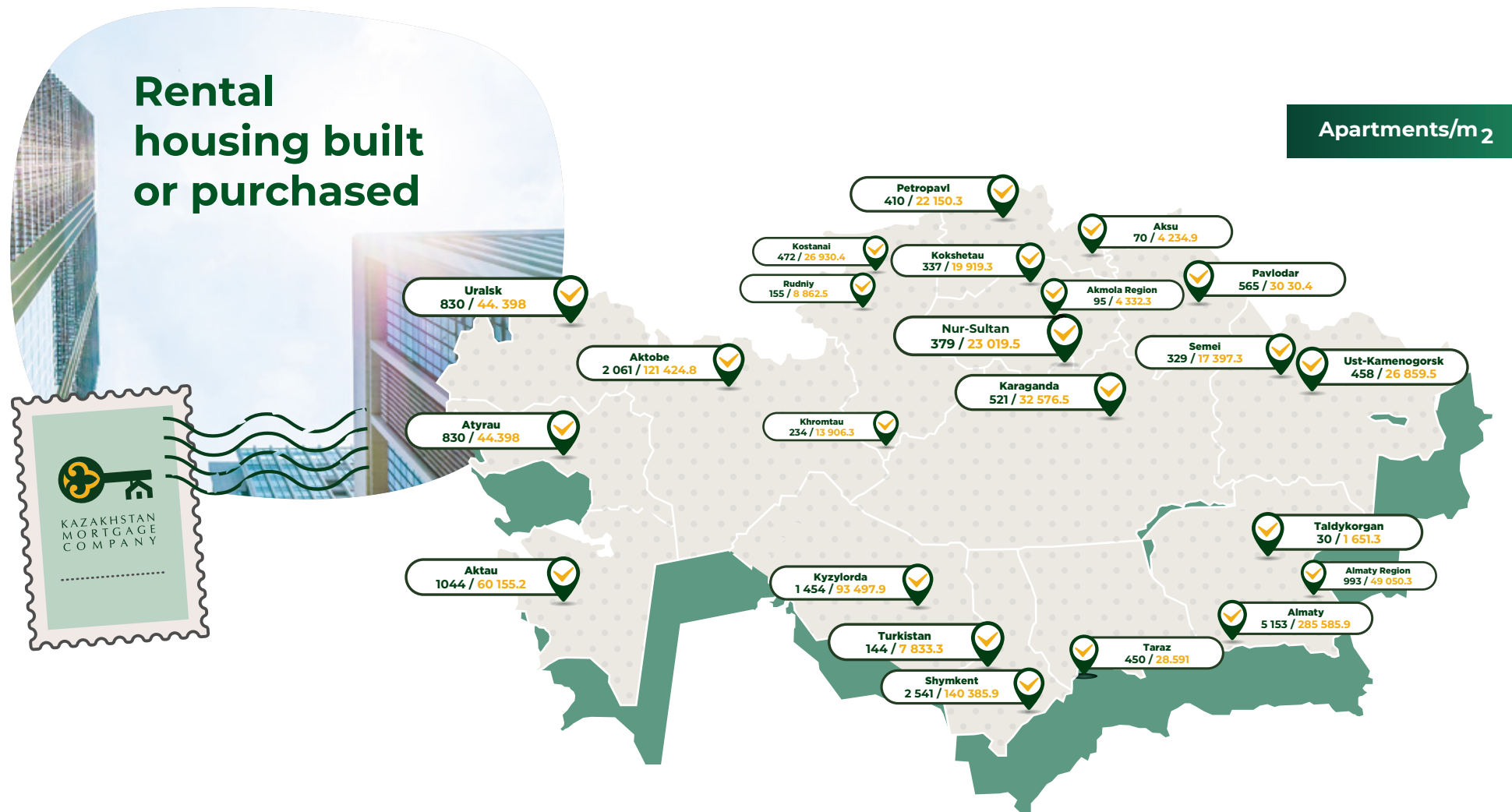
The sale of rental housing is recognised as a socially significant segment of the Company's business as it focuses on making housing available to local authority employees on the affordable housing waiting list, by renting it to them for up to

20 years and offering them the subsequent option to buy it.

Financing of 163.3 bln. KZT was required to launch the initiative, including cheap loans from the Kazakhstan National Fund (115 bln. KZT) and the national budget (19.1 bln. KZT), and by increasing Company share capital by 29.2 bln. KZT within the framework of the Affordable Housing-2020 Programme.



In 2019, the Company concluded agreements with the Ministry of Health and the Ministry of Education and Science, and with the Mangistau, Kostanai and Karaganda Region Akimats to provide “rent-to-own” housing to health and education workers, and also concluded an agreement with the Aktobe City Akimat to provide “rent-to-own” housing to employees of the Aktobe Akimat and its related organisations.

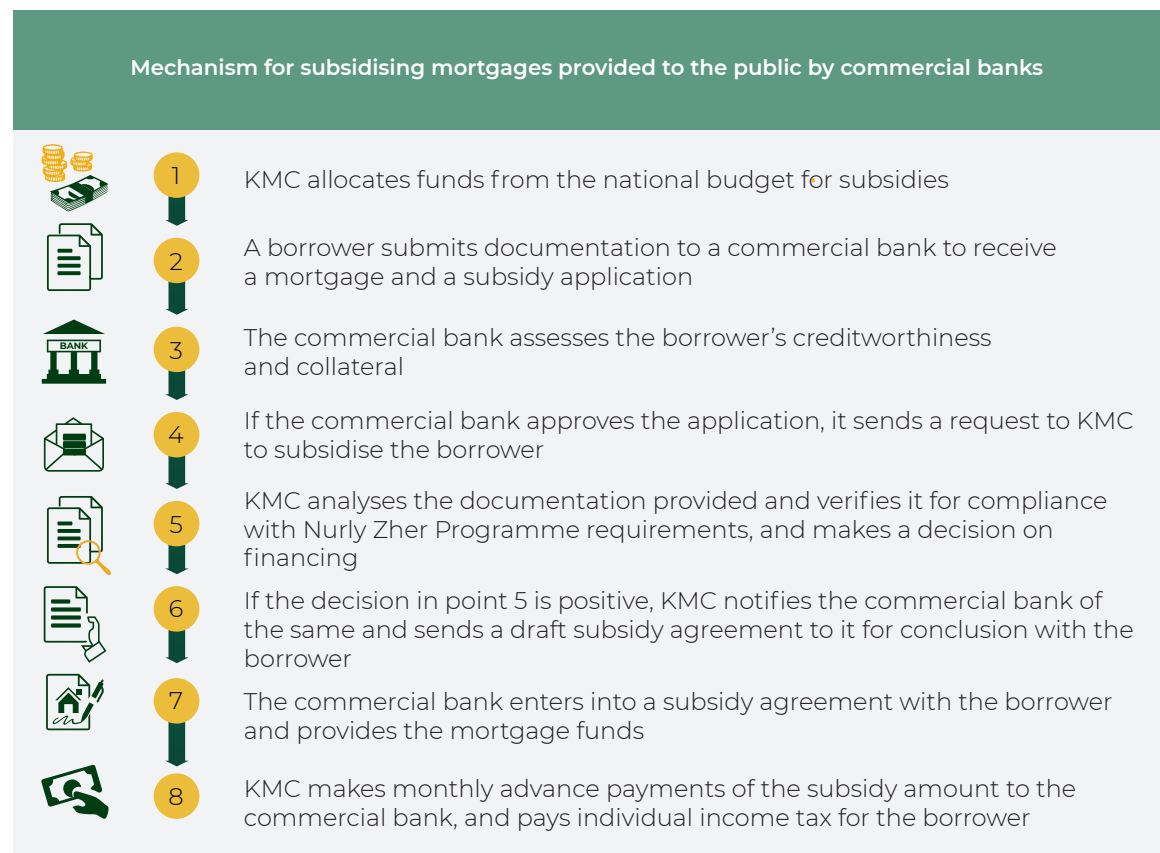


In 2019, the Company purchased 12.3 thous. m<sup>2</sup> of rental housing or 217 apartments. Since it launched the programme, as at 1 January 2020, the Company has purchased/built a total of 1,067 thous. m<sup>2</sup> of rental housing or 18,800 apartments.

The programme covers over 20 Kazakhstan cities, including Nur-Sultan, Almaty, Shymkent, Aktobe, Kyzylorda, Aktau, Uralsk, Kostanai, Petropavlovsk, Karaganda, Pavlodar, Semei, Ust-Kamenogorsk, Taraz and others. Rental agreements have been signed with 18,482 families.

## Partially subsidising interest on mortgages

Under the Nurlı Zher Programme<sup>7</sup>, the Company has identified a financial agent to subsidise a part of mortgage interest.



Since launching the initiative in 2017, KMC has received 3,673 applications for a total of 38.395 bln. KZT, of which 3,566 were approved for a total of 37.206 bln. KZT.

KMC has concluded 3,473 subsidy agreements for a total of 36.242 bln. KZT.

The following seven banks have participated in the programme:

- ATF Bank JSC,
- Bank CenterCredit JSC,
- Zhilstroisberbank Kazakhstan JSC,
- Nurbank JSC, Tsesnabank JSC,
- SB Sberbank JSC
- SO Bank VTB JSC.

The approval of the 7-20-25 Programme<sup>8</sup> led to the initiative being suspended. However, the Company continues to work on obligations in relation to agreements already in place.



<sup>7</sup> Resolution of the Kazakhstan Government No. 922 dated 31 December 2016 On the Approval of the Nurlı Zher Housing Construction Programme

<sup>8</sup> Resolution of the Management Board of the Kazakhstan National Bank No. 107 dated 31 May 2018

On the Approval of the 7-20-25 Mortgage Lending Programme. New Opportunities to Purchase Housing for Every Family.

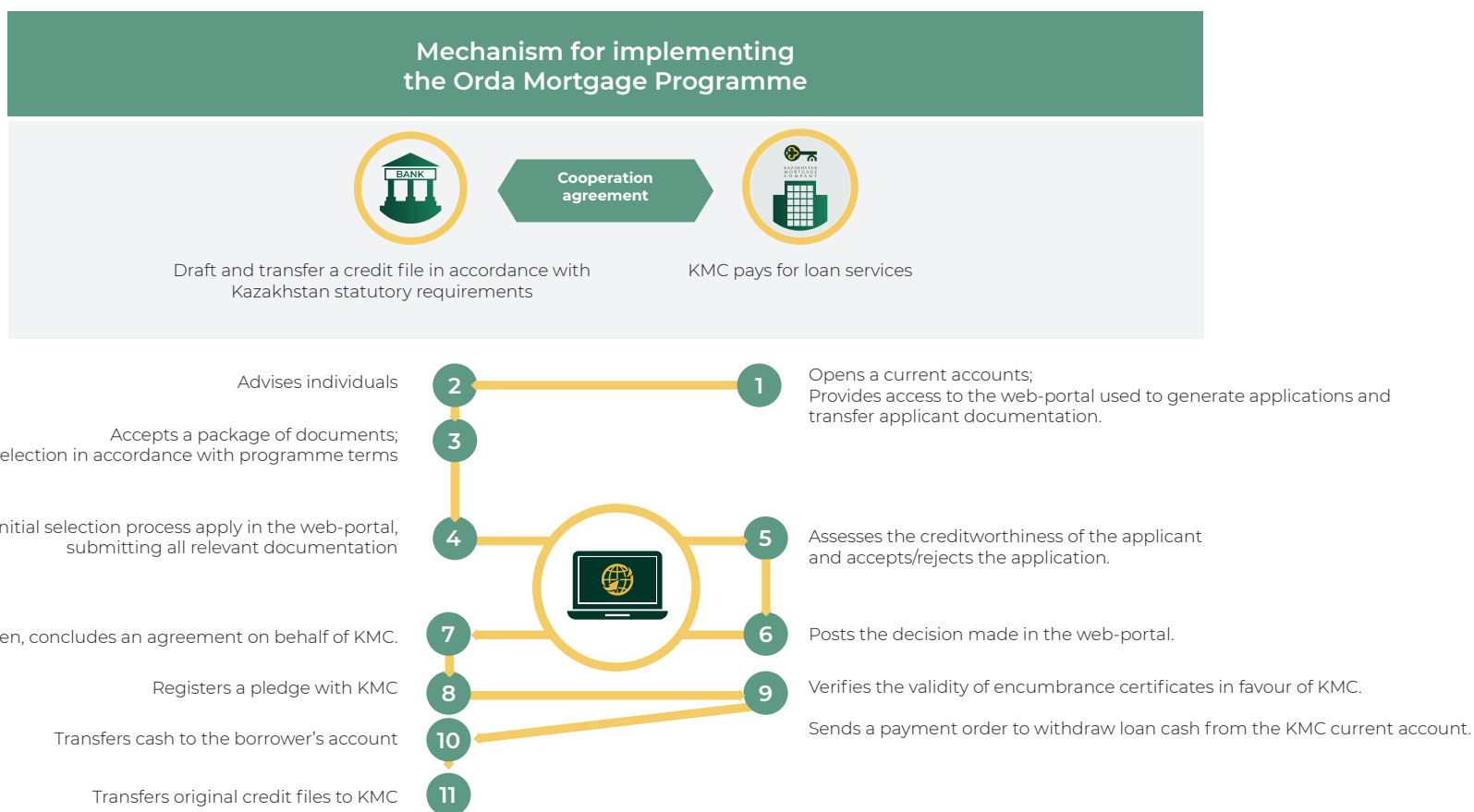
## Making mortgages available to the public through agents

To help develop mortgage lending and expand its own mortgage portfolio, the Company launched its Orda Mortgage Programme in October 2018.

The Orda Mortgage Programme focuses on improving housing conditions for individuals with average or higher income levels and wishing to purchase housing (primary or secondary) in a higher comfort class (cost in excess of 25 mln. KZT) at lower than market interest rates, and who have cash savings or the opportunity to provide a hard pledge as initial collateral.

portunity to provide a hard pledge as initial collateral.

The programme implementation mechanism has helped commercial banks speed up the mortgage process. In addition, the Company has made a proposal to commercial banks that they improve the mortgage debt claim assignment process and re-register liens by issuing loans on its behalf.

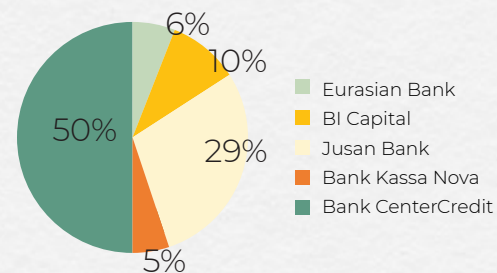


## Mortgages provided under the Orda Mortgage Programme

To implement the Orda Mortgage Programme, KMC signed cooperation agreements with Tsesnabank JSC, Bank CenterCredit JSC, Bank Kassa Nova JSC, Eurasian Bank JSC and Bi Capital LLP.

KMC provided 768 mortgages worth 9.602 bln. KZT in 2019 under the Orda Mortgage Programme. Since it was launched, the Orda Mortgage Programme has provided 828 loans worth 10.3 bln. KZT.

	Loans provided, quantity	Loan value, bln. KZT
2018	60	0,7
2019	768	9,6
<b>TOTAL</b>	<b>828</b>	<b>10,3</b>





## Refinancing Mortgages

To implement the Mortgage Refinancing Programme, as at 1 January 2020,

KMC had refinanced:

- in tenge - 153 mortgages worth 717.7 mln. KZT;

- in foreign currency (USD) - 182 mortgages worth 492.4 mln. KZT.

### Number of mortgages refinanced in foreign currency by financial organisations

Fortebank	1968
ATF Bank	1645
Halyk Bank Kazakhstan	1578
Bank CenterCredit	848
Bank Kassa Nova	622
SB Sberbank Russia	275
<b>MO "Kazakhstan Mortgage Company"</b>	<b>182</b>
First Heartland Jysan Bank	92
Bank RBK	90
Eurasian Bank	62
Nurbank	43
AsiaCredit Bank	30
Kaspi Bank	26
Astana Ipoteka	17
SB KZI Bank	11
SB Alfa Bank	10
Bank VTB (Kazakhstan)	4
Altyn Bank (SB China Citi Bank Corporation Limited)	2

### Value of mortgages financed in foreign currency by financial organisation, mln. KZT

Fortebank	18931.5
ATF Bank	13916.9
Halyk Bank Kazakhstan	15569
Bank CenterCredit	6614.8
Bank Kassa Nova	3384.4
SB Sberbank Russia	3696.5
<b>MO "Kazakhstan Mortgage Company"</b>	<b>492.4</b>
First Heartland Jysan Bank	425.5
Bank RBK	969.8
Eurasian Bank	331.0
Nurbank	139.9
AsiaCredit Bank	222.4
Kaspi Bank	338.8
Astana Ipoteka	135.3
SB KZI Bank	191.5
SB Alfa Bank	113.5
Bank VTB (Kazakhstan)	8.6
Altyn Bank (SB China Citi Bank Corporation Limited)	43.7

Source: <https://nationalbank.kz/?docid=1552&switch=russian>

## Strategic KPIs: Current Performance

No.	KPI	Plan (2019)	Actual (2019)	% fulfilled
<b>Objective 1. Stimulate development of the housing mortgage market and mortgage-backed securities</b>				
1	Subsidised mortgages to purchase housing (bln. KZT)	36,24	36,24	100
2	Number of subsidised mortgages to purchase new housing (units)	3473	3473	100
3	Debt claims acquired / mortgage-backed securities purchased (bln. KZT)	10,15	23,7	234
4	Loan (mortgage) portfolio* and mortgage-backed securities purchased (bln. KZT)	70,94	72,66	103
5	Private sector share of the loan portfolio (%)	100	100	100
6	Investment attracted (bln. KZT)	21,08	11,19	53
<b>Objective 2. Achieve KPIs pertaining to KMC-related state programmes</b>				
7	Housing for which support measures have been provided (since), (thous. m <sup>2</sup> )	1149	1067	93
8	Rental portfolio*, bln. KZT	150,1	142,3	95
9	Housing occupancy rate, %	100	100	100
<b>Objective 3. Improve KMC performance</b>				
10	ROA, %	1,91	3,18	166
11	Share of loan and investment portfolios in total assets, %	79	77	97
12	Share of non-state borrowing sources in total borrowing for the reporting year, %	100	100	100
13	Productivity, mln. KZT/person	75,58	83,59	111
*- book value				

A teal envelope with a wax seal is partially open, revealing a white sheet of paper. The wax seal is circular and features a decorative, embossed design. The envelope is resting on a dark wooden surface, and a piece of brown paper is visible underneath it. A brass fastener is also visible on the right side of the envelope.

**04** | Company Position  
on the Mortgage  
Lending Market



Company Position on the Mortgage Lending Market

Even though mortgages account for a small share of GDP (3.5%), the mortgage lending market in Kazakhstan is growing, primarily thanks to state housing sector support. In 2019, the mortgage lending market grew 51% year-on-year.

KMC's mortgage portfolio has been growing on the back of mortgage market growth, both in relation to mortgage debt claims acquired and loans provided by agents under the Orda Mortgage Programme:

- **THE COMPANY'S MORTGAGE PORTFOLIO GREW 45.5% IN 2019**, while its share in Kazakhstan's total mortgage portfolio remained at 3%, which demonstrates the stability of its position in a dynamically growing market.

- **THE MORTGAGES PROVIDED UNDER THE ORDA MORTGAGE PROGRAMME** have given the Company a 1.2% share of all mortgages provided in Kazakhstan in 2019, and which is 1.03% higher than in 2018. At the same time it is worth pointing out that no bank offering mortgages under its own market programme accounts for more than 1% of new mortgages. As at 1 January 2020, 12 commercial banks were offering market mortgages in Kazakhstan, of which 9 were offering their own mortgage products and were part of the 7-20-25 and Baspana Hit Programmes, and three banks did not have their own mortgage programmes, but were also part of the 7-20-25 and Baspana Hit Programmes. At the end of 2019, commercial banks accounted for 8% of own programmes (except for mortgages provided under the 7-20-25, Baspana Hit and Zhilstroisberbank JSC loans). The conclusion we can make from this is that the Orda Mortgage Programme is popular among those not eligible for state support and stimulation programmes.



	2018	2019	CHANGE
KMC mortgage portfolio, bln. KZT	43,1	62,7	Growth (45.5%)
KMC share in the total Kazakhstan mortgage portfolio, %	3	3	Market position maintained
Average monthly value of mortgages provided under the Orda Mortgage Programme, mln. KZT	333,3	800,2	Growth (2.4 fold)
Share of Orda Mortgage Programme mortgages in all loans provided by commercial banks	0,13	1,2	Growth (1,07 %)





05 | operating results

## Operating Results

As at 1 January 2020, Company assets constituted 273 bln. KZT, liabilities - 204 bln. KZT, equity - 69 bln. KZT and profit – 8.6 bln. KZT.

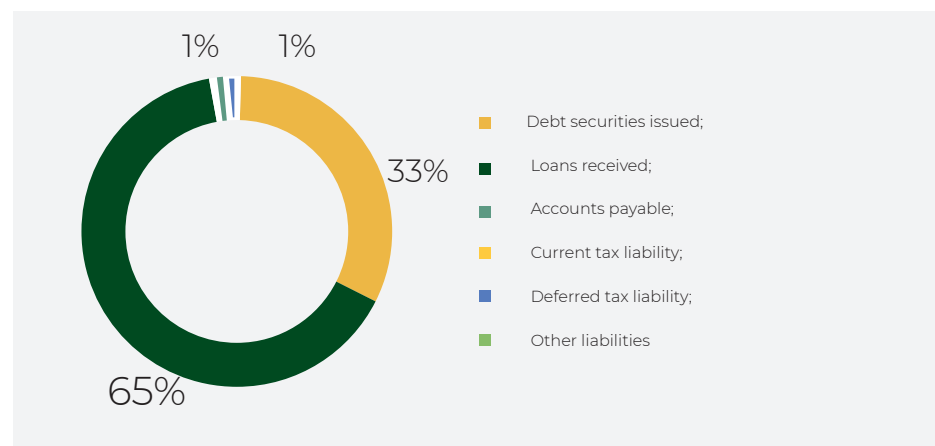
Finance lease (rental portfolio) accounts receivable accounted for 53% of assets, loans provided to clients (mortgage portfolio) - 23%, cash and cash equivalents - 12% and investment securities - 8%.

Loans from the Ministry of Finance and the Baiterek Holding (65%) and Company securities issued (33%) make up the largest share of liabilities. Accounts payable (1%) and other liabilities in the form of tax contributions (1%) are responsible for smaller shares.

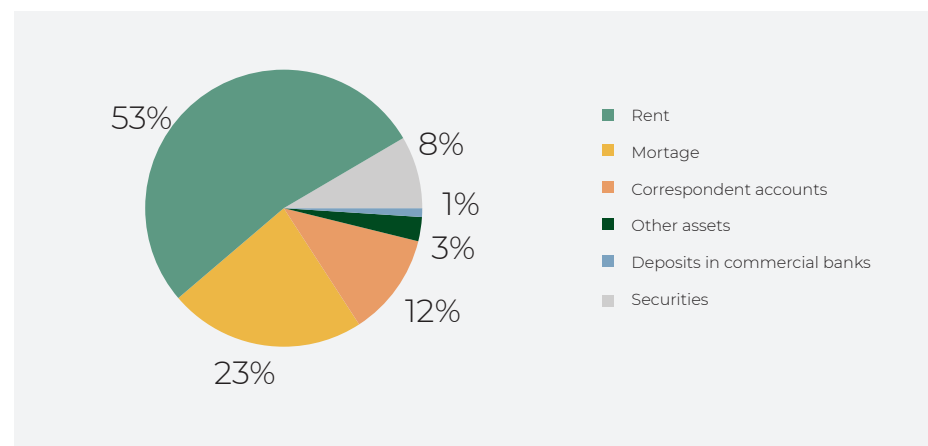
Company total income in 2019 was 21.9 bln. KZT, expenses – 13.3 bln. KZT and net income – 8.6 bln. KZT. Finance lease (40%) and mortgage portfolio income (28%) generated the majority of income. Interest (60%), operating costs (25%) and CIT (10%) made up the majority of expenses.



## Liability structure



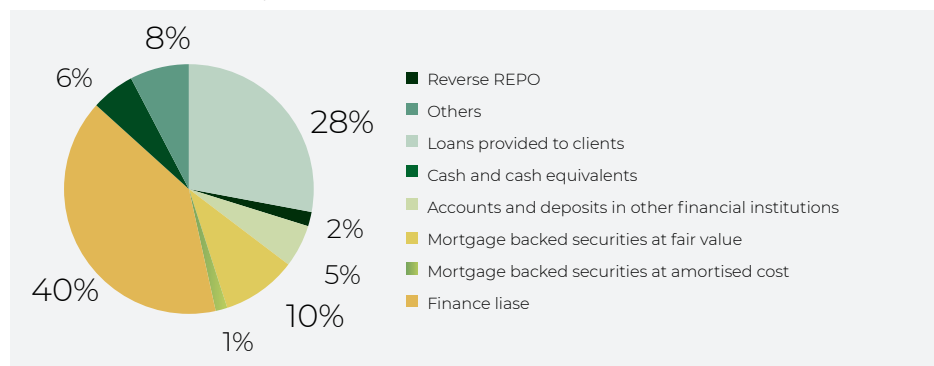
## Asset structure



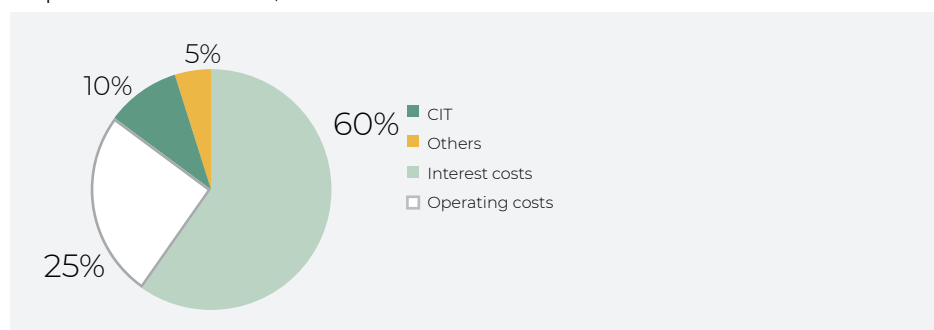




Income structure, %



Expense structure, %

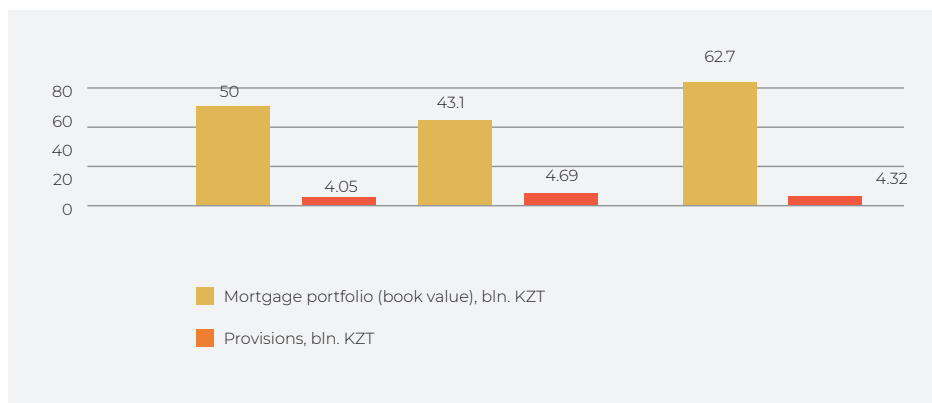


## Key Financial Figures

No.	FINANCIAL INDICATORS	2017	2018	2019
1	EDITDA, bln. KZT	10,5	12,8	18,2
2	EBITDA margin, %	85,2	92,6	118,6
3	NI margin, %	21,3	24,6	39,3
4	Equity / Debt capital, %	32,7	30,9	34,7
5	ROA, %	1,46	1,78	3,18
6	ROE, %	6,73	7,65	13,12
7	Net income, bln. KZT	3,6	4,6	8,6
8	Operating margin, %	29,6	35,7	71,9
9	Weighted average temporarily available cash, %	9,56	11,48	9,31
10	Total expenses / Income from core activities, %	20,1	21,6	22,1
11	Debt / Equity, %	3,26	3,32	2,95
12	Debt / EBITDA, %	18,23	16,11	11,16
13	Loan portfolio provisions, %	2,5	2,85	2,47
14	Net interest margin, %	4,86	3,69	4,08
15	Company spread, %	3,56	2,25	3,22
16	Coverage (IC), %	1,9	1,68	2,23
17	Working capital ratio, %	4,02	16,07	17,33

## Company Mortgage Portfolio

At the end of 2019, the Company's mortgage portfolio (book value) amounted to 62.7 bln. KZT. At the same time, 4.32 bln. KZT of mortgage portfolio provisions were created.



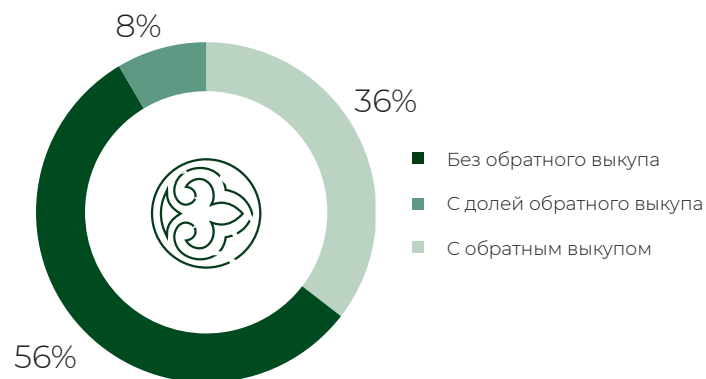
The Company works with 12 partners to acquire mortgage debt claims, including banks and organisations performing specific banking operations.

The Company services 51.2% of the portfolio itself. The remainder is under partner trust management.

## Company mortgage portfolio by trust manager

BANK PARTNER	GROSS BOOK VALUE, MLN. KZT	NO. OF LOANS	SHARE IN MORTGAGE PORTFOLIO, %
<b>KMC</b>	34 324,13	5 817	51,2%
Bank CenterCredit	18 757,56	2 973	28,0%
Tengri Bank	3 374,53	420	5,0%
Eurasian Bank	3 340,99	1 508	5,0%
ATF Bank	2 745,47	1 000	4,1%
Forte Bank	2 191,65	1 414	3,3%
Halyk Bank Kazakhstan	1 064,47	681	1,6%
Mortgage Organisation "Express Finance"	714,36	26	1,1%
Tsesnabank	209,84	137	0,3%
KASPI BANK	99,98	83	0,1%
ARIO	87,13	11	0,1%
SB Sberbank	46,14	33	0,1%
Nurbank	25,33	16	0,04%
<b>Total</b>	<b>66 981,59</b>	<b>14 119</b>	<b>100%</b>





Mortgages without buyback obligations account for 56% of the mortgage portfolio.

Mortgages with buyback obligations account for 36% of the mortgage portfolio (predominantly represented by mortgages provided within the framework of the State Programme for the Development of Housing Construction in the Republic of Kazakhstan for 2005-2007, and loans from Bank CenterCredit JSC and Tengri Bank JSC).

Mortgages with buyback elements account for 8% of the mortgage portfolio. According to the agreements in place, for some of the banks the buyback element accounts for up to 20% of the total balance of mortgage principal.



## Company Rental Portfolio

The Company rents housing in accordance with the Nurly Zher Programme and its own programme by concluding 20-year rent-to-own agreements. Maximum monthly rental payments under the Nurly Zher Programme in Almaty and Nur-Sultan were 1,120 KZT per m<sup>2</sup>, and 924 KZT per m<sup>2</sup> in all other regions. Nominal interest on the Company's own programme is 11.5% and 13%.

As at 1 January 2020, the book value of the Company's rental portfolio is 143.8 bln. KZT of which the Nurly Zher Programme accounts for 142.3 bln. KZT and its own programme – 1.5 bln. KZT. The average weighted rental portfolio rate was 3.19% per annum, including 3.1% for the Nurly Zher Programme and 11.1% for the Company's own programme.

### Rental portfolio by region

REGION	RENTAL PORTFOLIO SHARE (%)
Almaty (city)	37,0%
Nur-Sultan (city)	3,2%
Akmola Region	1,9%
Aktobe Region	12,3%
Almaty Region	0,5%
Atyrau Region	0,4%
East-Kazakhstan Region	3,7%
Dzhambul Region	2,4%
West-Kazakhstan Region	3,8%
Karaganda Region	2,0%
Kostanai Region	3,0%
Kyzylorda Region	7,2%
Mangistau Region	5,3%
Pavlodar Region	2,7%
North-Kazakhstan Region	1,8%
South-Kazakhstan Region	12,7%

## Company's Major Rental Housing Facilities



**Facility:**

Algas-1 Microdistrict, Almaty  
Total area: 86,349.2 m<sup>2</sup>  
No. of apartments: 1,748

Commissioning date: 21 December 2016



**Facility:**

Asyl-Arman estate, Irgeli village, Karasai District, Almaty Region  
Total area: 37,247.9 m<sup>2</sup>  
No. of apartments: 708

Commissioning date: 2 March 2015



**Facility:**

Zhas Kanat Microdistrict, Almaty  
Total area: 54,656.5 m<sup>2</sup>  
No. of apartments: 954

Commissioning date:  
31 August 2017 and 5 September 2017



**Facility:**

Asar Microdistrict, Shymkent  
Total area: 29,580 m<sup>2</sup>  
No. of apartments: 522

Commissioning date:  
14 September 2016, 19 September 2016  
and 20 September 2016



**Facility:**

Nursat Microdistrict, Shymkent  
Total area: 56,201.4 m<sup>2</sup>  
No. of apartments: 1,080

Commissioning date: 19 June 2015



**Facility:**

Koktem Microdistrict, Zachagansk vil-  
lage, Uralsk  
Total area: 25,166.5 m<sup>2</sup>  
No. of apartments: 500

Commissioning date: 21 December 2016



**Facility:**

Kargaly estate, Kargaly, Aktobe  
Total area: 22,511.5 m<sup>2</sup>  
No. of apartments: 468

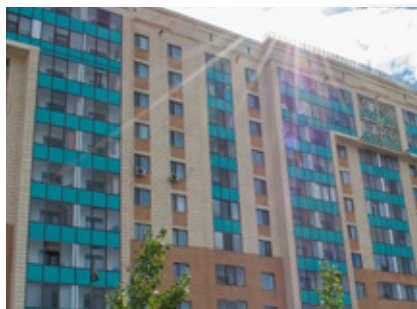
Commissioning date: 8 June 2018



**Facility:**

Kyzylorda  
Total area: 18,307.1 m<sup>2</sup>  
No. of apartments: 270

Commissioning date: 12 May 2016



**Facility:**

Yesil District, Nur-Sultan  
Total area: 7,620.1 m<sup>2</sup>  
No. of apartments: 86

Commissioning date: 6 March 2015



**Facility:**

Atshabar Microdistrict, Taraz  
Total area: 15,810.1 m<sup>2</sup>  
No. of apartments: 210

Commissioning date:  
4 July 2015, 22 September 2015  
and 28 October 2015



**Facility:**

Gorky Street, Kokshetau  
Total area: 19,919.3 m<sup>2</sup>  
No. of apartments: 337

Commissioning date:  
25 June 2015 and 26 June 2015



**Facility:**

Area 160, Turkestan  
Total area: 7,833.3 m<sup>2</sup>  
No. of apartments: 144

Commissioning date: 29 December 2016



## Company Securities Portfolio

The Company's securities portfolio consists of state (MEUKAM and Kazakhstan National Bank Notes) and non-state (bank bonds and bonds of other companies) securities. The current securities portfolio value as at 1 January 2020 was 22.6 bln. KZT (inclusive of interest).

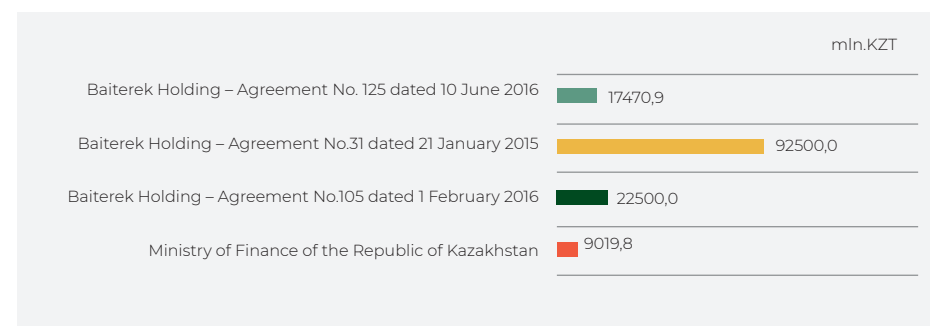
INDEX	CURRENT VALUE, KZT	COUPON, %	NUMBER OF SECURITIES	PURCHASE COST, KZT
State debt treasury liabilities MEUKAM (Kazakhstan Ministry of Finance)	1 492 056 574,97	5,55	1 429 400	1 867 864 150,74
Notes of the Kazakhstan National Bank	7 444 547 161,75	-	75 000 000	7 446 300 000,00
Fincraft Resources JSC coupon bonds	933 589 420,49	7,30	11 936 306	1 074 999 951,73
Bank CenterCredit JSC subordinated coupon bonds	10 611 174 313,21	12,00	100 000 000	10 163 207 300,00
Bank CenterCredit JSC secured coupon bonds	370 417 266,95	10,00	4 000 000	368 266 444,44
Eurasian Bank JSC subordinated coupon bonds	634 027 235,47	6,40	7 860 800	1 000 020 930,28
Eurasian Bank JSC coupon bonds	1 151 674 814,37	6,40	13 634 200	1 415 709 276,26
Special Financial Company DSFK LLP coupon bonds	231,37	0,01	208 231 805	208 231 805
<b>TOTAL</b>	<b>22 637 487 018,58</b>		<b>1 123 487 511,00*</b>	<b>23 544 599 858,45</b>

\* - including securities whose book value is 0

## Company Loans

As at 1 January 2020, Company loans amounted to 141.5 bln. KZT, including:

- a government loan from the Ministry of Finance (to reduce the costs incurred when issuing bonds to acquire debt claims on mortgage provided by commercial banks and that meet borrower requirements) - 9 bln. KZT;
- a long-term loan from Baiterek Holding to build and purchase housing for subsequent rent) - 132.5 bln. KZT.



### Loan interest repaid in 2019:

— on 21 January 2019, the Company paid interest on a long-term loan from Baiterek Holding of 58,968,750.00 KZT;

— on 25 January 2019, the Company paid interest on a long-term loan from Baiterek Holding of 14,343,750.00 KZT;

— on 10 June 2019, the Company paid interest on a long-term loan from Baiterek Holding of 22,275,422.98 KZT;

— on 22 July 2019, the Company paid interest on a long-term loan from Baiterek Holding of 58,968,750.00 KZT;

— on 25 July 2019, the Company paid interest on a long-term loan from Baiterek Holding of 14,343,750.00 KZT;

— on 24 December 2019, the Company paid interest on a government loan of 9,019,821.17 KZT.

## Company Securities

### Bond issues.

In 2019, the Company raised 593.9 mln. KZT on KASE by listing 20-year bonds KZ2C00004356 (KZIKb28) at 2.99% per annum within the framework of the Kazakhstan National Bank Programme to Refinance Mortgages, and 10.8 bln. KZT by listing bonds KZ2C00003333 (KZIKb27) at 10.27% per annum. A total of 11.3 bln. KZT was raised.

### Bond interest paid in 2019:

— on 4 January 2019, the Company paid interest and repaid the principal on the 9th bond issue ISIN KZ2C00000180 of 10,500,000,000.00 KZT;

— on 6 February 2019, the Company paid interest on the 13th bond issue ISIN KZ2C00002160 of 425,000,000.00 KZT;

— on 16 April 2019, the Company paid coupon interest on securities ISIN KZ2C00001741 of 227,745,000.00 KZT;

— on 28 June 2019, the Company paid coupon interest on securities ISIN KZ2C00003333 of 1,018,500,000.00 KZT;

— on 28 June 2019, the Company paid coupon interest on securities KZX000000054 of 958,000,000.00 KZT;

— on 6 August 2019, the Company paid interest on the 13th bond issue ISIN KZ2C00002160 of 425,000,000.00 KZT;

— on 21 September 2019, the Company paid coupon interest on the 16th bond issue ISIN KZ2C00004356 of 4,439,112.10 KZT;

— on 14 October 2019, the Company paid coupon interest on securities ISIN KZ2C00001741 of 227,745,000.00 KZT;

— on 24 December 2019, the Company paid coupon interest on the 16th bond issue ISIN KZ2C00004356 of 4,439,112.10 KZT;

— on 27 December 2019, the Company paid coupon interest on securities ISIN KZ2C00003333 of 1,575,000,000.00 KZT;

— on 27 December 2019, the Company paid coupon interest on securities KZX000000054 of 958,000,000.00 KZT.





06 | Sustainable Company  
Development



In February 2019, the Company approved the Mortgage Organisation “Kazakhstan Mortgage Company” JSC Sustainable Development Policy<sup>9</sup> and in June 2019, developed and approved a sustainable development action plan<sup>10</sup>

**Sustainable Company** development is the aggregate of the principles and obligations the Company follows in its operations to:

- 1) manage relations between interested parties;
- 2) assess and manage its impact on the national economy, social sphere and ecology.

The Company ensures consistency in its economic, ecological and social objectives for long-term sustainable development.

MORTGAGE ORGANISATION “KAZAKHSTAN MORTGAGE COMPANY” JSC SUSTAINABLE DEVELOPMENT		
Economic component	Social component	Ecological component
1.non-lossmaking operations; 2.safeguard shareholder and investor interests; 3.enhance process performance; 4.increase investment in the creation and development of modern technology; 5.improve work performance.	1.ensure transparent tender procedures and equal hiring opportunities; 2.guarantee fair remuneration and employee rights; 3.ensure workplace health and safety; 4.provide employee training and professional development; 5.implement internal and external social programmes.	1.minimise the negative impact on the environment; 2.optimise the use of limited resources; 3.make use of environmentally friendly, energy and material saving technology

<sup>9</sup> Resolution of the KMC Board of Directors No. 2 dated 28 February 2019

<sup>10</sup> Resolution of the KMC Management Board dated 13 June 2019

## Company sustainable development objectives:

- integrate the principles of sustainable development in Company operations;
- analyse operations and manage risks in the three sustainable development components;
- improve sustainable development management by organising system-based operations;
- create a mechanism for the Company to interact effectively with interested parties, including by regularly reporting on sustainable development activity results.





## Principles of Sustainable Development

The Company is governed by the sustainable development principles set forth in its Corporate Governance Code, such as openness, accountability, transparency, ethical behaviour, the safeguarding of the interests of interested parties, legality, the protection of human rights, an intolerance of corruption and the avoidance of conflicts of interests.

Furthermore, the Company declares its commitment to the principles of the United Nations Global Compact:

- **in the protection of human rights.** The Company safeguards and respects core international human rights and ensures its non-involvement in violating human rights.
- **in workplace relations.** The company supports and acknowledges the right to enter into collective agreements and the freedom of collective bargaining, and works towards the eradication of forced and child labour, and workplace discrimination.
- **in environmental protection.** The Company supports a prudent and cautious approach to ecological issues, adopts initiatives to promote a responsible attitude towards the state of the environment, and facilitates the development and popularisation of environmentally safe technology.
- **in fighting corruption.** The Company declares its intolerance for all forms and manifestations of corruption and other illegal activities, including extortion and bribery, and takes all necessary measures to prevent such things from happening.

## Interaction with stakeholders

To ensure its sustainable development policy is successful, the Company places great emphasis on interaction with related parties and has identified three interested party groups in terms of its area of influence: authority and responsibility, direct influence and indirect influence.

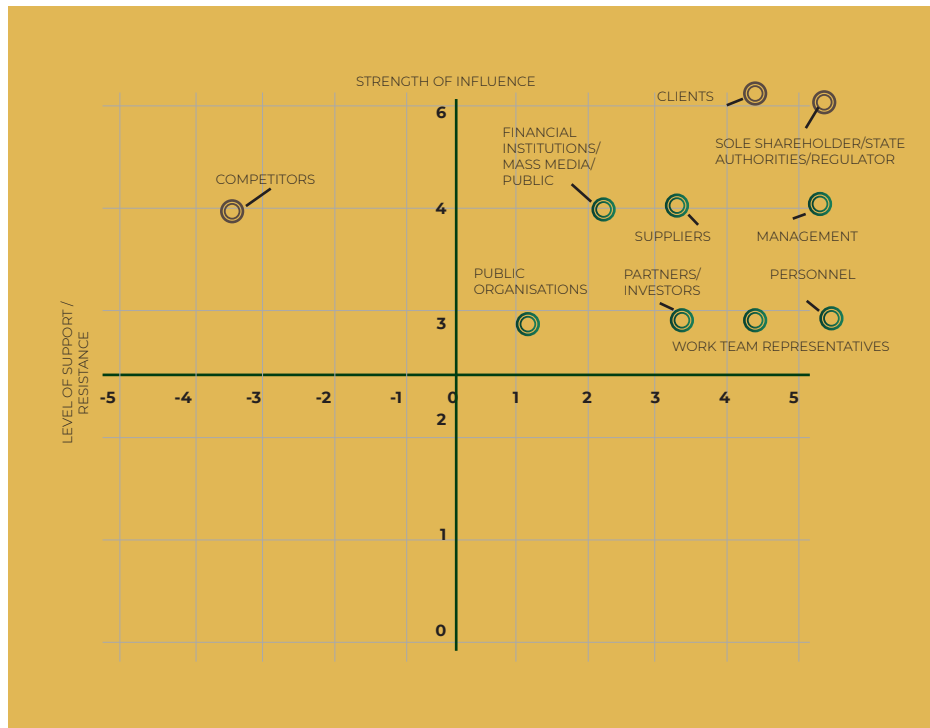
- **Area of authority/responsibility:** the Sole Shareholder, regulatory body, management and personnel.
- **Area of direct influence:** clients, the state authorities, Baiterek Holding, investors, financial institutions, suppliers, partners, consumers, auditors and consulting organisations.
- **Area of indirect influence:** the public, public organisations, the mass media and competitors.





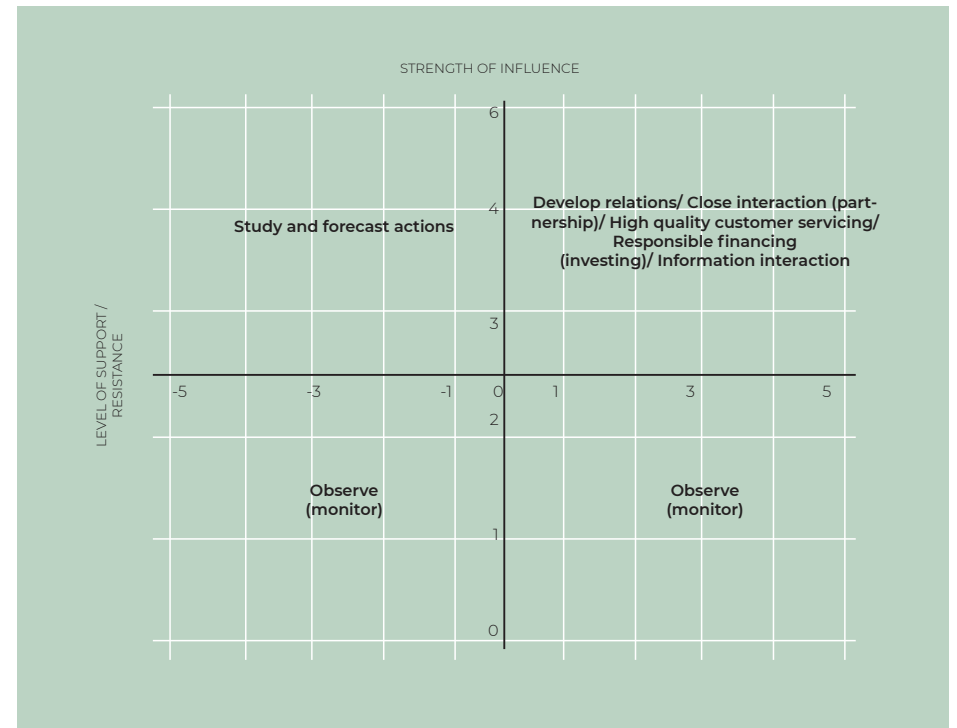
# Strategy for interacting with interested parties

## Stakeholder chart



To assess the value of interested parties, the Company ranges the interested parties according to two factors: level of stakeholder support/resistance (scale of “-5” (strong resistance) to “+5” (strong support)), its impact on the Company (scale of “1” (low impact) to “5” (strong influence)).

## Interaction strategy



The Company assesses the value of interested parties to identify areas of interaction with them, based on operating specifics.

The Company interacts mainly with interested parties through joint programmes and projects; memorandums of cooperation; joint working groups; operating reports; meetings; conferences and interviews.

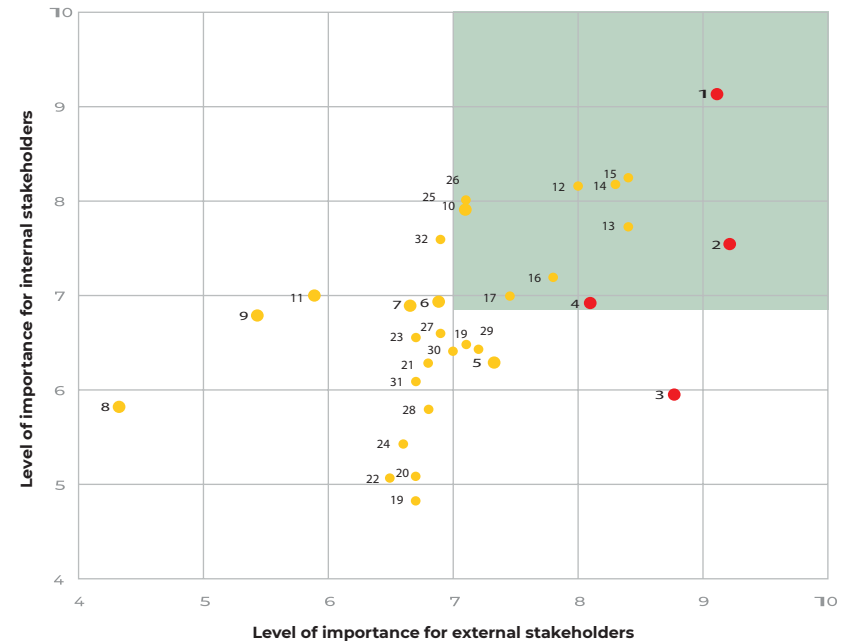
The main areas of interaction with interested parties include strategic planning; financial operations; project management; the supply of goods, work or services; law making; operating activities and mass media relations.

The Company's process for interacting with interested parties is based on the principle of involvement, which implies taking into account the interests of all parties at all operational management stages and involving interested parties in discussing valuable topics and important issues, potential risks and limits of responsibility.

In turn, involvement is achieved if the following three principles are observed:

- **Materiality.** The Company clearly identifies its interested parties and recognises which of their interests are material. Annual questionnaires are sent to stakeholders to determine the most significant issues. They are then used to create a materiality matrix.
- **Completeness.** In its activities, the Company focuses on interested party concerns to understand their views, needs and expected operating results, as well as their opinion on important issues.
- **Reaction.** The Company reacts consistently to all significant issues raised by interested parties.

### Materiality Matrix, 2019



High importance area

#### Aspects (topics) recognised as important

- |   |                                       |
|---|---------------------------------------|
| 1. Economic performance                 | 16. Diversity and equal opportunities |
| 2. Market presence                      | 4. Procurement practices              |
| 15. Readiness for training              | 17. Non-discrimination                |
| 13. Management and employee interaction | 10. Product and service compliance    |
| 12. Level of occupation                 | 26. State policy                      |
| 14. Workplace health and safety         |                                       |

## Forms of interaction with interested parties

To manage relations with interested parties, the Company focuses its activities on:

1. respecting and considering the interests of all interested parties;
2. striving to actively notify target audiences of its activities;
3. ensuring the objectivity, accuracy, independence and high level of data transparency with respect to the implementation of state programmes, individual internal procedures (procurements, competitive hiring among external candidates, and the provision of financial and non-financial services), and using financial tools;
4. ensuring open and productive cooperation with all interested parties;
5. executing obligations to interested parties;
6. receiving regular feedback from interested parties.



COMPANY	<ol style="list-style-type: none"> <li>1. The Company provides accurate information on the results of its financial and operation activities in accordance with the requirements of Kazakhstan law, its articles of association and international documentation;</li> <li>2. The Company ensures that the Sole Shareholder can exercise its rights within the framework of corporate governance principles to ensure key decisions are taken efficiently;</li> <li>3. The Company provides additional information on its plans, performance and challenges, as well as data obtained from research performed by other organisations on Company activities, except for confidential information obtained from other organisations under non-disclosure and/or confidentiality contracts and/or agreements.</li> <li>4. The Company participates in international credit ratings.</li> </ol>	SHAREHOLDER AND STATE
	<ol style="list-style-type: none"> <li>1. The Company provides an adequate degree of disclosure of relevant information about its financial condition, dividend policies, credit history and development prospects;</li> <li>2. Financial and management statements are made in good time in accordance with legal and regulatory requirements. Financial statements are audited by an independent auditor;</li> <li>3. Information on the role of the Sole Shareholder and other interested parties (national and local executive authorities), control procedures and transaction approval procedures with interested parties is public, transparent and available;</li> <li>4. The Company proactively communicates its approaches to making investment and strategic decisions;</li> <li>5. The Company diligently performs its contractual obligations to its business partners;</li> <li>6. The Company ensures information transparency, openness, equality, fairness, non-discrimination and avoids unreasonable limitation of competition in strict compliance with Kazakhstan law;</li> <li>7. The Company adheres to the principles of corporate governance and to improving its corporate governance system in accordance with best international practices.</li> </ol>	INVESTORS AND PARTIES
	<ol style="list-style-type: none"> <li>1. Company services are made available to customers;</li> <li>2. The Company ensures the security of customer data and commercial information, safeguarding them from leaks and misuse;</li> <li>3. The Company provides services of the same quality and makes the same level of service available to all customer groups without discrimination;</li> <li>4. The Company facilitates the improvement of service quality, constantly striving for higher customer service standards;</li> <li>5. The Company regularly informs customers about new instruments and operating principles;</li> <li>6. The Company helps improve public and customer financial literacy to the best of its abilities and in understandable formats.</li> </ol>	CLIENTS / CONSUMERS
	<ol style="list-style-type: none"> <li>1. The Company guarantees an open and transparent personnel policy focusing on forming qualified and motivated staff;</li> <li>2. The Company provides equal opportunities to all employees to realise their potential with the Company and makes unbiased and fair evaluations of their performance;</li> <li>3. The Company ensures that employees are hired and promoted based exclusively on their professional capacities, knowledge and skills;</li> <li>4. The Company ensures efficient employee communication and interaction through corporate information sources and communication channels, including a corporate intranet, through regular surveys of employee opinions and close consideration of their suggestions, and through workgroups</li> </ol>	COMPANY EMPLOYEES
	<ol style="list-style-type: none"> <li>1. The Company interacts efficiently and promptly with the public, including by organising regular meetings (roundtable discussions, briefings and conferences);</li> <li>2. The Company actively participates in the implementation of socially important projects;</li> <li>3. The Company provides prompt and full responses to inquiries from individuals and companies;</li> <li>4. The Company provides aid to disadvantaged groups in society and underprivileged citizens to help revive national values, support culture, science and education.</li> </ol>	PUBLIC

## Company Sustainable Development Activities

### Assisting sustainable development

The Company, as an effective financial operator, implements state policy to make housing in Kazakhstan affordable through mortgage lending and providing rental housing.

The Company, following the Yellow pages rule, is not responsible for functions that are already sufficiently well covered in the private sector.

The Company works to attract investment and popularise financial instruments both in Kazakhstan and overseas, realising the importance of disclosing non-financial information for investors.

The Company expects that its partners will:

1. make use of an ecological (environmental) risk management system to highlight and assess actual and potential impact on the environment and society; identify and subsequently implement the corresponding measures for managing and controlling ecological risks;
2. make use of a human resources and employee health management system that is based on respect for employee rights, including the freedom of association and the right to enter into collective agreements. The system should also guarantee a fair attitude to employees, create safe and healthy working conditions for them, prevent and warn of unfavourable health effects;
3. make use of a fair corporate governance system that is based on the principles of fairness, honesty, responsibility, transparency, professionalism and competency. Fair corporate governance assumes respect for the rights and interests of all parties interested in the Company's activities and aids its successful activities, including growth in market value, support for financial stability and profitability.

### Management of its own environmental impact

Due to the nature of its activities, the Company does not have a direct significant impact on the environment. The main resources used by the Company are electricity, thermal energy and water.

The Company makes sure it uses resources rationally, allowing it to prevent any unfavourable impact on the environment.

In its activities, the Company strives to reduce the overconsumption of resources and minimise its negative ecological impact by introducing energy-effective technology, reducing water consumption and office paper use through the implementation of an electronic document flow process and two-side printing.

In its project portfolio the Company expresses a preference for projects that meet sustainable development objectives and have a significant impact on the country's socio-economic development, including projects that promote:

- the openness, safety, durability and environmental sustainability of cities and populated areas;
- the diversification of the Kazakhstan economy.

The Company looks to apply best international practices in environmental protection and the social impact of financed projects and other activities.

All Company projects in the planning stage are assessed for their environmental impact in respect of their planned operating and other activities that may have a direct or indirect impact on the environment, irrespective of the organisational forms of the companies and individual entrepreneurs involved. By assessing the environmental impact of intended operating and other activities, the Company is able to adopt an environmentally-friendly management solution for them that involves identifying any possible unfavourable impact, assessing ecological consequences, considering public opinion and developing measures to reduce and prevent any impact.

If other international and domestic financial institutions are invited to co-finance projects, the Company follows the corresponding provisions of documentation furnished by those organisations, provided they exist.

The Company follows Kazakhstan construction standards and guidelines when implementing housing construction projects. The Company factors in environmental and social risks when adopting decisions related to housing construction projects, striving to minimise its negative impact on the environment and local communities.

No fines were recorded in 2019 for failure to observe Kazakhstan environmental law.

## Responsible work practices

The Company's employees are its most important assets and main resource; their professionalism and safety have a direct impact on the Company's performance.

The Company bases its employment relations with its employees on the principle of legality and compliance with generally recognised employment rights. The Company makes use of open and transparent means to attract professional candidates.

Employees are given constant training to develop professionalism and improve motivation.

The Company bases its training and professional development on:

- training subject matter and content meeting employee job description requirements, the results of performance reviews (key performance indicators) ("KPI"s), and employee goals and objectives;
- training focusing on the resolution of specific challenges guaranteeing Company performance, and the study of best corporate practices and standards;
- the systemic, applied and planned nature of training and professional development;
- involving as many Company employees as possible in training and professional development programmes.

Using certification results, the Company has created a candidate pool to further develop and promote professional staff. Reserve employees take special training programmes to develop personal and professional skills. KMC employees

have undergone selection and been included in an integrated reserve list of Baiterek Holding employees, which in 2019 included 15 Company employees.

Employee productivity is built up through fair and systematic assessments using KPIs, staff certification and motivation measures.

The Company has introduced a grading system to ensure fair and competitive remuneration.

The Company takes measures to ensure the workplace is organised correctly and strives to create safe working conditions that meet statutory requirements in Kazakhstan.

The Company documents and investigates all work health and safety incidents and problems to either mitigate or eradicate them.

The Company provides the required work health and safety training, which includes all relevant vocational training.

A collective agreement was signed on 13 October 2008 as part of the Company's social partnership obligations. Employee representatives were elected at a general meeting to record the opinion of all employees. KMC has also created a permanent conciliatory commission to consider individual employment disputes from an equal number of employer and employee representatives.

The Company has also introduced an effective internal communication system that guarantees information transparency and feedback (emails, internal information portal, conferences, business meetings, teambuilding exercises and many others).

## Responsible business practices

The Company highlights corruption risks, implements and maintains anti-corruption policies and practices.

Managers across the Company set a good example of anti-corruption behaviour for their people and also demonstrate a commitment to, as well as the motivation for and supervision of the implementation of anti-corruption policy.

The Company promotes the awareness of its officials, employees and partners of corruption issues and actions to combat them.



The Company provides regular training for all employees in how to combat corruption and tests them in their understanding of norms and practices as well as measures adopted by the Company.

The Company has feedback mechanisms in place whereby Company officials, employees and partners, as well as individuals and companies can provide details of possible corruption by Company officials or employees, or partner officials, employees or representatives. There were no declarations of Company employee corruption recorded in 2019.

Company officials and employees are responsible for adopting transparent, timely and adequate decisions that are free from conflicts of interest.

## Allocation of responsibility

---

The Company manages sustainable development as an integral part of its overall business management system.

The Company Management Board is responsible for creating an appropriate sustainable development management system and implementing it.

On 13 June 2019, the Company Management Board approved a sustainable development action plan, according to which in 2019, the Company:

- provided Company employees with training in “sustainable development”;
- formed a team of internal business trainers. Training seminar materials provided by internal business trainers are published on the Company’s internal portal;
- drafted a questionnaire for stakeholders to highlight significant aspects of Company sustainable development activities. The questionnaire was used to generate a reputation audit report and a matrix on important operating aspects for external and internal stakeholders;
- integrated provisions in model procurement agreements with suppliers on the parties’ commitment to protect human rights and not violate them in employment relations, and support an approach to environmental issues based on principles of prudence;
- to improve client service levels, developed client service standards, which entered into force from 1 January 2020<sup>11</sup>. The standards are binding for all Company employees serving clients;
- kept internal normative documents up to date. The Company updated existing internal normative documents, mostly due to the need to automate

business processes, allowing it to reduce the need for resources, improve operating efficiency and increase client satisfaction with Company services;

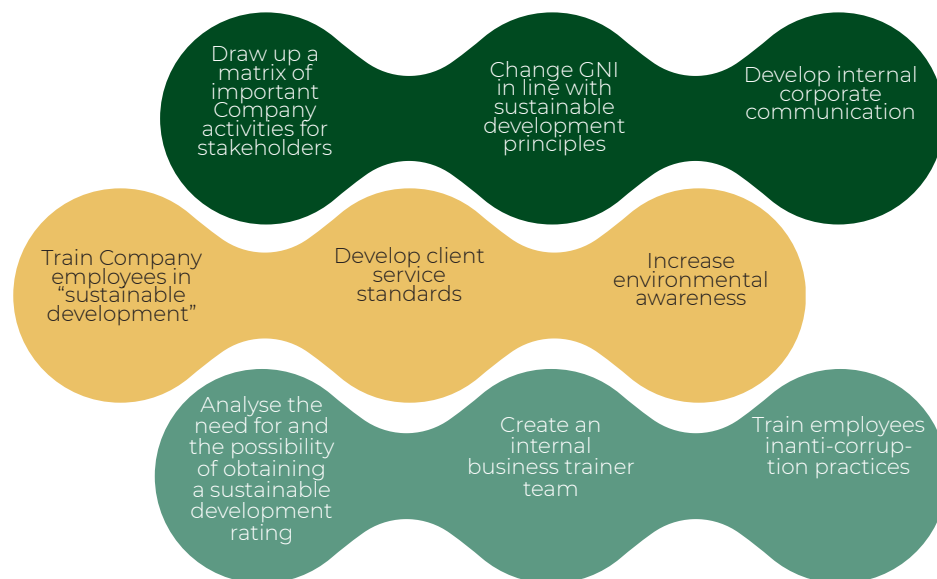
- regularly analyzed both internal and external factors impacting the Company to highlight and identify risks. Highlighted risks are subsequently classified and grouped as strategic risks, financial risks, legal risks and operating risks, after which their impact is assessed along with their probability. A risk register and risk management action plan is then drafted and maintained. No sustainable development risks were highlighted or identified in 2019.



---

<sup>11</sup> Approved by Management Board Order No. 113 dated 18 December 2019

## Sustainable development activities



## Integration of sustainable development principles into key processes

The Company integrates sustainable development principles into its development strategy and key processes, including planning, reporting, risk management, investment, operating activities and others, and in the decision-making process at all levels, starting from Company bodies (Sole Shareholder, Board of Directors and Management Board) and ending with staff employees.

## Disclosure of sustainable development information

The Company's sustainable development activities are open to the general public. They disclose the results of its sustainable development activities annually in the relevant section of the corporate Internet website and in its annual reports.

## Human Resources Management

### Human resources structure

Changes in average personnel headcount in the last three years			
Average personnel headcount, persons.	2017	2018	2019
	224	203	184
Human resources structure by gender and age (2019)			
	UP TO 30	30-50 YEARS OF AGE	OVER 50 YEARS OF AGE
Men	12	73	13
Women	12	70	4
Number of new employees joining the Company in 2017–2019			
	2017	2018	2019
Total number of new employees joining the Company in the reporting period	51	46	28
Staff turnover, %	25,4	14,8	7,61

Composition of management bodies in 2019						
	UP TO 30		30-50 YEARS OF AGE		OVER 50 YEARS OF AGE	
	MALE	FE-MALE	MALE	FE-MALE	MALE	FE-MALE
Board of Directors			5		1	
Management Board			2	1	1	
Staff training						
	2017	2018	2019			
Training costs, thous. KZT	7607	22371	19033			
Number of employees trained	216	238	260			
Training costs per employee*, thous. KZT	35	94	73			

\*of the number of employees trained

The Company trains and develops staff in three areas:

1. professional skills and competence;
2. statutory training in work, fire and environmental safety;
3. business skills and leadership qualities.

## Remuneration system

The Company has implemented a grade-based payroll system, which helps employees understand their position in the current hierarchy of positions and assess their role for the Company; receive fair remuneration for work done, depending on its complexity, accountability for work performed; assess the potential for professional and career growth; consistently acquire the new professional knowledge and skills required to perform at the next level.

Performance is assessed based on KPI charts that take into account whether KMC goals and objectives have been achieved, as well as indicators of individual performance. The approach has adopted a vertically integrated KPI structure,

which helps allocate responsibility for achieving strategic goals for each employee.

## Work Health and Safety

The Company has recorded no cases of injury.

The Company implemented the following safety measures in 2019:

- The Company introduced a continuous process of maintaining work health and safety by holding introductory work health and safety training (with registration in a special journal) for new employees and annually for all employees; repeating work health and safety training (with registration in a special journal) at least once every six months for all employees; holding annual practical and theory civil security events (civil defence and emergencies), and fire safety instruction for all employees (with registration in a special journal).
- To ensure compliance with fire safety requirements, the Company created a fire-fighting unit within its civil defence teams (approved by Order of the Chairman of the Company Management Board No. 49 dated 31 January 2018); appointed people responsible for fire safety in the Company (approved by Order of the Company Management Board No. 92 dated 5 December 2018).
- Before rest and public holidays, the responsible Company department notifies/reminds employees electronically of the requirement to observe fire safety.
- The Company held planned practical training on “Employee evacuation in the event of a fire”.
- As part of its training programme, the Company held drills to evacuate employees from the building; tested employee knowledge around the topics of “Fire” and “How to save yourself in emergencies”, carried out visible demonstration of the OU-5 fire extinguishers on controlled fires and training on how to use GP-5 gas masks.

## Social Support

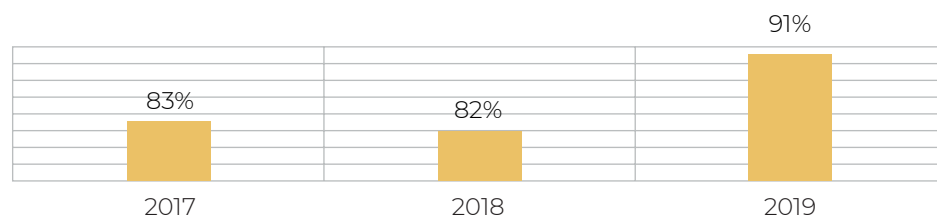
The Company's cost structure includes elements that focus on employee social support

Social support area	2017	2018	2019
Medical insurance, thous. KZT	17913	29202	31624
Employee accident insurance, thous. KZT	728	626	517

## Corporate Culture

Research performed by Ernst & Young Kazakhstan into employee involvement and satisfaction levels recorded a level of satisfaction and involvement in the Company in 2019 of 91%.

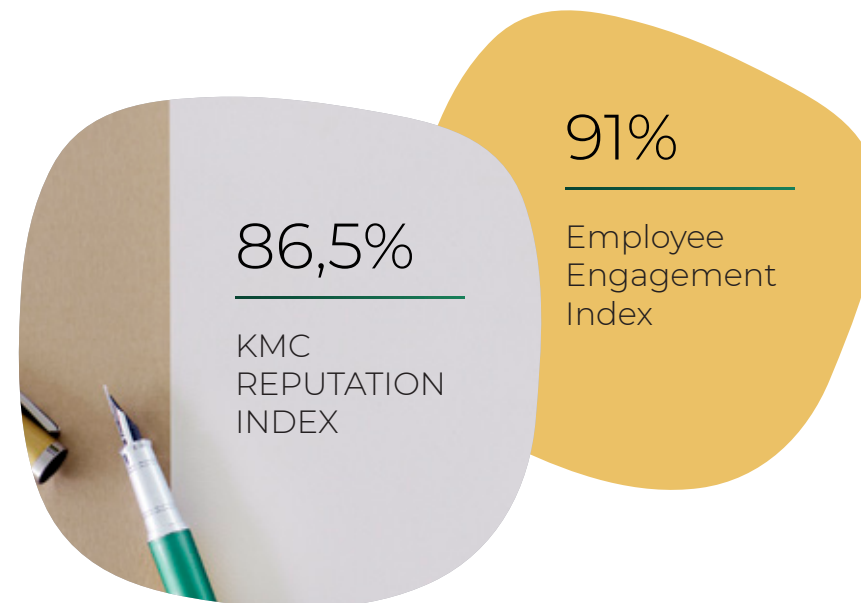
Company staff involvement and satisfaction index



## Recognisability and Reputation

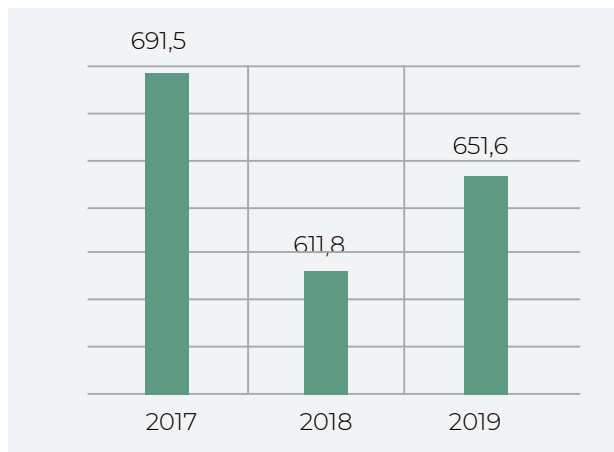
According to a reputation audit performed by Frontier LLP in 2019, the Company's reputation index is 86.5%.

Index	2016 г.	△▽	2017 г.	△▽	2018 г.	△▽	2019 г.
1 Company reputation and recognisability	74,60%	+0,9	75,50%	+2,1	77,60%	+8,1	85,8%
2 Knowledge of Company activities	78,60%	+1,6	80,20%	+0,9	81,10%	+0,6	81,7%
3 Awareness of Company activities	84,80%	+2,1	85,30%	+0,5	86,40%	+0,8	87,2%
4 Trust in the Company and its activities (Trust Index)	87,30%	+0,9	88,20%	+0,7	88,90%	+2,4	91,3%
<b>KMC REPUTATION INDEX</b>	<b>81,30%</b>	<b>+1,4</b>	<b>82,70%</b>	<b>+0,8</b>	<b>83,50%</b>	<b>+3</b>	<b>86,5%</b>

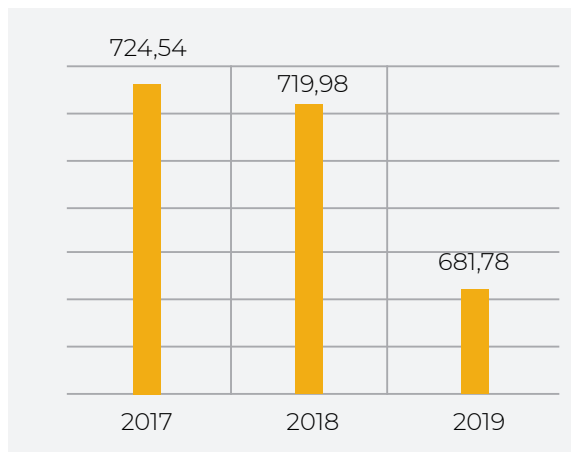


## Resource consumption and waste generated in 2019

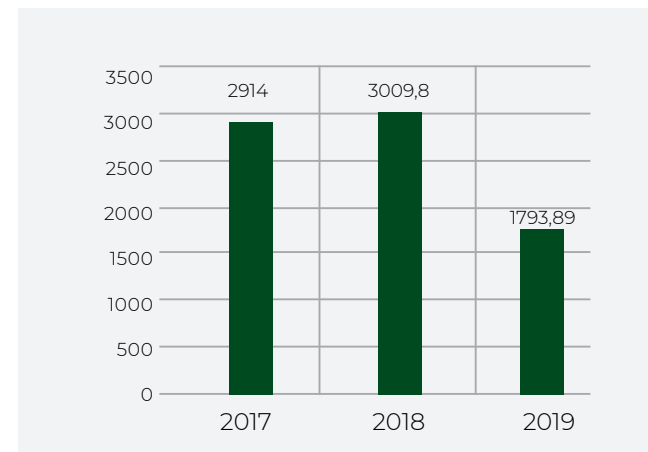
Electricity consumption, thous. kW/hours



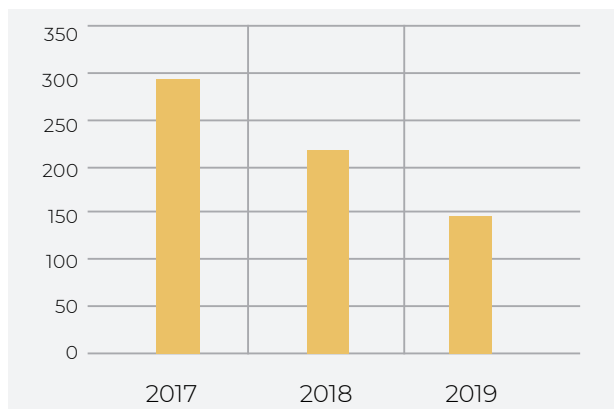
Thermal energy consumption, Gcal



Water consumption, m3



Total waste/solid waste (m3)



## Socio-Economic Performance

Activity	State programme	Socio-economic effect
Provide "rent-to-own" housing	Nurly Zher Programme	1,067 thous. m2 of rental housing or 18,800 apartments built/purchased. 18.482 families provided with rental housing.
Provide mortgages to the public through bank agents		828 loans provided worth 10.3 bln. KZT
Refinance mortgages	Kazakhstan National Bank Mortgage Refinancing Programme	335 loans refinanced worth 1.2 bln. KZT



07

Corporate  
Governance





# Company Management Structure

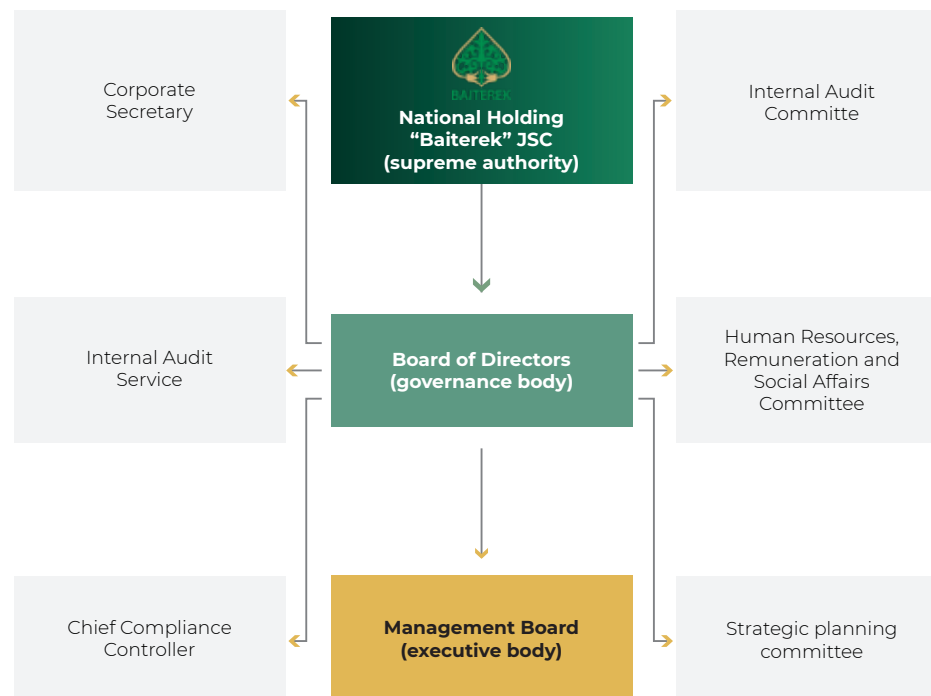
The Company's Sole Shareholder is the National Management Holding "Baiterek", which as at 1 January 2020, owned 100% of voting shares in the Company.

The Board of Directors is the Company's governance body and is responsible for managing Company activities, with the exception of issues pertaining to the Law of the Republic of Kazakhstan On Joint Stock Companies and/or Company articles of association, which are the responsibility of the Company Sole Shareholder.

The Sole Shareholder elects members of the Company Board of Directors in accordance with the procedure determined by Kazakhstan law, Company articles of association and internal Company documentation, subject to the competence, skills, achievements, business reputation and professional experience of the candidates.

According to the Law of the Republic of Kazakhstan On Joint Stock Companies, independent directors should:

- not be Company affiliates and not have been such for the three years preceding their election to the Board of Directors and not be the affiliates of Company affiliates;
- not report to Company officials or Company affiliates and not have reported to the same officials for the three-year period prior to their election to the Board of Directors;
- not be civil servants;
- not be representatives of the Sole Shareholder at meetings of the Company's bodies and not have been such for the three-year period prior to their election to the Board of Directors;
- not participate in an audit of the Company as an auditor employed by an audit organisation, and not have participated in that audit for the three-year period prior to their election to the Board of Directors..



Independent director requirements are established by Kazakhstan law, the Company articles of association and internal documents.



## Board of Directors

### Changes in the composition of the Board of Directors

The following changes were made to the composition of the Board of Directors in 2019:

On 22 February 2019, member of the Board of Directors N N Nurlanov informed the members of the Board of Directors of his early resignation as a member of the Board of Directors.

Baiterek Holding issued a Resolution (Meeting Minutes No. 15/19 from 13 March 2019) to:

- terminate the authority of member of the Board of Directors Jacek Brzezinski;
- elect an independent director to and member of the Board of Directors A R Yelemesov.

On 13 May 2019, Chairman of the Board of Directors G B Tadzhiyakov informed the members of the Board of Directors of his early resignation as a member of the Board of Directors.

On 5 June 2019, member of the Board of Directors – independent director Y S Ospanov informed the members of the Board of Directors of his early resignation as a member of the Board of Directors.

Baiterek Holding issued a Resolution (Meeting Minutes No. 30/19 from 13 June 2019) to:

- terminate the authority of member of the Board of Directors Z N Shaimardanov;
- appoint T A Zhanke and O Z Salykov as members of the Board of Directors.

The Company Board of Directors issued a Resolution (Meeting Minutes No. 6 dated 13 June 2019) to appoint T A Zhanke as Chairman of the Company Board of Directors.

Baiterek Holding Management Board issued a Resolution (Meeting Minutes

No. 36/19 dated 17 July 2019) to appoint D S Suyentayev as a member of the Board of Directors and independent director.

A Resolution of the Management Board of Baiterek Holding (Meeting Minutes No. 44/19 dated 10 September 2019) determined the composition and term of office of the Company Board of Directors as follows:

- Timur Amantaiuly Zhanke, member of the Company Board of Directors;
- Askar Raushanuly Yelemesov, independent director - member of the Company Board of Directors;
- Adil Bektasovich Mukhamedzhanov, member of the Company Board of Directors – Chairman of the Company Management Board;
- Nurlan Tursunbekovich Tokobayev, independent director - member of the Company Board of Directors;
- Damir Serkbayevich Suyentayev, independent director - member of the Company Board of Directors;
- Olzhas Zhandosovich Salykov, member of the Company Board of Directors.

In connection with the Sole Shareholder's extension of the term of office of the Company Board of Directors, by Resolution of the Company Board of Directors (Meeting Minutes No. 11 dated 23 October 2019) T A Zhanke has been appointed Chairman of the Company Board of Directors.

As at 1 January 2020, the composition of the Company Board of Directors was as follows:

- Chairman of the Board of Directors T A Zhanke,
- Members of the Board of Directors – A R Yelemesov, N T Tokobayev, A B Mukhamedzhanov, D S Suyentayev and O Z Salykov.

## Composition of the Board of Directors



TIMUR  
AMANTAIULY  
ZHANKE

**Chairman of the Board  
of Directors**

**Year of birth: 1977**  
**Citizen of the Republic  
of Kazakhstan**

### Work experience:

- Almaty Akim Office Tourism Department (1999-2001);
- Ministry of Industry and Trade of the Republic of Kazakhstan (2001-2002);
- NC KazMunaiGas CJSC (2002-2003);
- NC KazMunaiGas CJSC (2003-2007);
- KazMunaiGas-Service Compass LLP (2007-2014);
- Dzhambul Region Akimat (October 2014-April 2019);
- Member of the Baiterek Holding Management Board (from May 2019);
- Chairman of the Board of Directors of Mortgage Organisations "Kazakhstan Mortgage Company" JSC (from 13 June 2019)

### • Education:

higher (economic)

- Al-Farabi Kazakh National University, major in International Relations;
- Satpayev Kazakh National Technical University, major in Oil and Gas Field Development;
- Maastricht School of Management MSM, the Netherlands, Master's in Business Administration (MBA)



ASKAR  
RAUSHANULY  
YELEMESOV

**Independent director -  
Member of the Board  
of Directors**

**Year of birth: 1968 r.**  
**Citizen of the Republic  
of Kazakhstan**

### Work experience:

- Deputy Chairman of the Kazakhstan National Bank (February 2004-February 2006)
- Vice-Minister of Finance of the Republic of Kazakhstan (February 2006-November 2006);
- Deputy Chairman of the Management Board of Halyk Bank Kazakhstan JSC (December 2006-February 2007),
- Advisor to the Chairman of the Management Board of Halyk Bank Kazakhstan JSC (February 2007-April 2008),
- Chairman of the Board of Directors of Troika Dialogue Kazakhstan JSC (August 2008),
- Independent Director - Member of the Board of Directors of National Management Holding "KazAgro" JSC (from 2 June 2016),
- Chairman of the Board of Directors - Independent Director of SkyBridge Invest JSC (from September 2016),
- Independent Director - Member of the Board of Directors of Kazkommertsbank JSC (July 2017-June 2018),
- Independent Director - Member of the Board of Directors of Mortgage Organisation "Kazakhstan Mortgage Company" JSC (from March 2019),
- Independent Director - Member of the Board of Directors of the "Damu" Entrepreneurship Development Fund (from June 2018)

### • Education:

- higher (economic)
- Lomonosov Moscow State University (1990), major in Political Economics;
- Washington University, Masters (1994), major in Business Administration.



**NURLAN  
TURSUNBEKOVICH  
TOKOBAYEV**

---

**Member of the Board  
of Directors– independent  
Director**

**Year of birth: 1974  
Citizen of the Republic  
of Kazakhstan**



**Work experience:**

- He is current a member of the Board of Directors – Independent Director of Kazakhstan Project Preparation Fund LLP and Optima Bank OJSC (Kyrgyzstan).
- He has experience in various positions in the Kazakhstan National Bank; as a
- Director of the Securities Market and Pension Assets Department at the Kazakhstan Agency for the Regulation and Monitoring of the Financial Market and Financial Organisations;
- as an advisor to the Chairman of the Management of Astana-Finance JSC; as the Chairman of the Management Board of Commercial Bank “Credit-Standard” JSC (Uzbekistan);
- the Chairman of the Board of Directors of Commercial Bank “Credit-Standard” JSC (Uzbekistan), Independent Director of Vizor Capital JSC and an Independent Director of Advance Bank of Asia (Cambodia).

**Education:**

higher (economic)

- Ryskulov Kazakh State Academy of Management (Almaty)



**ADIL  
BEKTASOVICH  
MUKHAMEDZHANOV**

---

**Member of the Board of Directors**

**Year of birth: 1981  
Citizen of the Republic  
of Kazakhstan**



**Work experience:**

- In September 2016, he was appointed Chairman of the Company's Management Board having previously spent time in various positions at KazTransOil JSC, as a member of the Board of Directors of Caspian Energy Inc., AsiaCredit Bank JSC, Vice-President of Aral Petroleum Capital LLP and Chairman of the Management Board of Otan Pension Fund JSC.

**Education:**

higher (economic)

- University of Nottingham (UK);
- Ryskulov Kazakh State Academy of Management (Almaty);
- Booth Chicago University Business School (USA), EMBA.





DAMIR  
SERKBAYEVICH  
SUYENTAYEV

**Member of the Board  
of Directors – Independent  
Director**

**Year of birth: 1984  
Citizen of the Republic  
of Kazakhstan**



**Work experience:**

- Sovereign Wealth Fund “Samruk-Kazyna”;
- “Damu” Entrepreneurship Development Fund;
- Export-Credit Insurance Corporation “KazExportGarant” JSC, NC Kazakhstan Engineering JSC,
- Kazagromarketing JSC (NH KazAgro JSC),
- Union of Machine Builders of Kazakhstan;
- Member of the Board of Directors - Independent Director,
- Chairman of the Audit Committee of National Company “KazakhExport” JSC;
- Member of the Board of Directors - Independent Director of Passenger Transportation JSC (NC KTZ JSC);
- Member of the Board of Directors - Independent Director of Mortgage Organisation “Kazakhstan Mortgage Company” JSC (September 2019).

**Education:**

higher

- Kazakhstan State Legal Academy;
- Kazakh University of Economics, Finance and International Trade;
- Russian Academy of Economics and Civil Service of the President of the Russian Federation, MBA



OLZHAS  
ZHANDOSOVICH  
SALYKOV

**Member of the Board  
of Directors**

**Year of birth: 1990  
Citizen of the Republic  
of Kazakhstan**



**Work experience:**

- Baiterek Holding,
- National Agency for Technological Development Project Analysis and Monitoring Centre;
- Department for Inter-parliament Ties and International Cooperation of Kazakhstan Parliament Senate, Housing and Construction Asset Management
- Department of Baiterek Holding,
- Member of the Board of Directors of Mortgage Organisation “Kazakhstan Mortgage Company” JSC (2019)

**Education:**

- higher (economic)
- Gumiliyev Eurasian National University, International Relations Faculty, Bachelor's programme;
- Gumiliyev Eurasian National University, Economic Faculty, Master's in Finance;
- Lomonosov Moscow State University, Economics Faculty, MBA.

## Composition and functions of the committees of the Board of Directors

Three committees report to the Company Board of Directors:

- 1.Strategic Planning Committee;
- 2.Internal Audit Committee;
- 3.Human Resources, Remuneration and Social Affairs Committee.

**The Strategic Planning Committee** is a permanent advisory and consultative body of the Board of Directors that develops recommendations on the Company's priority operating areas and strategic goals, including around measures to improve the Company's medium-term and long-term operating performance.

Strategic Planning Committee composition	
As at 1 January 2019	As at 1 January 2020
Y S Ospanov (Committee Chairman)	A R Yelemesov (Committee Chairman)
J Brzezinski (Committee member)	D S Suyentayev (Committee member)
N T Tokobayev. (Committee member)	O Z Salykov (Committee member)
Z N Shaimardanov (Committee member)	N T Tokobayev (Committee member)
O Z Salykov (Expert)	

**The Internal Audit Committee** is a permanent advisory and consultative body of the Board of Directors that focuses on improving the performance and quality of the activities of the Board of Directors by preparing recommendations on establishing an effective system to monitor the Company's financial and economic activities (including the completeness and accuracy of financial statements), to monitor the credibility and performance of internal control and risk management systems, and for the execution of corporate governance documents; and to monitor external and internal audit.

Internal Audit Committee composition	
As at 1 January 2019	As at 1 January 2020
N T Tokobayev (Committee Chairman)	N T Tokobayev (Committee Chairman)
J Brzezinski (Committee member)	A R Yelemesov (Committee member)
Y S Ospanov (Committee member)	D S Suyentayev (Committee member)
Z N Shaimardanov (Committee member)	O Z Salykov (Committee member)
I K Khamzina (Expert)	

**The Human Resources, Remuneration and Social Affairs Committee** is a permanent advisory and consultative body of the Board of Directors that was created to improve the performance and quality of the activities of the Board of Directors through the more extensive elaboration and monitoring of issues pertaining to the Board of Directors around the Company's human resources policy, its remuneration and benefits system, and the performance assessment of members of the Board of Directors, members of the Management Board, the Chief Compliance Controller and Corporate Secretary.

Human Resources, Remuneration and Social Affairs Committee	
As at 1 January 2019	As at 1 January 2020
J Brzezinski (Committee Chairman)	D S Suyentayev (Committee Chairman)
Y S Ospanov (Committee member)	A R Yelemesov (Committee member)
N T Tokobayev (Committee member)	N T Tokobayev (Committee member)
Z N Shaimardanov (Committee member)	O Z Salykov (Committee member)

## Report on the activities of the Board of Directors and its committees

In 2019, the Board of Directors held 13 meetings and discussed 99 issues in the following categories:

- transactions/investment projects and securities – 6;
- risk management issues – 7;
- the approval of internal normative documents – 24;
- strategy issues – 3;
- human resources issues – 5;
- planning and reporting – 14;
- internal audit issues – 12;
- other issues – 28.

Key issues considered by the Board of Directors in 2019:

By Resolution of the Company Board of Directors, T A Zhanke was appointed Chairman of the Company Board of Directors (Meeting Minutes No. 6 from 13 June 2019); T A Zhanke was appointed Chairman of the Company Board of Directors in connection with the Sole Shareholder's extension of the term of office of the Board of Directors (Meeting Minutes No. 11 from 23 October 2019).

Resolution of the Company Board of Directors No. 3 dated 19 April 2019 preliminarily approved the Company's annual financial statements for 2018, the procedure for allocating net income and dividends on common shares, the details of communication from the Sole Shareholder on the actions of the Company and its officials, the value and composition of remuneration paid to members of the Company Board of Directors and Management Board in 2018 (annual financial statements were approved by Resolution of the Sole Shareholder No. 25/19 dated 14 May 2019).

Resolution of the Company Board of Directors No. 6 dated 13 June 2019 approved the report on the performance of the Board of Directors and committees of the Board of Directors of Mortgage Organisation "Kazakhstan Mortgage Company" JSC for 2018, engaging an independent professional organisation International Financial Corporation (IFC).

Resolution of the Company Board of Directors No. 7 dated 22 June 2019 preliminarily approved the Annual Report of Mortgage Organisation "Kazakhstan Mortgage Company" JSC for 2018 (approved by Resolution of the Sole Shareholder No. 36/19 dated 17 July 2019).

Resolution of the Company Board of Directors No. 11 dated 23 October 2019 approved a Mortgage Organisation "Kazakhstan Mortgage Company" JSC bond issue of 60,000,000,000 (sixty billion) KZT and determined issuance terms and conditions.

Quarterly IAS, Chief Compliance Controller and Corporate Secretary reports were also approved.

All issues stipulated by the Company Board of Directors' operating plan for 2019 were considered in the reporting period. Attendance at meetings of the Board of Directors was 100%.

During the reporting period, the committees of the Board of Directors held 25 meetings (7 meetings of the Strategic Planning Committee, 9 meetings of the Internal Audit Committee and 7 meetings of the Human Resources, Remuneration and Social Affairs Committee), at which 90 issues were discussed:

- transactions/investment projects, securities – 6;
- risk management issues – 7;
- the approval of internal normative documents – 24;
- strategy issues – 3;
- human resources issues – 5;
- planning and reporting – 14;
- internal audit issues – 12;
- other issues – 19.

Member attendance at meetings of the committees of the Board of Directors was 100%.

## Independent assessment of the activities of the Board of Directors

The performance of the Board of Directors and its committees is assessed annually to improve the professionalism of the members of the Board of Directors and its committees in accordance with Company Board of Directors' Regulations<sup>12</sup>. In addition, the assessment is made by an independent professional organisation at least once every three years.

In 2019, the Board of Directors<sup>13</sup> took the decision to evaluate its activities and those of its committees for 2018 by engaging an independent professional organisations.

The independent professional organisation engaged for the assessment was the International Financial Corporation ("IFC").



IFC, as part of the World Bank Group, is a major global development institute focusing exclusively on the private sector of developing countries to ensure a steady inflow of private investment.

## Process to assess the performance of the Board of Directors and committees



<sup>12</sup> Approved by Resolution of the Management Board of Baiterek Holding No. 55/18 dated 12 December 2018

<sup>13</sup> Meeting Minutes No. 2 from 28 February 2019

A statistical analysis of the activities of the Board of Directors and its committee cover the following key quantitative indicators:

- the number of issues considered by the Board of Directors and its committees;
- the structure of issues considered by the Board of Directors and its committees;
- the number of meetings held by the Board of Directors and its committees;
- the number of instructions to management.

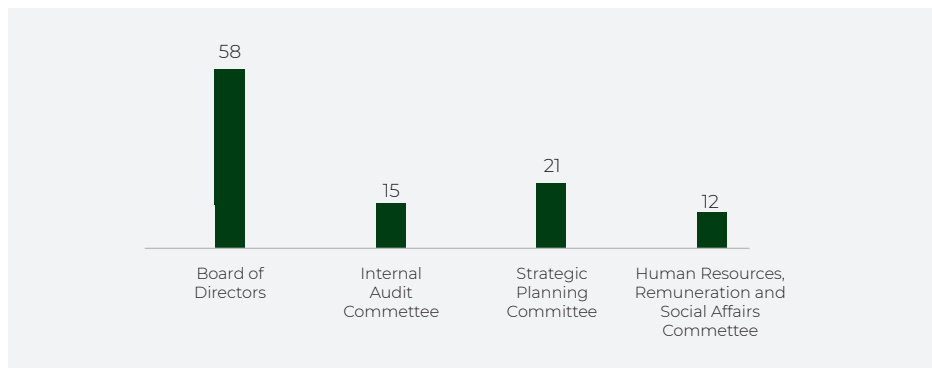
### Number of issues considered by the Board of Directors and its committees



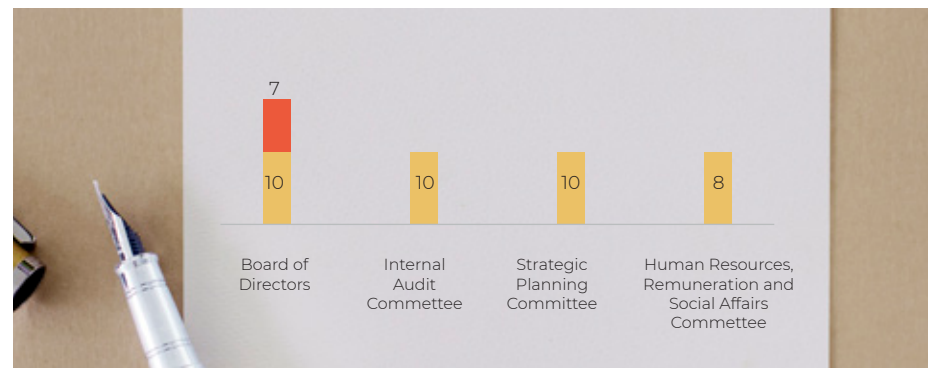
### Structure of issues considered by the Board of Directors



### Number of instructions to management



### Number of meetings held by the Board of Directors and its committees










The maturity of Board of Directors' processes was scored according to the following criteria:

- the role and authority of the Board of Directors;
- strategy;
- performance management;
- the composition of the Board of Directors and the role of independent directors;
- remuneration policy;

- meetings of the Board of Directors;
- Chairman of the Board of Directors;
- Corporate Secretary;
- Internal Audit Committee;
- Strategic Planning Committee;
- Human Resources, Remuneration and Social Affairs Committee.

Evaluation criteria	External valuation
1 role and authority of the Board of Directors;	
2 strategy	
3 performance management;	
4 the composition of the Board of Directors and the role of independent directors;	
5 remuneration policy;	
6 meetings of the Board of Directors;	
7 Chairman of the Board of Directors;	
8 Corporate Secretary;	
9 Internal Audit Committee;	
10 Strategic Planning Committee;	
11 Human Resources, Remuneration and Social Affairs Committee;	
 - strength  - area for development  - attention required	

## Remuneration policy for members of the Board of Directors

Current Baiterek Holding policy does not provide for remuneration for members of the Board of Directors representing the Sole Shareholder and the Company Management Board.

Independent members of the Board of Directors receive remuneration as follows:

- annual fixed remuneration;
- additional remuneration for participating in meetings of Board of Directors' committees.

Independent director remuneration in 2019 amounted to 16.2 mln. KZT (before tax and other obligatory payments).

Independent directors are entitled to compensation for travel and accommodation expenses incurred when travelling to meetings of the Board of Directors held at locations other than their place of residence.

The independent evaluation identified the strengths of the Board of Directors and its committees, as well as areas for development and areas where attention is required. The Board of Directors developed recommendations based on benchmarking studies performed by organisations in other countries, such as Canada, China and Russia.

## Management Board

The Management Board is the Company's executive body and consists of four members. Management Board activities are governed by Management Board Guidelines approved by Resolution of the Board of Directors No. 2 dated 31 January 2018.

The Management Board reports to the Board of Directors and the Sole Shareholder, and is responsible for managing Company operations and implementing development strategy, development plans and solutions adopted by the Board of Directors and the Sole Shareholder.

The Management Board is entitled to take decisions on any issues around Company activities that according to Kazakhstan law and the articles of association are not within the authority of other Company bodies and officials.

The Management Board meets regularly, and also, when necessary, makes decision by correspondence. When discussing any issue, additional time is given to discuss risks related to adopting or not adopting a specific decision and the impact of that decision on Company profitability. Issues proposed for discussion by the Board of Directors and the Sole Shareholder are preliminarily considered and approved by the Management Board according to the Company articles of association.

The Management Board makes decisions on agenda issues as follows: Management Board members present at a meeting vote (in person); Management Board members vote by correspondence (without holding a meeting); or by a combination of both voting forms (combined vote).

In 2019, the Management Board held 60 "face-to-face" meetings and accepted correspondence votes from Management Board members on 57 resolutions at which 501 issues were considered.

## Remuneration policy for members of the Management Board

Management Board member remuneration consists of the following parts:

- an official salary;
- state public holiday bonuses;
- performance remuneration for the reporting period.

Management Board member remuneration for 2019 amounted to 128.3 mln. KZT (before tax and other obligatory payments).



## Members of the Company Management Board as at 31 December 2019

---



**Work experience:**

in September 2016, he was appointed Chairman of the Company's Management Board having previously spent time in various positions at KazTransOil JSC, as a member of the Board of Directors of Caspian Energy Inc., AsiaCredit Bank JSC, Vice-President of Aral Petroleum Capital LLP and Chairman of the Management Board of Otan Pension Fund JSC.

**Education:**

higher (economic)  
University of Nottingham (UK);  
Ryskulov Kazakh State Academy  
of Management (Almaty);  
Booth Chicago University Business School  
(USA), EMBA.

ADIL  
BEKTASOVICH  
MUKHAMEDZHANOV

---

**Member of the Board  
of Directors**



**Work experience:**

in December 2018, he was appointed Deputy Chairman of the Company Management Board after previously spending time in various positions in the Kazakhstan financial sector, including with the Institute for Economic Research of the Ministry of Economics and Budget Planning of the Republic of Kazakhstan, Nurbank JSC, BTA Bank JSC, Astana Finance JSC, AsiaCreditBank JSC, Life Insurance Company "Asia Life" JSC.

**Education:**

Al-Farabi Kazakh National University,  
faculty of Economics and Business, major  
in Information Systems and Economics.

MAZHIT  
GALYMZHANOVICH  
ZHUSUPOV

---

**Deputy Chairman  
of the Management Board**



## Members of the Company Management Board as at 31 December 2019

---



**Work experience:**

in May 2017, she was appointed Deputy Chairwoman of the Company Management Board after previously spending time in various positions in BTA Bank JSC, AsiaCredit Bank JSC and AB Legal LLP.

**Education:**

Kazakh State Management Academy (Almaty, Kazakhstan), major in Economics; Hopkins University (Washington, USA), Master's in Applied Economics.

ASSEL  
MARATOVNA  
DYKANBAYEVA

---

**Deputy Chairwoman  
of the Management Board**



**Work experience:**

in March 2018 he was appointed as Deputy Chairman of the Company Management Board after having spent time in various positions at the Saratov Institute of Mechanisation and Automation, the Eurasian Institute of System Research, Kazakhstan Mortgage Guarantee Fund JSC, Samruk-Kazyna Real Estate Fund JSC, FN Management LLP, Kazakhstan Housing Construction Corporation JSC, Frak Jet LLP, Mortgage Organisation "Kazakhstan Mortgage Company" JSC and Baiterek Development JSC.

**Education:**

Saratov Institute of Mechanisation and Automation, Mechanical Engineer; Kazakhstan Institute of Economics and Law, Lawyer; Certificate of the International Academy of Law (Budapest, Hungary).

AISULTAN  
ANVAROVICH  
AKCHURIN

---

**Deputy Chairman  
of the Management Board**



## Internal Audit Service

The Company Internal Audit Service (“IAS”) is governed in its professional activities by IAS Guidelines and international principles of internal audit.

The IAS monitors financial and economic activities, provides independent reasonable guarantees and advice aimed at improving Company activities and Company management performance, including through risk management systems, internal controls and corporate governance.

The IAS chief executive and employees are appointed and dismissed by a decision of the Company Board of Directors at the request (recommendation) of the Audit Committee.

The IAS operates in accordance with an annual audit plan approved by Resolution of the Company Board of Directors.

During 2019, the IAS performed audit engagements according to an annual audit plan, assessing recommendations according to their importance, proposing measures for their execution and appointing persons responsible for implementing them.

In 2019, the audit covered the following targets (business processes, systems, procedures and others):

- observance of limits for specific administrative costs;
- the process for preventing and minimising compliance risks for the Company;
- the process for selling Company mortgage products (“Orda”, mortgages to purchase balance sheet property and mortgages without buyback);
- the process for ensuring the integrity of Company documents;
- the process for implementing development strategy (or a development plan);
- the accuracy of actual Company Management Board KPI values;
- the procedure for acquiring debt claims on mortgages provided by commercial banks;
- treasury system components;
- risk management procedures;
- the process for conducting stress-testing and its compliance with the external operating environment and internal status;
- the process for dealing with problem loans and selling balance sheet property;

- the Company’s external communication procedure (public relations and transparency);
- the implementation of the KMC rent-to-own Nurly Zher Programme.

The IAS also tested the corporate governance system and audited the Company’s information technology applying generally accepted internal audit operating standards and corporate standards, in accordance with methods approved by the Company Board of Directors.

The audit procedures performed by the IAS in 2019 led to 151 findings, on which 193 recommendations were given. The audit targets drafted adjustment and prevention plans for all recommendations provided, which were approved by the Company Management Board and, in some audit engagements, by the Board of Directors. As at 1 January 2020, recommendations on 74 findings has been actioned, while the deadlines for completing recommendations on the remaining 77 findings pass in 2020.

The IAS monitors the execution of internal and external audit recommendations quarterly, presenting the results to the Company Management Board and Board of Directors.

In 2019, the IAS conducted an internal evaluation (self-evaluation) of the quality of internal audit in accordance with an Internal Audit Quality Assurance and Improvement Programme. The self-evaluation showed that the basic KPIs for the IAS are achievable.





## Evaluation of the quality of internal audit activities



IAS activities correspond to internal audit concepts, the Code of Ethics and International Professional Internal Audit Standards, and internal documents governing IAS activities.

## Risk Management and Internal Control System

The Company treats risk management as an on-going, dynamic and continuous process consisting of various components identifying, measuring, controlling and monitoring risks. The Company uses Centralised Risk Management System Guidelines to determine risk appetite component limits (capital adequacy, profitability and liquidity). The Company Board of Directors sets appetite limits to ensure risk adheres to the Company's strategy and business environment and the requirements of its interested parties.

The Company's risk management policy focuses on identifying, analysing and managing risks (strategic risks, financial risks, operating risks and legal risks), setting risk limits and placing the relevant controls, constantly assessing risk levels and ensuring they stay within the set limits. Company management is responsible for ensuring the risk management system functions properly.

The Company identifies and manages internal and external risk factors within its operational structure. Special attention is given to a risk map that is used to identify the entire scope of risk factors and serves as a basis for determining the sufficiency level of existing risk mitigation procedures. The Company compiles an annual risk register and risk map highlighting critical risks and their indicators, and develops action plans prescribing measures for managing these risks. All these documents are comprehensively considered and then approved by the Company Board of Directors.

Additionally, through the Baiterek Holding Centralised Risk Management System, information on the Company's inherent risks is collected and consolidated.

ed on a quarterly basis in accordance with existing risk evaluation methods. All risks are assessed quantitatively to further aggregate them so they can be used to calculate Company equity and compare it with existing equity meant to cover all Company risks.

## Strategic risks

The Company continues to focus on analysing and controlling all risks capable of affecting its ability to achieve its long-term strategic goals and meet the key performance indicators set forth in its Strategy and Development Plan approved by the Board of Directors.

Analysis of the issues that prevented the Company meeting its strategic KPIs showed that the key issue in 2019 was the realisation of plans around the volume of rental housing. The Company treats this risk as strategic and affected by external factors: the activity and actions of stakeholders represented by the state authorities and other organisations that have entered into agreements to participate in programmes to sell rental housing; housing providers that have entered into agreements to supply housing and clients (potential tenants who have applied and passed creditworthiness assessments).

To prevent and mitigate the risk of not meeting KPIs around the commissioning of rental housing, and at the same time, meeting KPIs for rental portfolio size, the Company needs to revise its strategy for interacting with stakeholders; reinforce analytics around the evaluation of real demand for rental housing; estimate real (current) costs to build/purchase housing; forecast variables; raise demands on developers in relation to housing delivery deadlines and also carry out an intensified information and education campaign among potential clients.

## Financial risks

To manage credit risks, the Company looked into three risk zones: mortgage lending, finance leases and the management of temporarily surplus funds. To mitigate credit risks it made use of a package of measures and procedures such as scoring, loan and underwriting mortgage and rental applications based on set standard coefficients; setting and controlling maximum limits on bank partners by analysing their financial condition; modelling expected loan losses and creating provisions for them.

The Company pursues a conservative foreign exchange risk management poli-

cy and regularly monitors its open foreign exchange positions to ensure it stays within limits set.

Interest rate risk is linked to the possibility of losses due to interest rate change sensitivity in the event of discrepancies between maturity or the revaluation of deposited interest-earning assets and interest-based liabilities on raised funds (maturity risk). To control its interest rate risk exposure, the Company uses a Gap Analysis to determine the period when a net gap position is exposed to interest rate risk (gap between interest-based assets sensitive to interest rate changes and interest-based liabilities sensitive to interest rate changes) due to interest rate changes. The Company also assesses its exposure to interest rate risks on its securities (bond) portfolio by calculating the modified duration on a specific bond and the bond portfolio as a whole.

The Company manages its liquidity risk by monitoring imbalances in asset and liability maturity and takes measures to avoid strains on liquidity. The Company regularly monitors its positions and works to eliminate any possible gaps



## Legal and compliance risks

The Company defines legal and compliance risks as the probability of adverse consequences, including expenses and damage to its business reputation, that may arise as a result of a violation of or non-compliance with Kazakhstan law, rules, regulatory requirements, internal Company procedures and policies, ethical standards, including with respect to market conduct, managing conflicts of interest, advising and servicing customers. Together with interested divisions, the Compliance Control Service is also responsible for managing legal and compliance risks, as well as anti-money laundering or monitoring the funding of terrorist activities.

## Operating risks

The goal of operating risk management is to improve the Company's operating performance by reducing operating losses, rationalising expenses and reducing the time required to respond to and the adequacy of responses to events out of reasonable control.

The Company manages its operating risk by:

- classifying events recognised as operating risks by all Company structural units by feeding information into an electronic database of operating risks for consideration by the authorised body, which then develops operating risk management recommendations on each event;
- calculating capital reserves for each operating risk and assessing actual damages in the event of the realisation of operating risks;
- monitoring operating risk reporting.

To improve operating performance and reduce operating risks, the Company has developed an automation plan for 2019 [Approved by Resolution of the Management Board No. 19 dated 30 March 2018], which includes 62 measures, including:

- 7 measures to automate Company business processes;
- 10 measures to upgrade the electronic document system (EDS);
- 19 measures to upgrade the Company automated information system;
- 26 measures to revise the Company accounting and reporting system.

All measures had been completed by the end of 2019, including:

- implementing a web-portal (arenda.kmc.kz) to receive rental housing applications using an electronic signature;
- implementing the second stage of "Situation centre monitoring and reporting" software: "Mortgage and lease", "Risks" and "Human resources" modules;

- implementing a budgeting system;
- connecting the Company EDS to the state authorities' integrated document flow system (IDFS);
- implementing software to facilitate process robotisation;
- developing new and updating already existing EDS routes and reports;
- implementing a database of internal documents;
- automating the process for transferring credit histories to the FCB and SCB;
- making updates in current accounting systems (automating output forms, postings, reports and others);
- completing the project to replace the Company root system.



## Internal control system

The Company internal control system is based on recognised principles and best practices, and is made up of three lines of defence.

The first line of defence is ensured by Company structural divisions themselves. Controls are developed by the structural divisions and are an integral part of business processes. Internal control is managed, controlled and monitored by the heads of Company structural divisions.

The second line of defence is provided by various structural divisions such as the Risk Management Department, Legal Department, Compliance Control Service and other Company structural divisions that have supervisory functions.

The third line of defence is provided by the external corroboration of the performance of the internal control environment obtained through an audit. It covers both the first and second lines and provides a performance evaluation of the Company internal control system as a whole.

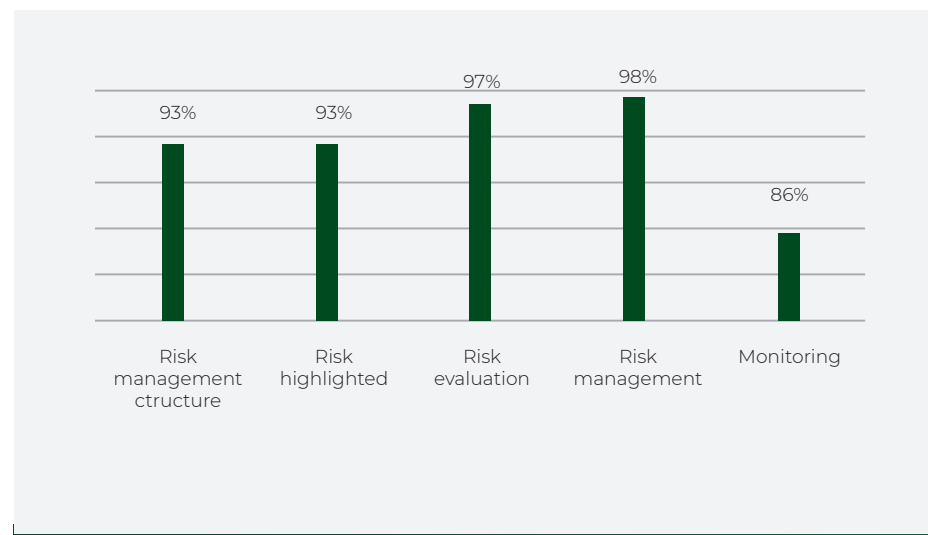
The Company is constantly updating and improving business process, risk and control matrices in line with Company strategic objectives and a focus on key business processes.

## Evaluation of the performance of the risk management and internal control systems

The Company periodically evaluates the performance of its Risk Management and Internal Control Systems by engaging the Company IAS in accordance with internal Company documents.

In 2019, Company management performed an analysis that rated the risk management system at 93%.

## Evaluation of the performance of the corporate risk management system



In 2019, the IAS and Compliance Control Service conducted 17 internal audits of business processes and procedures, which returned the following internal control system rating:

- adequate - 76%
- satisfactory – 24%

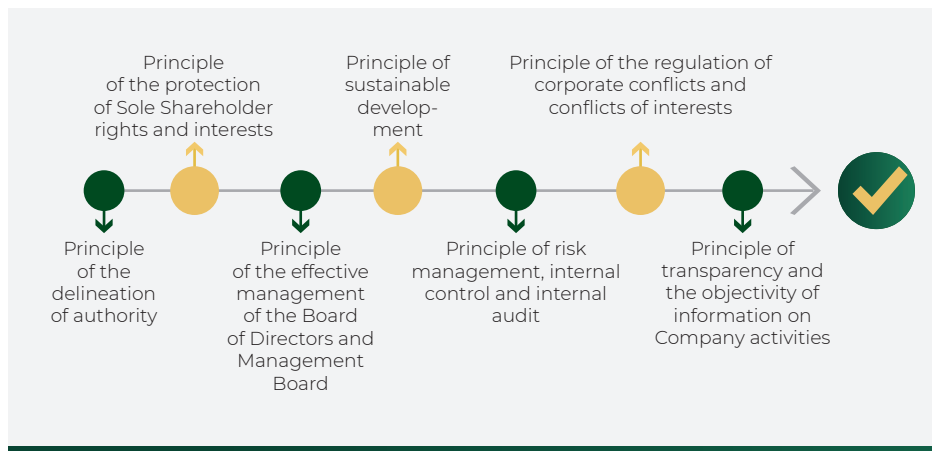
In 2020, the IAS and Compliance Control Service are planning to perform a comprehensive analysis of the internal control system.

## Compliance with the principles of the Corporate Governance Code

The Company treats corporate governance as a means of improving its operating performance, ensuring transparency and accountability, enhancing its reputation and reducing the cost of capital.

In its operations, the Company is guided by Kazakhstan statutory requirements pertaining to corporate governance and by the principles in its Corporate Governance Code approved by Sole Shareholder Resolution No. 31/15 dated 22 December 2015. These principles safeguard the rights and interests of the Sole Shareholder; effective management of the Company by its Board of Directors and Management Board; the Company's independent activities, transparency and its objective disclosure of information on Company activities, legitimacy and ethics; effective dividend and human resources policies; environmental protection; the fair settlement of corporate conflicts and conflicts of interest, and responsible practices.

According to the 2018 Report on Compliance with Corporate Governance Code Principles, the Company complied with all principles in full. A full version of the report is provided in the appendix.



## Resolution of conflicts of interest

On 9 April 2015, the Board of Directors approved the Company Policy for the Resolution of Corporate Conflicts and Conflicts of Interest (Minutes No. 4).

The Policy defines the procedures for preventing and settling corporate conflicts as well as ways to identify and avert corporate conflicts in good time; prescribes clearly coordinated actions for all Company bodies in the event of a corporate conflict or a conflict of interests.

Members of the Board of Directors and Management Board, as well as Company employees should execute their professional duties reasonably and in good faith, with due consideration and care, and in the best interests of the Company and its Sole Shareholder, avoiding conflicts of interest and corporate conflicts.

In 2019, no cases of corporate conflicts and conflicts of interest were reported.

In 2019, the Company repaid principal and coupon interest of 16.32 bln. KZT on bonds, and interest on loans received of 207.73 mln. KZT.

No fines and interest for payment violations were recorded.

In 2019, the Company received 133 complaints/communications. The majority of complaints/communications (91) were related to housing quality. The Company took measures to eradicate the housing defects.

The total number of client complaints/communications fell by 31% year-on-year from 2018.

In 2019, the Company was not brought to administrative or other form of accountability for a failure to execute and/or the incorrect execution of customer communications. Likewise the Company was not taken to court for violating consumer rights.





## Corporate Governance Testing

To enhance corporate governance, the IAS tests the Company corporate governance system once every two years.

The corporate governance system is tested in line with the procedure for testing corporate governance in Mortgage Organisation “Kazakhstan Mortgage Company” JSC (the “Procedure”).

The Procedure assesses corporate governance according to the following three components:

- structure;
- processes;
- transparency.

### Results of corporate governance testing

	COMPONENTS	2016, % COMPLIANCE	2019, % COMPLIANCE	PROGRESS IN IMPROVING COMPANY CORPORATE GOVERNANCE (+/-), %
1	Structure	94,2	90,5	-3,7
2	Processes	79,5	80,5	1,0
3	Transparency	81,7	83,5	1,8
4	Average percentage of Company corporate governance compliance with best practices	84,1	84,2	0,1

On the whole, the Company corporate governance system complies with best practices. The minor negative changes in the corporate governance system are due to discrepancies that arose as a result of the Procedure being implemented in July 2019.



# 08 | Financial Statements and Audit Opinion



## External Audit Details

The external audit of the Company was performed by KPMG Audit LLP according to an agreement to purchase long-term services to audit financial statements for 2019-2021, which was concluded in accordance with the Rules for National Management Holding "Baiterek" JSC and organisations in which National Management Holding "Baiterek" JSC directly or indirectly owns or is responsible for the trust management of 50% or more of voting shares (participation interest), to procure goods, work and services, approved by the Board of Directors on 25 September 2013 (Minutes No. 3) and the Rules for Mortgage Organisation "Kazakhstan Mortgage Company" JSC to Purchase Goods, Work or Services dated 29 November 2013 (Minutes No. 14), based on a record of the results of open tender No. 9897 from 20 February 2019 and according to Procurement Order No. 105 dated 14 March 2019.

### Provision of services

The supplier provides audit services and related services in relation to the Company's consolidated and/or separate financial statements prepared in accordance with IFRS and in accordance with the list and forms approved by a normative act of the authorised state body of the Republic of Kazakhstan in accordance with the Law of the Republic of Kazakhstan No. 234-III On Accounting and Financial Reporting as at and for the years ended 31 December of each financial year between 2019 and 2021.

When providing the services, the Supplier should be governed by Law of the Republic of Kazakhstan No. 304-I On Audit Activities.

The audit of financial statements for 2019-2021 in accordance with ISA stipulate:

1. A semi-annual review of financial statements, consisting of:

1) a review of condensed separate and/or consolidated financial statements for the period from 1 January until 30 June of each financial year between 2019 and 2021, in accordance with ISRE 2410, prepared in accordance with IAS 34, together with an audit report;

2) a review of separate and/or consolidated financial statements as at 30 June of each financial year between 2019 and 2021 (if required), prepared for consolidation purposes in the format approved by minutes of a meeting of the Management Board of Baiterek Holding;

3) related services.

2. An interim audit of financial statements for 9 months, consisting of:

1) interim audit procedures for the period from 1 January until 30 September of each financial year between 2019 and 2021 with respect to the Company's separate and/or consolidated financial statements;

2) related services.

3. Audit of annual financial statements, consisting of:

1) an audit of the Company's annual separate and/or consolidated financial statements for each financial year between 2019 and 2021 to express an independent opinion on the accuracy of the financial statements in accordance with IFRS in all material aspects;

2) an audit of the Company's annual separate and/or consolidated financial statements as at and for the year ending 31 December of each financial year between 2019 and 2021, prepared in accordance with the list and forms approved by a normative act of the authorised state body of the Republic of Kazakhstan in accordance with the Law of the Republic of Kazakhstan No. 234-III On Accounting and Financial Reporting (presented at the Company's request);

3) an audit of separate and/or consolidated financial statements as at 31 December of each financial year between 2019 and 2021, prepared for consolidation purposes in the format approved by minutes of a meeting of the Management Board of Baiterek Holding;

4) related services.

### Related services

Related services (without the presentation of an audit report) imply:

- the provision of recommendations on the preparation process regarding quality improvements and reducing the preparation period;

- the provision of recommendations on the methodology and results of the evaluation of fixed assets (if performed) in accordance with Company accounting policy;

- the provision of recommendations on the methodology and results of the evaluation of the fair value of enterprises (if purchases were made);

- the presentation of Company audit results for the financial year between 2019 and 2021 for members of the Board of Directors/Audit Committee and Company management, at the request of any of the bodies in question;

- the provisions of proposals to improve disclosures in notes to the Company's financial statements;

- consultation on accounting and tax accounting during the audit, without consulting reports;

- an assessment of bookkeeping and the preparation of financial statements (including the revaluation of assets and liabilities, and according to the Company's methods and procedures for performing asset and liability stock takes, including a reconciliation of accounts payable and receivable with suppliers of



goods, work or services);

- a valuation of the adequacy of the Company internal control and risk management systems on issues related to accounting and the preparation of financial statements;
- an assessment of software and the reliability of automated data processing systems;
- an assessment of Company IAS activities on issues related to the assessment of the internal control system in bookkeeping and the preparation of financial statements;
- an analysis of control procedures for the activities of Company affiliates with respect to bookkeeping and the preparation of financial statements;
- an assessment of Company activities' compliance with the requirements of Kazakhstan accounting and financial reporting law;
- an analysis of the methodology for making actuary calculations used to prepare financial statements (if required).

Total agreement value is 80,600,000 (eighty million six hundred thousand) KZT, including VAT of 8,635,714.29 KZT, which year-by-year amounts to:

- 2019 – 25,000,000 KZT, including VAT of 2,678,571.43 KZT;
- 2020 – 26,800,000 KZT, including VAT of 2,871,428.57 KZT;
- 2021 – 28,800,000 KZT, including VAT of 3,085,714.29 KZT.





Financial Statements  
for the year ended 31 December 2019



# Contents

Independent Auditors' Report	
Statement of Profit or Loss and Other Comprehensive Income	95
Statement of Financial Position	97 - 99
Statement of Cash Flows	100 - 103
Statement of Changes in Equity	104 - 105
Notes to the Financial Statements	106 - 211



| Independent  
| Auditors' Report





# To the Board of Directors of Mortgage Organisation Kazakhstan Mortgage Company JSC

## Opinion

We have audited the financial statements of Mortgage Organisation Kazakhstan Mortgage Company JSC (the “Company”), which comprise the statement of financial position as at

31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

## 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 Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of

the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

## Expected credit losses (ECL) on loans to customers and finance lease receivables

Please refer to the Notes 13 and 14 in the financial statements.

### The key audit matter

Loans to customers and finance lease receivables represent more than 76% of assets and are stated net of allowance for expected credit losses ('ECL') that is estimated on a regular basis and is sensitive to assumptions used.

The Company uses ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:

- timely identification of significant increase in credit risk and default events related to loans to customers and finance lease receivables;
- assessment of probability of default (PD) and loss given default (LGD);
- expected cash flows forecast for loans to customers and finance lease receivables, which are credit-impaired.

Due to the significant volume of loans to customers and finance lease receivables, ECL model and the related estimation uncertainty, this area is a key audit matter.

### How the matter was addressed in our audit

To analyse the adequacy of professional judgement and assumptions made by the management in relation to the allowance for ECL estimate, we performed the following:

- We tested design and operating effectiveness of controls over allocation of loans and finance lease receivables into credit risk stages.
- For a sample of loans, for which the potential changes in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Company by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Company.
- Regarding the mortgage loans issued to customers and finance lease receivables assigned to stages 1 and 2, for which ECL is assessed collectively, we tested the design and implementation of the related models, as well as agreeing input data to supporting documents on a sample basis.

We also assessed whether the financial statements disclosures appropriately reflect the Company's exposure to credit risk.

## Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

## Auditors' 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 auditors' 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 scepticism 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 auditors' 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 auditors' 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.

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is:

---

Assel Urdabayeva  
Certified Auditor  
of the Republic of Kazakhstan,  
Auditor's Qualification Certificate  
No. МФ-0000096 of 27 August 2012

## KPMG Audit LLC

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

---

Sergey Dementyev  
General Director of KPMG Audit LLC  
acting on the basis of the Charter

28 February 2020



01

Statement of Profit  
or Loss and Other  
Comprehensive Income





	Note	2019 '000 KZT	2018 '000 KZT
Interest income calculated using the effective interest method		11,308,769	8,781,322
Other interest income		9,077,209	8,415,454
Interest expense		(7,939,522)	(7,381,735)
<b>Net interest income</b>	5	<b>12,446,456</b>	<b>9,815,041</b>
Fee and commission income		13,045	3,857
Fee and commission expense		(285,583)	(201,252)
<b>Net fee and commission expense</b>		<b>(272,538)</b>	<b>(197,395)</b>
Net foreign exchange loss		(4,719)	(4,418)
Net realised gain on investment securities measured at fair value through profit or loss		99,509	142,692
Other operating income		202,877	396,503
<b>Operating income</b>		<b>12,471,585</b>	<b>10,152,423</b>
Impairment gains/(losses) on debt financial instruments	6	882,225	(921,017)
Personnel expenses	7	(1,676,499)	(1,546,733)
General and administrative expenses	8	(1,715,606)	(1,442,533)
Net loss arising from derecognition of financial assets measured at amortised cost	24(B)	(42,594)	(427,226)
<b>Profit before income tax</b>		<b>9,919,111</b>	<b>5,814,914</b>
Income tax expense	9	(1,327,345)	(1,195,768)
<b>Profit and total comprehensive income for the year</b>		<b>8,591,766</b>	<b>4,619,146</b>
Basic and diluted earnings per share (in KZT)	23(e)	1,413	760

The financial statements as set out on pages 9 to 84 were approved by management on 28 February 2020 and were signed on its behalf by:

\_\_\_\_\_  
A.B. Mukhamedzhanov  
Chairman of  
the Management Board

\_\_\_\_\_  
B.D. Sagimkulova  
Managing Director

\_\_\_\_\_  
A.T. Toktarkozha  
Chief Accountant

02 | Statement  
of Financial  
Position



ASSETS	Note	2019 '000 KZT	2018 '000 KZT
Cash and cash equivalents	10	32,735,123	45,903,390
Placements with banks and other financial institutions	11	2,013,628	2,402,821
Investment securities:			
- measured at fair value through profit or loss	12	2,719,292	4,764,226
- measured at amortised cost	12	19,918,195	12,119,171
Loans to customers	13	62,663,247	43,066,563
Finance lease receivables	14	143,791,036	141,153,096
Current tax asset		1,135,442	2,045,362
Advances paid for acquisition and construction of real estate	15	581,978	972,687
Assets to be transferred under finance lease agreements	16	2,274,682	5,180,554
Construction-in-progress	17	1,534,061	5,643,479
Property, plant and equipment		1,968,153	2,129,083
Investment property	18	187,421	647,704
Other assets		1,183,936	1,297,734
<b>Total assets</b>		<b>272,706,194</b>	<b>267,325,870</b>
<b>LIABILITIES</b>			
Debt securities issued	19	67,683,718	66,920,124
Other borrowed funds	20	33,389,460	31,320,645
Deferred income	21	98,052,131	102,126,287
Deferred tax liability	9	1,870,669	1,604,292



continued from previous page

ASSETS	Note	2019 '000 KZT	2019 '000 KZT
<b>Other liabilities</b>	22	2,617,680	3,467,988
<b>Total liabilities</b>		<b>203,613,658</b>	<b>205,439,336</b>
EQUITY	23		
Share capital		63,313,800	63,313,800
Share premium		12,661	12,661
Treasury shares		(2,597,522)	(2,597,522)
Additional paid-in capital		5,822,856	5,822,856
Reserve capital		2,734,447	2,734,447
Accumulated losses		(193,706)	(7,399,708)
<b>Total equity</b>		<b>69,092,536</b>	<b>61,886,534</b>
<b>Total equity and liabilities</b>		<b>272,706,194</b>	<b>267,325,870</b>

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements.



## 03 | Statement of Cash Flows

CASH FLOWS FROM OPERATING ACTIVITIES	2019 '000 KZT	2018 '000 KZT
Interest receipts	15,384,760	13,054,649
Interest payments	(6,501,788)	(4,893,531)
Fee and commission receipts	12,870	3,874
Fee and commission payments	(255,471)	(115,565)
Other income receipts	369,779	291,068
Personnel expenses paid	(1,635,305)	(1,547,831)
General and administrative expenses payments	(1,322,393)	(1,265,085)
	<b>6,052,452</b>	<b>5,527,579</b>
<b>(Increase)/decrease in operating assets</b>		
Placements with banks and other financial institutions	459,270	3,654,403
Financial assets measured at fair value through profit or loss	2,003,151	1,846
Loans to customers	(19,042,721)	7,537,021
Assets to be transferred under finance lease agreements	(1,889,871)	(1,085,272)
Construction-in-progress	(666,445)	(6,430,219)
Finance lease receivables	6,449,271	5,378,036
Other assets	761,708	588,875
<b>Increase/(decrease) in operating liabilities</b>		
Grants	(340,297)	(84,025)
Other liabilities	(163,128)	(4,850,022)

continued on next page

continued from previous page

	2019 '000 KZT	2018 '000 KZT
<b>Net cash (used in)/from operating activities before income tax paid</b>	<b>(6,376,610)</b>	<b>10,238,222</b>
Income tax paid	(37,775)	(33,067)
<b>Cash flows (used in)/from operating activities</b>	<b>(6,414,385)</b>	<b>10,205,155</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investment securities measured at amortised cost	(86,481,398)	(10,157,463)
Repayment of investment securities measured at amortised cost	79,500,000	3,218,541
Acquisition of property, plant and equipment and intangible assets	(245,843)	(95,332)
Proceeds from sale of investment property	297,954	71,059
<b>Cash flows (used in)/from investing activities</b>	<b>(6,929,287)</b>	<b>(6,963,195)</b>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

CASH FLOWS FROM FINANCING ACTIVITIES	2019 '000 KZT	2018 '000 KZT
Repurchase/redemption of debt securities issued	(10,000,000)	(7,920,500)
Proceeds from issue of debt securities	11,425,002	31,356,189
Repayment of other borrowed funds	-	(1,621,372)
Dividends paid	(1,385,764)	(1,108,575)
<b>Cash flows from financing activities</b>	<b>39,238</b>	<b>20,705,742</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(13,304,434)</b>	<b>23,947,702</b>
Effect of changes in expected credit losses on cash and cash equivalents	139,339	71,805
Effect of movements in exchange rates on cash and cash equivalents	(3,172)	83,687
Cash and cash equivalents at the beginning of the year	45,903,390	21,800,196
<b>Cash and cash equivalents as at the end of year</b> (Note 10)	<b>32,735,123</b>	<b>45,903,390</b>

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.





**04**

Statement of  
Changes in  
Equity



'000 KZT	Share capital	Share premium	Treasury shares	Additional paid-in capital	Reserve capital	Accumulated losses	Total
<b>Balance as at 1 January 2018</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(10,910,279)</b>	<b>58,375,963</b>
<b>Total comprehensive income and profit for the year</b>							
Profit for the year	-	-	-	-	-	4,619,146	4,619,146
<b>Transactions with owners, recorded directly in equity</b>							
Dividends declared (Note 23(b))	-	-	-	-	-	(1,108,575)	(1,108,575)
<b>Balance as at 1 January 2018</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(7,399,708)</b>	<b>61,886,534</b>
<b>Balance as at 31 December 2018</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(7,399,708)</b>	<b>61,886,534</b>
<b>Total comprehensive income and profit for the year</b>							
Profit for the year	-	-	-	-	-	8,591,766	8,591,766
<b>Transactions with owners, recorded directly in equity</b>							
Dividends declared (Note 23(b))	-	-	-	-	-	(1,385,764)	(1,385,764)
<b>Balance as at 31 December 2019</b>	<b>63,313,800</b>	<b>12,661</b>	<b>(2,597,522)</b>	<b>5,822,856</b>	<b>2,734,447</b>	<b>(193,706)</b>	<b>69,092,536</b>

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements.





**05** | Notes to the  
Financial  
Statements

# 1. Reporting entity

## (a) Organisation and operations

Mortgage Organisation Kazakhstan Mortgage Company JSC (the “Company”) was established on 29 December 2000 in accordance with the Decree No.469 of the National Bank of the Republic of Kazakhstan (the “NBRK”) dated 20 December 2000. The principal activity of the Company is acquisition of rights on mortgage loans, finance leasing and issuance of mortgage loans in accordance with the license of regulatory authorities. The Company may additionally perform trust, factoring, forfeiting and leasing operations.

On 12 April 2010 the Company obtained a banking license No.5.1.69 to carry out banking lending transactions.

The activities of the Company are regulated by the National Bank of the Republic of Kazakhstan.

The Company’s registered office is: 98, Karasay Batyr Street, Almaty, Republic of Kazakhstan, A05E3B4. On 26 October 2018 the Company’s Board of Directors made decision to close the Company representative office in the city of Astana beginning from 1 January 2019; also according to the Order No.0008 dated 3 January 2019, the Department of Justice of Yessil District of the city of Astana, the Company’s representative office in the city of Astana was deregistered.

## (b) Shareholders

As at 31 December 2019 and 31 December 2018 the Company is wholly-owned by the National Management Holding Baiterek JSC (hereinafter the “Parent Company»). The party with ultimate control over the Company is the Government of the Republic of Kazakhstan.

## (c) Kazakhstan business environment

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

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



## 2. Basis of accounting

### (a) Statement of compliance

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

This is the first set of the Company's annual financial statements where IFRS 16 Leases has been applied.

### (b) Basis of measurement

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

### (c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

### Judgements

Information about critical judgments in applying accounting policies, that significantly affected the amounts reported in the financial statements is described in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held, and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding — Note 3 (e) (i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information in the assessment of ECL, and selection and approval models used to measure ECL -

Note 4

### Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment to the financial statements for the years ended December 31, 2019 and 2018 are disclosed in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including the incorporation of forward-looking information - Note 4.
- impairment of loans to customers and finance lease receivables - Note 6.
- estimates of fair value of financial assets and liabilities - Note 29.



## **(d) Functional and presentation currency**

The functional currency of the Company is the Kazakhstan tenge (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 them.

KZT is also the presentation currency for the purposes of these financial statements.

All financial information presented in KZT has been rounded to the nearest thousand, except when otherwise indicated.

## **(e) Changes in accounting policies and presentation**

### **IFRS 16 Leases**

The Company has initially adopted IFRS 16 Leases from 1 January 2019.

A number of new pronouncements are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

### **Definition of a lease**

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

### **As a lessee**

The Company leases assets, including properties.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership for underlying asset.

However, the Company has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### **Transition**

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17, i.e. applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

## As a lessor

The accounting policies applicable to the Company as a lessor are not different from those under IAS 17.

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

## 3. Significant accounting policies

Except for the changes disclosed in Note 2(e), the Company has consistently applied the following accounting policies to all periods presented in these financial statements.

### (a) Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company 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 interest 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 was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are

## Impacts on financial statements

### Impacts on transition

On transition to IFRS 16, the Company has no items to recognise additional right-of-use assets.

translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

### (b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the NBRK and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company the management of short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## (c) Interest income and expense

### Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

### Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' measured at amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

## Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see 3(e)(iv).

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive includes interest expense on financial liabilities.

## Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and other comprehensive includes interest expense on financial liabilities measured at amortised cost.

## (d) Fee and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(c)).

Other fee and commission income—including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Company first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

## (e) Financial assets and financial liabilities

### (i) Classification

#### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and

- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income.

Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

## Business model assessment

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

the stated policies and objectives for the portfolio and the operation of those policies in practice, In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Company's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

## Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, 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 making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;

- leverage features;

- prepayment and extension terms;



- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements ); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

## Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

## Financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

## Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

## (ii) Derecognition

### Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities, as explained in Note 3(e)(i). Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

## Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

## (iii) Modification of financial assets and financial liabilities

### Financial assets

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Company due to changes in the NBRK key rate, if the loan agreement entitles the Company to do so.

The Company performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Company analogizes to the guidance on the derecognition of financial liabilities.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- the change in the currency of a financial asset;
- change in collateral or other credit enhancement;

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Company further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(e)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(c)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Company treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

## Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Company assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors.

The Company concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion feature;
- change the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

#### (iv) Impairment

See also Note 4.

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- finance lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 4).

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments.

#### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Company expects to recover. See also Note 4.

#### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(e)(iii)) and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 4).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

## Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired (are referred to as 'Stage 3' financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

## Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;

- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

## Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

## Objective evidence of impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of the borrower or issuer;

- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for security, or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Company considered evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and receivables and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified (IBNR). Loans and receivables and held-to-maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together financial assets with similar credit risk characteristics.

### Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial position and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate

experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and receivables, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

### Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

### Reversal of impairment

- For assets measured at amortised cost: if an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- For available-for-sale debt security: if, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised,



then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through other comprehensive income.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in other comprehensive income.

## Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by transferring the cumulative loss that is recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

## Write-off

The Company wrote off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Company determined that there was no realistic prospect of recovery.

## (f) Loans to customers

'Loans to customers' caption in the statement of financial position include:

- loans to customers measured at amortised cost (see Note 3(e)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans to customers were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the

Company did not intend to sell immediately or in the near term.

Loans to customers included those classified as loans and receivables.

Loans to customers were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## (g) Investment securities

The 'debt securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(e)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- debt and equity investment securities mandatorily measured at FVTPL or designated as at FVTPL (see Note 3(e)(i)); these are measured at fair value with changes recognised immediately in profit or loss.

## (h) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## (i) Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repurchase agreements within cash and cash equivalents. The difference between the purchase and resale prices represents interest income and is recognised in profit or loss over the term of the repo agreement using the effective interest method. If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

## (j) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

## (k) Leases

### Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

### (i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line

method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment

is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

## **(ii) As a lessor**

At inception or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Company applies IFRS 15 to allocate the consideration in the contract. The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'. Generally, the accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

## **Policy applicable before 1 January 2019**

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output;
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

## **(i) As a lessee**

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

## **(ii) As a lessor**

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

## **(l) Foreclosed assets**

Foreclosed assets are measured at the lower of cost or net realisable value. The cost of foreclosed assets is based on the specific identification principle, and recorded at net book value of the underlying loan or lease base at foreclosure date. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

## **(m) Property, plant and equipment**

### **(i) Owned assets**

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

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

## **(ii) Depreciation**

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated.

The estimated useful lives are as follows:

- buildings	8-100 years
- Computer equipment	2-10 years;
- vehicles	5-7 years
- Other assets	3-20 years

## **(n) Intangible assets**

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

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

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 year for programme software to 20 years for licenses.

## **(o) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is stated at cost less accumulated depreciation and impairment losses.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

## **(p) Assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Company's accounting policies. Such assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less cost to sell.

## **(q) Inventories**

Inventories include assets to be transferred under finance lease agreements and other inventory. Assets to be transferred under finance lease are real estate objects acquired by the Company and transferred to the lessees once the title of ownership on objects is obtained. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

## **(r) Impairment of 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. 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 if the carrying amount of an asset or its related CGU exceeds its estimated 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 is reversed only 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.

## **(s) Government grants**

Government grants are assistance by the Government, Government agencies and state-owned entities in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to the operating activities of the Company. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and the grants will be received, provided that there are terms that may require repayment. The benefit of a government loan at a below-market rate of interest is treated as a government grant. The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan and the proceeds received.

Government grants that compensate the Company for expenses incurred are recognised in profit or loss as expenses on a systematic basis in the same periods in which the expenses are recognised.



## **(t) Share capital**

### **(i) Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### **(ii) Repurchase of share capital**

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

### **(iii) Dividends**

The ability of the Company to declare and pay dividends is subject to the current legislation of the Republic of Kazakhstan.

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

## **(u) Taxation**

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

## **Current tax**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Deferred tax assets and liabilities are 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 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. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits are considered. Deferred 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 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 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 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 tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets 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 tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

#### **(v) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company); whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

#### **(w) New standards and interpretations not yet adopted**

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- IFRS 17 Insurance Contracts.

## **4. Financial risk review**

This note presents information about the Company's exposure to financial risks. For information on the Company's financial risk management framework, see Note 24.

### **Credit risk - Amounts arising from ECL**

#### **Inputs, assumptions and techniques used for estimating impairment**

See accounting policy in Note 3(e)(iv).

#### **Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

## Credit risk grades

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default

occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

### Corporate exposure

- Information obtained during periodic review of borrower files – e.g. audited financial statements, management accounts, budgets and projections.

---

- Data from credit reference agencies, press articles, changes in external credit ratings;

---

- Quoted bond and credit default swap (CDS) prices for the issuer where available;

---

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

### All exposures (corporate and retail exposures)

- Payment record – this includes overdue status.

---

- Requests for and granting of forbearance;

---

- Existing and forecast changes in business, financial and economic conditions;

## Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by jurisdiction or region, type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicator is likely to be GDP growth.

The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information (see discussion below on incorporation of forward-looking information). The Company then uses these forecasts to adjust its estimates of PDs.

## Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

## Definition of default

The Company considers a financial asset to be in default when:

- there is a delay in payments of 90 (ninety) days and more as at the reporting date;
- there is a delay in payments of 7 (seven) days and more on interbank claims and securities as at the reporting date;
- the financial instrument has been restructured due to the borrower's financial difficulties, which resulted in decrease in the net present value of the operating cash flows by 10% and more;
- according to information from the publicly available information sources the counterparty is in the state of bankruptcy;
- the external credit rating of the financial instrument/counterparty is CC- (hereinafter according to the rating scales of Standard&Poor's, Moody's, etc.);
- at the current reporting date the Company has defaulted on another financial instrument of the counterparty;
- other indicators which evidence the counterparty's impaired ability to fulfil its financial liabilities to the Company and deterioration of the state of financial asset/increased probability of fulfilment by the Company of the contingent liabilities.  
In assessing whether a borrower is in default, the Company considers indicators that are:
  - qualitative – e.g. breaches of covenant;
  - quantitative – e.g. overdue status and non-payment of another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources. Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

## Incorporating of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company uses expert judgment in assessment of forward-looking information. This assessment is based also on external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, such as the National Bank of the Republic of Kazakhstan and selected private sector and academic forecasters.

## Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(e)(iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time). The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the customer is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the counteragent's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(c)(iv)) /in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

## Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount



drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;

- credit risk gradings;

- collateral type;

- date of initial recognition;

- remaining term to maturity;

- financing program.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

'000 KZT	Exposure	External benchmarks used	
		PD	LGD
Cash and cash equivalents	32,735,123	Moody's default study Probability of default model	For local credit exposures LGD statistics is based on recovery after defaults of banks and financial institutions in Kazakhstan
Placements with banks and other financial institutions	2,013,628		
Investment securities measured at amortised cost	19,918,195		
Other financial assets	46,091		

## 5. Net interest income

Interest income calculated using the effective interest method	2019 '000 KZT	2018 '000 KZT
<b>Financial assets measured at amortised cost</b>		
Loans to customers	6,145,347	5,154,079
Investment securities measured at amortised cost	2,137,620	1,404,823
Reverse repurchase agreements	1,222,915	914,757
Placements with banks and other financial institutions	1,209,255	362,110
Cash and cash equivalents	412,375	869,257
Other assets	181,257	76,296
<b>Other interest income</b>	<b>11,308,769</b>	<b>8,781,322</b>
Finance lease receivables	8,804,157	8,017,419
Investment securities measured at fair value through profit or loss	273,052	398,035
<b>Interest expense</b>	<b>9,077,209</b>	<b>8,415,454</b>
Debt securities issued	(5,662,460)	(5,039,926)
Other borrowed funds	(2,276,541)	(2,310,921)
Recognition of discount on long-term receivables	(521)	(30,888)
<b>Net interest income</b>	<b>(7,939,522)</b>	<b>(7,381,735)</b>
	<b>12,446,456</b>	<b>9,815,041</b>

Included within various line items under interest income for the year ended 31 December 2019 is a total of KZT 214,191 thousand (2018: KZT 402,815 thousand) accrued on impaired financial assets allocated to Stage 3 in 2019. Interest

income on finance lease receivables for the period ended 31 December 2019 comprises amortisation of deferred income of KZT 4,074,156 thousand (2018: KZT 3,758,780 thousand) (Note 21).

## 6. Income/(losses) on impairment of debt financial instruments

	2019 '000 KZT	2018 KZT'000
Finance lease receivables (Note 14)	(183,789)	(354,201)
Cash and cash equivalents (Note 10)	139,339	71,805
Loans to customers (Note 13)	297,210	(218,974)
Placements with banks and other financial institutions (Note 11)	68,117	(29,770)
Investment securities measured at amortised cost (Note 12)	(20,447)	88,477
Other assets (Note 18)	581,795	(478,354)
	<b>882,225</b>	<b>(921,017)</b>

## 7. Personnel expenses

	2019 '000 KZT	2018 KZT'000
Employee compensation	1,533,838	1,416,137
Salary related taxes	142,661	130,596
	<b>1,676,499</b>	<b>1,546,733</b>



## 8. General and administrative expenses

	2019 '000 KZT	2018 KZT'000
Depreciation and amortisation	275,432	144,860
Taxes other than income tax	250,609	276,622
Repair and maintenance of property, plant and equipment and intangible assets	179,393	82,932
Land-use planning expenses	161,588	30,532
Advertising and marketing	150,972	141,292
Outsourcing	137,970	97,569
Consulting services	68,119	20,999
Insurance expenses	67,362	59,194
Utilities	52,384	160,364
Occupancy	50,330	51,673
Security	39,176	70,097
Business travel	37,200	34,477
Communication services	35,420	29,319
Medical care expenses	31,624	29,000
Auditor's fee	26,120	20,147
Employee training and advanced training - external	21,934	21,870
Board of Directors expenses	20,553	32,684

continued on next page



continued from previous page

	2019 '000 KZT	2018 KZT'000
Supplies	19,936	10,625
Information services	18,392	15,304
Stationery and printing	2,183	1,648
State Center for Pension Payments' services expenses	1,934	8,740
Other	66,975	102,585
	<b>1,715,606</b>	<b>1,442,533</b>

## 9. Income tax expense

	2019 '000 KZT	2018 KZT'000
Current year tax expense	(1,058,141)	(787,798)
Underprovided in prior years	(2,827)	(113,631)
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences and movement in valuation allowance	(266,377)	(294,339)
<b>Total income tax expense</b>	<b>(1,327,345)</b>	<b>(1,195,768)</b>

In 2019, the applicable tax rate for current and deferred tax is 20% (2018: 20%).

**Reconciliation of effective tax rate for the year ended 31 December:**

	2019 '000 KZT	%	2018 '000 KZT	%
Profit before income tax	<b>9,919,111</b>	<b>100</b>	<b>5,814,914</b>	<b>100</b>
Income tax at the applicable tax rate	(1,983,822)	(20)	(1,162,983)	(20)
Non-taxable interest income on securities	482,130	5	356,437	6
Non-taxable income on reversal of allowance / (non-deductible impairment losses)	117,003	1	(186,396)	(3)
Other non-deductible expenses	(74,981)	(1)	(89,195)	(2)
Change in deferred tax asset for the previous year	135,152	1	-	-
Underprovided in prior periods	(2,827)	-	(113,631)	(2)
	<b>(1,327,345)</b>	<b>(14)</b>	<b>(1,195,768)</b>	<b>(21)</b>

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets as at 31 December 2019 and 31 December 2018, respectively.

## Deferred tax assets and liabilities

Movements in temporary differences for the year ended 31 December 2019 are presented as follows:

'000 KZT	1 January 2019	Recognised in profit or loss	31 December 2019
Property, plant and equipment	(76,183)	68,921	(7,262)
Other assets	19,357	47,564	66,921
Loans issued	41,580	28,787	70,367
Placements	-	49,773	49,773
Other borrowed funds	(22,052,229)	413,763	(21,638,466)
Deferred income	20,425,257	(814,831)	19,610,426
Issued bonds	-	(62,439)	(62,439)
Other liabilities	37,926	2,085	40,011
Tax loss carry-forwards	370,994	-	370,994
	<b>(1,233,298)</b>	<b>(266,377)</b>	<b>(1,499,675)</b>
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	<b>(1,604,292)</b>	<b>(266,377)</b>	<b>(1,870,669)</b>

Movements in temporary differences for the year ended 31 December 2018 are presented as follows:

'000 KZT	1 January 2018	Recognised in profit or loss	31 December 2018
Property, plant and equipment	(72,970)	(3,213)	(76,183)
Available-for-sale financial assets	3,299	(3,299)	-
Other assets	8,072	11,285	19,357
Loans issued	-	41,580	41,580
Other borrowed funds	(22,674,344)	622,115	(22,052,229)
Deferred income	21,378,684	(953,427)	20,425,257
Other liabilities	47,306	(9,380)	37,926
Tax loss carry-forwards	370,994	-	370,994
	<b>(938,959)</b>	<b>(294,339)</b>	<b>(1,233,298)</b>
Unrecognised deferred tax asset	(370,994)	-	(370,994)
	<b>(1,309,953)</b>	<b>(294,339)</b>	<b>(1,604,292)</b>

## 10. Cash and cash equivalents

'000 KZT	31 December 2019			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	
<b>Nostro accounts with the NBRK</b>	437,861	-	-	437,861
<b>Nostro accounts with other banks</b>				
- rated BBB-	2,824,961	-	-	2,824,961
- rated BBB+	750,132	-	-	750,132
- rated BB+	83,029	-	-	83,029
- rated BB-	19,116	-	-	19,116
- rated B+	386	-	-	386
- rated B	27,565	-	-	27,565
- rated B-	5,443	-	-	5,443
- not rated	-	-	2,066,083	2,066,083
<b>Total Nostro accounts with banks before impairment allowance</b>	<b>4,148,493</b>	-	<b>2,066,083</b>	<b>6,214,576</b>
<b>Loss allowance</b>	<b>(6,804)</b>	-	<b>(2,066,083)</b>	<b>(2,072,887)</b>
<b>Reverse repurchase agreements</b>				
- rated from AAA- to AAA+	4,206,527	-	-	4,206,527
- rated from BBB- to BBB+	24,386,907	-	-	24,386,907
<b>Total cash and cash equivalents</b>	<b>32,735,123</b>	-	-	<b>32,735,123</b>



'000 KZT	31 December 2018			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	
<b>Nostro accounts with the NBRK</b>	179,831	-	-	179,831
<b>Nostro accounts with other banks</b>				
- rated BBB-	11,937,932	-	-	11,937,932
- rated BB+	479	-	-	479
- rated BB	4,428,405	-	-	4,428,405
- rated BB-	7,534,735	-	-	7,534,735
- rated B	195,575	-	-	195,575
- rated B-	221	-	-	221
-not rated	-	-	2,139,533	2,139,533
<b>Total Nostro accounts with banks before impairment allowance</b>	<b>24,277,178</b>	-	<b>2,139,533</b>	<b>26,416,711</b>
<b>Loss allowance</b>	<b>(101,458)</b>	-	<b>(2,110,826)</b>	<b>(2,212,284)</b>
<b>Reverse repurchase agreements</b>				
- rated from BBB- to BBB+	21,698,963	-	-	21,698,963
<b>Total cash and cash equivalents</b>	<b>45,874,683</b>	-	<b>28,707</b>	<b>45,903,390</b>

The credit ratings are presented by reference to the credit ratings of Standard & Poor's rating agency or analogues of similar international rating agencies.

On 27 December 2016 the NBRK revoked the licence of Kazinvestbank JSC (KIB) citing its repeated failures to fulfil its payment operation liabilities. As at 31 December 2019 the Company considers the nostro account held with KIB for the total amount of KZT 2,066,083 thousand fully impaired as based on its understanding of the KIB's current position and credit risk (31 December 2018: KZT 2,106,153 thousand).

As at 31 December 2019 the Company has no banks (2018: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2018 is KZT 19,442,212 thousand.

In 2019, the Company entered into reverse repurchase agreements with counterparties at Kazakhstan Stock Exchange (KASE). These transactions are collateralised with the treasury bills of the Ministry of Finance of the Republic of Kazakhstan, Eurasian Development Bank, and Baspana Mortgage Organisation JSC and with notes of the NBRK and International Finance Corporation. As at 31 December 2019 the fair value of financial assets collateralising reverse repurchase agreements is KZT 29,653,837 thousand (31 December 2018: KZT 22,655,276 thousand).

## Analysis of movements in loss allowance

тыс. тенге	Year ended 31 December 2019			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Total
Balance at 1 January	101,368	-	2,110,916	2,212,284
Net recovery of loss allowance	(94,506)	-	(44,833)	(139,339)
Foreign exchange and other movements	(58)	-	-	(58)
<b>Impairment allowance as at the end of the period</b>	<b>6,804</b>	<b>-</b>	<b>2,066,083</b>	<b>2,072,887</b>

тыс. тенге	Year ended 31 December 2018			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Total
Balance at 1 January	140,770	-	2,141,045	2,281,815
Transfer to Stage 3	(45)	-	45	-
Net recovery of loss allowance	(41,631)	-	(30,174)	(71,805)
Foreign exchange and other movements	2,274	-	-	2,274
<b>Impairment allowance as at the end of the period</b>	<b>101,368</b>	<b>-</b>	<b>2,110,916</b>	<b>2,212,284</b>

## 11. Placements with banks and other financial institutions

'000 KZT	31 December 2019 12-month expected credit losses (ECL)	31 December 2018 12-month expected credit losses (ECL)
- rated BBB+	564,716	-
- rated BB+	1,452,694	-
- rated BB	-	48,221
- rated B+	-	2,426,499
	<b>2,017,410</b>	<b>2,474,720</b>
<b>Loss allowance</b>	<b>(3,782)</b>	<b>(71,899)</b>
<b>Total placements with banks and other financial institutions</b>	<b>2,013,628</b>	<b>2,402,821</b>

The credit ratings are presented by reference to the credit ratings of Standard & Poor's rating agency or analogues of similar international rating agencies. None of the balances of placements are past due.

As at 31 December 2019 the Company placed term deposits with annual interest

rates of 8.50%, 8.60% and 9.00% (2018: 13.00%), which have maturities in January, February and September 2020, respectively (2018: April 2019).

As at 31 December 2019 the Company has no banks (2018: no banks), whose balances exceed 10% of equity.

## Analysis of movements in loss allowance

12-month expected credit losses	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Balance at 1 January	(71,899)	(42,129)
Net recovery of loss allowance	71,899	(29,770)
Net recovery of impairment allowance	(3,782)	-
<b>Impairment allowance as at the end of the period</b>	<b>(3,782)</b>	<b>(71,899)</b>



## 12. Investment securities

Investment securities measured at fair value through profit or loss	31 December 2019 '000 KZT	31 December 2018 '000 KZT
Corporate bonds rated from BB- to BB+	-	2,052,732
Corporate bonds rated from B- to B+	1,785,702	1,745,312
Corporate bonds not rated	933,590	966,182
	<b>2,719,292</b>	<b>4,764,226</b>

'000 KZT	31 December 2019			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	
<b>Investment securities measured at amortised cost</b>				
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,494,714	-	-	1,494,714
Notes of the National Bank of the RK	7,457,807	-	-	7,457,807
- rated from B+ to B-	10,988,970	-	-	10,988,970
-not rated	-	-	2,102,726	2,102,726
	<b>19,941,491</b>	-	<b>2,102,726</b>	<b>22,044,217</b>
<b>Loss allowance</b>	<b>(23,296)</b>	-	<b>(2,102,726)</b>	<b>(2,126,022)</b>
<b>Carrying amount</b>	<b>19,918,195</b>	-	-	<b>19,918,195</b>



'000 KZT	31 December 2018			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	
<b>Investment securities measured at amortised cost</b>				
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	1,501,776	-	-	1,501,776
Rated from B+ to B-	10,620,244	-	-	10,620,244
-not rated	-	-	2,102,726	2,102,726
	<b>12,122,020</b>	-	<b>2,102,726</b>	<b>14,224,746</b>
<b>Loss allowance</b>	<b>(2,849)</b>	-	<b>(2,102,726)</b>	<b>(2,105,575)</b>
<b>Carrying amount</b>	<b>12,119,171</b>	-	-	<b>12,119,171</b>

The credit ratings are presented by reference to the credit ratings of Standard & Poor's rating agency or analogues of similar international rating agencies. In April 2019 the Company acquired coupon bonds issued by Bank CenterCredit JSC for the amount of KZT 368,266 thousand.

In July 2019, the Company redeemed coupon bonds issued by Kaspi Bank JSC for the amount of KZT 2,000,000 thousand.

During 2019, the Company acquired notes of the National Bank of the RK for total amount of KZT 86,113,432 thousand and redeemed notes for total amount of KZT 79,500,000 thousand.

Corporate bonds are interest-bearing securities, issued by local companies

and banks. These securities are freely tradable on Kazakhstan Stock Exchange ("KASE"), except for the bonds of Kazakhstan Kagazy JSC ("KK") and "Corporation "APK Invest" LLC ("APK") with gross amounts of KZT 1,117,796 thousand and KZT 984,930 thousand, respectively (31 December 2018: bonds of KK and APK with gross amounts of KZT 1,117,796 thousand and KZT 984,930 thousand, respectively). Bonds of KK and APK were excluded from trading on KASE on 13 November 2015 and 4 July 2017, respectively.

As at 31 December 2019 and 2018 the Company considers bonds fully impaired as based on its understanding of the issuers' financial positions it does not expect probable future cash flows from the assets.

## Analysis of movements in loss allowance

	Year ended 31 December 2019		
	12-month expected credit losses (ECL)	Lifetime ECL for credit-impaired assets	'000 KZT
Balance at 1 January	2,849	2,102,726	2,105,575
Net remeasurement of loss allowance	(191)	-	(191)
New financial assets originated or purchased	20,638	-	20,638
<b>Impairment allowance as at the end of the period</b>	<b>23,296</b>	<b>2,102,726</b>	<b>2,126,022</b>

	Year ended 31 December 2018		
	12-month expected credit losses (ECL)	Lifetime ECL for credit-impaired assets	'000 KZT
Balance at 1 January	19,842	2,668,610	2,688,452
Net (charge)/recovery of impairment allowance	(16,993)	(71,484)	(88,477)
Financial assets that have been derecognised	-	(494,400)	(494,400)
<b>Impairment allowance as at the end of the period</b>	<b>2,849</b>	<b>2,102,726</b>	<b>2,105,575</b>

## 13. Loans to customers

Loans to customers comprise mortgage loans purchased from commercial banks and credit institutions of the Republic of Kazakhstan and mortgage loans

issued to individuals. The loan portfolio comprises KZT- and USD-denominated mortgage loans extended to individuals, citizens of the Republic of Kazakhstan.

	2019 '000 KZT	2018 '000 KZT
Gross mortgage loans to customers	66,981,591	47,753,274
Impairment allowance	(4,318,344)	(4,686,711)
<b>Net loans to customers</b>	<b>62,663,247</b>	<b>43,066,563</b>

During the year ended 31 December 2019 the Company acquired mortgage loan portfolios from two commercial banks (2018: acquired mortgage loan portfolios

from one commercial bank). The loans acquired during 2019 were recognised at fair value totalling KZT 23,746,429 thousand (2018: KZT 4,940,099 thousand).



## (a) Credit quality of mortgage loans

The following table provides information on the credit quality of mortgage loans to customers as at 31 December 2019 and 31 December 2018:

'000 KZT	31 December 2019				Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Acquired assets credit-impaired on initial recognition	
- not overdue	58,132,344	667,173	1,306,676	144,605	60,250,798
- overdue less than 30 days	1,796,065	-	225,443	1,475	2,022,983
- overdue 30-89 days	-	847,345	158,023	4,359	1,009,727
- overdue 90-179 days	-	-	554,486	1,257	555,743
- overdue 180-360 days	-	-	70,793	-	70,793
- overdue more than 360 days	-	-	3,071,547	-	3,071,547
	<b>59,928,409</b>	<b>1,514,518</b>	<b>5,386,968</b>	<b>151,696</b>	<b>66,981,591</b>
<b>Loss allowance</b>	<b>(614,135)</b>	<b>(209,234)</b>	<b>(3,343,279)</b>	<b>(151,696)</b>	<b>(4,318,344)</b>
<b>Carrying amount</b>	<b>59,314,274</b>	<b>1,305,284</b>	<b>2,043,689</b>	-	<b>62,663,247</b>

'000 KZT	31 December 2018				
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Acquired assets credit-impaired on initial recognition	Total
- not overdue	38,669,319	-	1,785,681	-	40,455,000
- overdue less than 30 days	1,552,562	-	166,962	-	1,719,524
- overdue 30-89 days	-	572,732	529,209	-	1,101,941
- overdue 90-179 days	-	-	492,810	-	492,810
- overdue 180-360 days	-	-	632,256	-	632,256
- overdue more than 360 days	-	-	3,351,743	-	3,351,743
	<b>40,221,881</b>	<b>572,732</b>	<b>6,958,661</b>	-	<b>47,753,274</b>
<b>Loss allowance</b>	<b>(651,134)</b>	<b>(59,750)</b>	<b>(3,975,827)</b>	-	<b>(4,686,711)</b>
<b>Carrying amount</b>	<b>39,570,747</b>	<b>512,982</b>	<b>2,982,834</b>	-	<b>43,066,563</b>

As at 31 December 2019 carrying amounts of loans with full recourse and partial recourse to the seller were KZT 23,668,110 thousand and KZT 5,661,955 thousand, respectively (31 December 2018: KZT 8,338,280 thousand and KZT 14,047,193 thousand, respectively).

In accordance with agreements on partial recourse, the recourse option does not exceed 20% of the total principal amount of mortgage loans at the date of purchase of those loans.



## (b) Analysis of movements in loss allowance

The significant changes in the gross carrying amount of the mortgage portfolio are further explained below:

	Year ended 31 December 2019				
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	POCI	Total '000 KZT
Impairment allowance as at the beginning of the period	651,134	59,750	3,975,827	-	4,686,711
Transfer to Stage 1	5,187	(2,590)	(2,597)	-	-
Transfer to Stage 2	(32,783)	54,971	(22,188)	-	-
Transfer to Stage 3	(7,801)	(8,489)	16,290	-	-
Net remeasurement	(393,262)	99,177	(564,589)	-	(858,674)
New financial assets originated or purchased	409,768	-	-	151,696	561,464
Transfers on newly created loans to other stages	(18,054)	6,203	11,851	-	-
Write-off	-	-	(159,047)	-	(159,047)
Foreign currency translation differences	(54)	-	-	-	(54)
Unwinding of discount	-	212	87,732	-	87,944
<b>Impairment allowance as at the end of the period</b>	<b>614,135</b>	<b>209,234</b>	<b>3,343,279</b>	<b>151,696</b>	<b>4,318,344</b>

	Year ended 31 December 2018			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Total '000 KZT
Impairment allowance as at the beginning of the period	635,112	-	3,955,211	4,590,323
Transfer to Stage 1	9,035	(8,982)	(53)	-
Transfer to Stage 2	(5,849)	5,849	-	-
Transfer to Stage 3	(10,284)	(9,723)	20,007	-
Net remeasurement	(23,459)	67,965	133,611	178,117
New financial assets originated or purchased	40,856	-	-	40,856
Transfers on newly created loans to other stages	(1,387)	1,185	202	-
Write-off	-	-	(133,559)	(133,559)
Foreign currency translation differences	7,110	3,456	408	10,974
<b>Impairment allowance as at the end of the period</b>	<b>651,134</b>	<b>59,750</b>	<b>3,975,827</b>	<b>4,686,711</b>



The significant changes in the gross carrying amount of the mortgage portfolio are further explained below:

'000 KZT	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January	40,221,881	572,732	6,958,661	-	47,753,274
Transfer to Stage 1	490,162	(228,644)	(261,518)	-	-
Transfer to Stage 2	(1,034,144)	1,177,677	(143,533)	-	-
Transfer to Stage 3	(343,167)	(70,232)	261,703	151,696	-
New financial assets originated or purchased	32,563,048	-	-	-	32,563,048
Transfers on newly created loans to other stages	(590,555)	261,326	329,229	-	-
Repayments (early or partial repayment)	(11,378,816)	(198,553)	(1,686,259)	-	(13,263,628)
Write-offs	-	-	(159,047)	-	(159,047)
Unwinding of discount	-	212	87,732	-	87,944
<b>Balance at 31 December</b>	<b>59,928,409</b>	<b>1,514,518</b>	<b>5,386,968</b>	<b>151,696</b>	<b>66,981,591</b>

'000 KZT	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans to customers</b>				
Balance at 1 January	46,493,117	588,240	6,976,459	54,057,816
Transfer to Stage 1	446,686	(421,146)	(25,540)	-
Transfer to Stage 2	(476,744)	477,905	(1,161)	-
Transfer to Stage 3	(720,697)	(51,336)	772,033	-
New financial assets originated or purchased	6,288,494	-	-	6,288,494
Transfers on newly created loans to other stages	(429,335)	364,199	65,136	-
Repayments (early or partial repayment)	(11,379,640)	(385,130)	(828,266)	(12,593,036)
<b>Balance at 31 December</b>	<b>40,221,881</b>	<b>572,732</b>	<b>6,958,661</b>	<b>47,753,274</b>

#### (d) Analysis of collateral

Mortgage loans are secured by the underlying housing real estate.

For loans with recourse to the seller, the commercial banks-partners are responsible for monitoring of collateral on a periodic basis according to requirements of the NBRK. The recoverability of these loans is primarily

dependent on the creditworthiness of the commercial banks-partners rather than the value of collateral, and the current value of the collateral has lesser impact on the impairment assessment.

The following tables provide information on the fair value of collateral securing mortgage loans (net of impairment allowance):

31 December 2019 '000 KZT	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	59,181,074	35,362,320	44,922	23,773,832
Overdue loans	3,482,173	2,785,484	-	696,689
	<b>62,663,247</b>	<b>38,147,804</b>	<b>44,922</b>	<b>24,470,521</b>

31 December 2019 '000 KZT	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
Not overdue loans	39,413,303	37,558,619	1,821,684	33,000
Overdue loans	3,653,260	3,587,447	64,863	950
	<b>43,066,563</b>	<b>41,146,066</b>	<b>1,886,547</b>	<b>33,950</b>

The tables above exclude overcollateralization.

The Company updates the appraised values of collateral obtained at inception of

the loan to the present value considering the approximate changes in property values. The Company may also obtain a specific individual valuation of collateral at each reporting date where there are indications of impairment.



## Reposessed collateral

The Company obtains certain assets by taking possession of collateral for loans to retail customers. As at 31 December 2019, the carrying amount of such assets was KZT 606,257 thousand (2018: KZT 946,615 thousand), which reposessed collateral consisted of investment property of KZT 32,431 thousand (2018: KZT 647,704 thousand) and other assets of KZT 573,827 thousand (2018: KZT 298,911 thousand).

The Company's policy is to sell these assets.

## (d) Asset securitisation

The amount of principal of loans to customers of KZT 7,588,178 thousand (2018: KZT 18,218,416 thousand) serves as collateral for debt securities issued by the Company

As at 31 December 2019, the carrying amount of these debt securities is KZT 6,560,590 thousand (31 December 2018: KZT 16,840,429 thousand) See Note 19.

## (e) Significant credit exposures

As at 31 December 2019 the Company has one bank not rated (2018: one bank not rated) to whom the Company has recourse in respect of its purchased loans, whose loan exposures exceed 10% of equity. The gross value of these balances as at 31 December 2019 is KZT 6,747,562 thousand (2018: KZT 10,609,795 thousand).

## (f) Loan maturities

The maturity of the loan portfolio is presented in Note 24(e), which shows the remaining period from the reporting date to the contractual maturity of the loans.



## 14. Finance lease receivables

The components of net investments in finance lease as at 31 December 2019 and 2018 and are as follows:

'000 KZT	31 December 2019	31 December 2018
Less than 1 year	10,777,612	10,298,630
From 1 to 2 years	10,966,770	10,392,946
From 2 to 3 years	10,966,455	10,389,940
From 3 to 4 years	10,964,345	10,387,262
From 4 to 5 years	10,964,036	10,385,336
More than 5 years	133,125,436	134,837,019
<b>Minimum lease payments</b>	<b>187,764,655</b>	<b>186,691,133</b>
<b>Less unearned finance income</b>		
Less than 1 year	(4,240,135)	(4,218,732)
From one year to five years	(15,923,361)	(15,860,417)
More than 5 years	(22,895,859)	(24,733,651)
<b>Less unearned finance income, total</b>	<b>(43,059,355)</b>	<b>(44,812,800)</b>
Less impairment allowance	(914,264)	(725,237)
<b>Net investment in finance lease</b>	<b>143,791,036</b>	<b>141,153,096</b>

The Company leases out housing real estate under Nurly Zher Programme and Own Programme.

These lease agreements are classified as finance lease under IFRS 16 because ownership of the assets gets transferred to lessees by the end of the lease term, and at the inception the present value of the minimum lease payments amounts to substantially all of the fair value of the leased assets.

The finance lease agreements under Own Programme have a maturity term of up to 20 years and bear nominal interest rates of 11.50% and 13.00%. The finance lease agreements for Nurly Zher Programme have a maturity term of 20 years

and monthly lease payments limited to KZT 1,120 per square meter for Almaty and Astana cities and KZT 924 per square meter in other regions. The interest rate implicit in the lease agreements under Nurly Zher Programme is 3.1%.

## Analysis of collateral

The following table provides information on collateral, leased assets and other credit enhancements securing finance lease receivables, net of impairment allowance, as at 31 December 2019 and 2018, by types of collateral.

31 December 2019	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
'000 KZT				
Not overdue loans	130,016,780	130,016,780	-	-
Overdue loans	13,774,256	13,774,256	-	-
	<b>143,791,036</b>	<b>143,791,036</b>	-	-

31 December 2018	Carrying amount of loans to customers	Fair value of collateral: for collateral assessed as of reporting date	Fair value of collateral: for collateral assessed as of loan inception date	Fair value of collateral not determined
'000 KZT				
Not overdue loans	127,525,841	127,525,841	-	-
Overdue loans	13,627,255	13,627,255	-	-
	<b>141,153,096</b>	<b>141,153,096</b>	-	-

The tables above exclude overcollateralization.

The Company has no finance lease receivables, for which the fair value of collateral was assessed at the loan inception date and it was not updated for further changes, and finance lease receivables for which the fair value of collateral is not determined. Information on the valuation of collateral is based

on when this estimate was made, if any.

The recoverability of finance lease receivables which are neither past due nor impaired primarily depends on the creditworthiness of lessees rather than the value of collateral, and the Company does not necessarily update the valuation of collateral as at each reporting date.

### (a) Credit quality of finance lease receivables

The following table provides information on the credit quality of finance lease receivables as at 31 December 2019 and 31 December 2018:

'000 KZT	31 December 2019			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Total
- not overdue	130,517,860	369,758	111,576	130,999,194
- overdue less than 30 days	8,623,626	103,576	-	8,727,202
- overdue 30-89 days	-	3,151,461	8,182	3,159,643
- overdue 90-179 days	-	-	1,110,569	1,110,569
- overdue 180-360 days	-	-	555,673	555,673
- overdue more than 360 days	-	-	153,019	153,019
	<b>139,141,486</b>	<b>3,624,795</b>	<b>1,939,019</b>	<b>144,705,300</b>
<b>Loss allowance</b>	<b>(311,070)</b>	<b>(391,984)</b>	<b>(211,210)</b>	<b>(914,264)</b>
<b>Carrying amount</b>	<b>138,830,416</b>	<b>3,232,811</b>	<b>1,727,809</b>	<b>143,791,036</b>

'000 KZT	31 December 2018			Total
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	
- not overdue	128,113,629	188,517	17,027	128,319,173
- overdue less than 30 days	8,447,682	-	7,916	8,455,598
- overdue 30-89 days	-	3,950,513	-	3,950,513
- overdue 90-179 days	-	29,971	762,901	792,872
- overdue 180-360 days	-	-	328,000	328,000
- overdue more than 360 days	-	-	32,177	32,177
	<b>136,561,311</b>	<b>4,169,001</b>	<b>1,148,021</b>	<b>141,878,333</b>
<b>Loss allowance</b>	<b>(226,125)</b>	<b>(393,335)</b>	<b>(105,777)</b>	<b>(725,237)</b>
<b>Carrying amount</b>	<b>136,335,186</b>	<b>3,775,666</b>	<b>1,042,244</b>	<b>141,153,096</b>



## Analysis of movements in loss allowance

Movement in the allowance for finance lease receivables in 3 stages, as at the beginning and end of the period is as follows:

	2019			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Total '000 KZT
Impairment allowance as at the beginning of the period	226,125	393,335	105,777	725,237
Transfer to Stage 1	6,750	(5,966)	(784)	-
Transfer to Stage 2	(280,753)	303,392	(22,639)	-
Transfer to Stage 3	(94,831)	(68,629)	163,460	-
Net remeasurement	433,178	(233,025)	(39,853)	160,300
New financial assets originated or purchased	19,715	2,854	920	23,489
Other changes	886	23	4,329	5,238
<b>Impairment allowance as at the end of the period</b>	<b>311,070</b>	<b>391,984</b>	<b>211,210</b>	<b>914,264</b>



	2018			
	12-month expected credit losses (ECL)	Lifetime ECL of assets not credit-impaired	Lifetime ECL for credit-impaired assets	Total '000 KZT
Impairment allowance as at the beginning of the period	136,902	140,785	93,349	371,036
Transfer to Stage 1	1,676	(1,448)	(228)	-
Transfer to Stage 2	(4,699)	7,144	(2,445)	-
Transfer to Stage 3	(970)	(24,856)	25,826	-
Net remeasurement	48,507	243,024	(13,666)	277,865
New financial assets originated or purchased	44,709	28,686	2,941	76,336
<b>Impairment allowance as at the end of the period</b>	<b>226,125</b>	<b>393,335</b>	<b>105,777</b>	<b>725,237</b>



Significant changes in gross carrying amount of finance lease receivables are as follows:

'000 KZT	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	<b>136,561,311</b>	<b>4,169,001</b>	<b>1,148,021</b>	141,878,333
Transfer to Stage 1	2,843,129	(2,510,362)	(332,767)	-
Transfer to Stage 2	(2,463,992)	2,706,108	(242,116)	-
Transfer to Stage 3	(877,853)	(559,348)	1,437,201	-
Net remeasurement	9,256,647	38,296	12,341	9,307,284
New financial assets originated or purchased	(6,178,643)	(218,922)	(87,990)	(6,485,555)
Other changes	886	23	4,329	5,238
<b>Balance at 31 December</b>	<b>139,141,486</b>	<b>3,624,795</b>	<b>1,939,019</b>	<b>144,705,300</b>

'000 KZT	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Finance lease receivables</b>				
Balance at 1 January	116,411,212	1,434,595	286,099	118,131,906
Transfer to Stage 1	717,847	(675,940)	(41,907)	-
Transfer to Stage 2	(3,607,252)	3,640,243	(32,991)	-
Transfer to Stage 3	(715,328)	(333,231)	1,048,559	-
New financial assets originated or purchased	28,467,173	272,311	39,427	28,778,911
Financial assets that have been derecognised	(4,712,341)	(168,977)	(151,166)	(5,032,484)
<b>Balance at 31 December</b>	<b>136,561,311</b>	<b>4,169,001</b>	<b>1,148,021</b>	<b>141,878,333</b>



## 15. Advances paid for acquisition and construction of real estate

Advances paid for acquisition and construction of real estate comprise advances made by the Company for housing real estate to be acquired from third parties.

The Company plans to lease it out under finance lease, once the legal title on the property passes to the Company.

	2019 '000 KZT	2018 '000 KZT
Tabys-2014 LLP	576,978	-
Alatau City LLP	5,000	-
Baiterek Development JSC	-	914,930
VK-Technogroup LLP	-	57,757
	<b>581,978</b>	<b>972,687</b>

## 16. Assets to be transferred under finance lease agreements

Assets to be transferred under finance lease contracts comprise the residential complexes purchased by the Company during the reporting period which the Company is planning to transfer to the lessees in 2019.

The major portion of the assets relates to assets to be transferred under Nurly Zher Programme.

During 2019, the largest micro districts constructed and acquired by the Company are located in the cities of Aktau, Kostanai, and Aktobe in the total amount of KZT 1,482,688 thousand (2018: micro districts in city of Aktobe in the total amount of KZT 2,173,940 thousand).

## 17. Construction-in-progress

Construction-in-progress represents capitalised costs incurred by the Company during construction of residential real estate in different regions of Kazakhstan as part of implementation of the state and government programs adopted before (the Housing Construction Programme Nurly Zher adopted in accordance with the Decree No. 372 of the Government of the RK dated 22 June 2018, the State Programme of Infrastructure Development Nurly Zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, the Regions Development Program till 2020 approved by the Decree No. 728 of the Government of the Republic of Kazakhstan dated 28 June 2014, integrated into the Housing Construction Programme Nurly Zher, and the "State Programme of Housing and Communal Development" Nurly Zher" for 2020 - 2025", approved by the Decree No. 1054 of the Government of

the Republic of Kazakhstan dated December 31, 2019. The Company will lease out the constructed housing estate in accordance with the terms established by the Nurly Zher Programme through signing the finance lease contracts.

As at 31 December 2019 the largest construction project is the project located in the 14th micro district in Karaganda city in the total amount of kKZT 1,099,726 (2018: relates to projects of construction of unit 63 in the 19th residential area located in Ust-Kamenogorsk, a micro district located between highways Uralsk - Atyrau and Uralsk - Saratov and micro district 14 located in Karaganda in the amount of KZT 1,742,080 thousand, KZT 1,264,415 thousand and KZT 1,043,426 thousand, respectively).



## 18. Other assets

	2019 '000 KZT	2018 '000 KZT
Receivables from sale of assets held for sale	48,990	1,002,020
Receivables on loan refinancing	20,880	1,672
Other receivables	75,496	162,091
Impairment allowance	(99,275)	(681,070)
<b>Total other financial assets</b>	<b>46,091</b>	<b>484,713</b>
Foreclosed property	573,827	298,911
Intangible assets	211,532	211,387
Other prepayments	125,367	140,556
Receivables from government duties	31,102	83,524
Inventories	17,239	23,331
Other	178,778	55,312
<b>Total other non-financial assets</b>	<b>1,137,845</b>	<b>813,021</b>
<b>Total other assets</b>	<b>1,183,936</b>	<b>1,297,734</b>

Foreclosed property comprises real estate collateral accepted by the Company in exchange for its rights and obligations under impaired mortgage loans.

Impairment allowance in the amount of KZT 3,356 thousand relates to receivables from sale of assets held for sale not repaid within the contractual term.



## Analysis of movements in loss allowance

'000 KZT	2019			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Balance at 1 January	<b>11,860</b>	<b>4,128</b>	<b>665,082</b>	<b>681,070</b>
Transfer to Stage 3	(1,660)	-	1,660	-
Net remeasurement of loss allowance	(10,200)	(4,128)	(625,211)	(639,539)
New financial assets originated or purchased	1,696	-	56,048	57,744
<b>Balance at 31 December</b>	<b>1,696</b>	<b>-</b>	<b>97,579</b>	<b>99,275</b>

'000 KZT	2018			
	Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Balance at 1 January	<b>11,545</b>	-	<b>184,261</b>	<b>195,806</b>
Net remeasurement of loss allowance	(6,595)	4,128	480,821	478,354
Foreign exchange and other movements	6,910	-	-	6,910
<b>Balance at 31 December</b>	<b>11,860</b>	<b>4,128</b>	<b>665,082</b>	<b>681,070</b>

## 19. Debt securities issued

Debt securities issued as at 31 December 2019 and 2018 comprised KZT-denominated bonds.

Issue	Maturity date	Nominal coupon rate	Effective rate	2019 '000 KZT	2018 '000 KZT
KZ2C0Y10F013/ KZ2C00003333	15.12.2027	10.5%	9,97%	30,461,640	19,704,387
KZX000000054	28.12.2033	9.58%	9.58%	20,015,967	20,015,966
KZ2C0Y07E517/ KZ2C00002160	26.07.2020	8.5%	8.5%	10,363,558	10,359,342
KZ2C0Y08E218/ KZ2C00001741	02.04.2020	7.00%	10,87%	6,560,590	6,340,429
KZ2C00004356/ KZ2C0Y20F889	21.06.2039	2,99%	2,99%	281,963	-
KZ2C0Y08D913/ KZ2C00000180	24.12.2018	1.00%+NBRK refinancing rate (limited to maximum 10%, minimum 6%) 10,00%	-	-	10,500,000
				<b>67,683,718</b>	<b>66,920,124</b>

Debt securities with ISIN KZ2C00001741 (НИИ KZ2C0Y08E218) are secured under the bank loan agreements issued by the Company and rights of claims under the contracts of bank loans acquired from the partner banks by means of purchase of the mortgage certificates or signing the contracts of assignment of the right of claim (cession contracts) (Note 13) for a total amount of KZT 7 588 178 thousand (2018: KZT 18,218,416 thousand).

In accordance with the bond issue prospects, the Company repaid the principal amount of issued securities in the amount of KZT 10,000,000 thousand and placed the issued securities in the amount of KZT 11,428,937 thousand.

## 20. Other borrowed funds

	2019 '000 KZT	2018 '000 KZT
Loan from National Management Holding “Baiterek” JSC	28,466,442	26,753,934
Due to the Government of the Republic of Kazakhstan	4,923,018	4,566,711
	<b>33,389,460</b>	<b>31,320,645</b>

As at 31 December 2019 and 31 December 2018, other borrowed funds comprised loans from the NMC “Baiterek” JSC under the State Program of Infrastructure Development Nurly Zhol for 2015-2019 adopted in accordance with the Edict of the President of the RK dated 6 April 2015, No.1030; “Regions Development Program till 2020” program approved by the Decree #728 of the Government of the Republic of Kazakhstan dated 28 June 2014, which were integrated in the Program of Housing Construction Nurly Zher with regard to construction and acquisition of the leased and credit housing. As set out in the Nurly Zher Programme, the purpose of the loans is to finance construction and acquisition of housing real estate to be further leased out under finance lease. The loans bear a nominal interest rate of 0.15% per annum and mature in January 2045, January 2046 and June 2046. The principal is repayable at maturity. At initial recognition these 4 loans were recognised at fair value calculated by discounting

the contractual future cash flows applying estimated relevant market interest rate, set out in the contract, ranging from 6.9% to 8.0%. The discount on these loans is recognised as deferred income (Note 21).

Amounts due to the Government of the Republic of Kazakhstan consist of a loan received in December 2007 from the Ministry of Finance of the Republic of Kazakhstan for the purchase of mortgage loans from second-tier banks. The loan carries a nominal interest rate of 0.1% per annum with principal repayable at maturity in December 2027. The fair value of the loan at initial recognition was estimated by discounting the contractual future cash flows of the loan using management’s estimate of a long-term market borrowing rate for the Company of 8% p.a.



Reconciliation of movements of liabilities to cash flows arising from financing activities during the year ended 31 December 2019:

'000 KZT	Liabilities		
	Debt securities issued	Other deposits	Total
<b>Balance at 1 January 2019</b>	<b>66,920,124</b>	<b>31,320,645</b>	<b>98,240,769</b>
<b>Changes from financing cash flows</b>			
Proceeds from debt securities issued	11,425,002	-	11,425,002
Repurchase /repayment of debt securities issued	(10,000,000)	-	(10,000,000)
<b>Total changes from financing cash flows</b>	<b>68,345,126</b>	<b>31,320,645</b>	99,665,771
Interest expense	5,662,460	2,276,541	<b>7,939,001</b>
Interest paid	(6,323,868)	(207,726)	(6,531,594)
<b>Balance at 31 December 2019</b>	<b>67,683,718</b>	<b>33,389,460</b>	<b>101,073,178</b>

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

'000 KZT	Liabilities		
	Debt securities issued	Other deposits	Total
<b>Balance at 1 January 2018</b>	<b>43,177,214</b>	<b>29,832,799</b>	<b>73,010,013</b>
<b>Changes from financing cash flows</b>			
Proceeds from debt securities issued	31,356,189	-	31,356,189
Repurchase/repayment of debt securities issued	(7,920,500)	-	(7,920,500)
Repayment of other borrowed funds	-	(1,621,372)	(1,621,372)
<b>Total changes from financing cash flows</b>	<b>66,612,903</b>	<b>28,211,427</b>	<b>94,824,330</b>
Interest expense	5,039,926	2,310,921	7,350,847
Recalculation of discount due to partial repayment	-	1,008,354	1,008,353
Interest paid	(4,732,705)	(210,057)	(4,942,762)
<b>Balance at 31 December 2018</b>	<b>66,920,124</b>	<b>31,320,645</b>	<b>98,240,769</b>

## 21. Deferred income

	2019 '000 KZT	2018 KZT'000
Balance at the beginning of the year	102,126,287	106,893,420
Reversal of discount due to early repayment of other borrowed funds (Note 20)	-	(1,008,353)
Amortisation for the year	(4,074,156)	(3,758,780)
<b>Balance at the end of the year</b>	<b>98,052,131</b>	<b>102,126,287</b>

During the period ended 31 December 2018, the Company repaid other borrowed funds in the amount of KZT 1,621,372 thousand ahead of initial

schedule. Therefore, a discount of KZT 1,008,354 thousand earlier recognised in deferred income was reversed.





## 22. Other liabilities

	2019 '000 KZT	2018 '000 KZT
Advances received from borrowers	1,400,374	1,255,499
Interest strip payable	266,974	682,204
Subsidy programme obligations	79,952	418,927
Loan portfolios servicing fee payable	33,959	44,226
Professional services	15,631	13,039
<b>Total other financial liabilities</b>	<b>1,796,890</b>	<b>2,413,895</b>
Guarantee fees payable	202,474	153,585
Payables to employees	196,499	186,869
Contract enforcement fees payable	189,920	422,057
Other taxes payable	8,800	9,557
Other non-financial liabilities	223,097	282,025
<b>Total other non-financial liabilities</b>	<b>820,790</b>	<b>1,054,093</b>
<b>Total other liabilities</b>	<b>2,617,680</b>	<b>3,467,988</b>

## 23. Share capital and reserves

### (a) Issued capital and share premium

As at 31 December 2019 and 2018 authorised share capital comprises 13,681,000 ordinary shares. As at 31 December 2019 issued and outstanding share capital comprises 6,331,380 shares (2018: 6,331,380), including treasury shares (Note (c) below).

### (b) Dividends

In accordance with Kazakhstan legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's financial statements prepared in accordance with International Financial Reporting Standards or profit for the year if there is an accumulated loss brought forward. A distribution cannot be made if this would result in negative equity or the Company's insolvency.

During the year ended 31 December 2019, dividends in the amount of KZT 1,385,764 thousand or KZT 227.87 per ordinary share were declared and paid relating to the previous year results of the Company (2018: dividends in the amount of KZT 1,108,575 thousand or KZT 182.29 per ordinary share were declared and paid relating to the previous year results).

### (c) Treasury shares

As at 31 December 2019 and 2018 the Company held 250,000 of its own shares.

### (d) Reserve capital

The Company has established a reserve capital in accordance with a decision of shareholders. As at 31 December 2019 and 2018 the reserve capital amounted to KZT 2,734,447 thousand. This reserve capital is available for distribution.

During the years ended 31 December 2019 and 2018 the shareholders did not make any transfer from accumulated losses to this reserve capital.

### (e) Basic and diluted earnings per share

The calculation of basic and diluted earnings per share is based on the profit or loss for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year.



	2019	2018
Profit for the year, in thousands of KZT	8,591,766	4,619,146
Weighted average number of ordinary shares	6,081,380	6,081,380
<b>Basic and diluted earnings per share (in KZT)</b>	<b>1,413</b>	<b>760</b>

There are no potentially dilutive shares for the years ended 31 December 2019 and 2018.

#### (f) Book value per share

Under the listing rules of the KSE the Company should present book value per share in its financial statements. The book value per share is calculated dividing net assets less intangible assets by number of outstanding ordinary shares.

As at 31 December 2019 the book value per share was KZT 11,326.54 (2018: KZT 10,146.74).

## 24. Risk management

Management of risk is fundamental to the lending business and is an essential element of the Company's operations. The major risks faced by the Company are those related to interest rate and currency risks, credit risk and liquidity risk.

#### (a) Risk management policies and procedures

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

The Management Board has overall responsibility for the oversight of the

risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Company is responsible for monitoring and implementation of risk mitigation measures and making sure that the Company operates within the established risk parameters. The Head of Risk Department of the Company is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks.

The Asset Liability and Risk Management Committee develops proposals on assets/liabilities and risk management based on strategies, policies and procedures approved by the Management Board and the Board of Directors.

Both external and internal risk factors are identified and managed throughout

the Company's organisational structure. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise. The Board of Directors on a regular basis examines reports on risks.

## **(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk. Overall authority for market risk is vested in the Asset, Liability and Risk Management Committee.

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

### **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

### **Interest rate gap analysis**

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

'000 KZT 31 December 2019	Less than 3 month	3-6 months	6-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
<b>ASSETS</b>							
Cash and cash equivalents	32,171,102	-	-	-	-	564,021	32,735,123
Placements with banks and other financial institutions	1,140,789	-	872,839	-	-	-	2,013,628
Investment securities measured:							
- at fair value through profit or loss	1,151,675	634,027	933,590	-	-	-	2,719,292
- at amortised cost	7,937,992		15,279	-	11,964,924	-	19,918,195
Loans to customers	1,737,403	1,887,267	2,665,002	22,678,617	33,694,958	-	62,663,247
Finance lease receivables	1,677,330	1,594,643	3,265,503	27,938,246	109,315,314	-	143,791,036
Other financial assets	-	-	-	45,586	-	505	46,091
<b>Total assets</b>	<b>45,816,291</b>	<b>4,115,937</b>	<b>7,752,213</b>	<b>50,662,449</b>	<b>154,975,196</b>	<b>564,526</b>	<b>263,886,612</b>
<b>LIABILITIES</b>							
Debt securities issued	366,465	6,716,557	9,997,586	-	50,603,110	-	67,683,718
Other borrowed funds	76,292	14,632	125	-	33,298,411	-	33,389,460
Other financial liabilities	266,974	-	-	-	-	1,529,916	1,796,890
<b>Total liabilities</b>	<b>709,731</b>	<b>6,731,189</b>	<b>9,997,711</b>	<b>-</b>	<b>83,901,521</b>	<b>1,529,916</b>	<b>102,870,068</b>
<b>Net position</b>	<b>45,106,560</b>	<b>(2,615,252)</b>	<b>(2,245,498)</b>	<b>50,662,449</b>	<b>71,073,675</b>	<b>(965,390)</b>	<b>161,016,544</b>

'000 KZT 31 December 2018	Less than 3 month	3-6 months	6-12 months	1-5 years	More than 5 years	Non- interest bearing	Carrying amount
<b>ASSETS</b>							
Cash and cash equivalents	44,780,210	-	-	-	-	1,123,180	45,903,390
Placements with banks and other financial institutions	26,499	2,376,322	-	-	-	-	2,402,821
Investment securities measured:							
- at fair value through profit or loss	113,098	11,300	2,080,815	2,559,013	-	-	4,764,226
- at amortised cost	483,334	-	15,279	-	11,620,558	-	12,119,171
Loans to customers	1,482,281	1,089,280	2,196,753	18,115,330	20,182,919	-	43,066,563
Finance lease receivables	1,637,118	1,477,056	2,989,450	25,691,013	109,358,459	-	141,153,096
Other financial assets	-	-	-	484,713	-	-	484,713
<b>Total assets</b>	<b>48,522,540</b>	<b>4,953,958</b>	<b>7,282,297</b>	<b>46,850,069</b>	<b>141,161,936</b>	<b>1,123,180</b>	<b>249,893,980</b>
<b>LIABILITIES</b>							
Debt securities issued	10,865,972	219,107	-	16,221,192	39,613,853	-	66,920,124
Other borrowed funds	76,292	14,632	125	-	31,229,596	-	31,320,645
Other financial liabilities	-	-	-	682,204	-	1,731,691	2,413,895
<b>Total liabilities</b>	<b>10,942,264</b>	<b>233,739</b>	<b>125</b>	<b>16,903,396</b>	<b>70,843,449</b>	<b>1,731,691</b>	<b>100,654,664</b>
<b>Net position</b>	<b>37,580,276</b>	<b>4,720,219</b>	<b>7,282,172</b>	<b>29,946,673</b>	<b>70,318,487</b>	<b>(608,511)</b>	<b>149,239,316</b>



The table below displays average effective interest rates for interest-bearing assets and liabilities as at 31 December 2019 and 2018. These interest rates are

an approximation of the yields to maturity of these assets and liabilities.

Interest bearing assets	2019		2018	
	Average effective interest rate, %		Average effective interest rate, %	
	KZT	USD	KZT	USD
Cash and cash equivalents	9.24	1.00	7.84	0.5
Placements with banks and other financial institutions	8.75	-	13.00	-
Investment securities measured:				
- at fair value through profit or loss	6.71	-	6.60	-
- at amortised cost	10.22	-	10.67	-
Loans to customers	13.39	15.09	12.43	13.70
Finance lease receivables	Nominal interest rate – 3.19 (imputed – interest rate - 6.25)		Nominal interest rate – 3.21 (imputed – interest rate - 7.07)	
<b>Interest bearing liabilities</b>				
Debt securities issued	9.69	-	10.90	-
Other borrowed funds	7.12	-	7.20	-

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

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

## Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2019 and 2018 is as follows:

	2019 '000 KZT		2018 '000 KZT	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	307,835	307,835	365,645	365,645
100 bp parallel fall	(307,835)	(307,835)	(365,645)	(365,645)



An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value through profit or loss and financial assets available-for-sale due to changes in the interest rates based on positions

existing as at 31 December 2019 and 2018 and a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2019 '000 KZT		2018 '000 KZT	
	Profit or loss	Equity	Profit or loss	Equity
100 bp parallel rise	283,857	283,857	(333,192)	(333,192)
100 bp parallel fall	(319,421)	(319,421)	301,967	301,967



### (c) Currency risk

The Company has assets and liabilities denominated in USD.

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Company does not hedge its exposure to currency risk.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2019 and 2018:

Assets	USD	
	2019 '000 KZT	2018 '000 KZT
Cash and cash equivalents	749,350	761,567
Loans to customers	29,709	131,694
Other assets		5,082
<b>Total financial assets</b>	<b>779,059</b>	<b>898,343</b>
<b>Liabilities</b>		
Other liabilities	-	507
<b>Total financial liabilities</b>	<b>-</b>	<b>507</b>
<b>Net on and off balance sheet position</b>	<b>779,059</b>	<b>897,836</b>

In accordance with Decree No.69 of the National Bank of the Republic of Kazakhstan "On approval of the mortgage loans refinancing program", the Company has refinanced currency loans to vulnerable social groups with a total carrying amount of KZT 877,959 thousand. The amount of overdue foreign currency loans of these customers was converted into KZT using exchange rate during 2015, which was KZT 188.35 per USD 1. As a result of this, the Company incurred loss in the amount of KZT 42,594 thousand (2018: KZT 427,226 thousand) from derecognition of foreign currency loans stated at amortised cost.

A change in the value of the KZT, as indicated below, against the following currencies at 31 December 2019 and 2018 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2019 '000 KZT		2018 '000 KZT	
	Profit or loss	Equity	Profit or loss	Equity
20% appreciation of USD against KZT	124,649	124,649	143,654	143,654
5% depreciation of USD against KZT	(31,162)	(31,162)	(35,913)	(35,913)

#### (d) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Company. The Company has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board and the Board of Directors.

The credit policy establishes:

- procedures for reviewing and approving loan credit applications;
- methodology for the credit assessment of borrowers;
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;

- credit documentation requirements;

- procedures for the ongoing monitoring of loans and other credit exposures.

The main task of credit risk management is the application of a weighted credit policy, considering profitability with safety of asset allocation at purchase of mortgage loans and control over position of loan portfolio based on in-depth, objective, complete and qualified monitoring.

Susceptibility to credit risk is controlled by obtaining high quality collateral, the receipt of a guarantees and obtaining recourse to the seller of the loans.

The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognised contractual commitment amounts. 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:

ASSETS	2019 '000 KZT	2018 '000 KZT
Cash and cash equivalents	32,735,123	45,903,390
Placements with banks and other financial institutions	2,013,628	2,402,821
Investment securities measured:		
- at fair value through profit or loss	2,719,292	4,764,226
- at amortised cost	19,918,195	12,119,171
Loans to customers	62,663,247	43,066,563
Finance lease receivables	143,791,036	141,153,096
Other financial assets	46,091	484,713
<b>Total maximum exposure</b>	<b>263,886,612</b>	<b>249,893,980</b>

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 13.

As at 31 December 2019 and 2018 the Company has no debtors or groups of connected debtors, credit risk exposure to whom exceeds 10% of maximum credit risk exposure.

### Offsetting financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Company's statement of financial position or



- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The agreements include global master repurchase agreements. Such financial instruments include sale and repurchase agreements and reverse sale and repurchase agreements. The Company receives and accepts collateral in the form of cash and marketable securities in respect of these sale and repurchase and reverse sale and repurchase agreements.

The Company's derivative transactions that are not transacted on the exchange are entered into under International Derivative Swaps and Dealers Association (ISDA) Master Netting Agreements. In general, under such agreements the amounts owed by each counterparty that are due on a single day in respect of transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the

termination value is assessed, and only a single net amount is due or payable in settlement transactions.

The Company's sale and repurchase, reverse sale and repurchase transactions, and securities borrowings and lendings are covered by master agreements with netting terms similar to those of ISDA Master Netting Agreements.

The above ISDA and similar master netting arrangements do not meet the offsetting criteria in the statement of financial position. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Financial instruments such as loans and deposits are not disclosed in the table below, unless they are offset in the statement of financial position. The table below shows financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar arrangements:



'000 KZT	Gross amounts of recognised financial assets /liabilities	Gross amount of recognised financial liability/asset offset in the statement of financial position	Net amount of financial assets/ liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
<b>31 December 2019</b>						
Reverse repurchase agreements	28,593,434	-	28,593,434	(28,593,434)	-	-
<b>Total financial assets</b>	<b>28,593,434</b>	-	<b>28,593,434</b>	<b>(28,593,434)</b>	-	-
Debt securities issued	6,560,590	-	6,560,590	(6,560,590)	-	-
<b>Total financial liabilities</b>	<b>6,560,590</b>	-	<b>6,560,590</b>	<b>(6,560,590)</b>	-	-
<b>31 December 2018</b>						
Reverse repurchase agreements	21,698,963	-	21,698,963	(21,698,963)	-	-
<b>Total financial assets</b>	<b>21,698,963</b>	-	<b>21,698,963</b>	<b>(21,698,963)</b>	-	-
Debt securities issued	16,840,429	-	16,840,429	(16,840,429)	-	-
<b>Total financial liabilities</b>	<b>16,840,429</b>	-	<b>16,840,429</b>	<b>(16,840,429)</b>	-	-

The gross amounts of financial assets and financial liabilities and their net amounts as presented in the statement of financial position that are disclosed in the above tables are measured in the statement of financial position on the following basis:

Assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and securities lending and borrowing – amortised cost.

## (e) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. 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 Company's liquidity policy is reviewed by the Management Board and approved by the Board of Directors.

The Company seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The Company's liquidity management policy requires:

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

The following tables show the undiscounted cash flows on the Company's financial liabilities on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or commitment. The Company's expected cash flows on these financial liabilities may vary significantly from this analysis.

The liquidity position of the Company as at 31 December 2019 was as follows:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<b>Non-derivative financial liabilities</b>								
Debt securities issued	425,000	962,439	8,314,184	12,966,878	20,335,025	77,545,329	120,548,855	67,683,718
Other borrowed funds	86,250	-	26,206	95,270	830,904	145,415,381	146,454,011	33,389,460
Other financial liabilities	1,442,995	100,164	37,503	47,734	270,476	126,623	2,025,495	1,796,890
<b>Total</b>	<b>1,954,245</b>	<b>1,062,603</b>	<b>8,377,893</b>	<b>13,109,882</b>	<b>21,436,405</b>	<b>223,087,333</b>	<b>269,028,361</b>	<b>102,870,068</b>

Позиция Компании по ликвидности по состоянию на 31 декабря 2018 года может быть представлена следующим образом:

'000 KZT	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
<b>Non-derivative financial liabilities</b>								
Debt securities issued	10,500,000	425,000	2,204,245	2,629,245	33,396,745	66,708,000	115,863,235	66,920,124
Other borrowed funds	86,250	-	26,206	86,250	794,826	136,816,167	137,809,699	31,320,645
Other financial liabilities	63,582	1,295,080	44,883	505,602	538,037	452,255	2,899,439	2,413,895
<b>Total</b>	<b>10,649,832</b>	<b>1,720,080</b>	<b>2,275,334</b>	<b>3,221,097</b>	<b>34,729,608</b>	<b>203,976,422</b>	<b>256,572,373</b>	<b>100,654,664</b>

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2019:

	Less than 1 month '000 KZT	From 1 to 3 months '000 KZT	From 3 months to 1 year '000 KZT	From 1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
<b>Assets</b>							
Cash and cash equivalents	32,735,123	-	-	-	-	-	32,735,123
Placements with banks and other financial institutions	576,662	564,127	872,839	-	-	-	2,013,628
Investment securities measured:							
- at fair value through profit or loss	-	28,844	96,890	2,593,558	-	-	2,719,292
- at amortised cost	7,444,547	493,445	15,279	-	11,964,924	-	19,918,195
Loans to customers	896,978	874,645	4,034,577	23,107,769	33,749,278	-	62,663,247
Finance lease receivables	612,112	1,065,218	4,860,146	27,938,246	109,315,314	-	143,791,036
Current tax asset	-	-	-	-	-	1,135,442	1,135,442
Advances paid for acquisition and construction of real estate	-	581,978	-	-	-	-	581,978
Assets to be transferred under finance lease agreements	-	-	-	-	-	2,274,682	2,274,682
Construction-in-progress	-	1,534,061	-	-	-	-	1,534,061
Property, plant and equipment	-	-	-	-	-	1,968,153	1,968,153
Investment property	-	-	-	-	-	187,421	187,421
Other assets	23,679	44,633	286,654	16,181	1,943	810,846	1,183,936
<b>Total assets</b>	<b>42,289,101</b>	<b>5,186,951</b>	<b>10,166,385</b>	<b>53,655,754</b>	<b>155,031,459</b>	<b>6,376,544</b>	<b>272,706,194</b>
<b>Liabilities</b>							
Debt securities issued	365,972	493	16,714,143	-	50,603,110	-	67,683,718
	76,292	-	14,757	-	33,298,411	-	33,389,460

continued from previous page

	Less than 1 month '000 KZT	From 1 to 3 months '000 KZT	From 3 months to 1 year '000 KZT	From 1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
<b>Assets</b>							
Deferred income	-	-	-	-	98,052,131	-	98,052,131
Deferred tax liability	-	-	-	-	1,870,669	-	1,870,669
Other liabilities	1,816,156	159,829	303,509	276,097	62,089	-	2,617,680
<b>Total liabilities</b>	<b>2,258,420</b>	<b>160,322</b>	<b>17,032,409</b>	<b>276,097</b>	<b>183,886,410</b>	<b>-</b>	<b>203,613,658</b>
<b>Net position as at 31 December 2019</b>	<b>40,030,681</b>	<b>5,026,629</b>	<b>(6,866,024)</b>	<b>53,379,657</b>	<b>(28,854,951)</b>	<b>6,376,544</b>	<b>69,092,536</b>
Net position as at 31 December 2018	<b>36,329,463</b>	<b>439,408</b>	<b>18,120,205</b>	<b>29,848,672</b>	<b>(33,601,499)</b>	<b>10,750,285</b>	<b>61,886,534</b>

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2018:

	Less than 1 month '000 KZT	From 1 to 3 months '000 KZT	From 3 months to 1 year '000 KZT	From 1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
<b>Assets</b>							
Cash and cash equivalents	45,903,390	-	-	-	-	-	45,903,390
Placements with banks and other financial institutions	26,499	-	2,376,322	-	-	-	2,402,821
Investment securities measured:							
- at fair value through profit or loss	82,000	31,098	2,092,115	2,559,013	-	-	4,764,226
- at amortised cost	-	483,334	15,279	-	11,620,558	-	12,119,171
Loans to customers	754,913	727,368	3,286,033	18,115,330	20,182,919	-	43,066,563
Finance lease receivables	658,891	978,227	4,466,506	25,691,013	109,358,459	-	141,153,096
Current tax asset	-	-	-	-	-	2,045,362	2,045,362

continued on next page



continued from previous page

	Less than 1 month '000 KZT	From 1 to 3 months '000 KZT	From 3 months to 1 year '000 KZT	From 1 to 5 years '000 KZT	More than 5 years '000 KZT	No maturity '000 KZT	Total '000 KZT
<b>Assets</b>							
Advances paid for acquisition and construction of real estate	-	-	972,687	-	-	-	972,687
Assets to be transferred under finance lease agreements	-	-	-	-	-	5,180,554	5,180,554
Construction-in-progress	-	-	5,643,479	-	-	-	5,643,479
Property, plant and equipment	-	-	-	-	-	2,129,083	2,129,083
Investment property	-	-	-	-	-	647,704	647,704
Other assets	12,954	83,782	366,609	55,616	1,191	777,582	1,297,734
<b>Total assets</b>	<b>47,438,647</b>	<b>2,303,809</b>	<b>19,219,030</b>	<b>46,420,972</b>	<b>141,163,127</b>	<b>10,780,285</b>	<b>267,325,870</b>
<b>Liabilities</b>							
Debt securities issued	10,500,000	365,972	219,107	16,221,192	39,613,853	-	66,920,124
Other borrowed funds	76,292	-	14,757	-	31,229,596	-	31,320,645
Deferred income	-	-	-	-	102,126,287	-	102,126,287
Deferred tax liability	-	-	-	-	1,604,292	-	1,604,292
Other liabilities	532,892	1,498,429	864,961	351,108	190,598	30,000	3,467,988
<b>Total liabilities</b>	<b>11,109,184</b>	<b>1,864,401</b>	<b>1,098,825</b>	<b>16,572,300</b>	<b>174,764,626</b>	<b>30,000</b>	<b>205,439,336</b>
<b>Net position as at 31 December 2018</b>	<b>36,329,463</b>	<b>439,408</b>	<b>18,120,205</b>	<b>29,848,672</b>	<b>(33,601,499)</b>	<b>10,750,285</b>	<b>61,886,534</b>
Net position as at 31 December 2017	22,491,039	7,964,963	11,787,843	17,575,959	(15,508,407)	14,498,096	58,809,493

As at 31 December 2019 included in the category "More than 5 years" are overdue loans to customers and finance lease receivables with net book values of KZT

1,211,963 thousand and KZT 141,822 thousand, respectively (31 December 2018: KZT 2,445,261 thousand and KZT 1,148,020 thousand respectively).

## 25. Capital management

The Company defines as capital the following items defined by statutory regulation as capital for mortgage companies:

Tier 1 capital, which is comprised of ordinary share capital, share premium, prior periods' statutory retained earnings, accumulated losses and reserves created thereof and preference shares (within 15% of ordinary share capital) less intangible assets and current year statutory losses;

Tier 2 capital is required for the purposes of calculation of total capital and is comprised of current year's statutory income, revaluation reserves, preference shares (in excess of 15% of ordinary share capital), qualifying subordinated liabilities and collective impairment allowance in the amount not exceeding 1.25% of credit risk-weighted assets.

Total capital, which is the sum of tier 1 capital and tier 2 capital (in the amount

not exceeding tier 1 capital) less investments into equity or subordinated debt. Various further limits and qualifying criteria are applied to the above elements of the capital base.

Under the current capital requirements set by the NBRK mortgage companies have to maintain:

- a ratio of tier 1 capital to total statutory assets (k1);
- a ratio of tier 1 capital to the sum of credit risk-weighted assets and contingent liabilities (k1-2);
- a ratio of total capital to the sum of credit risk-weighted assets and contingent liabilities and a quantitative measure of operational risk (k1-3).



	2019 '000 KZT	2018 '000 KZT
<b>Tier 1 capital</b>		
Share capital	60,728,939	60,728,939
General reserve	2,734,447	2,734,447
Additional paid-in capital	5,822,856	5,822,856
Intangible assets	(55,831)	(58,912)
Statutory accumulated losses for prior periods	(8,785,472)	(12,018,854)
<b>Total tier 1 capital</b>	<b>60,444,939</b>	<b>57,208,476</b>
Tier 2 capital		
Reserves on revaluation of available-for-sale financial assets	-	-
Net profit for the current year in accordance with NBRK	8,591,766	4,619,146
<b>Total tier 2 capital</b>	<b>8,591,766</b>	<b>4,619,146</b>
<b>Total capital</b>	<b>69,036,705</b>	<b>61,827,622</b>
<b>Total statutory assets</b>	<b>272,706,193</b>	<b>267,309,374</b>
Credit risk weighted assets and contingent liabilities	220,064,309	236,295,782
Operational risk	6,843,314	6,772,035
<b>Total credit risk weighted assets and contingent liabilities plus operational risk</b>	<b>226,907,623</b>	<b>243,067,817</b>
<b>k1</b>	<b>22%</b>	<b>21%</b>
<b>k1-2</b>	<b>27%</b>	<b>24%</b>
<b>k1-3</b>	<b>30%</b>	<b>25%</b>

As at 31 December 2019 and 2018 the minimum level of ratios as applicable to the Company are as follows:

- k1- 6%;
- k1-2- 6%;
- k1-3 – 12%.

## 26. Contingencies

---

### (a) 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 does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Company obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

### (b) Litigations

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 conditions or the results of future operations of the Company.

### (c) Taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in Kazakhstan that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable 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.

## 27. Related party transactions

### (a) Transactions with the members of the Management Board and Board of Directors

Total remuneration included in employee compensation is as follows (refer to Note 7):

	2019 '000 KZT	2018 '000 KZT
Members of the Board of Directors	16,210	20,967
Members of the Management Board	128,286	106,744
	<b>144,496</b>	<b>127,711</b>

The above amounts include cash and non-cash benefits in respect of the members of the Management Board and Board of Directors.

The outstanding balances and average interest rates as at 31 December 2019 and 2018 for transactions with the members of the Management Board and the Board of Directors are as follows:

Statement of financial position	2019 '000 KZT	Average interest rate, %	2018 '000 KZT	Average interest rate, %
Other liabilities	39,870	-	35,861	-

## (b) Transactions with other related parties

Other related parties include “NMH Baiterek” JSC and its subsidiaries (together the “Baiterek Group”) and other State organisations.

The amounts below are included in the statement of financial position, income statement and statement of comprehensive income for transactions with related parties as at 31 December 2019 and 2018:

Statement of profit or loss	2019	2019	2018	2018
	'000 KZT	'000 KZT	'000 KZT	'000 KZT
	Baiterek Group	State organisations	Baiterek Group	State organisations
Interest income	4,456,495	2,076,369	3,937,254	1,084,411
Interest expenses	(4,056,144)	(1,464,899)	(3,026,020)	(1,465,689)
Fee and commission expenses		(810)	-	(957)
Other income	-	60,874	-	68,946
Impairment gain/(losses)	17,623	(13,069)	-	-
General and administrative expenses	(9,284)	(454,710)	(55,111)	(538,604)
Income tax expense		(1,327,345)	-	(1,195,768)



The balances with related parties as at 31 December 2019 include:

	Baiterek Group		State organisations	
	'000 KZT	Average interest rate , %	'000 KZT	Average interest rate , %
Cash and cash equivalents	2,819,938	7.75%	23,782,799	9.36%
- at amortised cost	-	-	8,936,603	8.76%
Current tax asset	-	-	1,135,442	-
Other assets	-	-	8,789	-
Debt securities issued	22,793,401	9.45%	17,255,716	9.78%
Other borrowed funds	28,466,442	0.15%	4,923,018	0.10%
Deferred income	98,052,131	-	-	-
Deferred tax liability	-	-	1,870,669	-
Other liabilities	93,178	-	129,846	-

The balances with related parties as at 31 December 2018 include:

	Baiterek Group		State organisations	
	'000 KZT	Average interest rate , %	'000 KZT	Average interest rate , %
Cash and cash equivalents	11,915,286	7.75	21,878,794	8.23
- at amortised cost	-	-	1,498,928	5.57
Current tax asset	-	-	2,045,362	-
Advances paid under finance lease agreement	914,930	-	-	-
Other assets	-	-	25,397	-
Debt securities issued	28,320,637	10.90	10,412,650	12.15
Other borrowed funds	26,753,934	0.15	4,566,711	0.10
Deferred income	102,126,287	-	-	-
Deferred tax liability	-	-	1,604,292	-
Other liabilities	93,701	-	432,507	-

## 28. Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019.

'000 KZT	Amortised cost	FVTPL	Total carrying amount	Fair value
Cash and cash equivalents	32,735,123	-	32,735,123	32,735,123
Placements with banks and other financial institutions	2,013,628	-	2,013,628	2,013,628
Investment securities measured:				
- at amortised cost	19,918,195	-	19,918,195	19,109,614
- at fair value through profit or loss	-	2,719,292	2,719,292	2,719,292
Loans to customers	62,663,247	-	62,663,247	53,030,247
Finance lease receivables	143,791,036	-	143,791,036	93,528,475
Other financial assets	46,091	-	46,091	46,091
	<b>261,167,320</b>	<b>2,719,292</b>	<b>263,886,612</b>	<b>203,182,470</b>
Debt securities issued	67,683,718	-	67,683,718	63,918,540
Other borrowed funds	33,389,460	-	33,389,460	32,758,290
Other financial liabilities	1,796,890	-	1,796,890	1,796,890
	<b>102,870,068</b>	-	<b>102,870,068</b>	<b>98,473,720</b>

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2019.

'000 KZT	Amortised cost	FVTPL	Total carrying amount	Fair value
Cash and cash equivalents	45,903,390	-	45,903,390	45,903,390
Placements with banks and other financial institutions	2,402,821	-	2,402,821	2,402,821
Investment securities measured:				
- at amortised cost	12,119,171	-	12,119,171	10,799,004
- at fair value through profit or loss	-	4,764,226	4,764,226	4,764,226
Loans to customers	43,066,563	-	43,066,563	38,562,914
Finance lease receivables	141,153,096	-	141,153,096	104,973,504
Other financial assets	484,713	-	484,713	484,713
	<b>245,129,754</b>	<b>4,764,226</b>	<b>249,893,980</b>	<b>207,890,572</b>
Debt securities issued	66,920,124	-	66,920,124	63,283,463
Other borrowed funds	31,320,645	-	31,320,645	30,594,086
Other financial liabilities	2,413,895	-	2,413,895	2,413,895
	<b>100,654,664</b>	-	<b>100,654,664</b>	<b>96,291,444</b>

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.

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. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. 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.

The Company uses widely recognised valuation models to determine the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

For more complex instruments, the Company uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. 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.

The following assumptions are used by management to estimate the fair values of financial instruments:

- discount rates of 11.9% - 15.07% are used for discounting future cash flows from loans to customers (2018: 12.5% - 14%);
- discount rates of 9.1% are used for discounting future cash flows from finance lease receivables (2018: 6.9% - 7.1%).

## (b) Fair value hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for identical or similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;

- Level 3: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2019, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

Financial assets	Level 2	Level 2	Total
Investment securities at fair value through profit or loss	1,785,702	933,590	2,719,292
	<b>1,785,702</b>	<b>933,590</b>	<b>2,719,292</b>

The table below analyses financial instruments measured at fair value at 31 December 2018, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position:

Financial assets	2018 Level 2 '000 KZT
Investment securities at fair value through profit or loss	4,764,226
	<b>4,764,226</b>

The following table shows a reconciliation for the year ended 31 December 2019 for fair value measurements in Level 3 of the fair value hierarchy.

Financial assets	Financial instruments measured at fair value through profit or loss
Transfers into Level 3	933,590
<b>Balance at end of the year</b>	<b>933,590</b>



Total gains or losses included in profit or loss for 2019 in the table are presented in the statement of profit or loss and other comprehensive income as follows.

Financial assets	Financial instruments measured at fair value through profit or loss
Net gain (loss) on other financial instruments at fair value through profit or loss	(8,919)

During 2019, investment securities measured at fair value through profit or loss were transferred into Level 3. The table below sets out information about significant unobservable inputs used at year end in the measuring financial

instruments categorised as Level 3 in the fair value hierarchy as at 31 December 2019:

Type of instrument	Fair value	Valuation technique	Significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Securities at FVPL	933,590	Discounted cash flow	Discount rate of 17,47%	A significant increases in any of these inputs in isolation would result in lower fair values. A significant reduction would result in higher fair values.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2019:

'000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
<b>Assets</b>				
Cash and cash equivalents	32,735,123	-	32,735,123	32,735,123
Placements with banks and other financial institutions	2,013,628	-	2,013,628	2,013,628
Loans to customers	52,048,339	981,908	53,030,247	62,663,247
Finance lease receivables	93,130,986	397,489	93,528,475	143,791,036
<b>Liabilities</b>				
Debt securities issued	63,918,540	-	63,918,540	67,683,718
<b>Other borrowed funds</b>	32,758,290	-	32,758,290	33,389,460



The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December 2018:

'000 KZT	Level 2	Level 3	Total fair values	Total carrying amount
<b>Assets</b>				
Cash and cash equivalents	45,903,390	-	45,903,390	45,903,390
Placements with banks and other financial institutions	2,402,821	-	2,402,821	2,402,821
Loans to customers	37,436,104	1,126,810	38,562,914	43,066,563
Finance lease receivables	104,752,477	221,027	104,973,504	141,153,096
<b>Liabilities</b>				
Debt securities issued	63,283,463	-	63,283,463	66,920,124
<b>Other borrowed funds</b>	30,594,086	-	30,594,086	31,320,645



## 29. Segment reporting

---

The Company's operations are highly integrated and constitute a single business segment for the purposes of IFRS 14 Segment Reporting. The Company's assets are concentrated in the Republic of Kazakhstan, and the Company's revenues are derived from operations in, and connected with, the Republic of Kazakhstan.

The Chief Operating Decision Maker, in the case of the Company, the Chairman of the Management Board, only receives and reviews the information on the Company as a whole.

## 30. Subsequent events

---

On 24 February 2020, Baiterek National Managing Holding JSC, the sole shareholder of the Company, decided to increase the number of authorised ordinary shares from 13,681,600 to 22,000,000.

As part of the implementation of the task set in the Address of the President

of the Republic of Kazakhstan Kassym-Zhomart Tokayev dated 2 September 2019, to reduce the number of housing programme operators, on 28 February 2020, the Board of Directors of Baiterek National Managing Holding JSC made a preliminary decision to merge its subsidiaries - Baiterek Development JSC and Mortgage Organisation Kazakhstan Mortgage Company JSC.



# Glossary

ASMMA – Asian Secondary Mortgage Market Association  
Baiterek Holding – National Management Holding “Baiterek” JSC  
bln. – billion  
EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortisation)  
EKR – East-Kazakhstan Region  
etc. – et cetera  
GDP – gross domestic product  
IAS – Internal Audit Service  
ICS – Internal Control System  
IDR – issuer default rating  
IFRS – International Financial Reporting Standards  
incl. – including  
ISMMA – International Secondary Mortgage Market Association  
KASE – Kazakhstan Stock Exchange  
Kazakhstan – Republic of Kazakhstan  
Kazakhstan National Bank – National Bank of the Republic of Kazakhstan  
m2 – square metre  
MBS – mortgage-backed securities  
MEUKAM – state long-term treasury liabilities with a circulation period of over 5 years  
MF RoK – Ministry of Finance of the republic of Kazakhstan  
mln. – million  
MNE – Ministry of National Economy  
nat. currency – national currency  
NF – National Fund  
NI margin - Net Profit Margin  
NIN – national identification number  
NKR – North-Kazakhstan Region

pcs. – pieces  
p.p. – percentage point  
ppl. – people  
RMS – Risk Management System  
ROA – Return On Assets  
ROE – Return On Equity  
SKR – South-Kazakhstan Region  
TAC – temporarily available cash  
thous. – thousand  
UN – United Nations  
UNDP – United Nations Development Programme  
USD – US Dollar  
WKR – West-Kazakhstan Region



# Contact information

## Almaty

Karassai Batyr Street 98  
TEL: +7 (727) 344 12 22, FAX: +7 727 344-13-00  
info@kmc.kz

## Nur-Sultan

Mengilik Yel Avenue, Building 55A, 2nd floor of Block "C», office 213  
TEL: +7 (7172) 79 75 75  
astana@kmc.kz

## Aktau

28 A Microdistrict, Aksunkar administrative building, office 3  
TEL: +7 (7292) 40-21-28 ext. (4113)  
aktau@kmc.kz

## Aktobe

Maresyev Street 80/2, office 10  
TEL: +7 (7132) 54 33 13  
aktobe@kmc.kz

## Atyrau

Pushkin Street 140, office 18  
TEL: +7 (7122) 27 11 71  
atyrau@kmc.kz

## Karaganda

Alikhanov Street 37, office 107  
TEL: +7 (7212) 56 41 20  
karaganda@kmc.kz

## Kokshetau

Baitursynov Street 70/2  
TEL: +7 (7162) 50 09 02 ext. 4103  
kokshetau@kmc.kz

## Kostanai

Baimagambetov Street 199, office 19  
TEL: +7 (7142) 53 43 49  
kostanay@kmc.kz

## Kyzylorda

Panfilov Street 39  
TEL: +7 (7242) 23 15 18  
kyzylorda@kmc.kz

## Pavlodar

Dyussenov Street 106  
TEL: +7 (7182) 32 18 09  
pavlodar@kmc.kz

## Petropavlovsk

Kazakhstan Constitution Street 23, office 7 A  
TEL: + 7 (7152) 36-06-57 ext. 4115  
info@kmc.kz

## Semei

Kozbagarov Street 19  
TEL: +7 (7222) 32 11 85 ext (4110)  
semey@kmc.kz

## Taraz

Koigeldy Street 173, office 104  
TEL: +7 (7262) 54 17 72  
taraz@kmc.kz

## Uralsk

T Masin Street 67, 2nd floor, office 1  
TEL: +7 (7112) 24 02 94, ext. 4114  
oral@kmc.kz

## Ust-Kamenogorsk

Kazakhstan Street 31, office 42  
TEL: +7 (7232) 24 03 22  
u-kamenogorsk@kmc.kz

## Shymkent

Tolstoi Street 60  
TEL: +7 (7252) 43-30-25 ext. (4109/4101)  
shymkent@kmc.kz