



**BAITEREK**

Baiterek National Managing  
Holding JSC

# **ANNUAL REPORT**

# **2018**

**ONWARDS AND UPWARDS!**





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ANNUAL REPORT

**BAITEREK NMH JSC**

2018

**ONWARDS AND UPWARDS!**

NUR-SULTAN, 2019



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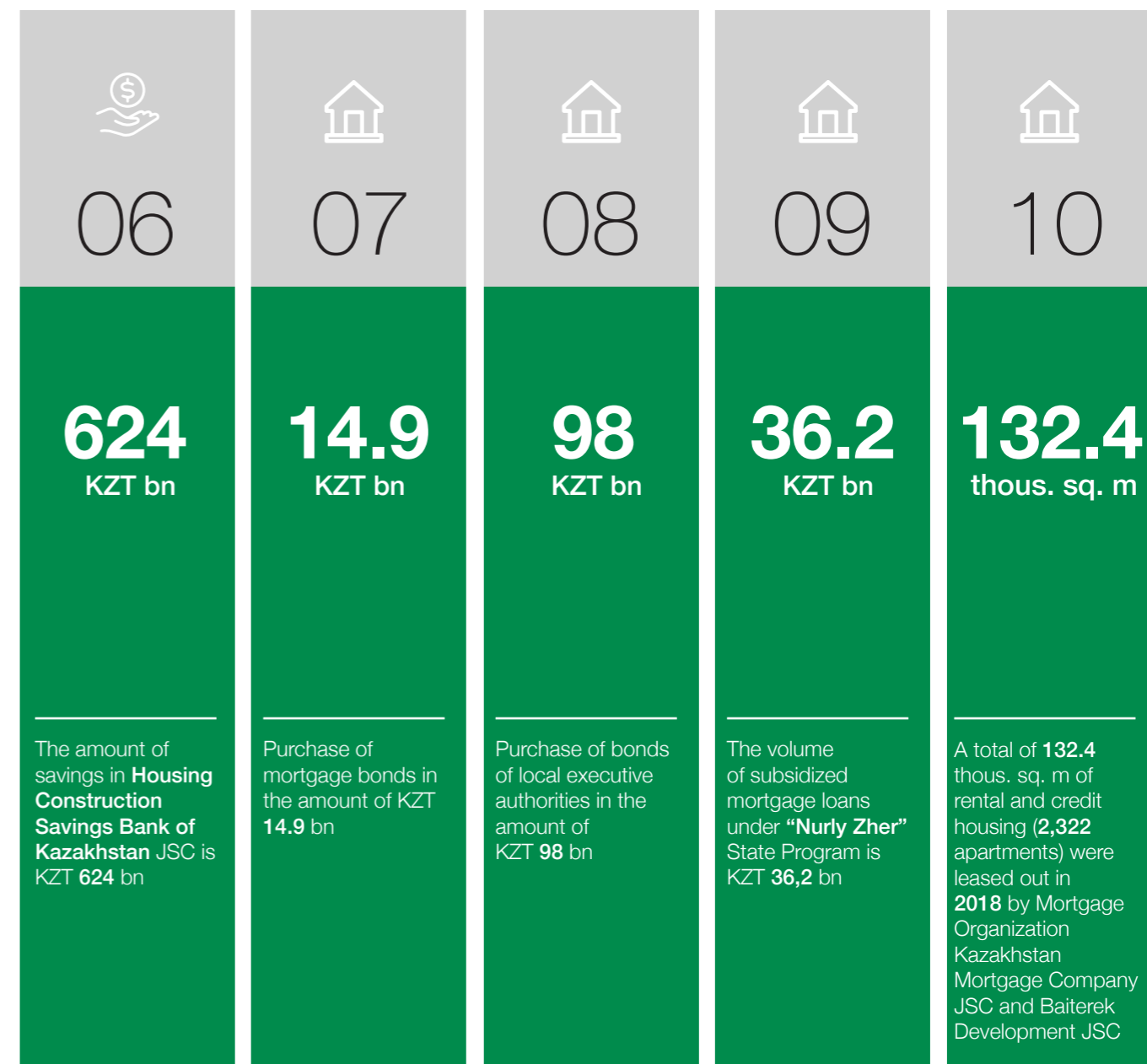
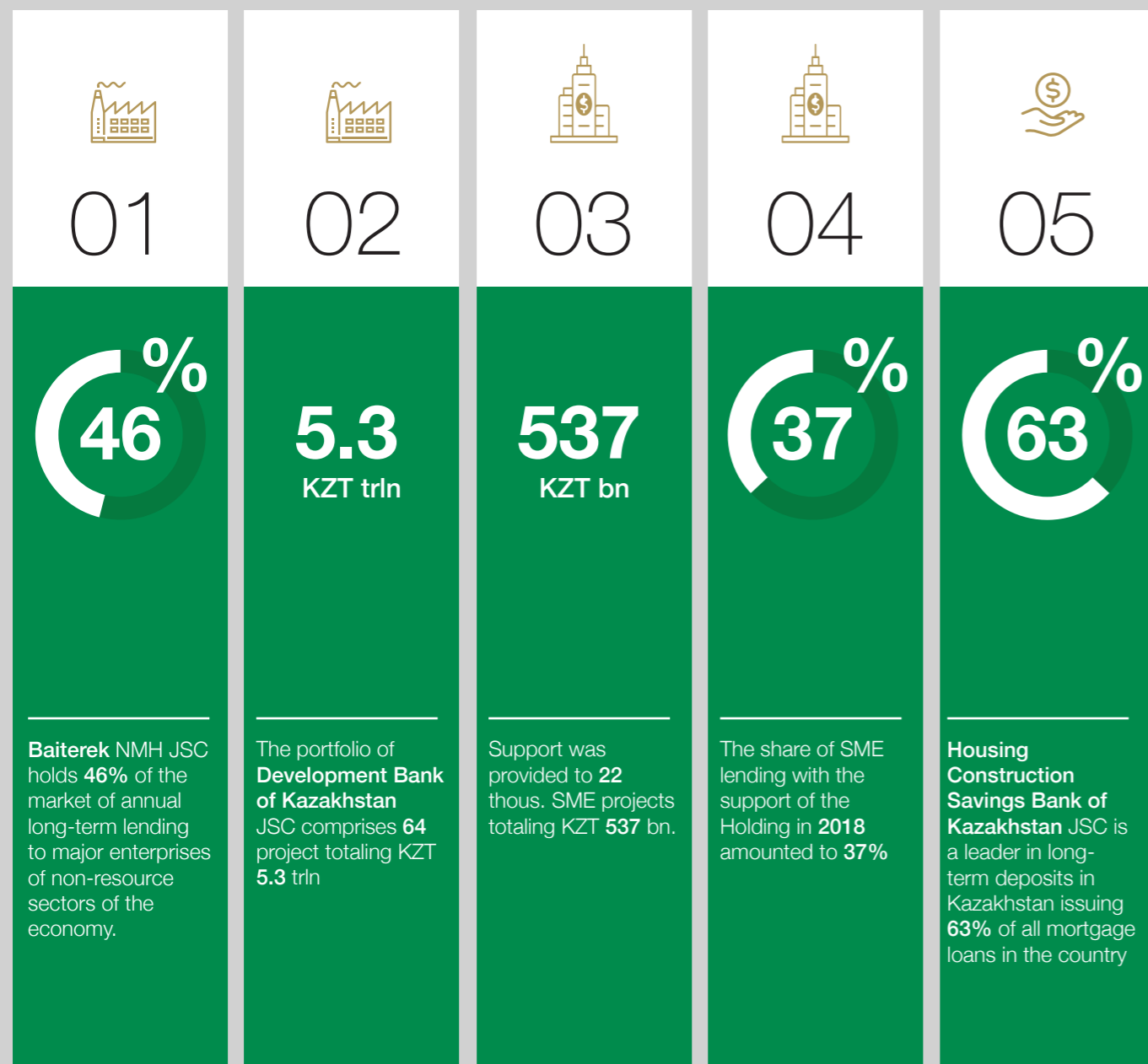
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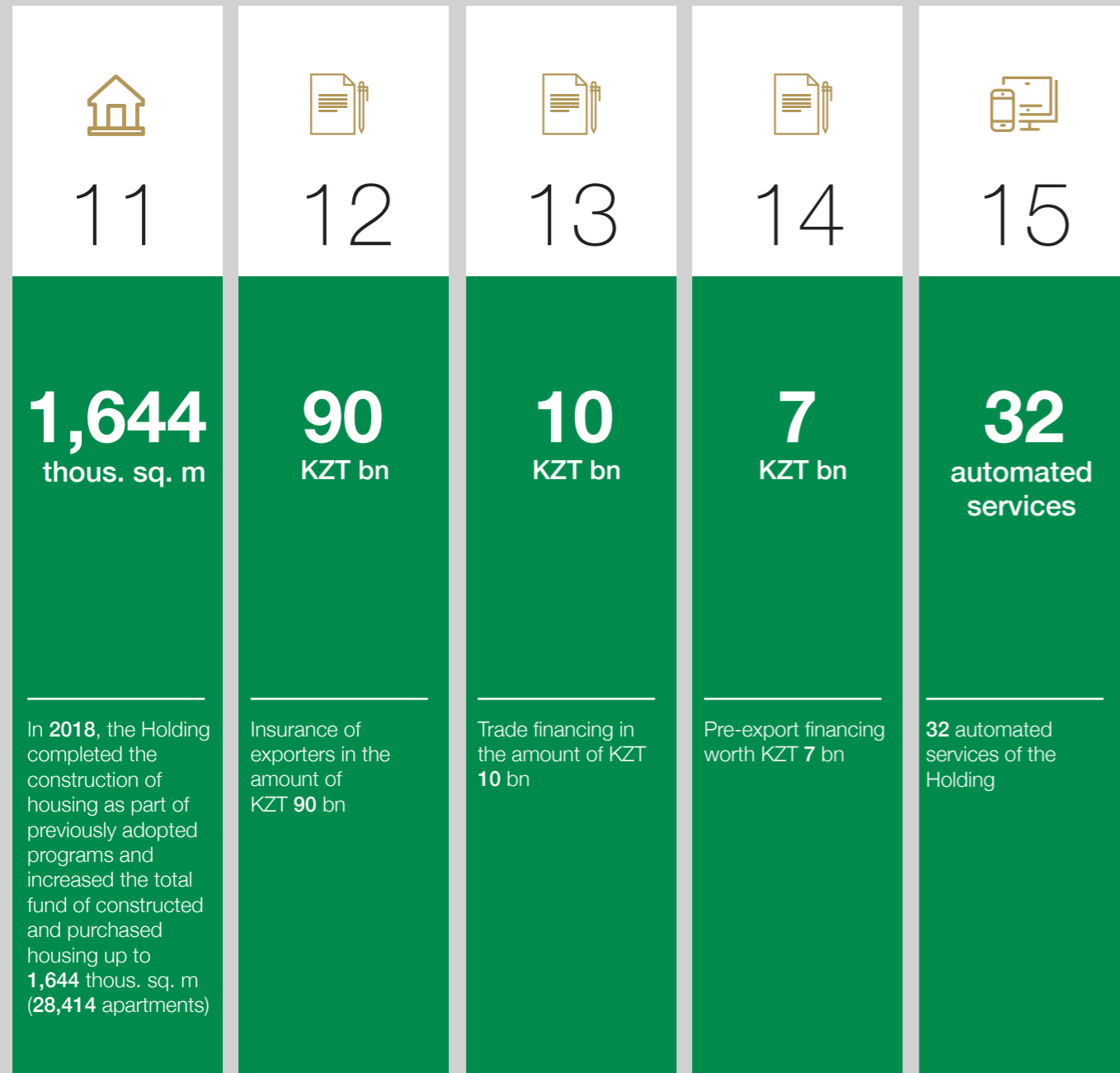
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# 15 MAIN ACHIEVEMENTS OF BAITEREK NMH JSC FOR 2018





## KEY PERFORMANCE INDICATORS

### Financial indicators

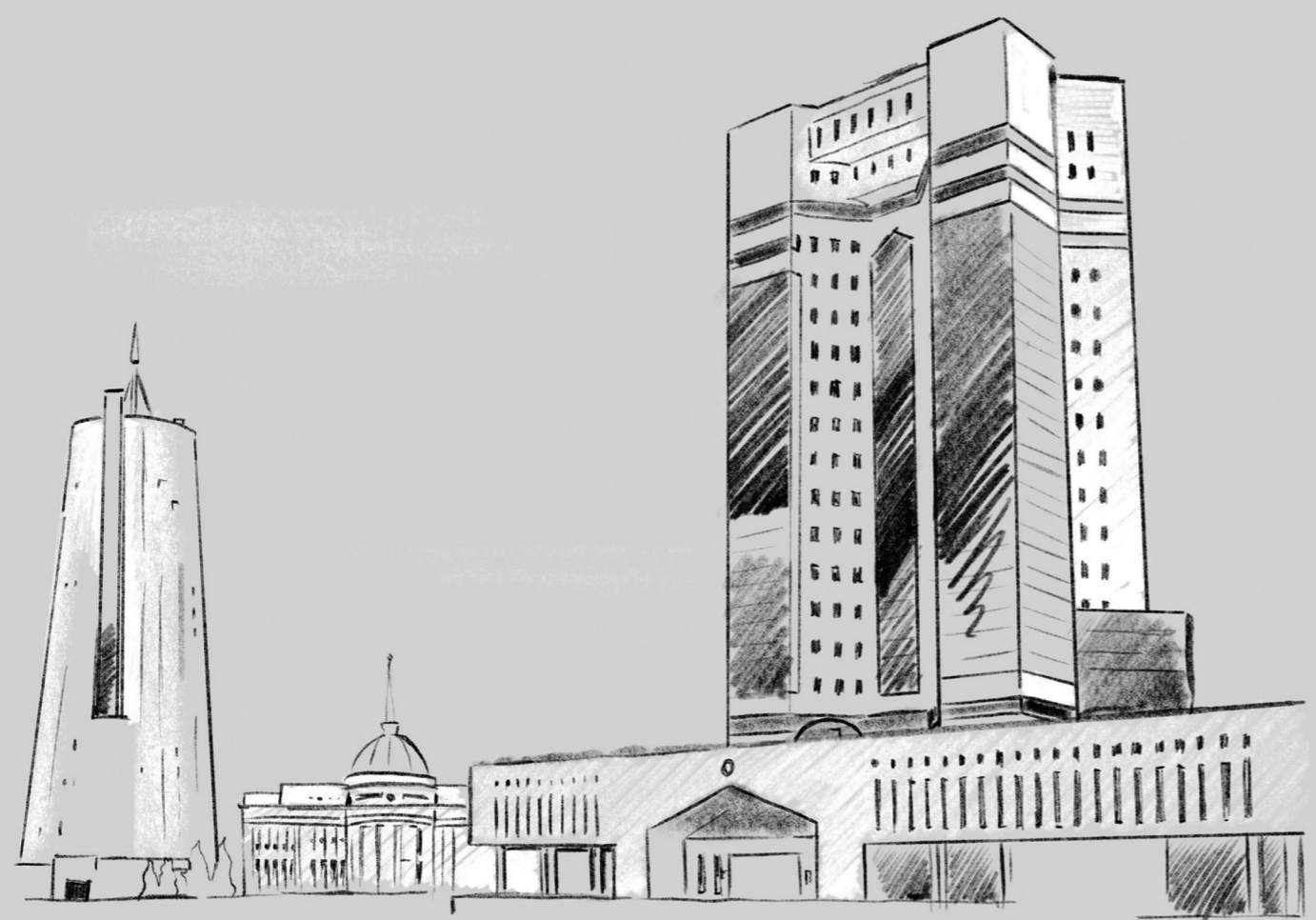
Indicator	2016	2017	2018
Assets	4,103	4,433	<b>4,719</b>
Equity	943	1,052	<b>1,061</b>
Liabilities	3,160	3,381	<b>3,658</b>
Net income	49	44	<b>35</b>
Debt/equity	3.4	3.2	<b>3.4</b>

Note: KZT/USD average annual exchange rate:  
2016 – 342.16 KZT/USD; 2017 – 326.00 KZT/USD;  
2018 – 344.71 KZT/USD  
Source: National Bank of the Republic of Kazakhstan

### Socio-economic effect of implementing development programmes - SPIID, Nurly Zhol, Nurly Zher (with accumulation from 2013)

Indicator	2013	2014	2015	2016	2017	2018
Taxes paid, KZT bn	92	228	438	822	1,279	<b>1,456</b>
Preserved jobs, units	27,646	110,952	221,230	319,128	439,039	<b>444,167</b>
Created new jobs, units	9,262	24,592	62,010	81,062	92,198	<b>97,084</b>
Exported products, KZT bn	-	5	69,708	200,347	511,964	<b>512,206</b>
Housing leased out, thous. sq.m	-	-	425.5	882.3	1,511.6	<b>1,644</b>
Apartments leased out, units	-	-	7,234	15,263	26,092	<b>28,414</b>

"Fund "Damu" JSC data will be provided by the State Revenue Committee of the Ministry of Finance of RK in the third quarter of the year following the reporting year



“ In **2018**, the **Holding** completed the construction of residential buildings as part of previously adopted programs and increased the overall fund of constructed and purchased housing up to **1,644** thous. sq. m (**28,414** apartments). ”



## LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen!

The first President of the Republic of Kazakhstan - Yelbasy, in his Message “New Opportunities of Development in Conditions of the Fourth Industrial Revolution” dated January 10, 2018 as well as in the Kazakhstan-2050 Strategy focused on ensuring the sustainable and high-quality economic development of the Republic of Kazakhstan by creating a welfare society on the basis of a strong state, a well-developed economy and the possibility of universal labor.

Baiterek NMH JSC is one of the key institutions in this process. Activities of the Holding are aimed at implementing major state programs for the development of entrepreneurship, industrialization of the economy and housing construction.

Last year, the Holding showed a growth in most of the key indicators.

At the end of the year, the Holding’s assets increased by 6.5% and amounted to KZT 4,7 trn. At the same time, the share of the Holding’s loan and investment portfolios in total assets amounted to 73.2%.

To accomplish a strategic objective of increasing the share of SMEs in the economy, 37% of total long-term loans were granted to SMEs with the support of the Holding. Alongside with that, a substantive result was achieved through the use of a microlending tool as the most in-demand support measure, which increased the share of micro and small entrepreneurs in the total number of supported entrepreneurs from 78% in 2017 to 90% in 2018.

The Holding, being a driver for financing non-resource sectors of the economy, granted every second tenge in the total volume of long-term lending to industrial and innovative projects for a total amount of KZT 443.2 bln.

Providing support to export potential is one of the key objectives in ensuring the sustainable economic development in Kazakhstan. To achieve this goal, the Government allocated additional funds, due to which the amount of accepted insurance liabilities of KazakhExport EIC JSC increased from KZT 40 bln to KZT 90 bln in 2018. With the support of Baiterek NMH JSC, products were exported abroad in the amount of KZT 738 bln, or 14% of total exports of the manufacturing industry.

The Holding, as the main operator of Nurly Zher housing construction program, strives to provide affordable housing to all citizens of Kazakhstan. By the end of 2018, a total of 1.3 mln people were customers of Housing Construction Savings Bank of Kazakhstan JSC. In the reporting year, the Holding launched a new tool for military servicemen, which would significantly improve housing affordability under the preferential mortgage lending program.

In general, in 2018, the Holding completed the construction of residential buildings as part of previously adopted programs and increased the overall fund of constructed and purchased housing up to 1,644 thous. sq. m (28,414 apartments).

The Holding successfully accomplishes its tasks and intends to remain the main national financial operator of the Government by meeting the advanced standards of corporate governance and ensuring the implementation of initiatives for the qualitative development of the economy and improving the public welfare in Kazakhstan.

Chairman of the Board of Directors of Baiterek NMH JSC,  
Prime Minister of the Republic of Kazakhstan  
**ASKAR MAMIN**



## ADDRESS BY THE CHAIRMAN OF THE MANAGEMENT BOARD

Dear partners, colleagues, investors!

**T**hrough the significant support of the Government of the Republic of Kazakhstan, Baiterek NMH JSC remains one of the most important drivers of economic development and improving the welfare of citizens by ensuring the implementation of strategic state programs.

Baiterek Holding comprises 11 subsidiaries operating in the field of industrial and innovative development, export promotion, entrepreneurship development and provision of population with housing. Due to combination of these activities, Baiterek Holding became a unique development institution providing comprehensive support to business entities and the population.

Development Bank of Kazakhstan JSC, a subsidiary of the Holding, is acting as a driver for long-term lending to non-resource sectors of the economy by granting every second tenge in this market. The Bank' portfolio comprises 64 project totaling KZT 5.3 trln. In 2018, a bank guarantee was provided for the first time to ensure export of services for the construction of a gold-processing plant in Kyrgyzstan.

The main operator of SME development programs is Damu Fund, which in 2018 provided support to 22 thous. projects for the amount of KZT 537 bn. Thus, the share of SME lending with the use of the Holding's tools in 2018 was equal to 37%.

Export support is one of the strategic areas of the Holding's activities. In the reporting year, the amount of export contracts supported by EIC KazakhExport JSC exceeded KZT 419 bn. Besides that, foreign representative offices were opened in the Russian Federation and in the People's Republic of China.

The Holding is the main operator of housing construction programs in Kazakhstan. Today, Housing Construction Savings Bank of Kazakhstan JSC, a subsidiary of the Holding, ranks first in long-term deposits with depositors' savings amounting to KZT 624 bn, which is 29% of total long-term deposits of the country's second-tier banks.

“ in 2018 the **Holding Group** successfully completed the tasks assigned by the Head of State and the Government. ”



To assist in the development of the innovative ecosystem of Kazakhstan, in the reporting year the Holding started reorganizing a business model of NATD JSC.

I would like to say that in 2018 the Holding Group successfully completed the tasks assigned by the Head of State and the Government. International ratings confirm the stability and correctness of the course chosen by Baiterek Holding: FitchRatings affirmed a BBB rating (with Stable outlook), Moody's Investors Service assigned a Baa3 rating (with Stable outlook). The Holding's ratings correspond to the sovereign ratings of Kazakhstan.

For the next year, the Holding sets itself no less ambitious goals to ensure sustainable economic development: start-up of 12 medium and large-sized business projects worth KZT 1.8 trillion, providing support to 14.6 thous. SME and export projects in the amount of over KZT 110 bn, provision of housing loans to the amount of KZT 322 bn, and purchase of LEA bonds totaling KZT 108.8 bn.

Summing up the performance results of 2018, I would like to express my gratitude to the staff of the Holding and its subsidiaries for their professional work, ability to bravely overcome difficulties and adapt to changes.

Being part of a large team of the Holding is a reason for pride for me and my colleagues. I am confident that high professionalism of the Holding staff will allow us to achieve even more significant results.

Chairman of the Management  
Board of Baiterek NMH JSC

**AIDAR ARIFKHANOV**

# DEVELOPMENT STRATEGY AND ACHIEVING THE SET GOALS

The Development Strategy of Baiterek NMH JSC for 2014-2023 (hereinafter referred to as the Development Strategy) was approved by the Decree of the Government of the Republic of Kazakhstan No. 674 dated June 18, 2014. The Development Strategy was developed with due consideration of strategic and program documents of the Republic of Kazakhstan and defines the Holding's mission, vision, strategic directions, goals and objectives until 2023.



## MISSION

To promote the sustainable economic development of the Republic of Kazakhstan with the aim of implementing state policies and achieving goals set by the 2050 Strategy.

## VISION

Baiterek NMH JSC is a key institution of the Government of the Republic of Kazakhstan meeting the highest standards of corporate governance and ensuring the fulfillment of objectives aiming at the sustainable development of the national economy through its diversification, support of innovations, export development, and increase in labor productivity.

The key objectives that Baiterek NMH JSC solves as part of its mission to promote the sustainable development of the economy of Kazakhstan are:

- development of non-resource sectors of the economy;
- development of entrepreneurship (private sector of the economy);
- support of economy urbanization;
- export support for non-resource products;
- development of innovations.

The first two objectives are being solved by implementing the main activities of Baiterek NMH JSC in two strategic activities:

- entrepreneurship support in the large business segment;
- entrepreneurship support in the SME segment.

The third objective of supporting economy urbanization is being solved as part of the third strategic activity of Baiterek NMH JSC - improvement of housing affordability.

The last two objectives to support the export of non-resource products and the development of innovations are being implemented in two strategic areas:

- support of export potential;
- transfer and implementation of innovations.

In 2018, the Holding performed work to amend the 2017-2019 Action Plan for implementing the Development Strategy (hereinafter referred to as the Action Plan) in connection with the adoption of new program documents such as "Nurly Zher", "7-20-25". In addition, the Secretary of State of the Republic of Kazakhstan assigned a task to account for the new indicator pursuant to the approved Concept of Family and Gender Policy in the Republic of Kazakhstan until 2030 - "Share of women in the Holding at the decision-making level". Additionally, in 2018, the Action Plan was supplemented with a new section specifying sustainable development activities.

In 2019, the Holding is expects to update its Development Strategy by including a number of initiatives: optimization of the housing and construction section, development of "green financing", introduction of preferential loans for large families, organization of a trading platform for SMEs, introduction of apex mechanisms, etc.

At the end of 2018, the Holding Group achieved 11 of 12 strategic KPIs. Failure to achieve the "Private Sector Share in the Loan Portfolio" indicator was caused by the revaluation of foreign currency loans in the quasi-public sector due to a change in the planned USD/KZT exchange rate from KZT 340 to KZT 384.2.



List of the Holding Group's KPIs and their achievement in the reporting year and target values for the short and long term

№	Key performance indicator	2018			2019 plan	2023 plan <sup>1</sup>
		plan	actl.	% of execution		
<b>Consolidated KPIs of the Holding to stimulate the sustainable economic development of the Republic of Kazakhstan</b>						
1.	Share of the loan and investment portfolios in the total assets of the Holding, %	72.4	73.2	101	73.95	77
2.	Share of non-government sources of borrowing in the total borrowing structure for the reporting year, %	no less than 63	65.2	103	no less than 66.6	no less than 80
3.	ROA (consolidated) no lower than the minimum positive value, %	0.44	0.76	173	0.54	no less than 1
4.	Private sector share in the loan portfolio, %	73.6	72.7	99	73.6	80
Objectives:		<ul style="list-style-type: none"> <li>Development of non-resource sectors of the economy</li> <li>Development of entrepreneurship (private sector of the economy)</li> </ul>				
Strategic areas:		<ul style="list-style-type: none"> <li>Entrepreneurship support in the large business segment</li> <li>Entrepreneurship support in the SME segment</li> </ul>				
5.	Number of new projects, projects of modernization and expansion of current production with consideration for production growth and expansion of sales markets (with accumulation from 2014), units	47,509	58,958	124	59,418	55,600
6.	Volume of products produced by supported business entities (with accumulation from 2014), KZT bn	17,400	In third quarter of 2019 <sup>2</sup>	-	no less than 22,521.9	42,700
7.	Foreign investments attraction, ratio (KCM JSC)	no less than 2:1	2.8:1	142	no less than 2:1	no less than 2:1
Objective:		<ul style="list-style-type: none"> <li>Support of economy urbanization</li> </ul>				
Strategic area:		<ul style="list-style-type: none"> <li>Improvement of housing affordability</li> </ul>				

№	Key performance indicator	2018			2019 plan	2023 plan <sup>1</sup>
		plan	actl.	% of execution		
8.	Volume of housing with the provision of support tools (with accumulation from 2014), thous. sq. m	2,836	3,043.9	107	-	Target values of the indicator until 2019
9.	Share of housing construction savings system participants in the economically active population of the Republic of Kazakhstan, % (HCSBK JSC)	12.4	14.1	114	14	17
10.	Market coverage of shared construction guarantees of Housing Guarantee Fund JSC, % (HGF JSC)	7	13.2	189	13	50
Objective:		<ul style="list-style-type: none"> <li>Export support for non-resource products</li> </ul>				
Strategic area:		<ul style="list-style-type: none"> <li>Increasing export potential</li> </ul>				
11.	Volume of export revenues of enterprises supported under export and pre-export financing (with accumulation from 2014), KZT bn	1,403	1,986	142	2,15.7	1,054
Objective:		<ul style="list-style-type: none"> <li>Development of innovations</li> </ul>				
Strategic area:		<ul style="list-style-type: none"> <li>Transfer and implementation of innovations</li> </ul>				
12.	Number of technologies introduced in production processes and projects aimed at solving technological industry-specific tasks and technology commercialization, units (NATD JSC)	30	40	133	40	81

<sup>1</sup>The target indicators for 2023 will be revised in 2019 as part of updating the Development Strategy of the Holding.

<sup>2</sup>The actual value for 2018 will be provided by the State Revenue Committee of the Ministry of Finance of RK in the third quarter of the year following the reporting one.

## KEY EVENTS IN 2018



### CREDIT RATINGS ASSIGNMENT

Fitch Ratings agency affirmed the rating of Baiterek NMH JSC at “BBB” level with “Stable” outlook. Moody’s Investors Service rating agency assigned “Baa3” rating to Baiterek NMH JSC, the outlook is “Stable”. The Holding’s ratings correspond to the sovereign ratings of Kazakhstan. National long-term ratings are at “AAA (kaz)”/“Aaa.kz” level.



### DEBUT ISSUE OF TENGE BONDS

On December 27, 2018, the debut issue of tenge bonds was placed at Kazakhstan Stock Exchange JSC in the amount of KZT 77.7 bn with a maturity of 15 years. Raised funds were spent on:

- concessional financing of existing and new programs, including those for the provision of housing to military servicemen under the credit line of Housing Construction Savings Bank of Kazakhstan JSC (KZT 58 bn);
- stimulating the mortgage market under the credit line of Mortgage Organization Kazakhstan Mortgage Company JSC (KZT 20 bn).



### APPROVAL OF CORPORATE DOCUMENTS

The restated Investment Policy of the Holding was approved by the decision of the Board of Directors No. 08/18 dated September 20, 2018.

The Dividend Policy of the Holding was preliminarily approved by the decision of the Board of Directors No. 11/18 dated November 23, 2018.

The Sustainable Development Policy of the Holding was approved by the decision of the Management Board, No. 52/18 dated November 28, 2018.



### STARTUP OF THE PROGRAM “COMPETITIVENESS LEADERS - NATIONAL CHAMPIONS 2.0”

The Holding updated the “Competitiveness Leaders - National Champions 2.0” program providing for a comprehensive financial and non-financial support to participants based on the one stop principle (hereinafter - the Program). The goal of the Program is to assist in creating competitive, export-oriented and technological manufacturing industries by providing financial and non-financial support to domestic companies that have passed the selection stage.

The key features of the Program are as follows:

- focus on investment projects both with the developed documentation available and at the project concept stage;
- providing financial and additional support measures at the expense of all available tools of the Holding;
- providing comprehensive individual support by assigning a project manager to the company who will accompany the participants throughout the Program implementation.

During the Program implementation, a number of key performance indicators will be monitored:

- amount of capital expenditure;
- increase in revenue;
- export growth.

By the end of 2018, the Holding conducted an active bid campaign, which covered about 1,000 manufacturing enterprises. According to the results of the bid campaign, the Holding received 113 project applications from 94 companies. The applications received will be analyzed for compliance with the Program criteria, and the companies and their investment projects will be reviewed, after which the Program participants will be identified.



### TRANSFORMATION OF NATD JSC

To assist in the development of the innovative ecosystem of Kazakhstan, in the reporting year the Holding started reorganizing a business model of NATD JSC.



### CHANGES IN THE ASSETS STRUCTURE<sup>3</sup>

Pursuant to the Decree of the Government of the Republic of Kazakhstan No. 1141 dated 30.12.2015 “On Some Privatization Issues for 2016-2020”, at the end of 2018, subsidiaries of NATD JSC - Design Bureau of Agricultural Machinery Industry LLP and Design Bureau of Oil and Gas Equipment LLP were dissolved.

The Holding sold its participatory interest in the project of IFK JSC - Ranilla Kazakhstan JSC (44%) and participatory interests in three projects of NATD JSC:

- Sary-Arka Technological Park LLP (84%);
- Algorithm Technological Park LLP (in the amount of 31.59% owned by CETT JSC);
- Altai East-Kazakhstan Regional Technological Park LLP (50%).



### FINANCING OF INVESTMENT PROJECTS

In 2018, DBK JSC financed 17 investment projects and 13 export (pre-export) operations in the amount of KZT 443.2 bn as part of direct lending. In addition, in the reporting year, 9 applications for financing of six investment projects and three pre-export operations in the amount of KZT 225 bn were approved and six new enterprises financed with the participation of DBK JSC were commissioned.

In the reporting year, DBK-Leasing JSC approved 74 leasing transactions for financing for a total of KZT 54 bn, of which transactions were financed in the amount of KZT 44 bn, including the funds allocated by DBK-Leasing JSC - KZT 38.1 bn.

In 2018, the funds with the participation of KCM JSC invested in five projects in the amount of KZT 46 bn, including:

- Construction of wind power stations by CAPEC Green Energy LLP in Akmolra region with the aim of implementing the strategy of Kazakhstan for the transition to a green economy (financed by DBK Equity Fund and Baiterek Venture Fund JSC);

- Modernization of the mobile park of TengizTransGaz Group of Companies, one of the largest transport and logistics operators in Kazakhstan (financed by DBK Equity Fund);
- Construction of modern storage facilities in Khorgos-Eastern Gate SEZ, which is one of the key transit points of the New Silk Way, will allow Kazakhstan to participate in the global Chinese initiative “One Belt - One Way” (co-investment by Kazakhstan Infrastructure Fund jointly with Abu Dhabi Mubadala sovereign fund).



### FIRST BANK GUARANTEE OF DBK JSC

For the first time, DBK JSC provided a bank guarantee in the amount of KZT 14 bn for the construction of a gold processing plant at Jerooy gold deposit located in Kyrgyzstan.



### START-UP OF NEW SOCIAL INITIATIVES IN THE HOLDING GROUP

HCSBK JSC launched “Askeri Baspana” program for military servicemen to accumulate savings from housing payments received. In the framework of this program, over 67 thousand military servicemen will be provided with their own housing and the budget savings for 25 years will amount to KZT 824 bn.

MO KMC JSC launched Orda mortgage program aimed at improving living conditions of citizens with average and above-average incomes who want to purchase primary or secondary housing of a higher class (the cost of which exceeds KZT 25 mln) at a rate below the average market one.

Baiterek Development JSC jointly with the Institute of Digital Equipment and Technology JSC developed Nurly Zher Situation Center, the LEA portal and a mobile application to monitor the construction of real estate projects funded under “Nurly Zher” State Program.

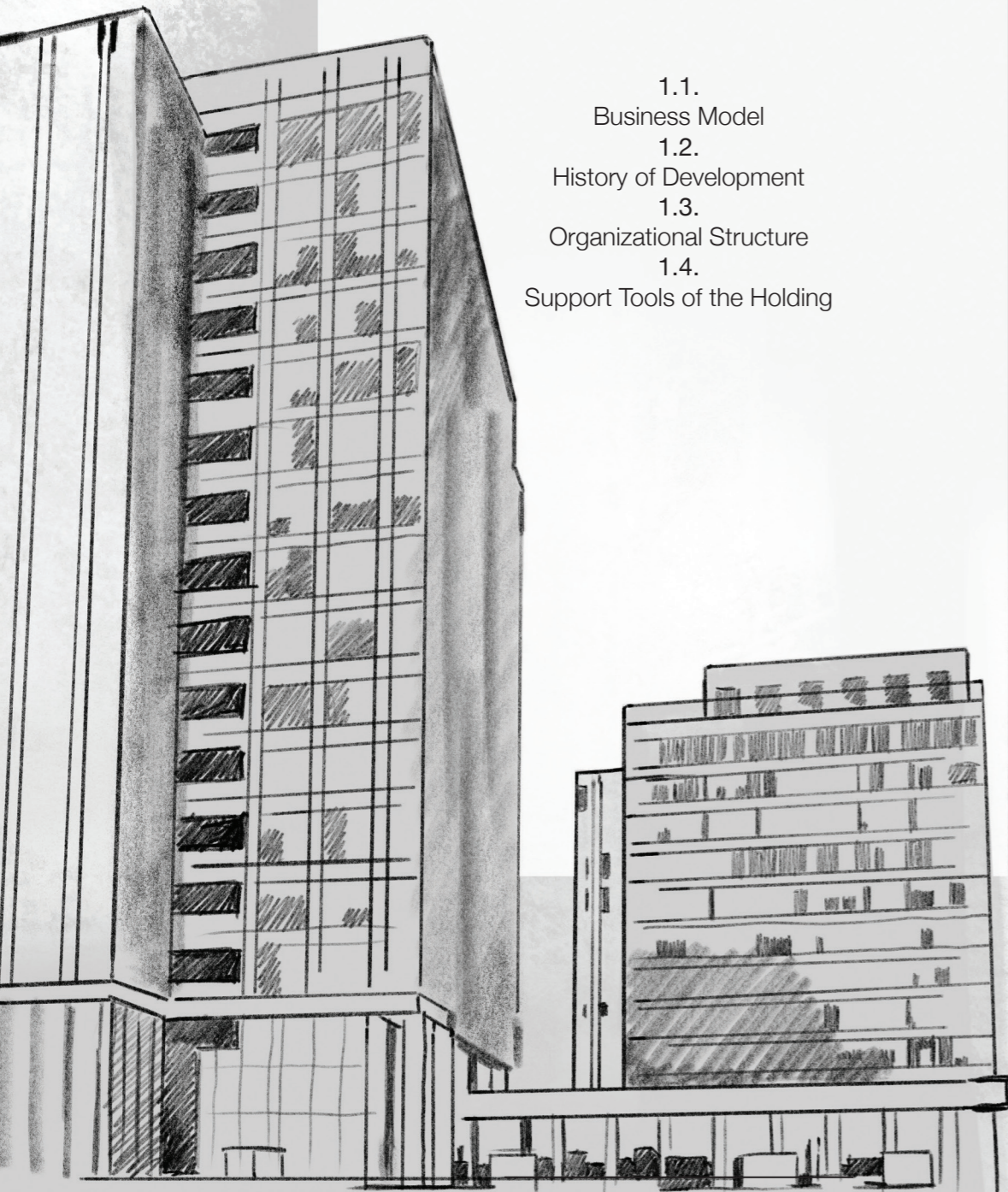
The “Agent Network of Damu Fund JSC Consisting of STB Employees” project was developed and implemented with the aim of providing material incentives to credit managers/specialists of partner bank branches for issuing loans to micro, small and medium businesses using state support tools for entrepreneurs.

<sup>3</sup>See more details on changes in the assets structure in the “Organizational Structure” section.

# 01

## ABOUT THE HOLDING

- 1.1. Business Model
- 1.2. History of Development
- 1.3. Organizational Structure
- 1.4. Support Tools of the Holding



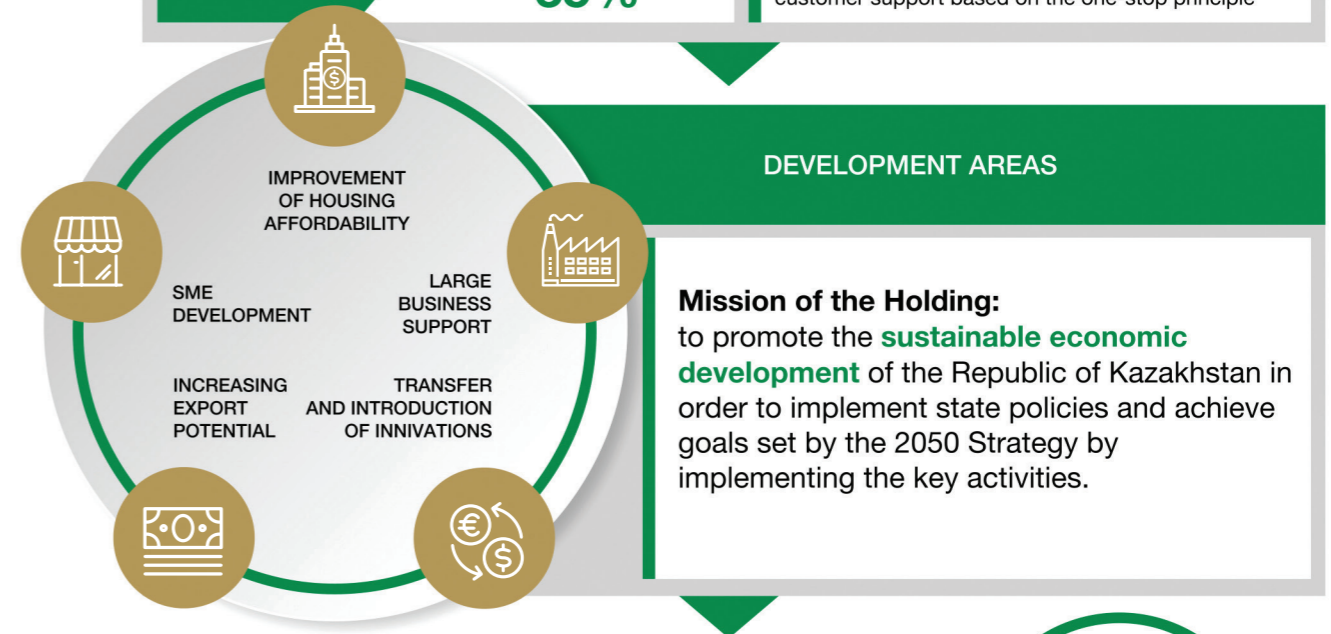
# 1.1

## BUSINESS MODEL

The level of the Holding's staff involvement in 2018 was

**76%**

FINANCIAL RESOURCES OF THE HOLDING			NON-FINANCIAL RESOURCES OF THE HOLDING
ASSETS KZT <b>4,719</b> bn	EQUITY KZT <b>1,061</b> bn	LIABILITIES KZT <b>3,658</b> bn	<p><b>Unified corporate culture</b> based on the following principles: responsibility, professionalism and development, mutual respect and trust, team spirit</p> <p><b>Effective corporate governance:</b> active involvement in activities of BoD of subsidiaries</p> <p><b>Responsible investing:</b> consideration of ESG factors in the provision of financial support</p> <p><b>Customer-oriented approach:</b> comprehensive customer support based on the one-stop principle</p>
<p><b>BORROWING PORTFOLIO</b> KZT <b>503</b> bn</p>		<p>Market sources <b>65%</b></p> <p>Public sources <b>35%</b></p>	



PERFORMANCE RESULTS			The confidence index of the Holding's activities in 2018 was
<p><b>2nd</b> tenge</p> <p>Every 2nd tenge in the long-term lending to non-resource industries is financed by DBK JSC</p>	<p><b>37%</b></p> <p>37% of long-term loans to business entities in national currency were issued with the support of the Holding</p>	<p><b>87.8%</b></p>	
<p><b>46%</b></p> <p>The Holding's share in the annual long-term lending to large enterprises of non-resource industries is 46%</p>	<p><b>63%</b></p> <p>Housing Construction Savings Bank of Kazakhstan JSC is a leader in the mortgage market of Kazakhstan issuing 63% of all mortgage loans in the country</p>		
		<p><b>14%</b></p> <p>The volume of supported exports is 14% of the total non-resource exports in 2018</p>	

# 1.2

## HISTORY OF DEVELOPMENT

2013

**B**aiterek NMH JSC was established by the Decree of the President of the Republic of Kazakhstan No.571 dated May 22, 2013 to optimize the management system of development institutions, financial organizations and to develop the national economy.

The main objective of the Holding is to manage shares (participatory interests) in national development institutions, national companies and other legal entities, which belong to the Holding on the right of ownership and which are transferred to the Holding into trust management.

The Holding included 10 development institutions previously managed by state bodies, and Samruk-Kazyna Sovereign Wealth Fund JSC.

2015

**"C**ompetitiveness Leaders - National Champions" program was initiated as a part of the 62nd step of the "100 Concrete Steps" National Plan for the purpose of facilitating the dynamic growth of participating companies which may become competitive leaders in the Eurasian Economic Union.

2017

**T**he Development Strategy of Baiterek NMH JSC for 2014-2023 was updated. The restated Corporate Governance Code of Baiterek NMH JSC was approved.

The Management Board approved the Digitalization Strategy of Baiterek NMH JSC for 2018-2023. The information system "Digital Baiterek" Unified Entrepreneurship Support Portal was introduced into permanent (industrial) operation to provide a comprehensive and customer-oriented business support.

The Holding's subsidiaries DBK JSC and KCM JSC established the DBK EquityFund, a private equity fund with the size of USD 100 mln to capitalize projects of DBK JSC.

The Holding implemented procedures to optimize its structure. In particular, participatory interests in four projects of IFK JSC were sold for a total amount of KZT 337 mln. The participatory interest of NATD JSC in the Technological Park of KazNTU named after K. Satpayev was also sold.

2018

**T**he Board of Directors approved the restated Investment Policy of the Holding focusing on projects of the private sector of the economy, which promote the sustainable socio-economic development of the country.

In December 2018, the debut issue of tenge bonds was placed at Kazakhstan Stock Exchange JSC in the amount of KZT 77.7 bn with a maturity of 15 years.

In 2018, six new enterprises worth KZT 173 bn were put into operation using the tools of DBK JSC, in particular, the Makinsky poultry plant was built in Akmola region; the transport and logistics hub and new mineral water and beverages bottling facilities were constructed in Shymkent; a railway wheel production complex was created in Pavlodar region; the production of K5 standard motor fuel was established in West Kazakhstan region, and a fertilizer plant was upgraded in Mangistau region.

In the reporting year, with the assistance of DBK-Leasing JSC, 74 leasing transactions were approved for financing for a total amount of KZT 54 bn, in particular, for the purchase of two aircraft to be transferred into financial leasing at the request of Zhetysu Airline JSC, the construction of a plant producing power-efficient architectural facades at the request of KSM Tekhnovid LLP, the construction of a ceramic granite and ceramic tile production plant in Aktobe at the request of Zerde-Ceramics Aktobe LLP, and other projects.

In 2018, the funds with the participation of KCM JSC invested in 5 projects in the amount of KZT 46 bn, in particular, for the construction of a wind power plant (invested by two funds - DBK Equity Fund and Baiterek Venture Fund JSC), the construction of storage facilities and Saryarka main gas pipeline, and modernization of the mobile park.

THE HOLDING INCLUDED 10 DEVELOPMENT INSTITUTIONS PREVIOUSLY MANAGED BY STATE BODIES, AND SAMRUK-KAZYNA SOVEREIGN WEALTH FUND JSC.

10  
INSTITUTIONS

2014

**T**he Holding became an operator of "Nurly Zhol" State Program of Infrastructure Development for 2015-2019. Kazakhstan Infrastructure Fund was established as part of the Holding with the capitalization of KZT 20 bn allocated from the republican budget in 2013 and 2014.

The Holding and Kazakhstan PPP Center JSC jointly established The Center for Support of Public-Private Partnership Projects LLP to promote the infrastructure development in the country.

Baiterek Venture Fund was established within the Holding structure to invest in priority economic sectors.

2016

**T**he Holding continued to implement the state and governmental programs – "Nurly Zhol", Industrial and Innovative Development Program for 2015-2019 and Business Roadmap 2020.

The Mortgage Loans Guarantee Fund was reorganized into KMGF JSC.

In September 2016, a decision was made to expand the mandate of The Center for Support of PPP Projects LLP and to rename the company as Kazakhstan Project Preparation Fund LLP.

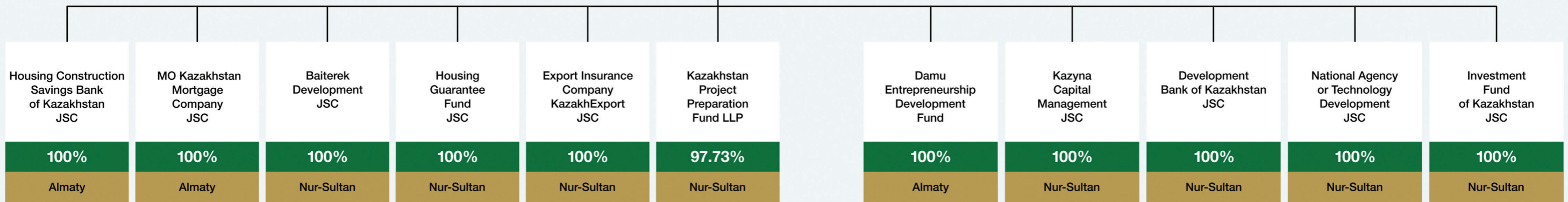
IN DECEMBER 2018, THE DEBUT ISSUE OF TENGE BONDS WAS PLACED AT KAZAKHSTAN STOCK EXCHANGE JSC IN THE AMOUNT OF KZT

77.7 BN

WITH A MATURITY OF 15 YEARS

# 1.3

## ORGANIZATIONAL STRUCTURE



**B**aiterek NMH JSC is an integrated development institution which comprises 61 organizations, including 11 subsidiaries, more than fifty percent of voting shares (participatory interests) of which are owned directly or indirectly by the Holding on the right of ownership: 10 joint-stock companies wholly owned by the Holding and one limited liability partnership with 97% participatory interest of the Holding.

Pursuant to the Decree of the Government of the Republic of Kazakhstan No. 1141 dated 30.12.2015 "On Some Privatization Issues for 2016-2020", at the end of 2018, subsidiaries of NATD JSC - Design Bureau of Agricultural Machinery Industry LLP and Design Bureau of Oil and Gas Equipment LLP were dissolved.

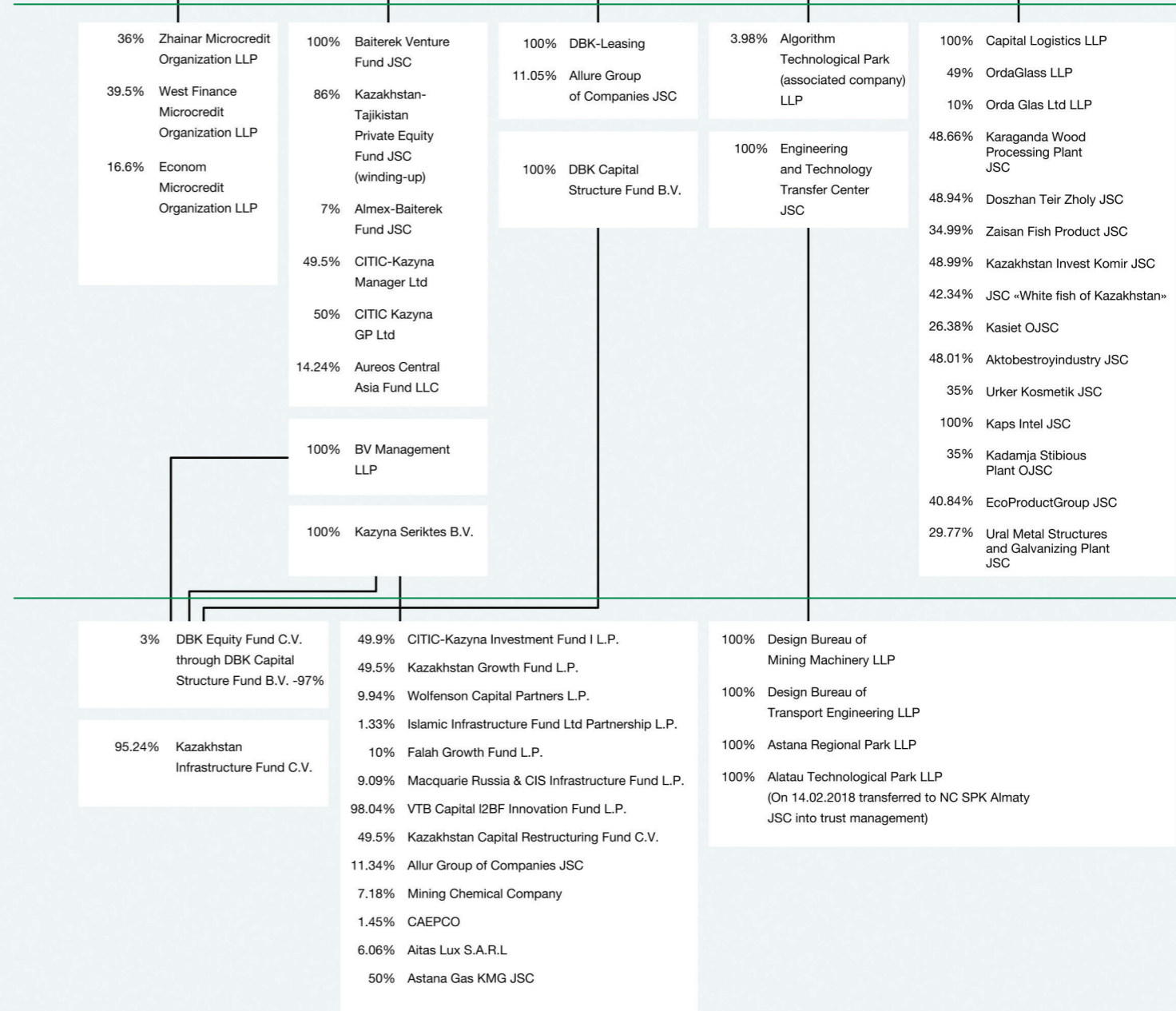
The Holding sold its participatory interest in the project of IFK JSC - Ranilla Kazakhstan JSC (44%) and participatory interests in three projects of NATD JSC:

- Sary-Arka Technological Park LLP (84%);
- Algorithm Technological Park LLP (in the amount of 31.59% owned by CETT JSC) ;
- Altai East-Kazakhstan Regional Technological Park LLP (50%) .

The following 3rd and 4th level organizations are currently in the process of winding-up/ bankruptcy:

- Ural Plant of Metal Structures and Galvanizing JSC;
- WHITE FISH OF KAZAKHSTAN JSC;
- Design Bureau of Mining and Smelting Equipment LLP;
- Design Bureau of Transport Machinery LLP.

TOTAL: 61 organizations	
Subsidiaries - 11	JSC – 10/LLP - 1
3d level organizations - 31	JSC – 16/LLP – 8/Other - 7
4th level organizations - 19	LLP – 4/Other - 15



<sup>4</sup>A 3.98% participatory interest owned by NATD JSC was not sold.

<sup>5</sup>A 21.6% participatory interest owned by CETT JSC was sold to a third-party purchaser; a 28.7% share owned by Design Bureau of Mining and Smelting Equipment LLP was purchased by Altai East-Kazakhstan Regional Technological Park LLP.

# 1.4

## SUPPORT TOOLS OF THE HOLDING

EACH SUBSIDIARY OF THE HOLDING HAS ITS OWN SPECIALIZATION AND CRITERIA FOR SELECTING RECIPIENTS OF FINANCIAL AND NON-FINANCIAL SUPPORT



General selection principles for all types of support are in line with the state priorities in the field of socio-economic development of the country. In particular, they include diversification and modernization of the economy, increase in its competitiveness, development of infrastructure and export

potential, creation of new jobs, provision of housing affordability. At the same time, this support is aimed at forming and developing competitive businesses operating under market conditions, and as a whole should not lead to the expansion of state participation in the economy.

Activities of the Holding	Tools	Subsidiaries
Entrepreneurship support in the large business segment	Debt financing	Development Bank of Kazakhstan JSC
	Equity financing	Kazyna Capital Management JSC
	Distressed assets management	Investment Fund of Kazakhstan JSC
	Guarantees	Development Bank of Kazakhstan JSC
	Leasing	Development Bank of Kazakhstan JSC
	Financing and preparation of project documentation, search for investors	Kazakhstan Project Preparation Fund LLP
Entrepreneurship support in the SME segment	Financial support*	Damu Fund JSC
	Counseling	Damu Fund JSC
Improvement of housing affordability	Financing of constructors through repurchase of LEA securities	Baiterek Development JSC
	Mortgage lending	HCSBK JSC MO KMC JSC
	Subsidizing	Damu Fund JSC MO KMC JSC
	Rental housing	Baiterek Development JSC MO KMC JSC
	Securing of shared-equity housing construction	Housing Guarantee Fund JSC
	Issue of housing loans	HCSBK JSC
Increasing export potential**	Guarantees and insurance	EIC KazakhExport JSC
	Export and pre-export financing	EIC KazakhExport JSC, DBK JSC
Transfer and implementation of innovations	Grants	National Agency for Technological Development JSC

\*Including conditional placement in STBs, issuance of state subsidies for interest rates, guarantees

\*\*Including small, medium and large business.

# 02

## ECONOMIC OVERVIEW

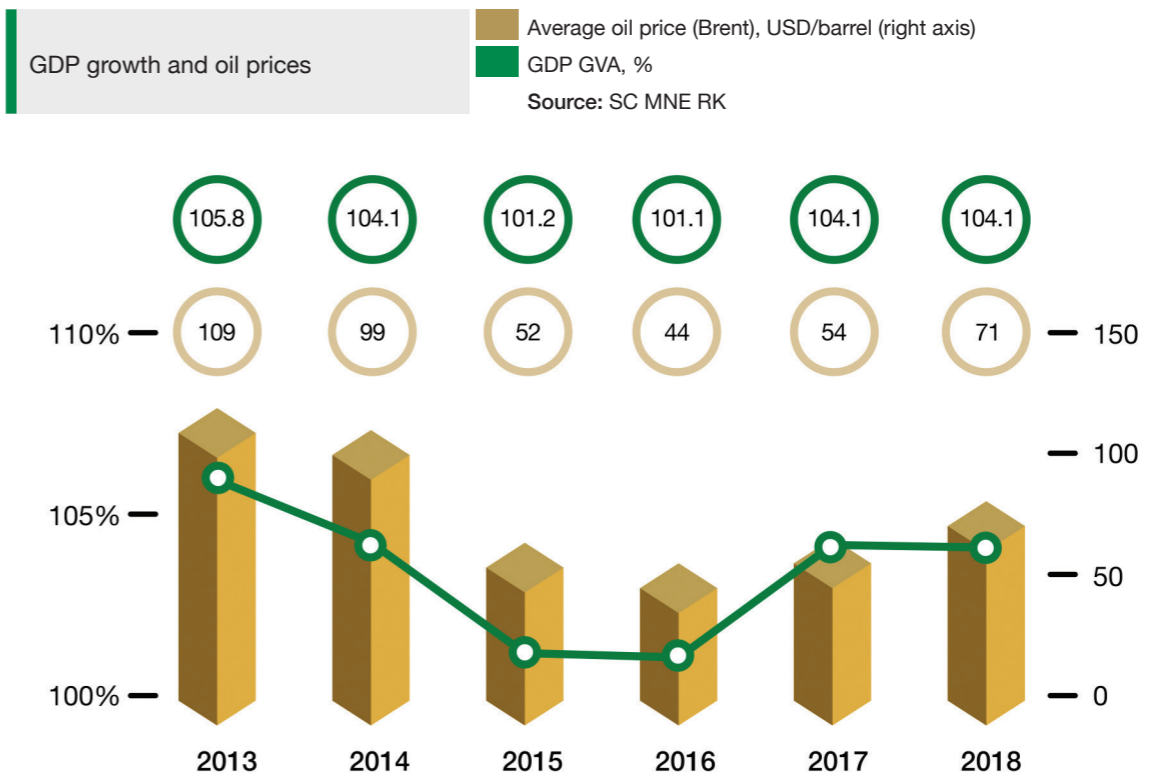
- 2.1. Macroeconomic Overview
- 2.2. Market share of the Holding's instruments by type of core activity

# 2.1

## MACROECONOMIC OVERVIEW

The favorable external economic conditions caused by a raise in oil prices (+32% to 2017) contributed to maintaining the robust economic growth in Kazakhstan. According to the preliminary data of the SC MNE RK, in 2018, GDP growth amounted to 104.1% against the level of 2017.

The mining industry remains a driver for the manufacturing sector. According to estimates of Baiterek NMH JSC, its contribution to GDP growth was 0.6 percentage points at the end of 2018. The GVA growth rate in the sector for the period under review was 4.6%, the share in total GDP amounted to 15.2% (compared to 13.6% in 2017). The accelerated growth of the sector



In the GDP structure, a share of commodity production equals to 38.7%, services - 54.4%. In general, the industrial output in January-December 2018 increased by 4.1% compared to the previous year and amounted to KZT 27,576 bn in nominal terms. The industrial growth was significantly affected by an increase in the production of motor vehicles, electrical equipment, cast metals, chemical and oil products, the extraction of iron ore, natural gas and crude oil.

was caused by an increase in the production of crude oil (+4.8% to 2017), natural gas (+5.5% to 2017), and iron ore (+6.5% to 2017). At the same time, it should be noted that the downward trend in oil prices, which was established in Q4 of 2018, contributed to a slowdown in the industrial production of the oil sector.

The processing industry also maintains a positive growth rate. The industrial production index in 2018 was equal to 104.1% (against the level of 2017), the contribution of the processing industry to GDP growth amounted to 0.4 percentage points. The growth of the sector as a whole was contributed by an increase in the production of electrical equipment (+33.4%), motor vehicles (+40.4%), metal casting (+13.1%), oil refining (+8.1%), and chemicals (+8.1%). The decline in the production output in the reporting period was observed in the iron and steel industry (-1.7% compared to 2017).

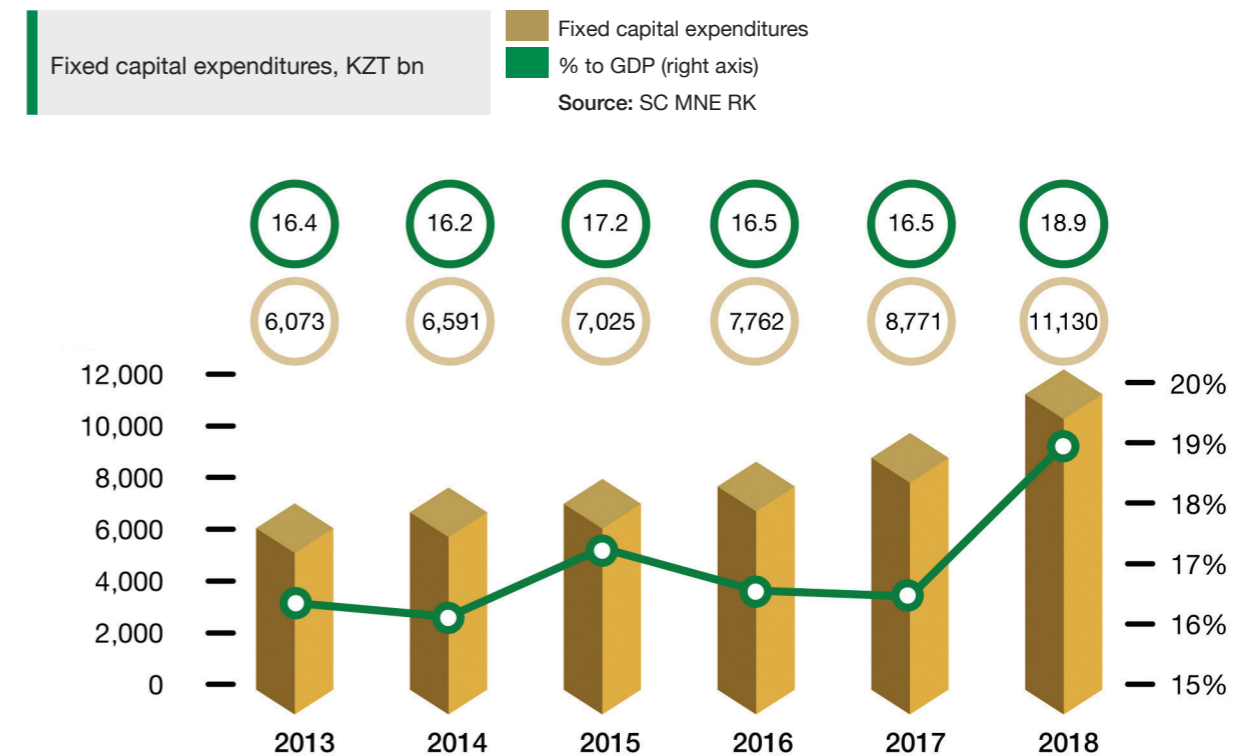
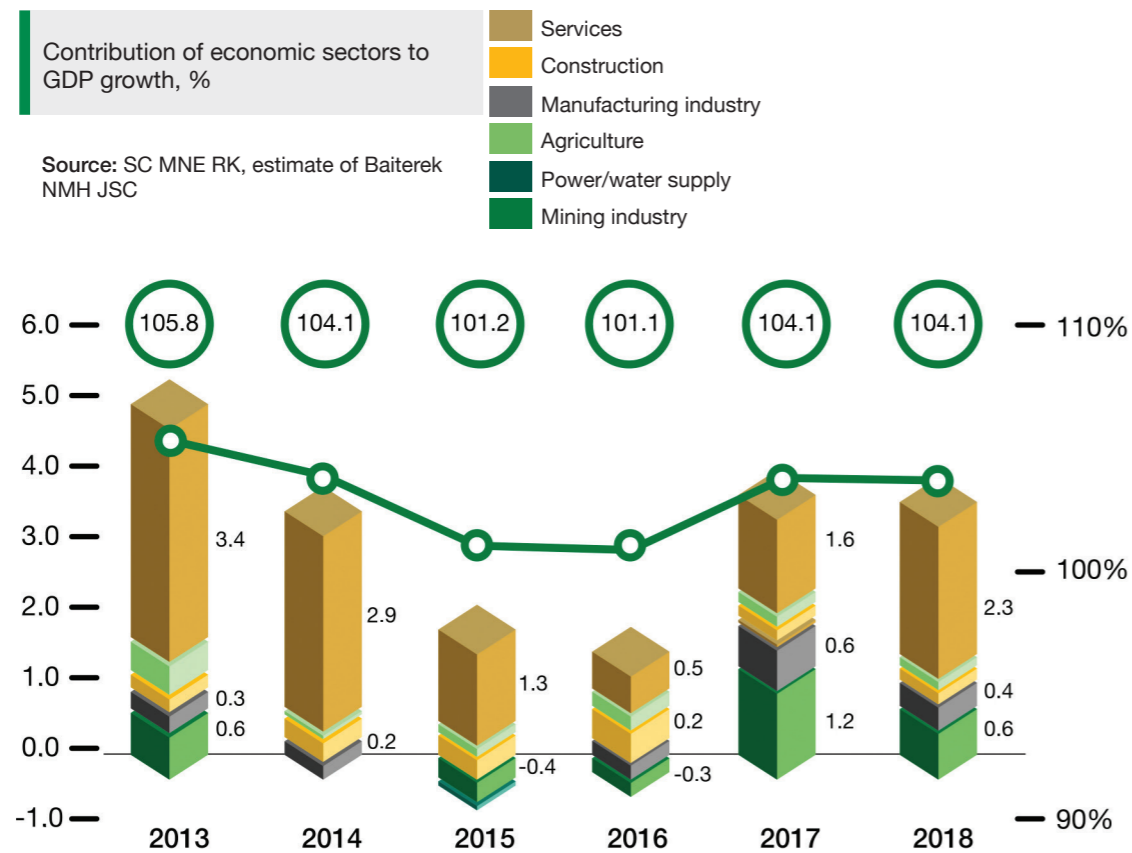
Due to an increase in the electric power production, transmission and distribution by 4.1% (to 2017), production in the energy sector as a whole grew by 2.4% (to 2017).

In 2018, the service sector grew in real terms by 4.2% (to 2017). The highest growth rates in the sector were observed in the wholesale and retail trade (GVA VI - 107.6% to 2017), transport and warehousing (GVA VI - 104.6% to 2017). The increase in economic activity in the service sector was caused by the investment activity of industrial sectors coupled with an increase in real incomes of the population.

The increase in investment activity of the real sector enterprises also contributed to stimulating the economy. According to the official data of SC MNE RK, the volume of fixed capital expenditures in January-December 2018 increased by 17.2% (to 2017) and amounted to KZT 11,130 bn.

The industry sector accounted for 59% (KZT 6,563 bn) of all capital expenditures in January-December 2018 (+27% to 2017), which emphasizes its role as a driver of investment activity. In the industry structure, a significant concentration of investment is still observed in the oil sector - 59% (KZT 3,843 bn) of the total investment in industry. In the period under review, there was also an increase in fixed capital expenditures in the manufacturing industry by 20.5% (to 2017), the volume in nominal terms was equal to KZT 1,247 bn (19% of the total capital expenditures in the industry). In the manufacturing industry sectors, the highest investment activity was observed in the production of textile goods (7.1 times to 2017), electrical equipment (3.5 times to 2017), oil refining (+33.7% to 2017), building materials (+32.7% to 2017), food products (+27.3% to 2017), chemistry (21.1% to 2017) and metallurgical industry (+19.5%).

In the structure of capital expenditure sources in the industry, the largest share is held by enterprises' own funds - 81% (KZT 5,286 bn), the share of budget funds - 6% (KZT 419 bn). The increase in the volume of investment in housing for 12 months of 2018 by 18.6% (to the level of 2017), or KZT 1,162 bn in nominal terms, partly contributed to the growth of the construction sector GVA by 4.1% (to 2017). The volume of housing commissioned in January-December 2018 increased by 12.1% (to 2017) and amounted to 12,521.1 thous. sq. m. The main sources of housing construction financing in the reporting period were the own funds of developers with a share of 78.4%. At the end of December 2018, the volume of lending provided by banks to the economy amounted to KZT 13,091.8 bn (a 1.8% increase per month). The volume of loans issued to legal entities increased by 2.5% up to KZT 7,789.1 bn, individuals - by 0.7% up to KZT 5,302.6 bn. Without regard to the loan portfolio of banks undergoing restructuring and deprived of a license, the annual growth in lending to the economy was equal to 7.4%, or KZT 883.5 bn.

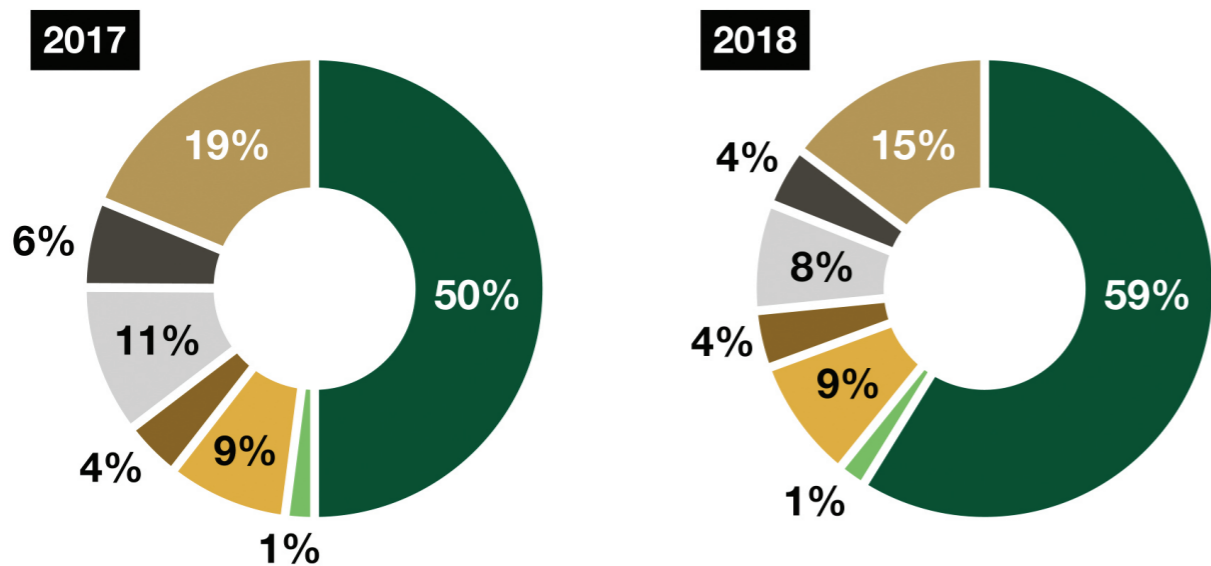




**Sectoral structure of fixed capital expenditures of industrial enterprises**

- Oil and gas production
- Food products
- Oil refining
- Metallurgy
- Power supply
- Water supply
- Other

Source: SC MNE RK



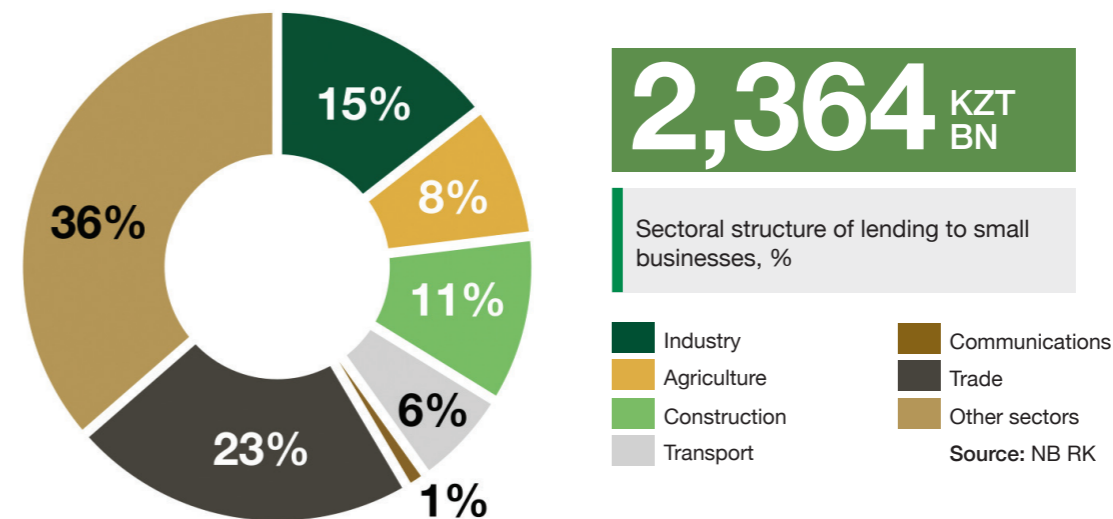
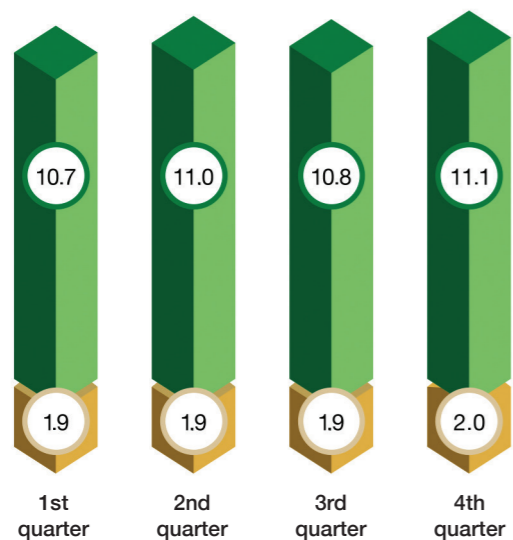
At the end of 2018, the volume of lending to small businesses amounted to KZT 2,363.9 bn, or 18.1% of the total volume of loans to the economy. In the sectoral structure, the

highest share in the total bank loans issued to the economy is accounted for such sectors as industry (15.5%), trade (13.8%), construction (5.8%), transport (4.5%) and agriculture (3.7%).

**Loans issued by banks to the economy by maturity, KZT trln (at the end of the period)**

- Short-term
- Long-term

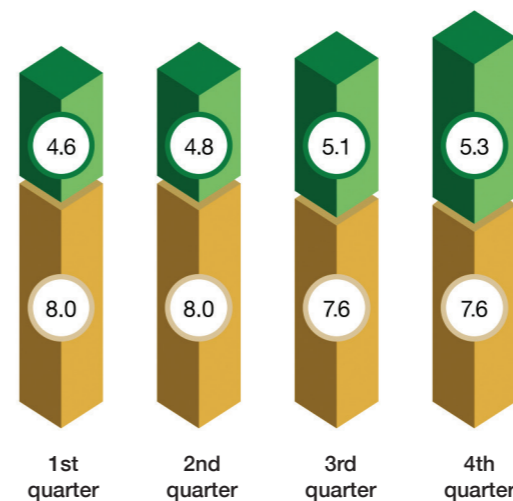
Source: NB RK



**Loans issued by banks to the economy by recipients, KZT trln (at the end of the period)**

- Individuals
- Legal entities

Source: NB RK



The volume of loans issued in January-December 2018 amounted to KZT 13,460 bn (+24% to 2017). In the loan structure, the share of tenge-denominated loans amounted to 87%. The amount of short-term loans increased by 20% (to the level of 2017) up to KZT 7,342 bn, long-term loans - by 30% (to 2017) up to KZT 6,119 bn. The aggregate STB mortgage portfolio at the end of December 2018 amounted to KZT 1,303.3 bn (+19% to 2017). In the portfolio structure, 96% of mortgage loans were denominated in national currency. At the end of 2018, the share of Housing Construction Savings Bank of Kazakhstan JSC in the total mortgage portfolio of STBs and mortgage organizations amounted to 41%, or KZT 670 bn.

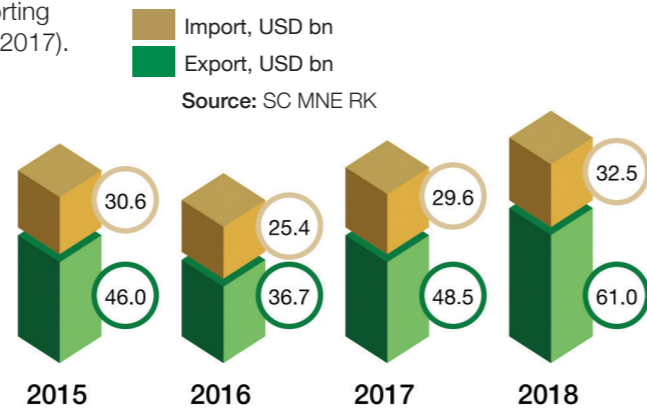
In 2018, STBs issued loans to citizens for the construction and purchase of housing in the amount of KZT 568 bn (+49% to 2017). Housing Construction Savings Bank of Kazakhstan JSC remains a driver of mortgage lending in Kazakhstan; the volume of mortgage loans issued in 2018 amounted to KZT 360 bn, or 63% of the total loans issued for the construction and purchase of housing.

According to the data published by SC MNE RK, exports for January-December of the reporting year amounted to USD 61 bn (+25.7% to 2017).

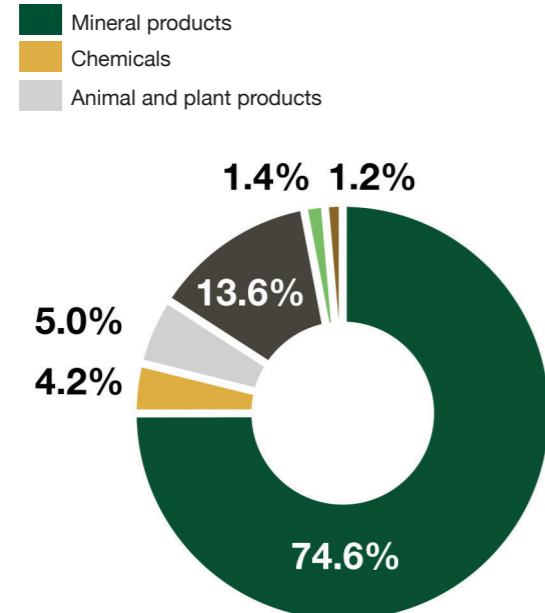
In the export structure, 75% (USD 45.5 bn) is accounted for mineral products, the total value of which increased by 37% (to 2017). Exports of metals (with a share of 14% in total exports) did not change significantly compared to 2017 and amounted to USD 8.3 bn. According to estimates of SC MNE RK, exports of manufactured goods in 2018 amounted to USD 14.3 bn.

Imports over the past year amounted to USD 32.5 bn (+9.9% to 2017). The increase in capital expenditures remains an import growth driver. In the import structure, machinery and equipment classified as high value-added goods still have the highest share of 40.3% (USD 13.1 bn) in total imports.

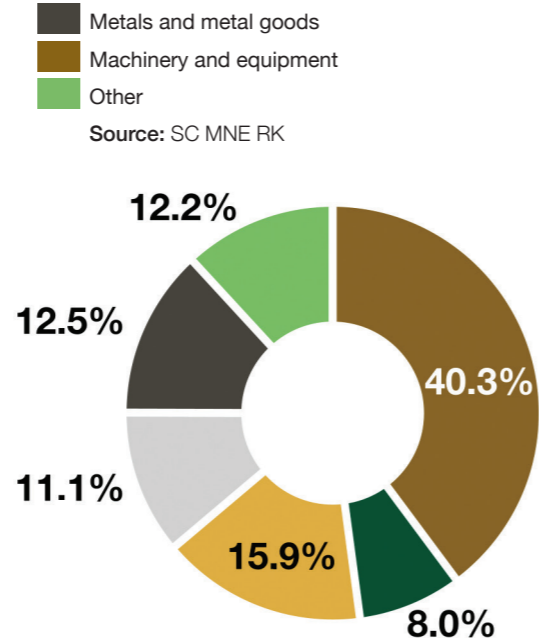
Exports and imports behavior, USD bn



Export structure, %



Import structure, %



# 2.2

## MARKET SHARE OF THE HOLDING'S INSTRUMENTS BY TYPE OF CORE ACTIVITY

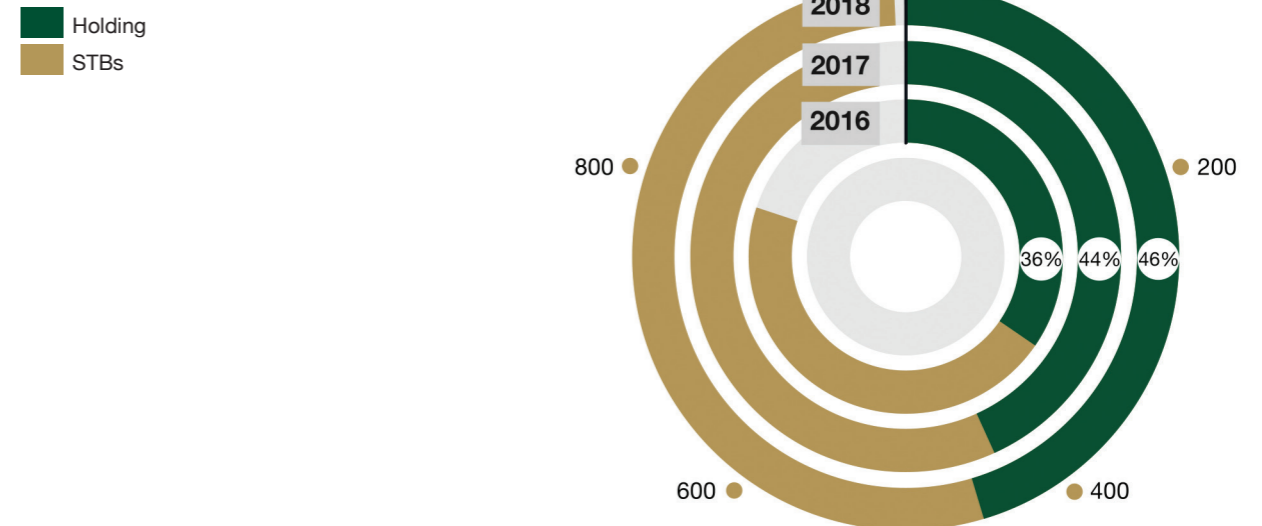
According to the official data of the National Bank of the Republic of Kazakhstan, the volume of long-term loans issued to priority non-resource sectors of the economy (processing industry, energy, transport and communications) in 2018 amounted to KZT 512 bn, which is 6% lower compared to the previous year figure. At the same time, in 2018, large businesses of non-

resource sectors were financed through the direct lending instruments of the Holding (mechanisms of Development Bank of Kazakhstan JSC) for the amount of KZT 443 bn, which amounted to 46% of the total long-term lending to non-resource sectors of the national economy (processing industry, energy, transport and communications).

ACCORDING TO ESTIMATES OF ECONOMIC RESEARCH INSTITUTE JSC, THE HOLDING'S CONTRIBUTION TO THE ECONOMIC GROWTH OF KAZAKHSTAN IN 2018 THROUGH THE MECHANISMS OF IMPLEMENTING INVESTMENT PROJECTS IN THE LARGE BUSINESS SEGMENT WAS 0.31-0.43 PERCENTAGE POINTS

0.31-0.43 P.P.

Share of the Holding in the annual long-term lending to large businesses of non-resource sectors of the economy



The assessment of the Holding's contribution was conducted using the tool of the Inter-Sectoral Balance Model based on the "Cost - Output" tables. This tool makes it possible to take into account both direct and indirect effects of changes in production output and final demand by industry.

As of December 31, 2018, the long-term debt of non-resource sector enterprises (manufacturing industry, energy, transport and communications) to STBs amounted to KZT 1,805 bn. At the same time, the Holding's loan portfolio as part of direct lending to large businesses amounted to KZT 1,639 bn, or 48% of the total long-term debt of non-resource sector enterprises (manufacturing, energy, transport and communications), including to STBs.

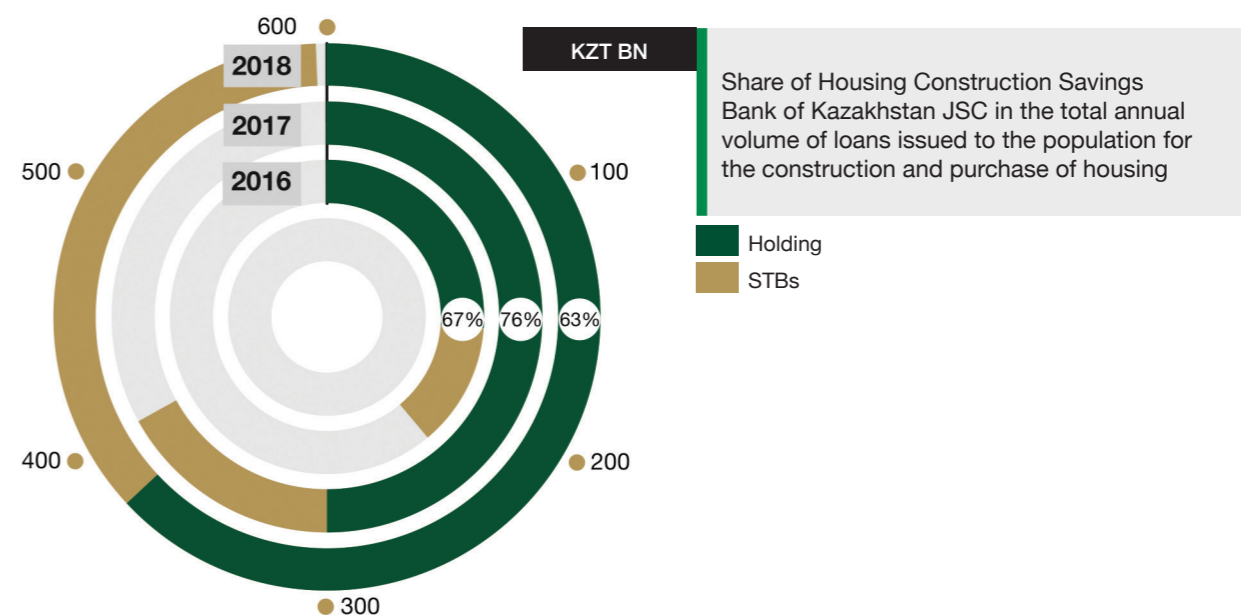
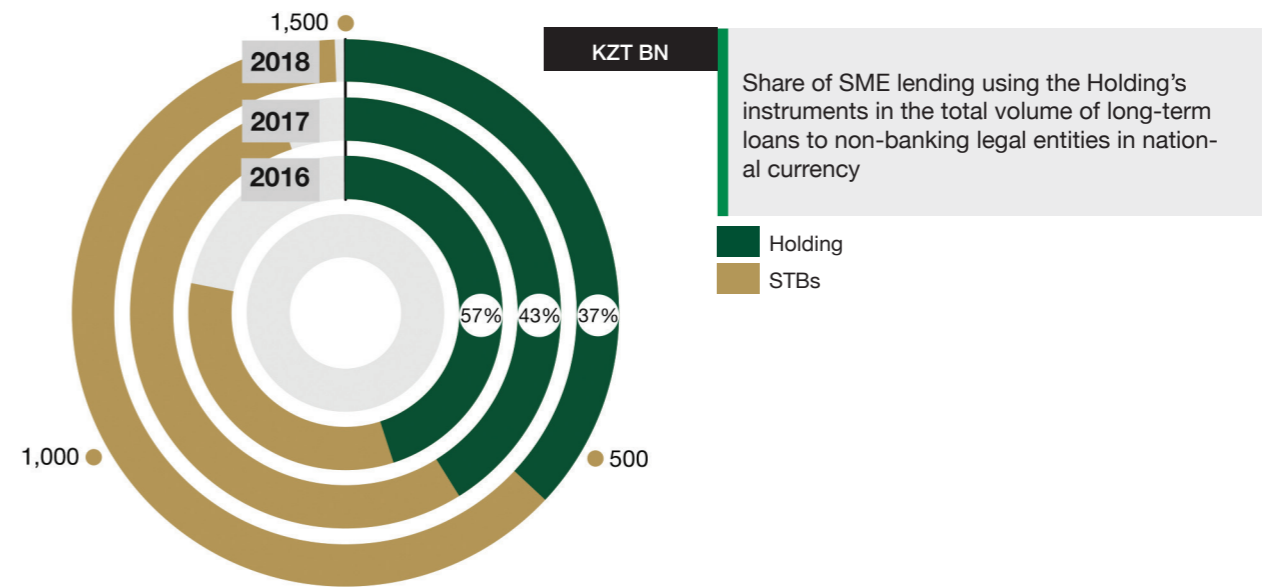
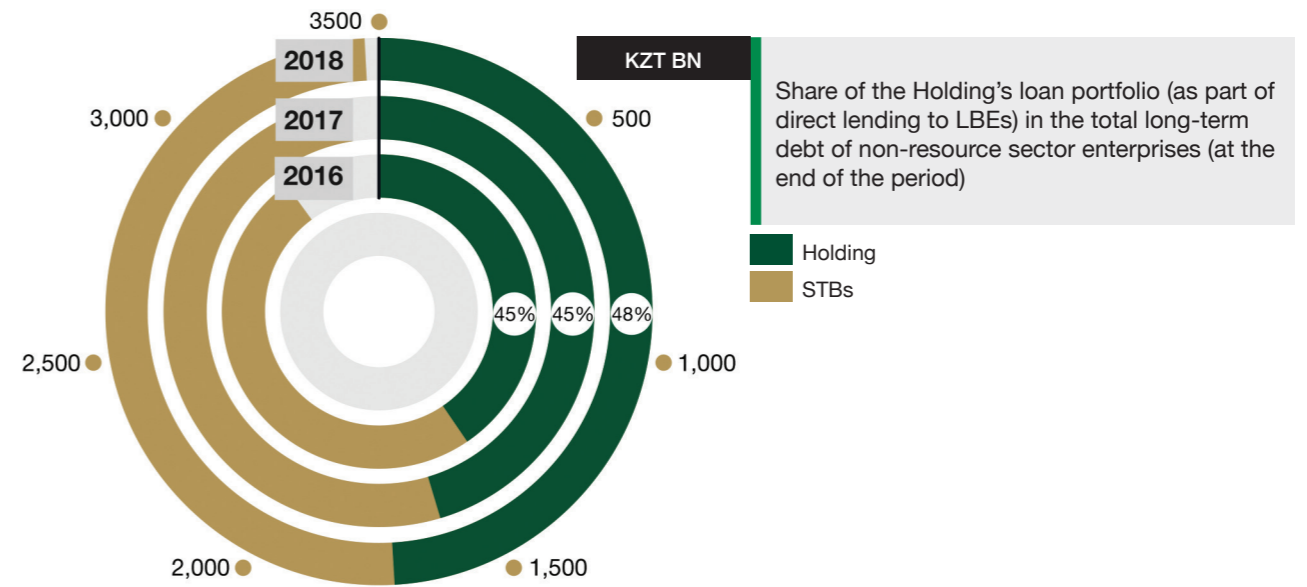
According to the National Bank of the Republic of Kazakhstan, in the reporting year there was a progressive growth in mortgage lending in the country. Thus, total loans issued to the population for the construction and purchase of housing amounted to KZT 381 bn, which is 1.5 times higher than the same indicator in 2017. One of the key growth drivers for mortgage lending is the lending instruments of the Holding's subsidiary - Housing Construction Savings Bank of Kazakhstan JSC. At the end of 2018, HCSBK JSC became the leader in the mortgage market of Kazakhstan having issued 63% of all mortgage loans in the country. In addition, the line of banking products allowed strengthening the positions of HCSBK JSC in the financial market of the country, which is confirmed by the largest share in the total volume of long-term retail deposits (30%), as well as a significant share in the total STB loan portfolio for the construction and purchase of housing (34%).

AT THE SAME TIME, THE HOLDING'S LOAN PORTFOLIO AS PART OF DIRECT LENDING TO LARGE BUSINESSES AMOUNTED TO KZT 1,639 BN, OR 48% OF THE TOTAL LONG-TERM DEBT OF NON-RESOURCE SECTOR ENTERPRISES (MANUFACTURING, ENERGY, TRANSPORT AND COMMUNICATIONS), INCLUDING TO STBs.

**1.639** KZT BN

According to the official data of the National Bank of the Republic of Kazakhstan, the total long-term loans issued to non-banking legal entities in national currency in 2018 amounted to KZT 1,384 bn, which is 6% higher than previous year figure. At the same time, the volume of loans issued to SMEs through the Holding's lending instruments (mechanisms of Damu Fund JSC) amounted to KZT 495 bn in the reporting period, which is 10% lower than in 2017. At the same time, the share of the Holding's instruments used to support SME initiatives in the total volume of long-term loans to non-banking legal entities in 2018 was equal to 43% (57% - in 2017). The decline in loans issued through the mechanisms of Damu Fund JSC was affected mainly by the budget deficit for subsidies under the Business Roadmap 2020 program.

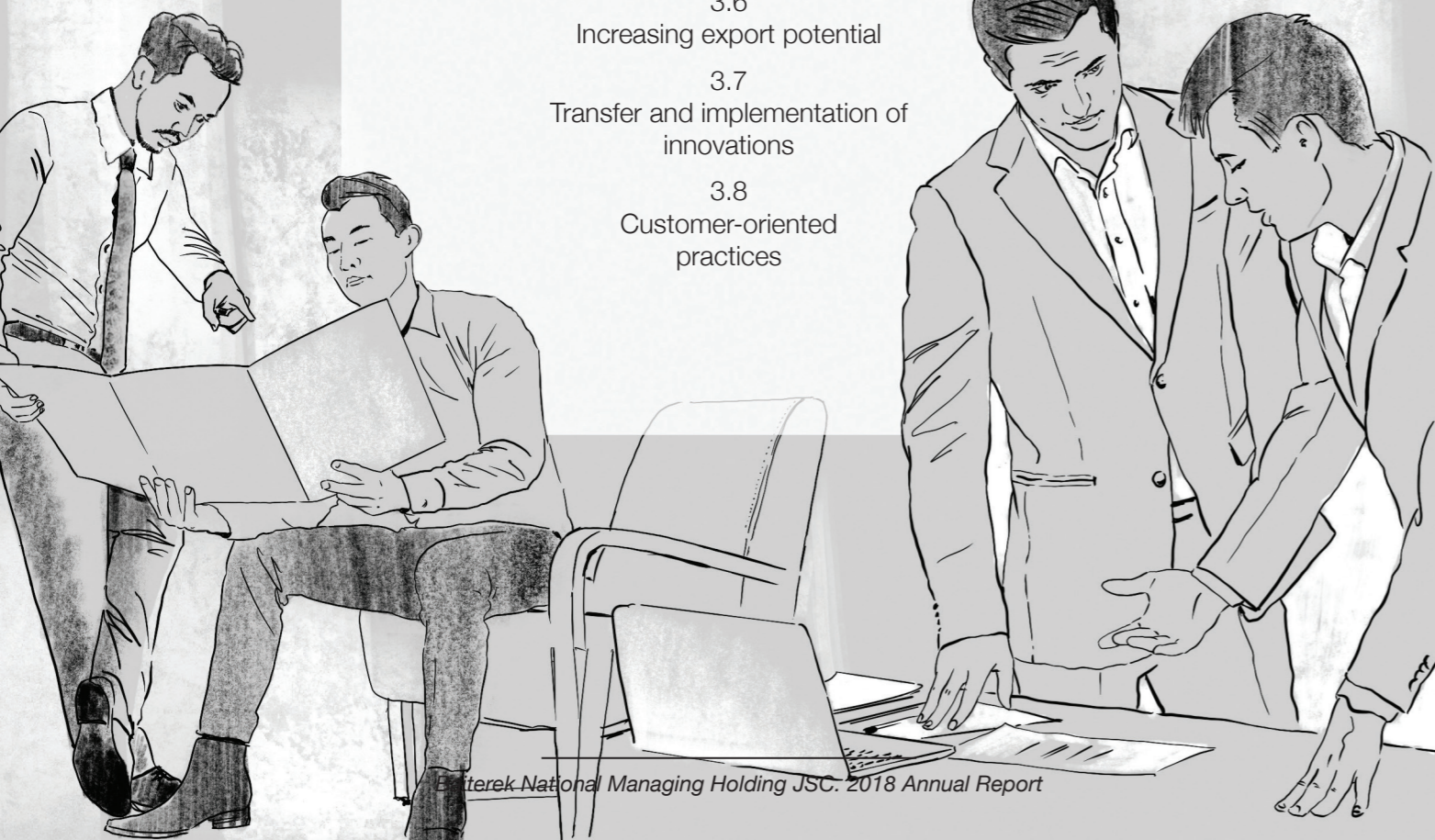
According to the SC MNE RK, exports of manufactured goods in 2018 amounted to USD 16 bn, which is 1% higher than the same indicator of 2017 (USD 16 bn). At the same time, the Holding's mechanisms (EIC KazakhExport JSC, DBK JSC) are used to support domestic exporters. In particular, following the results of 2018, the volume of commitments under export contracts of EIC KazakhExport JSC amounted to KZT 90 bn (2% of the total non-resource exports in 2018), and the volume of export revenues under supported projects of DBK JSC (including investment projects) amounted to KZT 648 bn (12% of the total non-resource exports in 2018), which in general accounts for 14% of the total non-resource exports from Kazakhstan.



# 03

## MANAGEMENT REPORT

- 3.1. Financial performance results
- 3.2. Raising funds in capital markets
- 3.3. Large business support
- 3.4. SME support
- 3.5. Improvement of housing affordability
- 3.6. Increasing export potential
- 3.7. Transfer and implementation of innovations
- 3.8. Customer-oriented practices

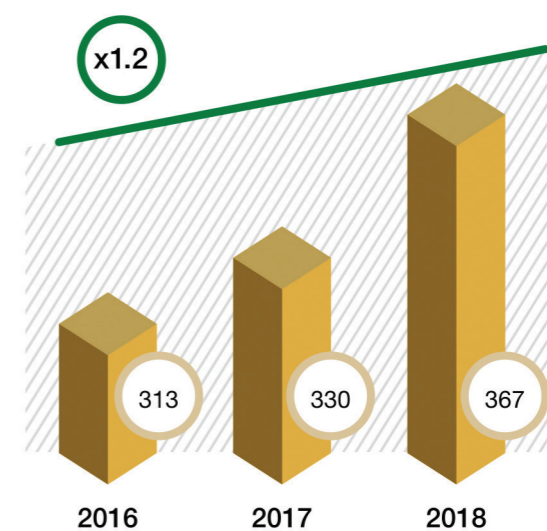


# 3.1

## FINANCIAL PERFORMANCE RESULTS

In 2018, net profit of the Holding amounted to KZT 35 bn, which is 20% lower than in 2017. The net profit decreased due to the recognition of a discount and accrual of reserves in the amount of KZT 48 bn upon converting claims to Tsesnabank JSC. The Holding's revenues in the reporting year amounted to KZT 367 bn, which is 11% higher than the same indicator in 2017. The largest share in the revenue structure was accounted for interest income (82%), which amounted to KZT 302 bn in the reporting year.

Revenues of the Holding, KZT bn



Revenue structure in 2018, %

	2018, KZT bn	%
Interest income	302	82
Fee and commission income	6	2
Net income from transactions in financial instruments	11	3
Income after deduction of foreign currency transaction expenses	2	1
Other operating income	44	12
Net insurance premiums earned	1	0
<b>Total revenues</b>	<b>367</b>	<b>100</b>

Expenses of the Holding in 2018 exceeded the level of 2017 by 13% and amounted to KZT 314 bn, with the largest share (49%) accounting for interest expenses - KZT 155 bn.

At the end of 2018, the Holding's assets increased by 6% and amounted to KZT 4,719 bn. The volume of assets increased due to the attraction of new loans, replenishment of

the authorized capital and increase in retained earnings. The Holding's liabilities in the reporting year amounted to KZT 3,658 bn, which is 8% higher than the same indicator in 2017.

The increase in liabilities in 2018 was caused, among other things, by the following changes:

- issue of debt securities in the amount of KZT 293.8 bn (including Eurobonds denominated in tenge in the amount of KZT 100 bn);

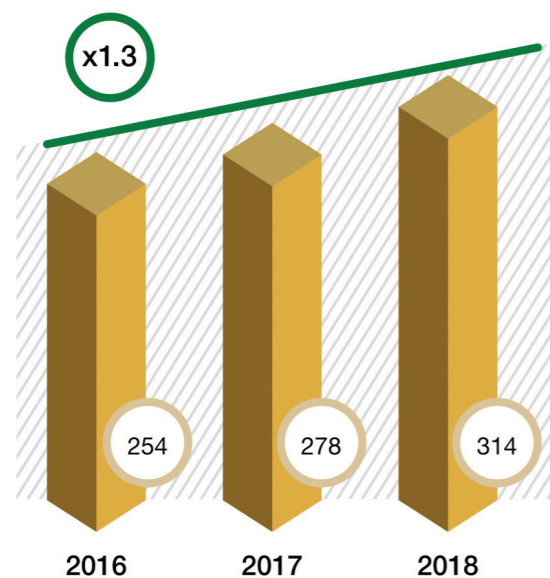
- raising loans in the amount of KZT 264.3 bn;
- raising funds from individuals by Housing Construction Savings Bank of Kazakhstan JSC in the amount of KZT 112.6 bn.

New loans were raised to finance the projects of the State Program of Industrial and Innovative Development for 2015-2019, to update the fleet of domestically produced passenger cars and for general corporate goals as well.

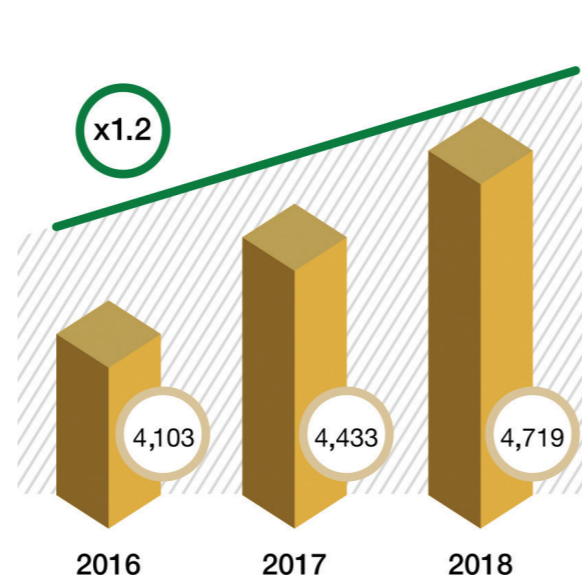
The debt-equity ratio increased from 3.2 in 2017 to 3.4 in 2018. The increase was caused by exceeding the liabilities growth rate (108%) over the capital growth rate (101%).

The Holding's equity increased by 1% mainly due to the net profit gained in 2018 in the amount of KZT 35 bn.

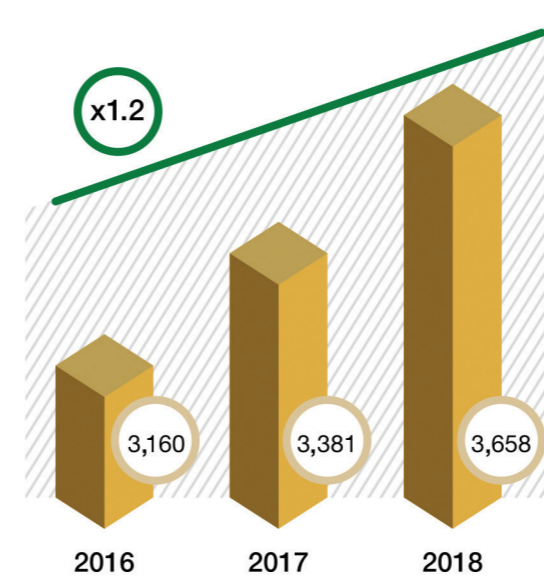
Expenses of the Holding, KZT bn



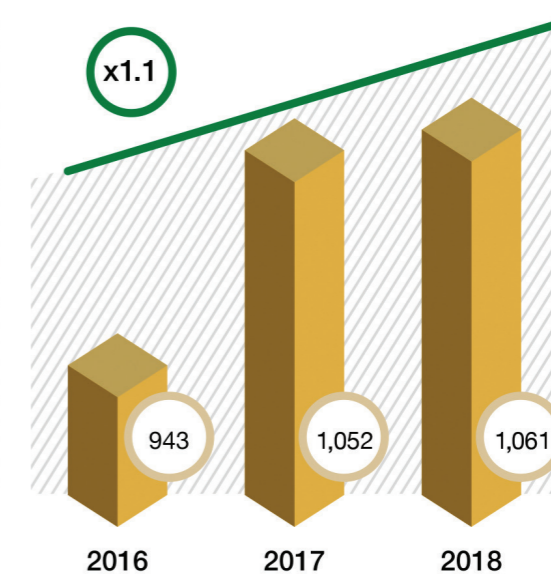
Assets, KZT bn



Liabilities, KZT bn



Equity, KZT bn



Expenditure structure in 2018, %

	2018, KZT bn	%
Interest expenses	155	49
Fee and commission expenses	4	1
Provision for loan portfolio impairment	5	2
Financial assets revaluation loss	2	1
Expenses after deduction of revenues from foreign currency revaluation	1	0
Other operating expenses	44	14
Reserves for impairment of other assets and liabilities	55	17
Administrative expenses	46	15
Net insurance benefit expenses and changes in insurance contract provisions	1	0
<b>Total expenses</b>	<b>314</b>	<b>100</b>

Debt/equity, ratio

Indicator	2016	2017	2018
Debt/equity, ratio	3.4	3.2	3.4

The decline in ROE indicator by 0.2 basis points resulted from a 20% decrease in net profit and 17% increase in the average annual amount of assets. The level of ROE decreased by 1.1 basis points also due to decline in net profit and increase in the average annual amount of equity by 6%.

Profitability indicators, %

Indicator	2016	2017	2018
ROA (net profit/annual average amount of assets)	1.3	1.0	0.8
ROE (net profit/annual average amount of equity)	5.4	4.4	3.3

# 3.2

## RAISING FUNDS IN CAPITAL MARKETS

**B**aiterek NMH JSC performs an active work to establish partner relations with foreign and national investors, international financial organizations, development institutions and international companies.

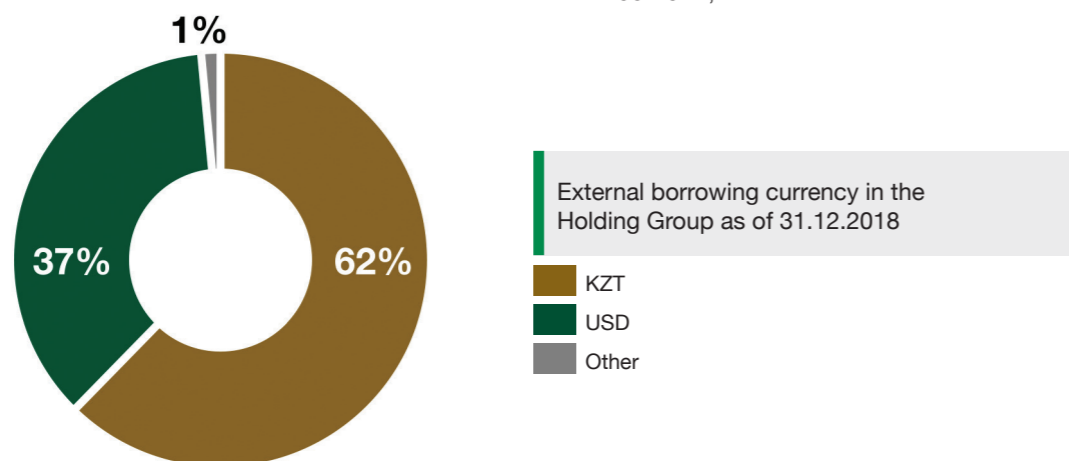
In 2018, a significant fund raising from non-public sources was the borrowing from foreign banks in the amount of KZT 159.6 bn and a placement of Eurobonds of DBK JSC in the amount of KZT 100 bn with a maturity of 5 years and a redemption yield of 8.95% per annum. In the reporting year, the Holding and its subsidiaries raised loans from the Government of the Republic of Kazakhstan in the amount of KZT 104.8 bn.

In particular, in the reporting year, the Holding Group raised funds:

- to finance the project of PKOP LLP in the amount of KZT 25 bn under the agreement between DBK JSC and the State Development Bank of China;
- to deposit funds in STBs and subsequently finance SME projects in the amount of KZT 24 bn in accordance with the Framework Funding Agreement between the Government of the Republic of Kazakhstan, Damu Fund JSC and ADB dated 12.05.2011;

### DEBT FINANCING

The Holding and its subsidiaries attract debt financing by issuing bonds and obtaining loans. In 2018, the funds were raised in the amount of KZT 503 bn, including 65% - market loans and 35% - public loans.



<sup>6</sup>The calculation does not include the loan raised under the "Construction of Saryarka Main Gas Pipeline" project in the amount of KZT 40.2 bn. The funds were spent on purchasing a share of AstanaGas KMG JSC. Market loans under the project are also not consolidated on the balance sheet of KCM JSC/Holding. In addition, foreign currency borrowings are calculated taking into account the exchange rate at the end of the period.

# 65.2%

**IN 2018, THE SHARE OF NON-PUBLIC SOURCES OF BORROWING IN THE TOTAL BORROWING STRUCTURE OF THE HOLDING WAS ABOUT 65.2% WITH A TARGET FIGURE OF NOT LESS THAN 63%**

- to finance the project "Reconstruction and Modernization of Shymkent Refinery" in the amount of USD 225 mln under the loan agreement between DBK JSC and the Syndicate of Banks under the insurance coverage of Sinasure and the guarantee of the Holding.

In addition, in December 2018, the Holding placed a debut bond issue at Kazakhstan Stock Exchange JSC for a total amount of KZT 77.7 bn with a circulation period of 15 years.

The raised funds were spent on:

- concessional financing of existing and new programs, including those for the provision of housing to military servicemen under the credit line of Housing Construction Savings Bank of Kazakhstan JSC (KZT 58 bn);
- stimulating the mortgage market under the credit line of Mortgage Organization Kazakhstan Mortgage Company JSC (KZT 20 bn).





At the same time, the Development Strategy of Baiterek NMH JSC for 2014-2023 provides for an increase in the share of non-public sources of borrowing to 80% in 2023.

Amount of funds raised in the capital markets by type of fund raising instruments

Year	Fund raising from foreign banks, USD	Fund raising from foreign banks, RUB	Fund raising from foreign banks, KZT
2018	290.000.000	760.046.665	23.836.774.257

Year	Bonds, KZT
2018	293.820.715.000

## ORGANIZATIONS SIGNED MEMORANDA OF COOPERATION OR COOPERATION AGREEMENTS AS OF DECEMBER 31, 2018

CHINA	SOUTH KOREA
 <p>China Development Bank China Export &amp; Credit Insurance Corporation «SINOSURE» Citic Group China Exim Bank</p>	 <p>Kolon Group      HUG KIND                KIAT Korea Eximbank    Hyundai KDI                    Seohyum K-Sure                Elevators KIC                    Medical Partners</p>
JAPAN	SINGAPORE
 <p>Mitsubishi Co. JBIC</p>	 <p>Inventis Investment Holdings Meinhardt Group</p>
USA	UNITED KINGDOM
 <p>Citi Group US EXIM Oppenheimer &amp; Co</p>	 <p>London City Economic Development Administration UK Trade &amp; Finance</p>
ITALY	SPAIN
 <p>CDP                                AIDEPI SIMEST                            UBI FINEST                            LEONARDO SACE</p>	 <p>COFIDES                        Anka Group TALGO                            Eurofinsa TYPASA                        IDOM Tedagua (Grupo Cobra)    E-Zhasyl</p>
BELGIUM	FRANCE
 <p>Van Hool</p>	 <p>CDC</p>
GERMANY	KINGDOM OF SAUDI ARABIA
 <p>Deutsche Bank DEG – Deutsche Investitions</p>	 <p>Islamic Corporation for the Development of the Private Sector</p>
EUROPEAN UNION	RUSSIA
 <p>European Investment Bank</p>	 <p>Russian Export Center JSC</p>
UNITED ARAB EMIRATES	INTERNATIONAL FINANCIAL ORGANIZATIONS
 <p>Mubadala Investment Company UAE International Investors Council Bin Ham Group Azizi Group CCC Al Firas General Contracting Houlihan Lokey</p>	<p>Asian Development Bank European Bank for Reconstruction and Development World Bank International Financial Corporation Eurasian Development Bank</p>

### Areas of cooperation with partners in the reporting year

Partner name	Type of cooperation
State Secretariat for Commerce of the Kingdom of Spain	Memorandum of Understanding aimed at cooperation in the field of maintenance, implementation of and co-investment in industrial and infrastructure projects
COFIDES	Memorandum of Cooperation aimed at the development of cooperation in financing export and investment operations of mutual interest both in the Republic of Kazakhstan and neighboring countries
SINOSURE China Export & Credit Insurance Corporation	Framework Agreement for Insurance Cooperation in the amount of USD 800 mln between Baiterek NMH JSC and SINOSURE China Export & Credit Insurance Corporation aimed at financing investment projects of the Holding and its subsidiaries under SINOSURE insurance coverage in the field of industrial and agricultural production, infrastructure, service sector, innovation development and other areas
CITIC Eurasian Capital Limited and the China-Eurasian Economic Cooperation Fund	Limited Partnership Agreement for establishing the Eurasian Nurly (Bright) Investment Fund with CITIC Eurasian Capital Limited and the China-Eurasian Economic Cooperation Fund. The target size of the created fund will amount to USD 500 mln. The main investments of the fund (not less than 75%) will be spent to implement projects in Kazakhstan in various economic sectors, including the development of infrastructure, natural resource processing, logistics, information technology, manufacturing industry and agro-industrial complex

# 3.3

## LARGE BUSINESS SUPPORT

### MAJOR PROJECT PORTFOLIO

As part of the Holding, the key development institution for financing major strategic projects in the manufacturing industry and infrastructure is DBK JSC.

- “Construction of a transport and logistics hub in Shymkent”,
- “Construction of new mineral water and beverages bottling facilities in Shymkent”;

THE PORTFOLIO OF DBK JSC INCLUDES 64 INVESTMENT PROJECTS AND EXPORT OPERATIONS TOTALING TO KZT 5.3 TRLN.

**5.3**  
KZT TRLN

The portfolio of DBK JSC includes 64 investment projects and export operations totaling to KZT 5.3 trln. The size of the loan portfolio of DBK JSC in the reporting period increased by 8.7% compared to the previous year and amounted to KZT 1.7 trln. The share of the loan portfolio of DBK JSC in the total long-term debt of enterprises of non-resource economic sectors in 2018 was 48%.

In 2018, DBK JSC invested in the economy KZT 443.2 bn, including:

- KZT 329.9 bn - financing of 17 investment projects;
- KZT 113.3 bn - financing of 13 export (pre-export) operations.

Out of 17 investment projects:

- 8 projects are new productions for Kazakhstan;
- 9 projects are aimed at upgrading and expanding the existing enterprises.

In the reporting year, with the support of DBK JSC, 6 projects were commissioned:

- “Creation of a railway wheel production complex in Pavlodar region”,
- “Upgrading of a mineral fertilizer plant with an increase in the design capacity for the production of finished goods in Mangystau region”;
- “Upgrading of the K5 ecoclass motor fuel production plant (stage 2) in the West Kazakhstan region”
- “Construction of a poultry farm for growing broilers with a capacity of 60 thous. tons per year in Akmola region”.

At the same time, in 2018, DBK JSC for the first time provided a bank guarantee in the amount of KZT 14 bn to ensure the export of services of AAEngineering Group LLP for the construction of a gold processing plant at Jerooy gold deposit located in Kyrgyzstan. In the framework of development of equity financing through the private equity fund established by DBK JSC in conjunction with Kazyna Capital Management JSC, financial support was provided in 2018 to Tengiztransgas LLP and CAPEC Green Energy LLP in the amount of KZT 9 bn.

### Investment projects and pre-export operations financed by DBK JSC in 2018

TOTAL NUMBER OF PROJECTS (INVESTMENT AND EXPORT OPERATIONS)	<b>30</b>
TOTAL PROJECT COST	<b>1,480</b> KZT BN
HOLDING'S PARTICIPATION	<b>443</b> KZT BN
PLANNED VOLUME OF PAYMENTS TO THE BUDGET	<b>195</b> KZT BN
PLANNED CREATION OF NEW JOBS	<b>3,030</b> PERSON

In 2018, DBK JSC approved financing of 6 investment projects and 3 pre-export operations in the amount of KZT 225 bn, in particular:

- “Construction of a ferrosilicium plant in Karaganda”;
- “Construction of Zhylga 20 MW solar power plant in South Kazakhstan region”;
- Increase of the loan amount under the project “Reconstruction of the passenger terminal of Astana International Airport”;

- “Construction of a hardware-software complex for a fiber-optic communication line at Makat-Mangyshlak section”;
- “Production of K5 standard motor fuel (stage 2)”;
- Pre-export financing of the sale of car batteries, vegetable oil, silver and copper products.



## CONSTRUCTION OF A FERROSILICIUM PLANT IN KARAGANDA

The project is being implemented as part of the SPIID for 2015-2019. Financing provided by the Development Bank will be spent on construction and installation works, including the construction of buildings and structures, as well as the purchase, supply and installation of equipment. The output product will be ferrosilicium - an iron and silicon alloy used for smelting various types of steel. The main volume of ferrosilicium produced at the plant will be exported.

In 2018, as part of the leasing program, 74 leasing transactions were approved for financing for a total of KZT 54 bn, of which the funds were provided in the amount of KZT 44 bn, including the funds allocated by DBK-Leasing JSC - KZT 38.1 bn. At the end of 2018, the leasing portfolio of DBK-Leasing JSC amounted to KZT 192.8 bn.

In 2018, with the use of a leasing instrument, financing was provided for such investment projects as the purchase of two aircraft to be transferred into financial leasing at the request of Zhetysu Airline JSC, the construction of a plant producing power-efficient architectural facades at the request of KSM Tekhnovid LLP, the construction of a ceramic granite and ceramic tile production plant in Aktobe at the request of Zerde-Ceramics Aktobe LLP, and other projects.

The Holding provides equity funding to companies at various growth stages through PEFs through its subsidiary - KCM JSC. PEFs provide "long-term investments" not burdened with interest and principal debt payments. Development of PEFs promotes the enhancement of economic transparency, introduction of corporate governance standards and has an impact on increasing the qualification level among local personnel. By making capital investments, PEFs assume all risks of a portfolio company as its shareholders.

Over the years of its activity, KCM using PEFs has attracted in Kazakhstan various major partners represented by institutional investors, sovereign funds of international development institutions and major private investors having extensive experience. The partners include: the European

## CONSTRUCTION OF ZHYLGA 20 MW SOLAR POWER PLANT IN TURKESTAN REGION

The construction of the power plant involves the installation of over 77,000 photovoltaic modules, 10 inverters and transformers, as well as 10 switchgears. The project for the construction of a solar power plant in Turkestan region is remarkable because this is the first project funded by the Development Bank using a project financing tool.

Bank for Reconstruction and Development, International Financial Corporation (IFC), CITIC Group, RUSNANO JSC, Asian Development Bank (ADB), Eurasian Development Bank, Development Bank of Japan (DBJ), DBK JSC, CIM Bank, Macquarie Group Limited, Mubadala, FMO Entrepreneurial Development Bank and other investors.

At the end of 2018, the portfolio of KCM JSC comprised 13 PEFs with a total capitalization of USD 2,318 mln. In 2018, investments of KCM JSC in the funds amounted to KZT 48.5 bn. In 2018, the funds with the participation of KCM JSC invested in five projects in the Republic of Kazakhstan. The funds were invested mainly in the transport, logistics and energy industries of the Republic of Kazakhstan. The share of KCM JSC in projects amounted to USD 120 mln, or KZT 46 bn.

In 2019, the Holding is planning to launch 12 projects for a total amount of KZT 2 trln, including the following projects: development of an oil engineering plant and construction of an advanced oil refining complex in Atyrau region, construction of a ferrosilicium plant in Karaganda region, upgrading and reconstruction of Shymkent oil refinery and other projects. The development of the following instruments is also planned:

- debt financing through the provision of a bond loan;
- project financing;
- public private partnership;
- equity financing.

## IMPLEMENTATION OF STATE PROGRAMS TO SUPPORT LARGE BUSINESSES

### State Program of Industrial and Innovative Development for 2015-2019 ("SPIID")

For the purpose of implementing the SPIID, DBK JSC approved its own program for financing SPIID projects totaling KZT 225 bn, of which KZT 75 bn were allocated by the National Fund of the Republic of Kazakhstan (hereinafter - the NF RK) in 2014, and KZT 150 bn were the borrowed funds of DBK JSC. As of December 31, 2018, the amount of KZT 225 bn was actually disbursed; 13 projects were financed out of these funds.

As part of further SPIID implementation, in October 2016 DBK JSC received KZT 75 bn from the republican budget (hereinafter - the RB), in April 2017 - KZT 80 bn, in 2018 - KZT 12 bn. These funds were mixed with funds raised by DBK JSC from the market in the amount of KZT 167 bn. As of December 31, 2018, within the framework of the SPIID, DBK JSC approved 7 investment projects in the amount of KZT 154 bn by raising the funds from the RB. DBK JSC provides financial support for the implementation of the following investment projects:

- "Reconstruction and upgrading of Shymkent Oil Refinery";
- "Construction of a mining and processing plant for processing polymetallic ores with an annual capacity of 5 mln tons of ores";
- "Construction of a power transformer plant";
- "Construction of Karaganda plant of complex alloys";
- "Construction of a ferrosilicium plant in Karaganda with an annual capacity of 96,000 tons";
- "Production of K5 standard motor fuel (stage 2)".

The projects being implemented have a significant effect on the socio-economic development of the country and create a basis for the industrial and innovative development of Kazakhstan. In 2016-2018, 11 SPIID projects were commissioned at the existing facilities and finished products were sold for the amount of KZT 251 bn, of which export revenues amounted to KZT 43.4 bn. The volume of tax payments to the budget at these enterprises amounted to KZT 22.5 bn. Due to the launch of new industrial facilities, 2,947 new jobs were created.

### "Nurly Zhol" State Program of Infrastructure Development for 2015-2019

Since 2015, in the framework of providing support to large business entities, as of December 31, 2018, STBs financed 115 projects in the manufacturing industry totaling KZT 127 bn, including secondary disbursement of funds.

As part of supporting domestic automobile manufacturers, since 2015 second-tier banks issued 11 thous. loans for purchasing domestically produced cars in the amount of KZT 47 bn. Affordable automobile lending made it possible to significantly increase sales of new domestically produced cars. Today, every 6th new car manufactured in the country is sold under the preferential automobile lending program.

As part of the leasing financing of domestic auto manufacturers through DBK-Leasing JSC, the actually disbursed funds, including secondary disbursement, in the context of auto manufacturers amounted to KZT 8 bn. In total, 735 units of domestically produced automotive equipment were sold.

As part of support of the passenger car production, on July 31, 2015, DBK JSC concluded a bank loan agreement with Passenger Leasing Car Company JSC for the amount of KZT 5 bn to acquire 28 Talgo passenger cars.

As part of support of domestic exporters, DBK JSC and DBK-Leasing JSC approved export operations for 17 exporters and disbursed KZT 316 bn, including revolving disbursement.

# 3.4

## SME SUPPORT

**D**amu Fund JSC, a subsidiary of Baiterek Holding, is the main operator of SME development programs. In the framework of financial programs of Damu Fund JSC, in 2016-2018, the following support was provided to projects in the context of main instruments:

- “Subsidizing” instrument: 5,901 projects worth KZT 806 bn were supported;

- “Guaranteeing” instrument: 4,222 projects worth KZT 135 bn were supported;
- “Conditional allocation of funds” instrument: 37,106 projects worth KZT 751 bn were supported.

In particular, in 2018, more than 22 thousand projects worth KZT 537 bn were supported using the three instruments. Thus, the share of SME lending with the support of Damu Fund JSC in 2018 was equal to 37%.

### Supported projects by main instruments

Support instrument	2018			2019
	Number of projects		Amount of loans, KZT bn	Number of projects
	Plan	Actl.	Actl.	Plan
Conditional allocation of funds	8.303	18.656	273	9.356
Subsidizing	1.156	1.470	198	1.156
Guaranteeing	3.900	1.950	66	4.100

In 2019, Damu Fund JSC is planning to support about 15 thous. SME projects, including:

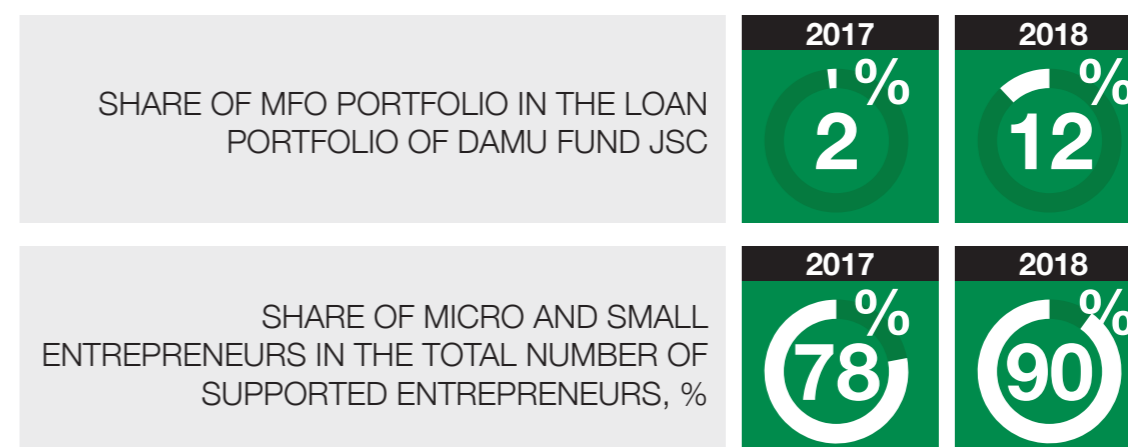
- 9,356 projects under programs of conditional placement of funds with STBs;
- 1,156 new subsidizing projects under the “Business Roadmap 2020” program;
- 4,100 new guarantee projects.

### DEVELOPMENT OF THE MICRO AND SMALL BUSINESS SEGMENT

As part of its Development Strategy for 2014-2023, Damu Fund JSC is seeking to expand micro business lending, develop and implement support instruments for microfinance organizations and credit societies. Due to the expansion of cooperation with microfinance

organizations, it is supposed to increase the share of micro- and small entrepreneurs in the customer structure of Damu Fund JSC. In this regard, the MFO share in the loan portfolio of Damu Fund JSC significantly increased from 2% in 2017 to 12% in 2018.

### Dynamics of micro business lending expansion



Within the framework of conditional placement of funds, Damu Fund JSC implements programs aimed at developing the micro and small business segment both by raising funds from MFOs and using own funds.

### Total loans in 2018 under programs aimed at developing the micro and small business segment

Program	Number of borrowers	Total amount of loans, KZT bn
ADB SMEs Financing Program (4th tranche)	13.529	40
EBRD Women Entrepreneurship Financing Program (4th tranche)	1.947	1
Program for financing micro and small businesses in MFOs	24	0.2

In 2018, funds from the European Bank for Reconstruction and Development were raised in the amount of USD 45 mln under the guarantee of Damu Fund JSC for Bank CenterCredit JSC, of which USD 23 mln were actually placed. The second tranche of KassaNova Bank JSC was also raised in the amount of USD 6 mln. The funds placed in 2018 amounted to:

- KZT 9 bn for the implementation of the Program for financing of micro, small and medium businesses;
- KZT 2 bn for the implementation of the EBRD “Women in Business” Program.

### IMPLEMENTATION OF “SUSTAINABLE CITIES FOR LOW-CARBON DEVELOPMENT IN KAZAKHSTAN” PROJECT

In 2017, the Ministry of Investment and Development of the Republic of Kazakhstan and Damu Fund JSC signed a cooperation agreement for attracting a gratuitous grant from the Global Environment Facility with the participation of the United Nations Development Program in the amount of USD 3 mln (equivalent of KZT 1 bn) to implement a mechanism for promotion of investment in the energy efficiency of the urban infrastructure of the Republic of Kazakhstan

under “Sustainable Cities for Low-Carbon Development in Kazakhstan” project.

In 2018, 68 projects were approved for financing in the amount of KZT 5.2 bn, of which subsidizing contracts were signed for 6 projects for the amount of KZT 825.7 mln. The subsidies paid amounted to KZT 3.2 mln.

10-13 projects are expected to be signed in the first quarter of 2019.

<b>Project name</b>	Upgrading and operation of the lighting system of Transport Tower administrative and technological complex
<b>Loan amount</b>	KZT 34 mln Interest rate - 14.5% Subsidizing - 10% Subsidizing period - 2 years
<b>Effect</b>	Annual energy consumption - 1.1 mln kW or KZT 16.5 mln per year. Savings potential - 52%, or KZT 8.6 mln Annual purchase of broken lamps - 1.7 thous. units Savings potential - KZT 1.3 mln CO <sub>2</sub> reduction - 3.077 tons in 6 years

<b>Project name</b>	Construction of a new local boiler house with a capacity of 7.5 MW instead of the old one built in 1960 in the urban heat supply sector
<b>Loan amount</b>	KZT 77 mln Interest rate - 14.5% Subsidizing - 10% Subsidizing period - 3 years
<b>Effect</b>	Minimum environmental harm. Costs for fuel per season and electricity - KZT 27.1 mln After construction of a new boiler room - KZT 14.4 mln Savings potential - 47% CO <sub>2</sub> reduction - 3.004 tons per year

### NON-FINANCIAL SUPPORT OF ENTREPRENEURS

Damu Fund JSC developed training courses for first-time and existing entrepreneurs within the framework of “Remote Support of Entrepreneurship Development” project of the Unified Entrepreneurial Competence Improvement Program for 2015-2018. The project is aimed at stimulating activity and increasing the competence of the population having entrepreneurial initiatives in the regions of Kazakhstan. The project envisages distance learning in basics of entrepreneurship and various thematic courses on doing business.

equipped buses, the goal of which is to provide on-site information and consulting services for state business support instruments to small and medium-sized enterprises and the population having entrepreneurial initiatives in rural areas. All services are provided free of charge. In 2018, employees of the Business Service Centers rendered support to 6,410 projects and provided 34,603 consultations.

In 2018, Damu Fund JSC jointly with STARTTIME LLP launched a crowd-funding project on the start-time.kz platform. The platform helps the

#### IN 2018, TWO PROJECTS WERE PLACED ON THE PLATFORM, WHICH HAVE BEEN SUCCESSFULLY COMPLETED:

PROJECT FROM <b>ATYRAU</b> - FUNDS WERE NEEDED TO PURCHASE A HEATER FOR <b>SENIM</b> SPORTS REHABILITATION CENTER.	PROJECT AMOUNT	₸ 100,000	
	COLLECTED AMOUNT	₸ 129,500	130%
PROJECT FROM <b>KYZYLORDA</b> - COLLECTION OF MONEY FOR THE OPENING OF A MEDICAL TREATMENT ROOM	PROJECT AMOUNT	₸ 1,243,000	
	COLLECTED AMOUNT	100%	

In 2018, five courses were conducted in the Kazakh and Russian languages on the distance learning portal: 4 - for existing entrepreneurs, and 1 - for first-time entrepreneurs. The total number of entrepreneurs trained amounted to 7,219 people.

In various regions of the country, 18 Business Service Centers of Damu Fund JSC provide state support to business entities and the population having entrepreneurial initiatives. In addition, there are mobile business support centers - specially

authors of ideas receive funds to implement such ideas.

The main page of start-time.kz crowd-funding platform includes a separate category “Damu Projects”. With the assistance of Damu Fund JSC, consultations and/or information and analytical support are provided for crowd-funding and placing projects on the platform, and measures are taken to promote projects. In addition, Damu Fund JSC disseminates information about crowd-funding opportunities that are available to entrepreneurs.

# 3.5

## IMPROVEMENT OF HOUSING AFFORDABILITY

**B**aiterek Holding is the only operator of “Nurly Zher” State Housing Construction Program. As such, the Holding implements the key activities in implementing the housing policy: from financing the construction of credit housing to increasing the affordability of mortgage loans.

The Holding provides the population with affordable housing through the implementation of the following areas:

- provision of funds to LEAs for the construction of credit housing through the mechanism of LEA bonds redemption;
- improving the affordability of mortgage lending;
- stimulation of housing construction by private developers;
- completion of housing construction under previously adopted programs (“Nurly Zher”, “RDP-2020”).

### PROVISION OF FUNDS TO LEAs FOR THE CONSTRUCTION OF CREDIT HOUSING THROUGH THE REDEMPTION OF LEA BONDS

Starting from 2017, Baiterek NMH JSC completely switched to market mechanisms - from direct financing of housing construction to financing exclusively through redemption of LEA bonds.

Baiterek Development JSC is the operator of this activity. All financial resources, as well as functions for selection of projects, determination of developers, development and monitoring of the construction progress were transferred to LEAs.

Financing of credit housing construction through the redemption of LEA bonds makes it possible to reverse funds on a “revolving” principle every two years and re-direct them to new construction

without allocating additional resources. At the same time, financing of construction and sale of housing is carried out at fixed prices: for the cities of Astana, Almaty, Atyrau, Aktau - up to KZT 180 thous. per 1 m<sup>2</sup>, in other regions - up to KZT 140 thous. per 1 m<sup>2</sup>.

Under “Nurly Zher” State Program, the indicative planning figure for redemption of bonds for 2018 was equal to KZT 100.9 bn, while orders were issued in the amount of KZT 98.0 bn. The Akimat of Kyzylorda region officially refused to issue bonds totaling KZT 2.8 bn. As a result, in 2018, BD JSC acquired bonds for the amount of KZT 98.0 bn, or 100% of the plan.

Since 2016, LEA bonds have been redeemed for a total amount of KZT 208.0 bn.

The planned figure for 2019 is KZT 108.8 bn.

### Volume of LEA bonds purchased

Indicator	2016	2017	2018
LEA bonds purchased, KZT bn	38.2	71.8	98.0

To complete problematic shared construction projects in Astana, in 2018 Baiterek Development JSC allocated KZT 20 bn, or 100% of the planned figure, through Elorda Kurylys LLP. The planned figure for 2019 is also KZT 20 bn.

HCSBK JSC, in turn, stimulates the demand and sale of built housing among its deposit holders

by issuing preferential housing loans. As of December 31, 2018, the system of HCSBK JSC included 1,297 thous. contracts with the savings amounting to KZT 624.2 bn. At the end of 2018, HCSBK JSC ranked first among banks in terms of long-term deposits with a 29% share in the total long-term STB deposits in the country.

### Basic performance indicators of HCSBK JSC

Indicator	2016	2017	2018	
			Plan	Actl.
Total savings, KZT bn	407	520	598.8	624.2
Number of new contracts, thous. units	292	352	290	386
Number of loans issued, thous. units	15.9	28.7	-	38.3
Total amount of loans issued, KZT bn	148	243	290	360

Over the entire period of its activity (since 2005), HCSBK JSC issued over 226.4 thous. loans totaling KZT 1.3 trln. In 2018, the budget funds received from the RB in the amount of KZT 24 bn were utilized in full. In December 2018, an additional budget loan in the amount of KZT 15 bn was provided from the RB, of which KZT 4 bn was disbursed, while the drawdown period under the loan agreement is 17 years. The plan for issuing loans for 2019 is KZT 320 bn.

Starting from January 1, 2018, changes were made to the legislation allowing the military servicemen to accumulate savings with HCSBK JSC by depositing housing payments. Over 67 thous. military servicemen will be provided with their own housing and the budget savings for 25 years will amount to KZT 824 bn.

In 2018, HCSBK JSC received 2,250 applications for granting preferential mortgage loans totaling KZT 34.2 bn.

part of this program, STBs approved applications from the public in the amount of KZT 36.2 bn.

At the same time, in connection with the introduction of a new “7-20-25” mortgage program, this area of activities has been excluded from “Nurly Zher” State Program starting from June 22, 2018. Applications for subsidizing mortgages approved by KMC JSC are kept for 10 years until the fulfillment of obligations in full. Every year, the amount of KZT 1.6 bn is allocated from the republican budget.

### STIMULATION OF HOUSING CONSTRUCTION BY PRIVATE DEVELOPERS

As part of this activity, “Nurly Zher” State Program provides a mechanism for subsidizing the interest rate on loans issued by STBs to private developers. The operator is Damu Fund JSC, which subsidizes 7% per annum on loans with an interest rate of up to 14% per annum for 3 years.

In total, in 2017-2018, STBs received 99 applications totaling KZT 87.2 bn, of which:

- RCC approved 65 applications for the amount of KZT 59 bn;
- Damu Fund JSC signed 55 projects worth KZT 54.4 bn.

The subsidized portfolio planned indicator for 2019 is KZT 67 bn.

### IMPROVING THE AFFORDABILITY OF MORTGAGE LENDING

As part of this activity, “Nurly Zher” State Program provides a mechanism for subsidizing the interest rate on mortgage loans issued by STBs to the population. The operator of this activity is KMC JSC. Starting from May 2017 (since the launch of the mechanism) KMC JSC has been subsidizing mortgage housing loans for 10 years at the interest rate of up to 6% per annum under market mortgages issued by STBs with an interest rate of up to 16% per annum. At the end of 2018, as

<sup>7</sup> The interest rate on a subsidized loan issued by a STB should not exceed the base rate of the National Bank of the Republic of Kazakhstan by more than 5% at the time of making a decision on subsidizing.

## Number and amount of subsidized loans

Indicator	2017		2018	
	Number, unit	Amount, KZT bn	Number, unit	Amount, KZT bn
Total applications received, of which:	37	47.3	62	39.9
Applications approved by RCC	24	30.1	41	28.9
Projects signed by Damu Fund JSC	23	30	32	24.4

**COMPLETION OF HOUSING CONSTRUCTION UNDER PREVIOUSLY ADOPTED PROGRAMS ("NURLY ZHOL", "RDP-2020")**

According to "Nurly Zher" State Program, subsidiaries of the Holding - MO KC JSC and Baiterek Development JSC fully completed housing construction in 2018 as part of previously adopted programs ("Nurly Zhol", "RDP-2020").

In total, in 2018, MO KC JSC and Baiterek Development JSC commissioned 132.4 thous. sq. m of rental and credit housing (2,322 apartments).

## Volume of completely constructed housing

Indicator	2015	2016	2017	2018	
				Plan	Actl.
Housing constructed, thous. m2	425.5	456.8	629.3	114	132.4
Apartments leased out, units	7,234	8,029	10,829	-	2,322

**SUPPORT OF SHARED HOUSING CONSTRUCTION**

KGF JSC started providing guarantees for shared construction deposits from October 10, 2016 in connection with the entry into force of the Law "On equity participation in housing construction".

For these purposes, in 2016-2017, capitalization of KGF JSC for a total amount of KZT 20 bn was carried out using the RB funds.

From the start date of implementing the instrument, guarantees were issued for a total amount of KZT 65 bn. The planned indicator for 2019 is KZT 70 bn.

## Volume of guarantees issued for shared construction projects

Indicator	2017	2018	
		Plan	Actl.
Amount of guarantees issued, KZT bn	9.4	40.1	56.4

## 3.6

## INCREASING EXPORT POTENTIAL

Export support is one of the main strategic areas of the Holding's activities. In March 2017, EIC KazakhExport JSC, a subsidiary of the Holding, received a status of a national company and became a single center of financial support for exports with a wide range of financial instruments.

**FINANCIAL AND INSURANCE SUPPORT FOR KAZAKHSTAN EXPORTS**

The purpose of this activity is to improve financial and service measures aimed to support domestic exporters.

To improve financial support measures, provision of a state guarantee to EIC KazakhExport JSC, subsidizing interest rates on export loans and additional capitalization of EIC KazakhExport JSC are expected. These measures are aimed at supporting financial sustainability during the adoption of new insurance liabilities and the expansion of activities of EIC KazakhExport JSC.

In accordance with the Law of the Republic of Kazakhstan dated November 30, 2018 "On the Republican Budget for 2019-2021", the allocation of funds in the amount of KZT 68 bn was approved for the capitalization of EIC KazakhExport JSC in 2019-2020:

- KZT 34 bn in 2019;
- KZT 34 bn in 2020.

In 2018, EIC KazakhExport JSC developed a financial feasibility study for budget investments, received a positive industry-related opinion from the Ministry of Investment and Development of the Republic of Kazakhstan (currently the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan) and a positive economic opinion from the Ministry of National Economy of the Republic of Kazakhstan.

To provide a state guarantee, in 2018, EIC KazakhExport JSC developed a package of amendments to the Budget Code of the Republic of Kazakhstan approved by the Parliament of the Republic of Kazakhstan. Entry into force of the amendments is expected in the 2nd quarter of 2019.

In November 2018, proposals were also submitted for introducing amendments and additions to the Commercial Code of the Republic of Kazakhstan in terms of elaborating the issue of statutory recognition of a provision for providing financial support to private entrepreneurship in the form of subsidizing an interest rate on financial services when exporting domestically produced goods.

Due to the capitalization of EIC KazakhExport JSC carried out in 2016-2017 for a total amount of KZT 28 bn, at the end of 2018 the indicators of providing financial and insurance support to Kazakhstan exporters significantly increased. Thus, the volume of commitments increased more than 2 times from ZKT 40 bn to KZT 90 bn. The volume of trade and pre-export financing provided increased from KZT 3 bn to KZT 10 bn and from KZT 5 bn to KZT 7 bn, respectively.

## Development of financial and insurance support for Kazakhstan exporters, KZT mln

Indicators	2016	2017	2018	
			Plan	Actl.
Volume of commitments	19,485	40,087	79,531	90,197
Volume of trade financing provided	808	2,454	14,000	10,265
Volume of pre-export financing provided	470	4,803	5,000	6,911

At the end of 2018, the amount of export contracts supported by EIC KazakhExport JSC was equal to KZT 419.8 bn.

In 2018, EIC KazakhExport JSC provided support to more than 50 manufacturers-exporters in all regions of Kazakhstan, of which 27 enterprises received support for the first time.

In 2018, financial and insurance support was provided to enterprises in the following manufacturing industries:

- Mechanical engineering (Kainar AKB LLP, Kentau and Ural Transformer Plants,

SaryarkaAvtoProm LLP, Hyundai Trans Auto Kazakhstan, KEMONT JSC, Karlskrona LC AB LLP);

- Food industry (Raimbek-Group JSC, RG brands, Rakhat JSC, Bayan Sulu JSC, Almaty Product LLP, Eurasian Foods Corporation Holding, Molproduct LLP, Araltuz JSC, Tulpar LLP, Shymkentmay JSC, EXPO FOOD, Iceberg PV LLP, Unix LLP, Ural Poultry Farm LLP);
- Chemical industry (Polimer Production LLP, HILL CORPORATION LLP), etc.

Amount of supported export contracts, KZT mln

Indicators	2016	2017	2018	
			Plan	Actl.
Amount of supported export contracts, KZT mln	92,828	196,137	200,000	419,778

In 2018, EIC KazakhExport JSC continued to support the export of services. Thus, in 2018, Integra Construction KZ LLP was supported to conclude a contract for the construction of motor roads in Georgia. Two contracts were also signed for which four bank guarantees were required. To obtain such bank guarantees, the construction company was required to provide hard collateral. Instead of hard collateral, EIC KazakhExport JSC provided insurance protection to the bank. The total amount of insurance commitments assumed by EIC KazakhExport JSC under the bank guarantees is about KZT 10 bn.

To improve export support instruments, in 2018, amendments were made to the Resolution of

the Management Board of the National Bank of the Republic of Kazakhstan No. 170 dated September 13, 2017 "On establishment of regulatory values and methods for calculating prudential standards and other mandatory standards and limits for the bank capital amount on a specific date and the Rules for calculating open currency positions" in terms of classifying a voluntary loan insurance contract as hard collateral.

EIC KazakhExport JSC intends to adopt the experience of Russia, the USA, Germany and other countries in terms of attracting "long-term and cheap" resources to purchase goods from Kazakhstan under the insurance coverage of a national company.

## NON-FINANCIAL SUPPORT FOR EXPORT ACTIVITIES OF KAZAKHSTAN ENTERPRISES

The goal of this activity is to raise recognition and awareness of EIC KazakhExport JSC and to increase the volume of financial support provided to exporters through regional and foreign presence with a focus on small and medium business and priority sectors.

In 2018, representative offices were opened in Kazan and Xian, and 4 staffing positions of foreign representatives were also provided for under the revised organizational structure of EIC KazakhExport JSC.

In addition, in 2018, certain measures were taken to establish business contacts with potential foreign importers and domestic producers.

In the short term, EIC KazakhExport JSC intends to open regional offices in the Russian Federation (Moscow, Novosibirsk, Yekaterinburg), in the People's Republic of China, Kyrgyzstan, Tajikistan, Uzbekistan, Belarus, Georgia, Azerbaijan and Iran.

## KSP STEEL LLP, PAVLODAR

The first Kazakhstan enterprise founded in early 2007 for the production of seamless steel pipes for the oil and gas industry. The production center of the company is located in Pavlodar; operations of the plant are coordinated by the company's head office located in the city of Almaty. The total area of production facilities is about 133 ha. The headcount of the enterprise is more than 7,500 people. To increase the share of exports and ensure the entry into the global market, the exporter requested assistance from EIC KazakhExport JSC, which provided support through the insurance of an export loan, pre-export financing and export trade financing. In 2018, three transactions were concluded with KSP Steel LLP, two of which were aimed at exporting large quantities of seamless pipes to the Russian Federation in the amount of about RUB 550 mln. In October 2018, EIC KazakhExport JSC jointly with SB Alfa-Bank JSC also provided support by insuring the exporter's loan and providing pre-export financing to replenish working capital in the amount of KZT 2.7 bn. Due to the support provided by EIC KazakhExport JSC, the company was able to increase exports of seamless steel casing, oil pipeline, tubing and couplings to the Russian Federation, where the amount of export contracts for 2018 was about KZT 31 bn.

## AKTEP MEAT PROCESSING PLANT LLP, AKTOBE

It is an enterprise producing environmentally friendly meat products and having modern technology. The company independently implements the whole manufacturing process: from cattle breeding, feed stuff production, fattening, meat processing to the shipment of finished products by order of a particular consumer. The manufacturing company received financing in the amount of KZT 2,970 mln for the purchase of 18,000 heads of cattle for the feeding site, due to which exports to the Russian Federation have increased. Loan insurance was provided by EIC KazakhExport JSC.

## PC AGF GROUP LLP, SHYMKENT

PC AGF Group LLP - is the largest manufacturer of home textiles in Kazakhstan. The factory is located in Ontustik Special Economic Zone (SEZ) in the city of Shymkent. Due to its advantageous geographical location, the company has access to the main markets of raw material suppliers (China, India, Pakistan, Turkey, etc.), as well as to sales markets (Russia, EU). With the support of EIC KazakhExport JSC, the exporter has significantly increased the sales of its products to foreign markets - from KZT 450 mln in 2016 to KZT 5 bn in 2018. EIC KazakhExport JSC insured the risks of TengriBank JSC, the borrower of which is AGF Group.

<sup>8</sup>The collateral provided to the pledger with the imposition of signs certifying the pledge.

# 3.7

## TRANSFER AND IMPLEMENTATION OF INNOVATIONS

The Holding carries work to develop an innovation ecosystem through its subsidiary - NATD JSC. In 2018, NATD JSC strengthened the program of providing innovation grants by increasing transparency, accessibility to explanations and improving the quality of provided state support measures.

NATD JSC introduced important positive innovations in the framework of the Innovation Grant Program. Thus, in 2018, NATD JSC revised the format for conducting awareness-raising activities to inform potential applicants about the conditions and procedures for the provision of innovation grants. Therefore, along with individual office and telephone consultations, employees of NATD JSC conducted:

- comprehensive counseling;
- seminars;
- online consultations via skype and live on the official website of NATD JSC;
- onsite consultations.

New effective approaches to conducting counseling and awareness-raising activities have increased accessibility to information and improved the quality of communicating information about the grant program to potential applicants. This innovation had a positive effect on the quality of accepted applications for innovation grants.

Also, in the reporting year, the approaches to considering applications for obtaining innovation grants were changed, in particular, by strengthening the preliminary verification for compliance with the requirements of internal

regulatory documents and the completeness of the provided information required for further technological, financial, economic and legal expertise.

To implement these objectives, in 2018, NATD JSC carried out work to introduce amendments and additions to the internal regulatory documents governing the procedure for the provision of innovation grants.

In 2018, 214 applications for innovation grants were received through the Digital Baiterek Information System, of which 131 applications were registered and sent for further consideration.

In the regional context, the cities of Almaty and Astana were traditionally the leaders among the cities submitted applications at two stages.

In the context of the industry, the most part of applications were received in the following sectors: infocommunication technologies, search, production, transportation and processing of mineral and hydrocarbon raw materials, agro-industrial complex, food industry and agrochemistry.

Following the results of work performed in 2018 on accepting and considering applications for obtaining innovation grants, 15 agreements were concluded for the provision of innovation grants for a total amount of KZT 4.3 bn. In 2018, consideration of applications received in 2017 was continued and 3 additional contracts for the provision of innovation grants totaling KZT 348 mln were concluded. At the end of 2018, a total of 18 contracts were concluded for a total of KZT 4,673.4 mln.

Product output under supported projects and number of jobs created for 2016-2018

Indicator	2016	2017	2018
Product output under supported projects, KZT bn	58	48	36
Number of jobs created	539	741	493

In 2018, a business incubation program was started for industrial and innovative projects under the Business Roadmap-2020 program. Pursuant to the decision of the Government, the operator for implementing this initiative is NATD JSC.

The program involves:

- provision of financial and methodological support to private business incubators (co-financing of 50% of operating expenses but not more than KZT 35 mln per year);
- provision of state grants to residents of business incubators under industrial and innovative projects aimed at creating a new or significantly improved product or business process (up to KZT 50 mln and no more than 80% of the reasonable declared expenses).

The implementation of the program will give an impetus to the development of the business incubation ecosystem due to which business incubators will be able to become self-sufficient both in terms of finance and a high level of competence and, accordingly, will have an impact on the growth of high-quality start-ups that can become large-scale technology companies in the future.

It is expected that state grants will be provided starting from 2019 on the basis of a mechanism already used under the "Business Roadmap - 2020" program (in case of allocation of funds from the republican budget). To gain a greater economic effect, state grants will be provided to business projects that are residents of business incubators taking into account a positive technological, financial, economic and legal opinion of NATD JSC.

The following activities are planned for 2019 in the field of transfer and introduction of innovations:

- transfer of functionality for the provision of innovation grants to Kazakhstan Institute of Industry Development JSC;
- reorganization of the business model of NATD JSC;
- identification of the main strategic areas of NATD JSC, including the development of venture financing, support and maintenance of business incubators, and technology consulting;
- update of the Development Strategy of NATD JSC for 2014–2023;
- support for business incubators under the "Business Roadmap - 2020" program.

## BUSINESS INCUBATOR - BELN TECH LLP (ASTANA)

In 2018, in the framework of the “Business Roadmap - 2020” program, NATD JSC selected the following three business incubators: Beln Tech LLP, SmArt.Point Almaty LLP, Young Entrepreneurs Club LLP, with which agreements were signed to provide co-financing of business incubator’s expenses and non-financial assistance for a three-year period.

In 2018, NATD JSC concluded contracts with the above mentioned business incubators for co-financing business incubators’ expenses and providing non-financial assistance for a three-year period. In 2018, NATD JSC co-financed part of business incubators’ costs in the total amount of KZT 18,725.7 thous. out of the funds allocated from the RB. In 2018, the Agency performed work to provide methodological support for the activities of three business incubators with the involvement of an external expert. The external expert was involved from among foreign experts in the field of business incubation ecosystem development - the contract was signed with IIDF Accelerator LLC (Russia). As part of the methodological support services, the external expert selected an effective work format for each business incubator.

## BUSINESS INCUBATOR - YOUNG ENTREPRENEURS CLUB LLP (ALMATY)

The official opening of the business incubator took place on September 25, 2015. The business incubator supports start-up entrepreneurs at all stages of business development - from the formation of a concept to its implementation.

It is a creative space where future entrepreneurs can work on their projects, share experiences, get counseling from experienced businessmen and attract investment to capitalize their business ideas.

The business incubator is an official member of organizations such as Youth Business International and Global Entrepreneurship Week.

Official partners: Seedstars World, Startup Weekend, Get in the Ring and other international initiatives in the field of startups.

Partner network in Kazakhstan available to residents and graduates of MOST.

Mission: to grow a new generation of outstanding entrepreneurs for the prosperity of the world community.

**Total area: 1,300 m<sup>2</sup>.**

**Indicators for 2018:**

8 business acceleration programs;

630 applications;

85 implemented projects;

31 startups raised money in the total amount of USD 1 mln.

## BUSINESS INCUBATOR - BELN TECH LLP (ASTANA)

**Goals:**

the opportunity to implement innovative projects on the sites of BIGroup construction holding.

A full development cycle from incubation to project implementation for a guaranteed customer and further introduction of a product to foreign markets.

**Total area: 900 m<sup>2</sup>.**

**Indicators for 2018:**

16 pilots at BI Group sites: Bayquw, Nordal, Qubit, SmartHome, Parametrica, UberPark, Bnect, Homefix, UberRemont, Tastamat, PartsZone, OperaBuold, Anymo, PriceGen, BIPlan;

10 start-ups invested by Beln Tech Ventures: Bayquw, Nordal, Smart Home, Parametrica, Homefix, Uber Remont, Tastamat, Opera Build, PriceGen, BI Plan.

## BUSINESS INCUBATOR - SMART.POINT ALMATY LLP (ALMATY)

The SmArt.Point Business Incubator is a kind of Silicon Valley in Almaty where ideas turn into commercially successful businesses through a unique infrastructure and atmosphere that combine all necessary elements - physical infrastructure, entrepreneurial spirit, community of entrepreneurs and professionals, business support institutions, educational and cultural components, as well as open and mutually beneficial cooperation with all elements of the ecosystem supporting start-ups and entrepreneurship in Kazakhstan and in the world.

**Mission:**

to create a favorable environment and infrastructure that promote the creation of new technological and competitive start-ups.

**Goals:**

promoting the transformation of breakthrough concepts into commercially successful businesses;

promoting the transformation of traditional businesses into innovative ones;

globally - promoting the transformation of Kazakhstan’s economy into a more innovative one.

**Total area: 10,000 m<sup>2</sup>.**

Every week, 10-20 business events are held at SmArt.Point sites - forums, conferences, discussions, presentations. On a weekly basis, 5-10 events are held in the field of theatrical, musical and visual arts.

SmArt.Point includes 40 companies operating in the field of e-commerce, software development, fintech, cybersecurity, blockchain, IT education, e-learning, media, automated logistics, artificial intelligence, robotics, telecommunications, digital marketing and design with a total headcount of 450 employees and a turnover exceeding USD 120 mln. These companies include Chocofamily, Zero To One Labs, Nfactorial, The Code, The Steppe, Baribar.kz, 20tonn.kz, Nommi, Neupusti.kz, Relog, Asia Intercommunication, etc.



# 3.8

## CUSTOMER-ORIENTED PRACTICES

### COMPREHENSIVE CUSTOMER-ORIENTED BUSINESS SUPPORT BASED ON THE ONE-STOP PRINCIPLE

The Digitalization Strategy of Baiterek NMH JSC for 2018-2023 (hereinafter - the Digitalization Strategy) was approved by the Management Board dated December 27, 2017. During 2018,

according to the Action Plan for implementing the Digitalization Strategy of Baiterek NMH JSC for 2018-2023, the following activities were performed:

Activity	Purpose
Development of the Treasury Management System	Implementation of a centralized approach to cash flow management at the level of the Holding and its subsidiaries and ensuring informational transparency in making treasury operations.
Automation of the Personnel Policy	Automation of personnel records in the Holding and optimization of the personnel management process.
Development of a single digital platform "Digital Baiterek"	Providing a single information platform for the Holding, its subsidiaries, national and foreign investors and entrepreneurs focused on meeting the needs of the information resource visitors.
Introduction of the "Electronic Contract" service	Ensuring the optimal and efficient utilization of financial resources by customers for procurement, increasing transparency and public confidence, providing potential suppliers with equal opportunities to participate in the procurement process. In 2018, the Holding concluded about 107 contracts on the platform.
Development of the Holding's corporate website	Corporate website is one of the main tools for establishing customer relations. In the reporting year, the website was redesigned, the structure was optimized, and the functionality was expanded to improve usability.
Organization of a Single Contact Center	Improving the quality of processing customers' applications and providing customers with a "single access point", which will contribute to increasing their satisfaction and positive perception of the Holding's reputation
"BaiterekCloud" - a centralized data storage infrastructure	Outsourcing of the Holding's IT infrastructure is implemented through the IaaS (Infrastructure-as-a-Service) service by using the supplier's cloud infrastructure as computing capacities and resources for data processing and storage. For this purpose, a memorandum of cooperation was signed with Kazteleport JSC.

Activity	Purpose
Building an Information Security Management System ("Ensuring ICT Information Security")	The main conceptual areas for the provision of technical support to the Holding's information security are: - ensuring the protection of information resources against theft, loss, leakage, destruction, distortion due to unauthorized access and special impacts; - ensuring the protection of information against leakage through technical channels during its processing, storage and transmission over communication channels. These activities are carried out on an ongoing basis jointly with the Compliance Service of the Holding.
Piloting a block-chain technology	Use of technologies that promote a transparent, open and secure business in subsidiaries of the Holding. HCSBK JSC has deployed one of the blockchain network units; piloting has been successful, and a prototype is under development. At the same time, HCSBK JSC and the State Corporation "Government for Citizens" NJSC signed a memorandum, pursuant to which it is planned to use the blockchain technology to register (and remove) encumbrances (pledge) on real estate when granting a loan.
Organization of the digitalization office	The digitalization office is a collegial advisory body under the Management Board of the Holding that coordinates the following activities: planning of IT development, monitoring of IT projects development, coordination of strategic IT documents, determining the feasibility of introducing new IT initiatives in the Holding and its subsidiaries, and decisions of the digitalization office are advisory.
Strategic planning for digitalization of subsidiaries (creation of a register of information assets)	Monitoring of project implementation (from initiation to closure) by conducting regular hearings in the digitalization office regarding the implementation of IT strategies in subsidiaries. In 2018, a register of information systems of the Holding and its subsidiaries was created.
Implementation of an integrated and service-oriented approach	Attracting corporate service providers having sufficient technical, organizational and communication capabilities, providing high-quality services and implementing a more flexible pricing policy. The Holding adheres to a service-oriented IT management approach, which implies the use of readily available/customized solutions based on a subscription or rental model for a fixed period of time at a predetermined cost (Software-as-a-Service (SaaS) model) The use of the SaaS model allows reducing the total cost of the software ownership.

To implement the Digitalization Strategy and increase labor productivity of the Holding's employees, a new Action Plan for 2019 was approved in the following areas:

- III stage of development of Digital Baiterek platform;
- Optimization and automation of internal business processes;
- Unified service center (concept);
- Development of a collective work system;
- Backup of systems and data in the cloud environment.

Information services: information about the service, the term for its provision, actions for its receipt and contact details are placed on the service window.

As part of the Digital Baiterek service window, the Holding has automated the processes for registering a potential client as an investor and provided an opportunity to apply for project financing.

The main advantages of implementing Digital Baiterek are:

- increasing accessibility for applicants, including mobility, a possibility to submit an application from any location via Internet at a

**AS OF THE END OF 2018, 42 SERVICES OF THE HOLDING AND ITS SUBSIDIARIES WERE PLACED ON THE DIGITAL BAITEREK SERVICE**

**42**  
SERVICES

#### **“DIGITAL BAITEREK” UNIFIED ENTREPRENEURSHIP SUPPORT PORTAL**

In the framework of the Digitalization Strategy, the information system “Digital Baiterek” Unified Entrepreneurship Support Portal (hereinafter - Digital Baiterek) was introduced into permanent (industrial) operation to provide a comprehensive and customer-oriented business support.

The range of services provided by Baiterek NMH JSC and its subsidiaries is available through the Digital Baiterek service window. As of the end of 2018, 42 services of the Holding and its subsidiaries were placed on the Digital Baiterek service window, of which:

- 32 automated services;
- 10 information services.

Automated services are the services in which the process of accepting an application from a client, processing and transmitting the results is automated. This type of services allows the client to submit an application for receiving a service in a digital form through his/her personal account and transfer information about the application to the appropriate subsidiary. The result of considering the application and a relevant response are available to the client in his/her personal account.

convenient time, reducing the time required to submit an application, and paperless document flow.

- increasing transparency in obtaining services, including a possibility to create a personal account, receiving feedback, tracking the status of applications.
- improving the performance efficiency of employees of the Holding and its subsidiaries, including a single information space, which provides accelerated coordination of documents and making decisions (synergy), increasing the executive discipline and productivity among employees

In 2018, two flows of applications were received through the IS:

- by NATD JSC for services, in particular, for the provision of innovative grants for technology commercialization, technological development of industries and existing enterprises.

On the basis of the IS, Baiterek Development JSC developed Nurly Zher Situation Center - a portal for monitoring housing facilities, the construction of which is funded under “Nurly Zher” State Program.

#### **CUSTOMER DATA SECURITY**

In its activities, the Holding Group is guided by the legislation of the Republic of Kazakhstan, which establishes the requirements for bank secrecy and private data protection. To comply with the legislative requirements, the Holding Group undertakes to protect personal data, the consent to the processing of which is provided by clients of the Holding subsidiaries when formalizing the contractual relations.

Personal data processed in information systems of the Holding subsidiaries is secured through an organized two-tier protection system, in which authorization and control of access is provided by the Information Security Department while the Information Technology Department controls configuration and restriction of access to information systems in which the personal data is processed.

The Holding Group operates systems having the following information protection functions:

- preventing leakage of protected information from PCs and laptops, including personal data, bank secrecy and confidential information;
- preventing leakage of protected information through the corporate e-mail channel;
- data encryption upon data transfer to mobile storage devices to minimize the risk of breach of confidential information if data storage devices are lost;

**TO COMPLY WITH THE LEGISLATIVE REQUIREMENTS, THE HOLDING GROUP UNDERTAKES TO PROTECT PERSONAL DATA, THE CONSENT TO THE PROCESSING OF WHICH IS PROVIDED BY CLIENTS OF THE HOLDING SUBSIDIARIES WHEN FORMALIZING THE CONTRACTUAL RELATIONS.**

- preventing leakage of protected information when interacting with the Internet;
- guaranteed destruction of data from storage devices during their decommissioning.

The Holding Group also implements regularly a number of activities to improve the information security system, in particular:

- raising the awareness among users (workers) in the field of information security and information protection;
- control of access to information systems containing protected information;
- use of a secure VPN channel for working with the document flow service;
- measures providing protection, fall-over protection, continuity and availability of information assets.

# 04

## MANAGEMENT SYSTEMS

4.1.  
Corporate governance system

4.2.  
Risk management  
and internal control



# 4.1

## CORPORATE GOVERNANCE SYSTEM

**B**aiterek NMH JSC considers corporate governance as a key tool to increase the performance efficiency of the Holding and its subsidiaries, ensure the transparency and accountability, strengthen its reputation and reduce the cost of capital. The Holding is seeking to contribute to ensure the supremacy of law in the Republic of Kazakhstan by implementing good corporate governance practices.

Corporate governance in the Holding is based on the principles of fairness, honesty, responsibility, transparency, professionalism and competence. Corporate governance of the Holding provides a clear segregation of powers and responsibilities between the bodies, officials and employees of the Holding.

The fundamental principles of the Holding's corporate governance are as follows:

- principle of segregation of powers;
- principle of protection of the Sole Shareholder's rights and interests;
- principle of effective management of the Holding by the Board of Directors and the Management Board;
- principle of sustainable development;
- principle of risk management, internal control and internal audit;
- principle of regulating corporate conflicts and conflicts of interests;
- principles of transparent and objective disclosure of information on the Holding's activities.

In 2018, the Holding implemented activities aimed at ensuring compliance with the principles and provisions of the Corporate Governance Code of Baiterek NMH JSC approved by the Order of the Minister of Investment and Development of the Republic of Kazakhstan No. 646 dated September 22, 2017.

Pursuant to the provision of the Corporate Governance Code of Baiterek NMH JSC, a report on compliance with the principles and provisions of the Corporate Governance Code of Baiterek NMH JSC was prepared for 2018 (hereinafter referred to as the Report). The Report discloses the results of monitoring the proper compliance with the Corporate Governance Code of Baiterek NMH JSC and detailed information on activities taken to implement its principles and provisions.

According to the information disclosed in the Report, the principles and provisions of the Corporate Governance Code of Baiterek NMH JSC are generally complied with and the Holding is constantly working to carry out activities aimed at improving corporate governance, including the implementation of provisions and principles of the Corporate Governance Code of Baiterek NMH JSC in activities of Baiterek NMH JSC.

The supreme governing body of the Holding is the Sole Shareholder, the Board of Directors is the governing body, and the Management Board is the executive body. The Internal Audit Service is the body performing supervision over the financial and operating activities of the Holding, assessment of internal control and risk management, execution of corporate governance documents and consultancy in order

<sup>9</sup>The full text of the Report on compliance with the principles and provisions of the Corporate Governance Code of the Holding is posted on the Holding's official website after approval by the Board of Directors of the Holding

to improve the Holding's performance. The Board of Directors of the Holding has established the committees, which are competent to review the audit, risk management, strategic planning, HR management, remuneration and social issues. The following committees of the Management Board have been established to prepare advisory decisions for the Management Board on individual activities of the Holding, including the preparation and preliminary review of issues referred to the Management Board's competence: Strategy and Corporate Governance Committee, Assets and Liabilities Management Committee, Investment Committee, Planning and Performance Assessment Committee.

The corporate governance system of the Holding provides:

- availability of a clear management system within the Holding Group, delineation of powers and decision-making processes, absence of duplication of functions and processes;
- unified standards, policies and processes, including those used to define common approaches to planning, monitoring and control, evaluating the performance and applying corrective actions;
- access to qualitative information on the Holding Group activities;
- proper management of the Holding Group's risks.

In connection with the approval of the Model Corporate Governance Code for state-controlled joint stock companies, except for the Sovereign Wealth Fund, approved by the Order of the Minister of National Economy of the Republic of Kazakhstan No. 21 dated October 5, 2018, the Holding initiated work on updating its Corporate

Governance Code. Approval of amendments and additions to the Code is planned for 2019. By the decision of the Management Board of the Holding No. 52/18 dated November 28, 2018, the Methodology for diagnosing corporate governance in subsidiaries of Baiterek NMH JSC was updated as part of the Model Rules for the Organization of Internal Audit in Subsidiaries of Baiterek NMH JSC.

As part of execution of the Action Plan to improve the corporate governance system of the Holding for 2018-2019, the following measures were taken:

- approval of corporate governance codes in subsidiaries and reports on compliance with the principles of corporate governance codes of subsidiaries;
- monitoring of execution of plans to improve the corporate governance in the Holding and its subsidiaries;
- holding a meeting of the Council of Corporate Secretaries of the Holding Group;
- development of amendments to the Investment Policy of the Holding regarding the incorporation of environmental policy elements;
- introduction of amendments and additions to the Holding's Policy on Settlement of Corporate Conflicts and Conflicts of Interests;
- development of the Sustainable Development Policy;
- development of the Model Rules for remuneration and bonus payment;
- assessment of performance and provision of social support to employees and services accountable to the Board of Directors of the Holding's subsidiaries, etc.

## STRUCTURE OF THE CORPORATE GOVERNANCE SYSTEM



In the mid-term, the Holding will continue its work to improve the corporate governance system. Thus, according to the Action Plan for improving the Holding's corporate governance system for 2018-2019, it is planned to:

- ensure approval of amendments and additions to corporate governance codes of the Holding's subsidiaries after approval of relevant amendments and additions to the Corporate Governance Code of the Holding;
- conduct regular diagnostics (assessment) of corporate governance in subsidiaries of the Holding;

- prepare and submit a report on compliance with the principles and provisions of the Corporate Governance Code of the Holding for consideration by the Audit Committee and for approval by the Board of Directors;
- monitor the implementation of the Action Plan for improving the corporate governance system of the Holding and its subsidiaries;
- evaluate the knowledge of the Holding's employees about the regulations and provisions of the Corporate Governance Code of the Holding.

## 4.1.1

### SOLE SHAREHOLDER

The Sole Shareholder of the Holding is the Government of the Republic of Kazakhstan represented by the Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan (hereinafter referred to as the MIID RK), which makes decisions on issues referred to the competence of the Sole Shareholder according to the legislation and the Holding's Charter.

### SHARE CAPITAL

As of December 31, 2018, the share capital of Baiterek NMH JSC was equal to KZT 846,218,711,608.

- Number of declared ordinary shares - 5,000,086,550.
- Number of authorized shares - 846,218,712.
- Number of authorized but unallocated ordinary shares - 4,153,867,838.

### DIVIDEND POLICY

Pursuant to the decision of the Board of Directors of the Holding dated November 23, 2018, the Dividend Policy of the Holding was submitted for consideration by the Sole Shareholder for further approval.

The Dividend Policy of the Holding is based on the following principles:

- respect for the interests of the Sole Shareholder of Baiterek NMH JSC;
- ensuring the profitability of activities of Baiterek NMH JSC and its subsidiaries;
- ensuring the financial sustainability of Baiterek NMH and its subsidiaries;
- provision of financing for activities of Baiterek NMH JSC and its subsidiaries, including financing of investment projects implemented at the expense of Baiterek NMH JSC;
- transparency of the mechanism for determining the size of dividends;
- balance of short-term (income generation) and long-term (organization development) interests of the Sole Shareholder of Baiterek NMH JSC.

The Sole Shareholder of the Holding makes a decision on dividend payment based on the payment conditions and taking into account the amount of net income (profit for the year) received for the reporting fiscal year and the development needs of Baiterek NMH JSC.

## 4.1.2

### BOARD OF DIRECTORS

The Board of Directors is the governing body providing strategic management for the Holding and control over activities of the Management Board.

The Board of Directors performs its functions in accordance with the legislation of the Republic of Kazakhstan, the Charter of the Holding, the Corporate Governance Code, the Regulations of the Board of Directors and other internal documents of the Holding.

Within its competence, the Board of Directors approves the development plan, supervises the effective functioning of the risk management, internal control and internal audit systems, approves and monitors the effective implementation of major investment projects and other key strategic projects.

### COMPOSITION AND BIOGRAPHIES OF MEMBERS OF BOARD OF DIRECTORS

As of December 31, 2018, the Board of Directors of the Holding was composed of ten directors, including three independent directors.

The Board of Directors of the Holding was elected on December 26, 2016 by the Order of the Minister of Investment and Development of the Republic of Kazakhstan No. 877 "On the composition of the Board of Directors of Baiterek National Managing Holding Joint Stock Company with a 3 (three) year term of office (the term of office expires on December 26, 2019)"



**BAKYTZHAN SAGINTAYEV**

Prime Minister of the Republic of Kazakhstan, Chairman of the Board of Directors

Born on October 13, 1963.

Citizenship: Republic of Kazakhstan

#### EDUCATION:

Bakytzhan Sagintayev graduated from Kazakh State University, Economist, Ph.D. in Economics.

#### PROFESSIONAL EXPERIENCE:

September 2012 - January 2013: First Deputy Chairman of Nur Otan People's Democratic Party.

January 2013 - November 2016: First Deputy Prime Minister of the Republic of Kazakhstan - Minister of Regional Development of the Republic of Kazakhstan, First Deputy Prime Minister of the Republic of Kazakhstan.

Since September 2016 - Prime Minister of the Republic of Kazakhstan.

On June 25, 2013, he was elected as a member of the Board of Directors.

On September 28, 2016, he was elected as the Chairman of the Board of Directors.

On December 26, 2016, his powers were extended for three years.

#### Membership in Boards of Directors (Supervisory Boards) of other organizations:

Chairman of the Board of Directors of Samruk-Kazyna JSC.



**YERBOLAT DOSSAYEV**

Deputy Prime Minister of the Republic of Kazakhstan, member of the Board of Directors

Born on May 21, 1970.

Citizenship: Republic of Kazakhstan

#### EDUCATION:

Yerbolat Dossayev graduated from Almaty Power Engineering Institute, Moscow State Technical University named after Bauman.

#### PROFESSIONAL EXPERIENCE:

September 2012 - May 2016: Minister of Economic Development and Trade of the Republic of Kazakhstan, Minister of Economy and Budget Planning of the Republic of Kazakhstan, Minister of National Economy of the Republic of Kazakhstan.

May 2016 - August 2017: Chairman of the Management Board of Baiterek NMH JSC.

Since August 2017 - Deputy Prime Minister of the Republic of Kazakhstan.

On June 25, 2013, he was elected as a member of the Board of Directors.

On December 26, 2016, his powers were extended for three years.

On November 29, 2017, he was elected as a member of the Board of Directors.

#### Membership in Boards of Directors (Supervisory Boards) of other organizations:

Member of the Management Board of the National Bank of the Republic of Kazakhstan.

Chairman of the Board of Directors of Damu Entrepreneurship Development Fund.

Chairman of the Board of Directors of EIC KazakhExport JSC.

**ALIKHAN SMAILOV**

Assistant to the President of the Republic of Kazakhstan, member of the Board of Directors

Born on December 18, 1972.

Citizenship: Republic of Kazakhstan

**EDUCATION:**

Alikhan Smailov graduated from Kazakh State National University named after Al-Farabi with a degree in Applied Mathematics; Kazakh Institute of Management, Economics and Strategic Research under the President of the Republic of Kazakhstan with the Master's degree in public administration.

**PROFESSIONAL EXPERIENCE:**

2008 - 2009: Vice Minister of Finance of the Republic of Kazakhstan.

2009 - 2014: Chairman of the Statistics Agency of the Republic of Kazakhstan.

2014 - 2015: Chairman of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan.

December 2015 - September 2018: Assistant to the President of the Republic of Kazakhstan.

Since September 2018 - Minister of Finance of the Republic of Kazakhstan.

On May 24, 2016, he was elected as a member of the Board of Directors. On December 26, 2016, his powers were extended for three years.

**Membership in Boards of Directors (Supervisory Boards) of other organizations:**

Member of the Board of Directors of KazAgro National Management Holding JSC.

Member of the Management Board of the National Bank of the Republic of Kazakhstan.

**ZHENIS KASSYMBEK**

Minister of Industry and Infrastructural Development of the Republic of Kazakhstan, member of the Board of Directors

Born on May 7, 1975.

Citizenship: Republic of Kazakhstan

**EDUCATION:**

Zhenis Kassymbek graduated from Kazakh Leading Academy of Architecture and Civil Engineering (Almaty) with a degree in Architect-Designer and Eurasian National University named after L.Gumilev (Astana) with a degree in Economist-Manager. Ph.D. in Economics.

**PROFESSIONAL EXPERIENCE:**

March - June 2014: Minister of Transport and Communications of the Republic of Kazakhstan.

August 2014 - June 2016: First Deputy Minister of Investment and Development of the Republic of Kazakhstan.

Since June 2016 - Minister of Investment and Development of the Republic of Kazakhstan.

On July 28, 2016, he was elected as a member of the Board of Directors.

On December 26, 2016, his powers were extended for three years.

**Membership in Boards of Directors (Supervisory Boards) of other organizations:**

Chairman of the Board of Directors of KazAutoZhol JSC.

**YERULAN ZHAMAUbayEV**

Assistant to the President of the Republic of Kazakhstan, member of the Board of Directors

Born on March 25, 1974.

Citizenship: Republic of Kazakhstan

**EDUCATION:**

Yerulan Zhamaubayev graduated from Kazakh State Academy of Management and Business School of Kazakh Economic University named after T. Ryskulov.

**PROFESSIONAL EXPERIENCE:**

2006-2014: Director of the Coordination Department of the National Bank of the Republic of Kazakhstan.

2014-2015: Managing Director of Housing Construction Savings Bank of Kazakhstan JSC.

July - November 2015: Deputy Head of Social-Economic Monitoring Department of the Executive Office of the President of the Republic of Kazakhstan.

2015-2018: Head of Social-Economic Monitoring Department of the Executive Office of the President of the Republic of Kazakhstan.

In November 2018 by the Decree of the President of the Republic of Kazakhstan Yerulan Zhamaubayev was appointed Assistant to the President of the Republic of Kazakhstan.

On December 19, 2018, he was elected as a member of the Board of Directors of Baiterek NMH JSC.

**Membership in Boards of Directors (Supervisory Boards) of other organizations:**

Member of the Board of Directors of Samruk-Kazyna JSC.

Member of the Management Board of the National Bank of the Republic of Kazakhstan.

**TIMUR SULEIMENOV**

Minister of National Economy of the Republic of Kazakhstan, member of the Board of Directors

Born on April 5, 1978.

Citizenship: Republic of Kazakhstan

**EDUCATION:**

Timur Suleimenov graduated from Pavlodar State University, University of Maryland (USA) with a Master's degree in Business Administration under Bolashak program, Management, Master of Business with a specialization in Finance, certification in the UK Association of Chartered Accountants and Auditors

**PROFESSIONAL EXPERIENCE:**

2009 - 2012: Deputy Country Manager of the World Bank for Kazakhstan and Deputy Country Manager of EBRD for Kazakhstan, Vice-Minister of Economy and Budget Planning of the Republic of Kazakhstan, Vice-Minister of Economic Development and Trade of the Republic of Kazakhstan.

February 2012 - December 2016: Member of the Eurasian Economic Commission (Minister) for Economy and Financial Policy.

Since December 2016 - Minister of National Economy of the Republic of Kazakhstan.

On January 26, 2017, he was elected as a member of the Board of Directors.

**Membership in Boards of Directors (Supervisory Boards) of other organizations:**

Member of the Board of Directors of Samruk-Kazyna JSC.

Member of the Board of Directors of KazAgro National Management Holding JSC.



**AIDAR ARIFKHANOV**

Chairman of the Management Board of Baiterek NMH JSC, Member of the Board of Directors.

Born on November 28, 1974.

**Citizenship:** Republic of Kazakhstan

**EDUCATION:**

Aidar Arifkhanov graduated from Kazakh State Academy of Management, Diplomatic Academy of the Ministry of Foreign Affairs of the Republic of Kazakhstan and Columbia University under Bolashak presidential program.

**PROFESSIONAL EXPERIENCE:**

2004 - 2006: Vice Minister of Finance of the Republic of Kazakhstan.

2006 - 2009: Deputy Head of the Prime Minister's Office of the Republic of Kazakhstan, Vice Minister of Labour and Social Protection of the Republic of Kazakhstan, Advisor to the Prime Minister of the Republic of Kazakhstan.

2010-2017: Deputy Chairman of Informatization and Communication Agency of the Republic of Kazakhstan, Deputy Chairman of the Management Board of Kazatomprom NAC JSC, Vice Minister of National Economy of the Republic of Kazakhstan, Deputy Chairman of the Management Board of Baiterek NMH JSC.

Since December 2017 - Chairman of the Management Board of Baiterek NMH JSC.

On January 10, 2018, he was elected as a member of the Board of Directors.

**Membership in Boards of Directors (Supervisory Boards) of other organizations:**

Chairman of the Board of Directors of Development Bank of Kazakhstan JSC, Housing Construction Savings Bank of Kazakhstan JSC, Kazyna Capital Management JSC.

Member of the Board of Directors of EIC KazakhExport JSC, Damu Fund JSC.



**KLAUS MANGOLD**

Independent Director

Born on June 6, 1943.

**Citizenship:** Germany

**EDUCATION:**

Klaus Mangold studied law and economics in the universities of Munich, Geneva, London, Mainz and Heidelberg. Professor, PhD.

**PROFESSIONAL EXPERIENCE:**

Since 2011 - Chairman of the Supervisory Board of TUI AG, member of supervisory boards of Continental AG, Alstom S.A., Chairman of the Supervisory Board of Rothschild GmbH.

On June 25, 2013, he was appointed Independent Director of the Board of Directors.

On December 30, 2013, he was elected as a member of the Board of Directors (Independent Director).

On December 26, 2016, his powers were extended for three years.



**PHILIP YEO**

Independent Director

Born on October 29, 1946.

**Citizenship:** Republic of Singapore

**EDUCATION:**

Philip Yeo graduated from St. Joseph Institute (Singapore), University of Toronto (Canada).

**PROFESSIONAL EXPERIENCE:**

2007 - 2011: Special Advisor on Economic Development at Singapore Prime Minister's Office.

Since April 1, 2007, he is the Chairman of SPRING Singapore - Singapore Government Agency for business development, main purpose of which is to assist in the development of Singapore small and medium-sized businesses.

In March 2013, Philip Yeo established and was appointed the Chairman of Economic Development Innovations Singapore Pte Ltd., a service management company for economic development whose mission is to plan, develop and manage overseas technological parks and eco-cities.

2010 -2013: Philip Yeo was the member of the UN Committee of Experts on State Administration established by the Economic and Social Council for the promotion and development of public administration and governance among the participating countries in accordance with the UN Development Program.

At present - Chairman of Accuron Technologies and Economic Development Innovations Singapore Pte Ltd., Chairman of Economic Development Innovations Singapore Pte Ltd (EDIS).

On June 25, 2013, he was appointed Independent Director of the Board of Directors.

On December 30, 2013, he was elected as a member of the Board of Directors (Independent Director).

On December 26, 2016, his powers were extended for three years.



**THOMAS MIROW**

Independent Director

Born on January 6, 1953.

**Citizenship:** Germany

**EDUCATION:**

Thomas Mirow graduated from Bonn University, defended the doctoral thesis on the issue of "Policy of France in Europe during the period of Fifth Republic".

**PROFESSIONAL EXPERIENCE:**

2005 - 2008: Deputy Minister of Finance of Germany.

2008 - 2012: President of the European Bank for Reconstruction and Development (EBRD).

Thomas Mirow is the Chairman of the Supervisory Board of HSH Nordbank AG (Hamburg), member of the International Advisory Council of Rothschild&Cie (London/Paris), member of Shareholders' Committee of F. Laeisz (Hamburg).

On June 25, 2013, he was appointed Independent Director of the Board of Directors.

On December 30, 2013, he was elected as a member of the Board of Directors (Independent Director).

On December 26, 2016, his powers were extended for three years.

### CHANGES IN THE COMPOSITION OF THE BOARD OF DIRECTORS IN 2018

Pursuant to orders of the Minister of Investment and Development of the Republic of Kazakhstan:

- the powers of Bakhyt Sultanov as a member of the Board of Director were terminated and Timur Zhaksylykov was elected as a member of the Board of Directors.
- the powers of Timur Zhaksylykov as a member of the Board of Director were terminated and Yerulan Zhamaubayev was elected as a member of the Board of Directors.

### SELECTION CRITERIA FOR MEMBERS OF THE BOARD OF DIRECTORS

In accordance with the Law of the Republic of Kazakhstan “On Public Property”, the boards of directors of national managing holdings shall include representatives of the public planning authority, the public property authority, the authorized body of a relevant industry and other state bodies defined by the decision of the Government of the Republic of Kazakhstan.

In accordance with the Charter of the Holding, the Board of Directors consists of the Chairman and members elected by the Sole Shareholder.

The Board of Directors is composed of members of the Government of the Republic of Kazakhstan, the Chairman of the Management Board, independent directors and other persons.

In accordance with the Corporate Governance Code of the Holding, the presence and participation of independent directors in the Board of Directors is mandatory. The recommended number of independent directors in the Board of Directors of the Holding is up to fifty percent of the total number of members of the Board of Directors.

Pursuant to the order of the Minister of Investment and Development of the Republic of Kazakhstan No. 877 dated December 26, 2016, the composition of the Board of Directors of the Holding is determined as ten persons with the term of office of three years from December 30, 2016.

### ATTRACTION OF INDEPENDENT DIRECTORS

Independent members of the Board of Directors should not have any material interests or relations with respect to the Holding, its management or its property, which could jeopardize their objective judgment.

An independent director is a person who has sufficient professional skills and autonomy to make independent and objective decisions, free from the influence of the Sole Shareholder, the executive body and other stakeholders.

The requirements for independent directors are established in accordance with the legislation of the Republic of Kazakhstan.

Independent directors of the Board of Directors are elected for a term not exceeding three years and upon the expiration of the term of office, subject to satisfactory performance results, an independent director may be re-elected for another term. Any election of independent directors to the Board of Directors for a term exceeding 6 consecutive years (for example, two three-year terms) is subject to special consideration taking into account the need for qualitative renewal of the Board of Directors.

When selecting independent directors, the Holding is governed by the requirements of the Law of the Republic of Kazakhstan “On Joint-Stock Companies”, the Charter of the Holding, and the Corporate Governance Code of Baiterek NMH JSC,

An independent director is a member of the Board of Directors who is not and has not been affiliated with the Holding during three years prior to his/her election to the Board of Directors (except for his/her position as an independent director of the Holding), who is not affiliated with affiliates of the Holding; who is not accountable to officials of the Holding or its subsidiaries being affiliates of the Holding and has not been accounted to such officials during three years prior to his/her election to the Board of Directors; who is not a civil servant; who is not a representative of a shareholder at meetings of the Holding bodies and has not been as such during three years preceding his/her election to the Board of Directors; who does not participate in the audit of the Holding as an auditor working

as part of an audit organization, and has not participated in such an audit during three years preceding his/her election to the Board of Directors.

In consideration of the foregoing, pursuant to the order of the Minister of Investment and Development of the Republic of Kazakhstan No. 877 “On the composition of the Board of Directors of Baiterek National Managing Holding Joint Stock Company”, on December 26, 2016, independent directors of Baiterek NMH JSC Klaus Mangold, Philip Yeo and Thomas Mirow were elected for 3 (three) years.

### PROFESSIONAL DEVELOPMENT

Considering the specifics of the composition of the Board of Directors of Baiterek NMH JSC and the high competence level of its members, Baiterek NMH JSC did not organize the training for members of the Board of Directors in 2018. Members of the Board of Directors undergo training within the scope of their positions held. No initiatives were received from members of the Board of Directors of Baiterek NMH JSC regarding the need for advanced training.

### RESULTS OF WORK OF THE BOARD OF DIRECTORS IN 2018

Meetings of the Board of Directors of the Holding in 2018 were held on a regular basis in accordance with the Work Plan of the Board of Directors of the Holding. Also, the Board of Directors held extraordinary meetings, as required.

During the reporting period, the Board of Directors held 10 meetings, including 5 in-person meetings and 5 meetings in absentia. In total, the Board of Directors addressed 80 issues.

The most important issues addressed by the Board of Directors:

- approval of the revised Development Plan of the Holding for 2017-2021;
- preliminary approval of the annual financial statements of the Holding for 2017;
- approval of the Holding’s staff headcount;
- preliminary approval of the Dividend Policy of the Holding;
- approval of the Annual Report of Baiterek NMH JSC for 2017;
- approval of the actual efficiency of KPI scorecards for the Chairman and members of the Management Board of Baiterek NMH JSC for 2017;
- approval of KPI scorecards for the Chairman and members of the Management Board of Baiterek NMH JSC with target indicators for 2018;
- making several decisions on conclusion of related-party transactions with the Holding’s subsidiaries:
  - loan agreements with DBK JSC for the provision of financing for the renewal of the passenger car fleet of Passenger Transportation JSC;
  - loan agreement with Baiterek Development JSC for repurchase of debt securities of local executive authorities of regions, Astana and Almaty cities issued for the purpose of housing construction, and financing of completion of problematic housing objects construction in the city of Astana;
- approval of amendments and additions to a number of internal documents of the Holding: Risk Management Policy of the Holding, Information Security Policy of the Holding, Regulations on the Corporate Secretary Service of the Holding, Code of Business Conduct, Corporate Accounting Policy of the Holding, Methodology for Determining Business Processes, Inherent Risks and Key Risk Indicators in the Holding.



## Attendance of members of the Board of Directors at meetings in 2018

Member of the Board of Directors	Meetings of the Board of Directors	%	Period of membership in the Board of Directors
Bakytzhan Sagintayev	11/11	100	01.01.2018-31.12.2018
Timur Zhaksylykov	3/3	100	16.10.2018-19.12.2018
Yerulan Zhamaubayev	0/0		19.12.2018-31.12.2018
Yerbolat Dossayev	11/11	100	01.01.2018-31.12.2018
Alikhan Smailov	8/11	73	01.01.2018-31.12.2018
Zhenis Kassymbek	11/11	100	01.01.2018-31.12.2018
Bakhyt Sultanov	7/8	88	01.01.2018-16.10.2017
Timur Suleimenov	9/11	82	01.01.2018-31.12.2018
Aidar Arifkhanov	10/10	100	10.01.2018-31.12.2018
Klaus Mangold	10/10	100	01.01.2018-31.12.2018
Philip Yeo	10/10	100	01.01.2018-31.12.2018
Thomas Mirow	10/10	100	01.01.2018-31.12.2018

## 4.1.3

## COMMITTEES OF THE BOARD OF DIRECTORS

For the purpose of developing recommendations for the most important issues before their consideration at the meeting of the Board of Directors, the following Committees operate in the Holding:

- Audit Committee
- Personnel, Remuneration and Social Affairs Committee
- Strategic Planning Committee

## AUDIT COMMITTEE

Activities of the Audit Committee are aimed at elaborating recommendations for the Board of Directors for the organization of an efficient system of control over financial and economic operations of Baiterek NMH JSC (including the completeness and reliability of financial statements), control over the reliability and efficiency of internal control and risk management systems, and also compliance with the corporate governance documents, supervision of independence of external and internal audits.

## COMPOSITION OF THE AUDIT COMMITTEE:

- **Thomas Mirow** - Independent Director, Chairman of the Audit Committee;
- **Klaus Mangold** - Independent Director, member of the Audit Committee.

In 2018, the Audit Committee held 4 in-person meetings and 5 meetings in absentia at which 38 issues were addressed.

## Attendance of members of the Audit Committee at meetings in 2018

Member of the Audit Committee	Meetings of the Audit Committee	%	Period of membership in the Audit Committee
Thomas Mirow	9/9	100	01.01.2018-31.12.2018
Klaus Mangold	9/9	100	01.01.2018-31.12.2018

## MOST SIGNIFICANT DECISIONS MADE BY THE AUDIT COMMITTEE IN 2018:

- review and approval of the Report on compliance with the principles and provisions of the Corporate Governance Code of Baiterek NMH JSC;
- review and approval of the Progress Report of Ombudsman of Baiterek NMH JSC;
- review and preliminary approval of the annual financial statements (consolidated and separate) of the Holding for 2017;
- quarterly review of reports on the Holding's risks, reports of the Internal Audit Service containing information on audit findings and results of monitoring of implementation of corrective actions based on recommendations provided by internal and external auditors;
- review and approval of the matrix of business processes, risks and controls of the Holding for 2018;
- approval of amendments to the Methodology for Determining Business Processes, Inherent Risks and Key Risk Indicators in the Holding;
- consideration of information on the most significant findings of internal audit services of the Holding's subsidiaries for 2017;

- preliminary approval of amendments and additions to some internal documents regulating the activities of the Internal Audit Service of Baiterek NMH JSC.

## PERSONNEL, REMUNERATION AND SOCIAL AFFAIRS COMMITTEE

Activities of the Personnel, Remuneration and Social Affairs Committee are aimed at improving the performance efficiency of the Board of Directors through in-depth elaboration and monitoring of issues referred to the competence of the Board of Directors in the area of the Personnel Policy, appointment and remunerations system, as well as performance assessment of members of the Management Board of the Holding and the Corporate Secretary.

The basic functions of the Personnel, Remuneration and Social Affairs Committee include the appointment (election), establishment of motivational KPIs, performance assessment, remuneration and succession planning for the Chairman and members of the Management Board, appointment and remuneration of the Corporate Secretary, as well as participation in consideration of such issues with respect to the composition of the Board of Directors, if such powers are provided by the Sole Shareholder.

## COMPOSITION OF THE PERSONNEL, REMUNERATION AND SOCIAL AFFAIRS COMMITTEE:

- **Klaus Mangold** - Independent Director, Chairman of the Personnel, Remuneration and Social Affairs Committee;
- **Philip Yeo** - Independent Director, member of the Personnel, Remuneration and Social Affairs Committee;
- **Thomas Mirow** - Independent Director, member of the Personnel, Remuneration and Social Affairs Committee.

In 2018, the Personnel, Remuneration and Social Affairs Committee held 4 in-person meetings and 4 meetings in absentia at which 22 issues were addressed.

Attendance of members of the Personnel, Remuneration and Social Affairs Committee at meetings in 2018

Member of the Personnel, Remuneration and Social Affairs Committee	Meetings of the Personnel, Remuneration and Social Affairs Committee	%	Period of membership in the Personnel, Remuneration and Social Affairs Committee
Klaus Mangold	8/8	100	01.01.2018-31.12.2018
Philip Yeo	8/8	100	01.01.2018-31.12.2018
Thomas Mirow	8/8	100	01.01.2018-31.12.2018

**MOST SIGNIFICANT DECISIONS MADE BY THE PERSONNEL, REMUNERATION AND SOCIAL AFFAIRS COMMITTEE IN 2018:**

- provision of recommendations to the Board of Directors for appointment of members of the Management Board of Baiterek NMH JSC;
- review and approval of KPI scorecards for the Chairman and members of the Management Board of the Holding with target indicators for 2018;
- approval of amendments to the Code of Business Conduct of Baiterek NMH JSC;
- approval of the Concept for formation and development of the Unified Talent Pool of Baiterek NMH JSC;

**STRATEGIC PLANNING COMMITTEE**

Activities of the Strategic Planning Committee are focused on the development and provision of recommendations to the Board of Directors of the Holding on elaboration of priority areas of activities of the Holding and the strategy of its development, including the issues of development of activities to enhance the performance efficiency of the Holding in the medium and long term.

**COMPOSITION OF THE STRATEGIC PLANNING COMMITTEE:**

- **Philip Yeo** - Independent Director, Chairman of the Strategic Planning Committee;
- **Thomas Mirow** - Independent Director, member of the Strategic Planning Committee;
- **Zhenis Kassymbek** - Minister of Industry and Infrastructure Development;
- **Aidar Arifkhanov** - member of the Strategic Planning Committee.

In 2018, the Strategic Planning Committee held 4 in-person meetings and 3 meetings in absentia at which 14 issues were considered.

Attendance of members of the Strategic Planning Committee at meetings in 2018

Member of the Strategic Planning Committee	Meetings of the Strategic Planning Committee	%	Period of membership in the Strategic Planning Committee
Philip Yeo	7/7	100	01.01.2018-31.12.2018
Thomas Mirow	7/7	100	01.01.2018-31.12.2018
Zhenis Kassymbek	2/7	29	01.01.2018-31.12.2018
Aidar Arifkhanov	7/7	100	05.02.2018-31.12.2018



**NURLAN ALDABERGENOV**

Head of the Prime Minister's Office of the Republic of Kazakhstan

Born on November 19, 1962

Citizenship: Republic of Kazakhstan

**EDUCATION:**

In 1984, Nurlan Aldabergenov graduated from Alma-Ata Institute of Architecture and Construction with a degree in Civil Engineering, in 1988 - Moscow Engineering and Construction Institute named after V. Kuibyshev, Ph.D. in Economics, in 2005 - the University named after D. Kunayev with a degree in Jurisprudence.

**PROFESSIONAL EXPERIENCE:**

TNurlan Aldabergenov started his career as a junior, then senior senior research assistant in Alma-Ata Institute of Architecture and Construction.

From 1989 to 1999 he held various positions: Deputy Director General of Burunday Wall Materials Production Association, Head of the Wind Power Plants Department at Kazagromeliiovodkhoz of the Ministry of Agriculture of the Republic of Kazakhstan, Deputy Chairman of the Committee on Pricing and Antimonopoly Policy of Almaty city and was engaged in entrepreneurial activities.

From 1999 to 2004 - Director of Almaty Department of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition.

From 2004 to 2006 - First Deputy Chairman of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies.

From 2006 to 2007 - Deputy Chairman of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies.

From December 2007 to December 2011 - Chairman of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies.

From 2011 to 2017 - Member of the Board (Minister) of the Eurasian Economic Commission.

Since March 2017 - Head of the Prime Minister's Office of the Republic of Kazakhstan.

Nurlan Aldabergenov was awarded the Kurmet Order (2006), the Dostyk Order of II degree (2013) and other medals.

**MOST SIGNIFICANT DECISIONS MADE BY THE STRATEGIC PLANNING COMMITTEE IN 2018**

- taking into account the assessment of the results of implementation of the 2014-2018 Development Plan of Baiterek NMH JSC for 2016 based on the Report on fulfillment of the Development Plan of Baiterek NMH JSC for 2014-2018 as approved by the Board of Directors by the results of 2016 and the results of monitoring of the Ministry of Investment and Development of the Republic of Kazakhstan;
- approval of the amended Development Plan of Baiterek NMH JSC for 2017-2021 specifically pertaining to the period of 2018-2021, the adjusted Annual Budget of Baiterek NMH JSC for 2018 and the Annual Budget of Baiterek NMH JSC for 2019;
- approval of the Report on fulfillment of the Development Plan for 2017-2021 by the results of 2017 and the Report on fulfillment of the Annual Budget of Baiterek NMH JSC for 2017.

**4.1.4**

**CORPORATE SECRETARY**

The Corporate Secretary is an employee of Baiterek NMH JSC, who is not a member of the Board of Directors or the Management Board of the Holding. The Corporate Secretary is appointed by the Board of Directors of Baiterek NMH JSC and is accountable to the Board of Directors of the Holding.

The legal status of the Corporate Secretary is determined by the legislation of the Republic of Kazakhstan, the Charter of the Holding, the Regulations on the Corporate Secretary of the Holding and other internal documents of the Holding.

In accordance with the Regulations on the Corporate Secretary of the Holding and pursuant to the decision of the Board of Directors of the

Holding, the duties of the Corporate Secretary of the Holding may be assigned to Head of the Prime Minister's Office of the Republic of Kazakhstan, who is not an employee of the Holding, who is not subject to labour relations and who is not paid remuneration. At the same time, Head of the Prime Minister's Office of the Republic of Kazakhstan may not participate in the management of the Holding.

Ensuring the effective execution of functions assigned to the Corporate Secretary is the main objective of the Corporate Secretary Service of the Holding. The Service is headed by the Deputy Corporate Secretary - Head of the Corporate Secretary Service, who determines and allocates the duties between the employees of the Service. The Corporate Secretary Service is a business unit of the Holding and is accountable directly to the Corporate Secretary.

The main tasks of the Corporate Secretary include:

- provision of compliance of the bodies and officials of the Holding with the corporate governance rules and procedures that guarantee the implementation and protection of the Sole Shareholder's rights and interests;
- ensuring the implementation of activities to prepare decisions of the Board of Directors in accordance with the requirements of the legislation of the Republic of Kazakhstan and internal documents of the Holding;
- ensuring the effective activities of the Board of Directors of the Holding and its committees;
- ensuring the storage, disclosure and provision of necessary information about the Holding;
- ensuring a clear and effective interaction between the bodies of the Holding.

By the decision of the Board of Directors of the Holding No.04/17 dated May 12, 2017, Nurlan Aldabergenov, Head of the Prime Minister's Office of the Republic of Kazakhstan, was appointed the acting Corporate Secretary of Baiterek NMH JSC.

## 4.1.5

### MANAGEMENT BOARD

The Management Board is a collegial executive body of the Holding that manages the current activities of the Holding and bears responsibility for the implementation of the development strategy and development plan as well as decisions made by the Board of Directors and the Sole Shareholder. The Management Board of the Holding carries out its activities in accordance with the legislation of the Republic of Kazakhstan, the Charter of the Holding, decisions of the Sole Shareholder and the Board of Directors of the Holding, the Regulation on the Management Board and other internal documents of the Holding.

The Chairman of the Management Board performs general management of activities of Baiterek NMH JSC in accordance with the legislation of the Republic of Kazakhstan, the Charter and internal documents of the Holding. The Chairman of the Management Board organizes the fulfillment of decisions of the Sole Shareholder, the Board of Directors and the Management Board of the Holding.

The Chairman of the Management Board is appointed by the decision of the Sole Shareholder. Members of the Management Board are appointed by the decision of the Board of Directors on the proposal of the Chairman of the Management Board.

In its activities, the Management Board and the Chairman of the Management Board are accountable to the Sole Shareholder and the Board of Directors of the Holding.

The main criterion for assessing the performance of the Chairman and members of the Management Board is the achievement of KPIs approved by the Board of Directors of the Holding. The Chairman of the Management Board submits recommendations for determining the motivational KPIs for members of the Management Board to the Board of Directors for consideration.

### COMPOSITION AND BIOGRAPHIES OF MEMBERS OF THE MANAGEMENT BOARD

As of December 31, 2018, the Management Board of the Holding was composed of seven members.



**AIDAR ARIFKHANOV**

Chairman of the Management Board of Baiterek NMH JSC, Member of the Board of Directors.

Born on November 28, 1974.

**Citizenship:** Republic of Kazakhstan

#### EDUCATION:

Aidar Arifkhanov graduated from Kazakh State Academy of Management, Diplomatic Academy of the Ministry of Foreign Affairs of the Republic of Kazakhstan and Columbia University under Bolashak presidential program.

#### PROFESSIONAL EXPERIENCE:

2004 - 2006: Vice Minister of Finance of the Republic of Kazakhstan.

2006 - Deputy Head of the Prime Minister's Office of the Republic of Kazakhstan.

2006 - 2007: Vice Minister of Labor and Social Protection of the Republic of Kazakhstan.

2009 - Advisor to the Prime Minister of the Republic of Kazakhstan.

2009 - 2010: Deputy Chairman of Informatization and Communication Agency of the Republic of Kazakhstan.

2010 - 2011: Managing Director of Kazakhtelecom JSC.

2011 - 2015: Deputy Chairman of the Management Board of Kazatomprom NAC JSC, Acting Chairman of the Management Board (from 31.03.2015).

2015 - 2017: - Vice Minister of National Economy of the Republic of Kazakhstan.

January - December 2017: Deputy Chairman of the Management Board of Baiterek NMH JSC.

Since December 2017 - Chairman of the Management Board of Baiterek NMH JSC.



**GALYMZHAN TAJIYAKOV**

Deputy Chairman of the Management Board

Born on June 19, 1982.

**Citizenship:** Republic of Kazakhstan

#### EDUCATION:

Galymzhan Tajiyakov graduated from Kazakh State Management Academy with honor.

Major: Economics and Internal Relations.

Business School of Durham University (2008), Master of Business Administration (MBA)

#### PROFESSIONAL EXPERIENCE:

2008 - 2010: Corporate Secretary, Acting Head of the Oil and Gas Sector of HSBC Bank of Kazakhstan JSC.

2010 - 2012: Assistant Vice President of Citibank Kazakhstan JSC.

2012 - 2016: Managing Director of Eurasian Development Bank.

July 2016 - January 2018: Managing Director for Project and Corporate Finance, member of the Assets and Liabilities Management Committee of Baiterek NMH JSC.

Since January 15, 2018 – Deputy Chairman of the Management Board of Baiterek NMH JSC.

**Responsibilities:**

strategy and corporate development, analysis and research, asset management and corporate finance



ANUAR OMARKHOJAYEV

Deputy Chairman of the Management Board

Born on October 31, 1973

**Citizenship:** Republic of Kazakhstan

#### EDUCATION:

Anuar Omarkhojayev graduated from Kazakh State Agrarian University, Bremen Institute (Germany).

#### PROFESSIONAL EXPERIENCE:

July - November 2002: Attaché of the Investment Committee of the Ministry of Foreign Affairs of the Republic of Kazakhstan.

2002 - 2006: Third Secretary of the Embassy of the Republic of Kazakhstan in Germany.

2006 - 2007: Chief Inspector of the Protocol Department of the President of the Republic of Kazakhstan.

January - March 2007: Deputy Head of the Secretariat - Head of the Protocol Service of the Prime Minister of the Republic of Kazakhstan.

2007 - 2012: Head of the Department of External Relations and Protocol Office of the Prime Minister - Chief of Protocol of the Prime Minister of the Republic of Kazakhstan.

2012 - 2014: Chief of the Secretariat of the Head of the Presidential Executive Office of the Republic of Kazakhstan.

April 2014 - October 3, 2016 - Deputy Head of the Prime-Minister's Office of the Republic of Kazakhstan.

Since October 3, 2016 - Deputy Chairman of the Management Board of Baiterek NMH JSC.

#### Responsibilities:

development and introduction of information technology, legal support, construction and risks.



YERSAIN KHAMITOV

Managing Director - member of the Management Board

Born on September 5, 1983.

**Citizenship:** Republic of Kazakhstan

#### EDUCATION:

Yersain Khamitov graduated from Kostanay State University named after A. Baitursynov majoring in Finance and Credit.

#### PROFESSIONAL EXPERIENCE:

2007 - 2009: Deputy Head of Corporate Business Department of BTA Bank JSC.

2009 - 2010: Senior Manager of the Department of the Investment Management Department of Samruk-Energy JSC.

2010 - 2013: Senior Manager of the Corporate Finance Department of Sovereign Wealth Fund Samruk-Kazyna JSC.

2013 - 2014: Director of the Corporate Finance Department of Baiterek NMH JSC.

Since 2014 - Managing Director of Baiterek NMH JSC.

Since February 2016 - member of the Management Board of Baiterek NMH JSC.

#### Responsibilities:

economy, accounting and reporting, treasury



YESZHAN BIRTANOV

Managing Director - member of the Management Board

Born on July 1, 1975.

**Citizenship:** Republic of Kazakhstan.

#### EDUCATION:

Yeszhan Birtanov graduated from Kazakh State University named after Al-Farabi.

#### PROFESSIONAL EXPERIENCE:

2012 - 2014: Chairman of the Management Board of the National Investment Corporation of the National Bank JSC.

2014 - Acting Advisor to the Chairman of the National Bank of the Republic of Kazakhstan, Administration and Public Relations Department; Acting Director of the Planning and Budget Department of the National Bank of the Republic of Kazakhstan.

2014 - 2015: Director of the Planning and Budget Department of the National Bank of the Republic of Kazakhstan.

2015 - 2016: Chairman of the Management Board of Kazakhstan Stock Exchange JSC (KASE).

Since 2016 - Chairman of the Management Board of the National Investment Corporation of the National Bank JSC.

Since 2017 - member of the Board of Directors - Independent Director of Standard Life Insurance Company JSC.

Since February 2018 года - member of the Board of Directors of Housing Construction Savings Bank of Kazakhstan JSC.

Since January 2018 - Managing Director of Baiterek NMH JSC.

Since May 2018 - member of the Management Board of Baiterek NMH JSC.

Responsibilities: assets management and corporate finance



NURZHAN NURLANOV

Managing Director - member of the Management Board

Born on May 10, 1988.

**Citizenship:** Republic of Kazakhstan

#### EDUCATION:

American InterContinental University, London (2010), Bachelor of Business Administration.

University of Wales, London (2014), Master of Marketing.

Kazakh National Technical University named after K. Satpaev, Almaty (2016), Bachelor of Engineering and Technology of Oil and Gas Business.

#### PROFESSIONAL EXPERIENCE:

November 2012 - September 2013: Expert of the Regional Development Department of the Prime-Minister's Office of the Republic of Kazakhstan, Astana.

September 2013 - March 2016: Managing Director of KazTransGas JSC, Astana.

March 2016 - January 2018: Deputy General Director for Technical Policy - member of the Management Board of KazTransGas JSC, Astana.

Since January 2018 - Managing Director of Baiterek NMH JSC.

Since March 2018 - Managing Director - member of the Management Board of Baiterek NMH JSC.

#### Responsibilities:

risk and housing construction assets management



AINUR KUATOVA

Managing Director - member of the Management Board

Born on October 13, 1973

**Citizenship:** Republic of Kazakhstan

#### EDUCATION

Ainur Kuartova graduated from Kazakh State Academy of Management, Middlesex University (UK).

#### PROFESSIONAL EXPERIENCE:

2005 - 2007: Vice President of Lancaster Invest JSC.

2007 - 2010: Director of Business Development and Marketing of KMK Munai JSC.

2010 - 2012: President of Karpovsky Severny JSC.

2012 - 2013: Adviser to the Minister of Environment and Water Resources of the Republic of Kazakhstan.

2014 - 2015: Deputy Chairman of the Management Board of NC Astana EXPO-2017 JSC.

2015 - 2016: Deputy Chairman of the Management Board for Strategy and Business Transformation of NAC Kazatomprom JSC.

Since 2016 - Managing Director of Baiterek NMH JSC.

Since July 2016 - member of the Management Board of Baiterek NMH JSC.

#### Responsibilities:

working with investors, project financing and public private partnership

#### CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD IN 2018

By the decision of the Board of Directors of Baiterek NMH JSC No. 01/18 dated January 9, 2018, Galymzhan Tajiyakov was elected as Deputy Chairman of the Management Board from January 15, 2018.

By the decision of the Board of Directors of Baiterek NMH JSC No. 02/18 dated February 15, 2018, the powers of Kairbek Uskenbayev, a member of the Management Board were terminated ahead of time from January 24, 2018.

By the decision of the Board of Directors of Baiterek NMH JSC No. 04/18 dated April 27, 2018, the powers of Diana Seidzhaparova, a member of the Management Board were terminated ahead of time from April 10, 2018.

By the decision of the Board of Directors of Baiterek NMH JSC No. 03/18 dated March 1, 2018, Nurzhan Nurlanov was elected as a member of the Management Board from March 1, 2018.

By the decision of the Board of Directors of Baiterek NMH JSC No. 05/18 dated May 17, 2018, Yeszhan Birtanov was elected as a member of the Management Board from May 18, 2018.

#### RESULTS OF WORK OF THE MANAGEMENT BOARD IN 2018

In 2018, the Management Board held 57 meetings (43 in-person meetings and 14 meetings in absentia). Most important issues addressed by the Management Board:

- approval of the Action Plan for improving the corporate governance of Baiterek NMH JSC for 2018-2018;
- establishment of the Strategy and Corporate Development Committee of Baiterek NMH JSC;
- establishment of the Managing Committee and approval of the Regulations in the Managing Committee;
- approval of the "Competitiveness Leaders - National Champions 2.0" program;
- approval of the Sustainable Development Policy of Baiterek NMH JSC;
- approval of the Model Rules for organizing internal audit in subsidiaries;
- approval of the Compliance Program of Baiterek NMH JSC for 2018;
- approval of the grading structure of Baiterek NMH JSC;
- approval of amendments and additions to a number of internal documents of the Holding: Rules for personnel training and professional development, Rules for preparation, conclusion, monitoring of execution and storage of contracts, Instructions for organization of procurement of goods, works and services, Rules for interaction of Baiterek NMH JSC with subsidiaries.

#### Attendance of members of the Management Board at meetings in 2018

Member of the Management Board	Attendance at meetings	%	Period of membership in the Management Board
Aidar Arifkhanov	57/57	100	01.01.2018-31.12.2018
Anuar Omarkhojayev	51/57	89	01.01.2018-31.12.2018
Galymzhan Tajiyakov	50/56	89	15.01.2018-31.12.2018
Kairbek Uskenbayev	0/1	0	01.01.2018-24.01.2018
Yersain Khamitov	47/57	82	01.01.2018-31.12.2018
Ainur Kuartova	52/57	91	01.01.2018-31.12.2018
Dinara Seidzhaparova	9/12	75	01.01.2018-10.04.2018
Nurzhan Nurlanov	43/50	86	01.03.2018-31.12.2018
Yeszhan Birtanov	33/38	86	18.05.2018-31.12.2018

## 4.1.6

### REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

According to the Regulations of the Board of Directors of Baiterek NMH JSC and in accordance with the procedure established by the legislation of the Republic of Kazakhstan and the Charter of Baiterek NMH JSC, independent directors who are members of the Board of Directors of Baiterek NMH JSC may be paid remuneration for the performance of their functions as members of the Board of Directors of the Holding and/or reimbursed for expenses incurred in connection with the performance of their functions as members of the Board of Directors of the Holding.

The procedure, amount and terms of payment of remuneration, reimbursement of expenses and granting of bonus payments to members of the Board of Directors, including independent directors, for the performance of their duties are established by the decision of the Sole Shareholder of the Holding.

The Chairman of the Board of Directors concludes an agreement with independent directors on behalf of the Holding, the wording of which is given in Appendix to the Regulation of the Board of Directors of the Holding, which sets out the amount and terms of remuneration and reimbursement for independent directors. If an independent director participates in half or less than half of all in-person meeting and meetings in absentia of the Board of Directors and its Committees, the remuneration is reduced, except when an independent director is absent due to illness or being on leave at the primary place of employment.

In 2018, the remuneration for the performance of functions of members of the Board of Directors of the Holding was paid only to independent directors - members of the Board of Directors of Baiterek NMH JSC.

The amounts of remuneration to independent directors of the Board of Directors of the Holding are determined by the Order of the First Vice-Minister of Industry and New Technologies of the Republic of Kazakhstan No. 375 dated November 25, 2013.

The remuneration system for members of the Management Board of Baiterek NMH JSC is governed by the Rules for Remuneration and Performance Assessment of the Chairman and members of the Management Board of Baiterek NMH JSC approved by the decision of the Board of Directors of Baiterek NMH JSC dated July 18, 2016 (Minutes No. 07/16). According to this internal regulatory document, the salaries of members of the Management Board are determined by the decision of the Board of Directors. Remuneration is paid based on the performance results for the reporting period and its annual amount should not exceed six official salaries in accordance with the Decree of the Government of the Republic of Kazakhstan No. 1266 dated December 2, 2014. The year-end remuneration to members of the Management Board is intended to stimulate performance efficiency, has a number of restrictions on the minimum achievement of established indicators and a period of service, and is paid depending on the results of achieving strategic KPIs and the results of performance assessment by the decision of the Board of Directors.

## 4.1.7

### INTERNAL AUDIT SERVICE

The mission of the Internal Audit Service of the Holding (hereinafter - the IAS), whose employees are current members of the global Institute of Internal Auditors, is to ensure and add value to the organization by conducting objective internal audits using a risk-based approach, providing recommendations and sharing knowledge. To ensure the independence and fairness of the internal audit, the IAS is functioning as the Holding's body which is accountable directly to the Board of Directors, the Audit Committee of the Board of Directors and regularly provides its progress reports to the Board of Directors and the Audit Committee.

In accordance with the legislative requirements of the Republic of Kazakhstan, the Charter, the Corporate Governance Code of the Holding, the Regulation on the IAS and the Rules for organization of internal audit in the Holding, the

Head of the IAS - **G. Engameden**, CIA, MSc in Financial Engineering and Risk management (University of Essex, UK), 23 years of professional experience.

Internal auditor - **D. Nauanova**, CIA, MBA for the Global Energy Industry (Warwick Business School, UK), 25 years of professional experience.

Internal auditor - **D. Zhusupova**, Master of Economics and Business of Kazakh Engineering and Technical Academy, competence in the fields of information technology and information security, 16 years of professional experience

The IAS is guided by the International Professional Practices Framework of Internal Auditing (IPPFIA) recommended by the global Institute of Internal Auditors.

According to the IAS Work Plan approved by the Board of Directors, in 2018 the IAS conducted comprehensive audits of procurement activities, information technology, information security, the remuneration system and reliability of actual values of key performance indicators of the

- Information security management systems - Requirements") and COBIT methodology ("Control Objectives for Information and Related Technologies"), as well as issues of motivation and rewards according to IPPFIA Practice Guide "Auditing Executive Compensation and Benefits". The average timeliness of execution of corrective action plans approved following the IAS recommendations is approximately 70%; other plans are slightly underfulfilled.

### COMPLIANCE OF THE HOLDING'S IAS ACTIVITIES WITH THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING WAS CONFIRMED IN 2018 BY AN EXTERNAL INDEPENDENT APPRAISER FOLLOWING THE RESULTS OF THE FIRST FIVE YEARS OF IAS ACTIVITY FROM 2013 TO 2017.

Holding's executive body, the corporate finance system and compliance with limits for certain types of administrative expenses, and fulfilled the planned consulting task on risk management and internal control issues.

Following the results of accomplished tasks, the IAS provided about one hundred summary recommendations to audit participants for improving business processes, risk management and the control environment as a whole. The most important recommendations were related to information security, digitalization, maintenance and development of information technologies based on the criteria of ISO 27000 standards ("Information technology - Security techniques

A year-end internal assessment of the IAS activities for compliance with the criteria of IPPFIA and the internal Program for ensuring and improving the quality of internal audits revealed the progress of the Holding's internal audit function and redefined areas for further development, the most important of which is the automation of IAS activities. It is expected that the task of automating the internal audit functions and document workflow in the Holding will be accomplished within the next three-year term of office of the IAS by its renewed team, whose election is scheduled for the second half of 2019, since, according to the model rules adopted for the Holding Group, internal auditors may not be elected for their positions for more than two consecutive terms.

## 4.1.8

### CORPORATE ETHICS AND SETTLEMENT OF CONFLICT OF INTERESTS

The corporate ethical principles and standards to be followed by the Holding's officials and employees are stipulated in the Code of Business Conduct of Baiterek NMH JSC approved by the decision of the Board of Directors of the Holding.

**COMPLIANCE WITH THE CODE OF BUSINESS CONDUCT IS MANDATORY FOR ALL EMPLOYEES OF THE HOLDING, REGARDLESS OF THEIR POSITIONS.**

In accordance with the approved Code of Business Conduct, the fundamental values of the Holding are meritocracy, responsibility, professionalism and development, initiative, mutual respect and trust, honesty and openness, team spirit.

Every year, the Holding's employees successfully undergo evaluation of knowledge of provisions of the Code of Business Conduct of Baiterek NMH JSC.

The Ombudsman of the Holding collects information on non-compliance with the provisions of the Holding's Code of Business Conduct, initiates consideration of disputes related to its violation and participates in the settlement of disputes. In case of violation of any provisions of the Code of Business Conduct, employees of Baiterek NMH JSC have the right to appeal to the Ombudsman both in writing and orally. The Ombudsman, in turn, keeps records of appeals from employees, officials, business partners and stakeholders regarding non-compliance with the provisions of the Code, and within five working days provides clarification of provisions of the Code of Business Conduct of Baiterek NMH JSC to employees in case of their appeal, ensures the anonymity of an employee or official who has applied for the fact of violations of the Code of Business Conduct of Baiterek NMH JSC. As for corporate conflicts and conflicts of interest, the Ombudsman coordinates his/her actions with persons responsible for resolving corporate conflicts and conflicts of interest according to the Policy for resolving corporate conflicts and conflicts of interest of the Holding.

By the decision of the Board of Directors of the Holding dated July 24, 2017, Maira Turganova, Deputy Corporate Secretary - Head of the Corporate Secretary Service of the Holding was appointed the Ombudsman of the Holding with a two-year term of office.

To ensure a fair, objective and independent decision-making process in the best interests of the Holding and its Sole Shareholder, the Policy for resolving corporate conflicts and conflicts of interest was approved by the decision of the Board of Directors dated July 24, 2014.

The Policy regulates the order and procedures for prejudicial settlement of conflicts as well as actions of bodies, officials and employees of the Holding within the scope of such processes.

No facts of non-compliance with the legislation of the Republic of Kazakhstan, the Charter and internal documents of the Holding governing corporate governance, as well as potential and actual conflicts of interest in organizing and holding meetings of the Board of Directors of the Holding were reported in 2018.

## 4.1.9

### ANTI-CORRUPTION

**THE MAIN GOAL OF THE ANTI-CORRUPTION POLICY OF THE HOLDING IS TO STRENGTHEN CONTROL OVER THE PREVENTION AND DETECTION OF CORRUPTION, AS WELL AS TO FORM A STRICT ANTI-CORRUPTION ATMOSPHERE IN THE HOLDING.**

The main goal of the Anti-Corruption Policy of the Holding is to strengthen control over the prevention and detection of corruption, as well as to form a strict anti-corruption atmosphere in the Holding. At the same time, the formation of anti-corruption culture is a duty of every manager and employee of the Holding and should be carried out, among other things, through a set of educational, informational and organizational measures.

In 2018, the following activities were taken to form anti-corruption culture in the Holding:

- in March 2018, all the employees of the Holding were tested for their knowledge of the Law of the Republic of Kazakhstan "On the procedure for considering appeals of individuals and legal entities";
- in April 2018, the Holding arranged a business breakfast on the topic "consideration of appeals of individuals and legal entities" with the involvement of an industry expert;
- in September 2018, the Holding, jointly with the National Bureau of the Agency of the Republic of Kazakhstan for Public Service and Anti-Corruption, organized a center of excellence to discuss anti-corruption issues of the Holding and its subsidiaries.

According to the Rules for selection of candidates for vacancies in the Holding, candidates for administrative positions shall be tested for

knowledge of the Law of the Republic of Kazakhstan "On Anti-Corruption". In 2018, all the candidates were tested for knowledge of anti-corruption legislation. In addition, in 2018, newly employed officials of the Holding adopted anti-corruption restrictions with regard to:

- non-performance of activities incompatible with the performance of their functional duties in the Holding;
- inadmissibility of working jointly with close relatives, spouses and relatives in-law;
- use of restricted and other information, which is not subject to official distribution, for the purpose of obtaining or deriving property and non-property benefits and advantages;
- inadmissibility of accepting gifts in connection with the exercise of official powers, except symbolic gifts and souvenirs in accordance with the internal documents of the Holding.

To inform business partners of the Holding about the applicable anti-corruption policies and methods, the standard templates of contracts concluded by the Holding for the procurement of goods, works and services include "Anti-Corruption" sections, which reflect the basic anti-corruption requirements and communication channels to be used if corruption facts are revealed.

By its decision dated January 24, 2018, the Management Board approved the Compliance Program of the Holding for 2018, which included "Anti-Corruption and Anti-Fraud" section.

**BY ITS DECISION DATED JANUARY 24, 2018, THE MANAGEMENT BOARD APPROVED THE COMPLIANCE PROGRAM OF THE HOLDING FOR 2018, WHICH INCLUDED “ANTI-CORRUPTION AND ANTI-FRAUD” SECTION.**

In pursuance of the Compliance Program, the following anti-corruption work was carried out in 2018:

- anti-corruption monitoring was conducted by reviewing publications in the media, reports of the Internal Audit Service of the Holding and appeals of individuals and legal entities regarding anti-corruption issues;
- a responsible business unit of the Holding conducted an anti-corruption examination of draft internal documents of the Holding and decisions of its governing bodies;
- a register of affiliates of the Holding and its officials is kept on a permanent basis to identify, resolve and prevent conflicts of interest in the Holding;
- conduct of official investigations/inspections for potential facts of corruption in the Holding in order to take further measures, including sending materials to law enforcement authorities;
- the Holding checked 87 contracting parties, who have applied for participation in the procurement of goods, works and services by the Holding, for the purpose of preventing conflicts of interest, and 33 contracting parties, who have applied for sponsorship, for the purpose of preventing conflicts of interest and establishing their business reputation (trustworthiness)

The Holding has established and operates feedback channels (“hot line”, electronic and postal communication channels), which can be used by individuals and legal entities to report on possible or actual facts of corruption in the Holding. All known facts of corruption can be reported on the following communication channels: helpline (“hot line”), e-mail: [compliance@baiterek.gov.kz](mailto:compliance@baiterek.gov.kz), in writing to the Holding address or to any other contactsspecified on the website [www.baiterek.gov.kz](http://www.baiterek.gov.kz). When using any of the communication channels, the anonymity of the applicant is guaranteed. In 2018, the Compliance Service of the Holding received a total of 14 complaints from individuals and legal entities, including:

- 5 appeals on procurement issues;
- 3 appeals on labor disputes;
- 2 appeals on the pledged property of Damu Fund JSC;
- 3 appeals on the issue of exceeding official powers (the facts of exceeding the powers were not confirmed);
- 1 appeal for inclusion in the housing purchaser pools of Housing Construction Savings Bank of Kazakhstan JSC.

## 4.1.10

### EXTERNAL AUDITOR

**IN ACCORDANCE WITH THE POLICY AND ON THE BASIS OF INTERNATIONAL PRACTICE, THE EXTERNAL AUDITOR SHOULD FOLLOW THE PRINCIPLE OF ROTATION OF THE PROJECT PARTNER (WHO IS PRIMARILY RESPONSIBLE FOR THE AUDIT) EVERY FIVE YEARS**

According to the Compliance Program of the Holding for 2019, the following activities are planned:

- anti-corruption monitoring;
- internal analysis of corruption risks of one of the Holding’s joint ventures;
- anti-corruption expertise of draft internal regulatory documents of the Holding and decisions of governing bodies;
- preparation and submission, on a semi-annual and annual basis, of information on implementing anti-corruption activities and anti-corruption plans of the Holding to a competent anti-corruption authority;
- verification of the Holding’s contracting parties according to the Rules for Prevention of Corruption and Fraud in the Holding;
- consideration of appeals from individuals, legal entities and employees of the Holding on the facts of corruption and fraud, as well as other violations of the legislation of the Republic of Kazakhstan;
- conduct of investigations following the results of consideration of appeals from individuals and legal entities, management of compliance risks, instructions given by the Chairman of the Board of the Holding.

To select an external auditor, the Holding implements the following procedures in accordance with the legislation of the Republic of Kazakhstan and in the manner prescribed by the internal document of the Holding governing the procurement of goods, works and services:

- carrying out procedures for the procurement of external auditor services;
- determination of an external auditor and the amount of payment for its services;
- conclusion of an audit contract.

In accordance with the legislation of the Republic of Kazakhstan, determination of an audit organization to audit Baiterek NMH JSC and the amount of payment for the audit organization’s services falls within the exclusive competence of the Board of Directors.

In 2015, KPMG Audit LLP was appointed an external auditor of the Holding for a period of 3 years. The Policy for the organization of external audit in Baiterek NMH JSC does not imply a rotation of the auditor. In accordance with the Policy and on the basis of international practice, the external auditor should follow the principle of rotation of the project partner (who is primarily responsible for the audit) every five years.

If an external auditor provides non-audit services to the Holding, the Holding should review all services for the possibility of a (risk) threat of a conflict of interest (a situation when the external auditor’s interest may affect its opinion regarding the reliability of financial statements) affecting the external auditor’s independence.



# 4.2

## RISK MANAGEMENT AND INTERNAL CONTROL

### 4.2.1

#### COMPONENTS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Risk management is an important component of the managerial process and an integral part of the well-established corporate governance system. The main element of the Holding's risk management process is its integration with the specifics of the organization, fundamental principles of activities, business processes and involvement of each employee into the risk management process.

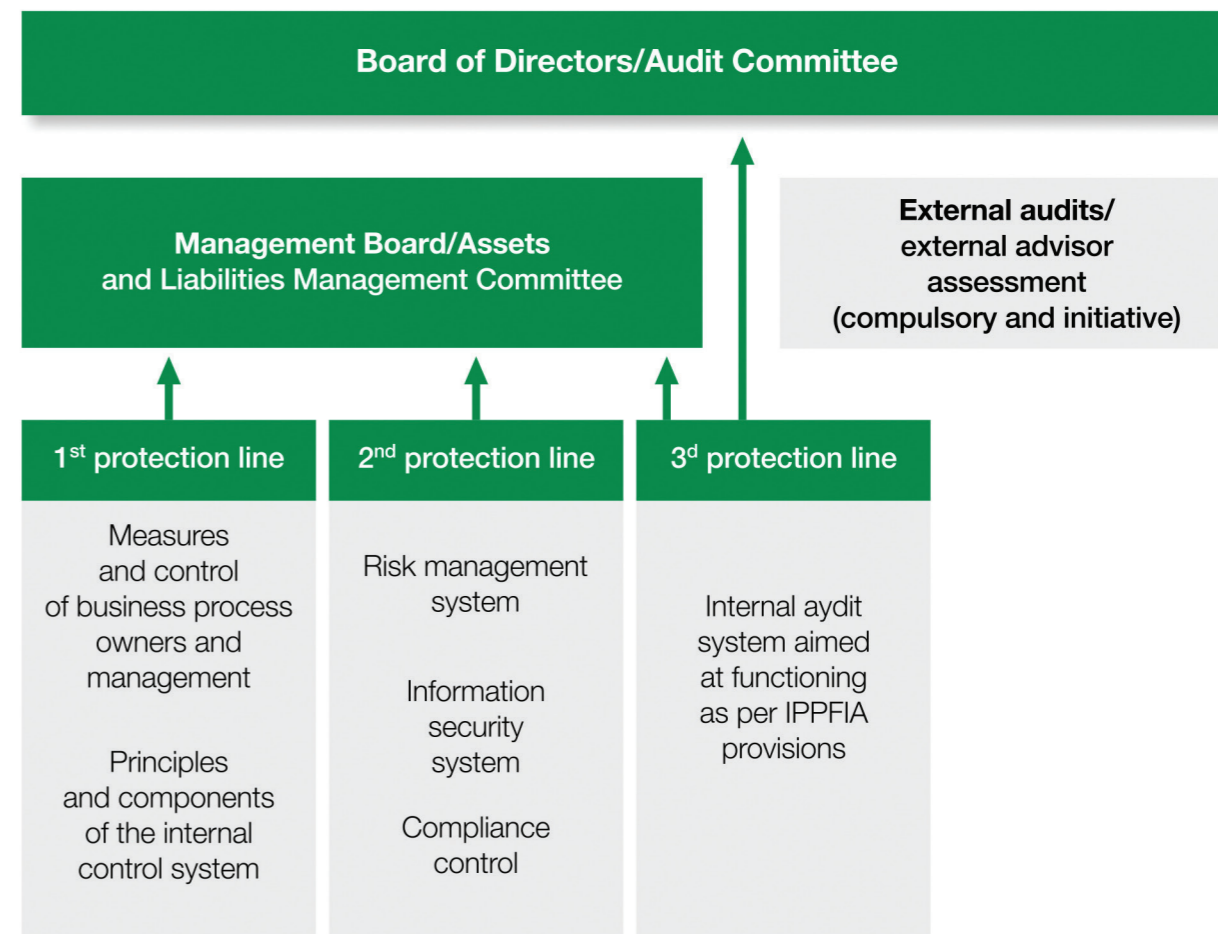
The Holding applies the Risk Management Policy, which stipulates the main principles of the risk management process such as integrity, openness, structuredness, awareness, continuity and recurrence.

recommendations concerning the control over financial and economic activities of the Holding, reliability and efficiency of the risk management system, execution of documents in the field of corporate governance, independence of external and internal audit.

The Management Board is responsible for the organization of an efficient risk management system and creation of a risk control structure to ensure the fulfillment and observance of the corporate policies. For the purpose of efficient risk management organization, the Management Board has established the Assets and Liabilities Management Committee, which is responsible for elaborating recommendations for improving the efficiency of asset and liability management in the Holding and its subsidiaries with the aim of achieving the principles of asset and liability diversification, optimizing risks and ensuring the financial stability.

An essential component aimed at achieving the strategic goals set by the Holding and mitigating risks in achieving such goals is an effectively functioning internal control system. The organization of the internal control system in the Holding involves the formation of a management system, which should be able to promptly respond to risks, exercise control over main and auxiliary business processes and daily operations of the Holding, as well as immediately communicate any significant deficiencies and areas for improvement to the internal control system participants at an appropriate level. The reliable and efficient operation of the internal control system requires the involvement and constant interaction of the Holding's officials and employees at all levels in the framework of internal control.

The corporate risk management and internal control system of the Holding covers all levels and activities, business processes, types of reporting/information and operations. This system is organized in accordance with generally accepted principles, rules and best practice and is presented on the model below



**THE PURPOSE OF THE RISK MANAGEMENT PROCESS IS TO ACHIEVE A BALANCE BETWEEN THE MAXIMUM USE OF OPPORTUNITIES AND PREVENTION OF LOSSES.**

The structure of the risk management system in the Holding is composed of several levels involving the following bodies and subdivision of the Holding: the Board of Directors, the Management Board, a business unit responsible for the risk management and other business units as well as the Internal Audit Service.

The Board of Directors plays a key role in supervising the corporate risk management system. The main functions of the Board of Directors include setting of the long- and short-term goals of the Holding, approval of basic documents regulating risk management processes in the Holding, review of reports on the risk management system efficiency. The Board of Directors has established the Audit Committee, which is a consultative and advisory body providing the Board of Directors

Control procedures are a documented system of measures and actions aimed at ensuring effective internal control over the fulfillment of goals, objectives and plans of the Holding, identifying and executing non-standard operations, and preventing, limiting and avoiding risks and possible illegal actions of officials and employees of the Holding. Control procedures are carried out at all levels of the Holding and shall be observed by the bodies, business units and employees of the Holding.

In the reporting period, the following risk management activities were implemented in the Holding:

- a comprehensive analysis of all business processes was performed in the Holding before the risk identification process. Business processes are determined in the Holding on the basis of the following two key approaches: description and regulation of a business process. The phase-by-phase use of these approaches is aimed at comprehensive definition of the essence of any business process and its continuous monitoring in the future.
- a matrix of business processes, risks and controls for 2018 was approved. The matrix is a tool of the internal control and risk

**RISK MANAGEMENT IN THE HOLDING IS AN ONGOING, DYNAMIC AND CONTINUOUS PROCESS THAT CONSISTS OF THE FOLLOWING COMPONENTS: IDENTIFICATION, MEASUREMENT, CONTROL AND MONITORING**

management system, which allows analyzing the core business processes of the Holding and is aimed at evaluating their risk exposure and forming control procedures to manage such risks.

- amendments were made to the Methodology for determining business processes, inherent risks and key risk indicators of the Holding, regulating the process of identifying and evaluating business processes, risks and control procedures, compiling a risk register, a risk map and a plan for managing critical risks, developing a matrix of business processes, risks and controls, as well as key risk indicators. The main changes affected the need for identifying risks based on strategic goals, detailed business processes, risks and control procedures.

- risk appetite for various components and metrics was approved. Risk appetite represents the possibility of changing in the results on both a short-term and long-term basis, which the Holding and its managers are ready to accept as part of their business development strategy.

In 2018, the Board of Directors and the Management Board of the Holding on a quarterly basis considered consolidated risk reports containing a description of core risks of the Holding Group and action plans for their management, monitored and updated the key risk indicators, risk register, risk map and action plans for managing the critical risks.

To ensure further improvement and development, the Holding sets for itself the following tasks for 2019 and for the mid-term:

- improvement of the Holding's risk culture and its integration into the Holding's corporate governance system;
- integration and unification of the existing risk identification and assessment approaches in the Holding Group in the field of risk management and internal control systems in accordance with Basel and COSO concepts;
- automation of the risk management and internal control system as part of introducing the reporting system in the following areas: timely risk identification, effective assessment of risks and control procedures, minimization of all risk types and consolidation of the Holding's risk reports.

## 4.2.2

### KEY RISKS OF THE HOLDING

During the process of key risk assessment and identification, the Holding adheres to a single standard within the framework of the centralized risk management model developed with the assistance of an external consultant. The model involves assessment of the key types of risk (liquidity risk, market risk, credit risk), as well as their aggregation and assessment of sufficiency of available financial resources to cover the aggregate size of risks calculated in normal and stressed situations.

### LIQUIDITY RISK

The liquidity risk occurs when the maturity dates of assets and liabilities do not coincide, which, in turn, affects the Holding having sufficient liquid funds at reasonable price to timely respond to its balance and off-balance sheet commitments.

The Holding manages the liquidity with the aim of ensuring the constant availability of funds necessary to meet all of its obligations as they fall due

The liquidity management procedures of the Holding include:

- cash flow forecasting in the context of major currencies and the calculation of the required liquid assets level related to such cash flows;
- support of diversified structure of financing sources;
- management of the concentration and structure of borrowed funds;
- development of debt financing plans;
- maintenance of the highly liquid asset portfolio, which can be freely used as a protective measure in case of a cash liquidity gap;
- development of reserve plans to maintain liquidity and a given level of funding;
- control of compliance of the Holding Group's balance-sheet liquidity ratios with statutory standards.

### MARKET RISK

The Holding is exposed to the market risk associated with open positions in currency, interest and equity instruments that are exposed to the risk of general and specific market changes.

The purpose of the market risk management systems is to maintain the aggregate risk assumed by the Holding at the level complying with its own strategic tasks. The priority is to ensure the maximum safeguard of assets and equity of the Holding on the basis of minimizing the level of exposure to market risks that can lead to unexpected financial losses.

The market risk management process involves the following subsequent stages:

- management planning - defining the relevant approaches for effective management of market risk exposure;
- identification - defining and documenting the types of market risk exposure, which can have an adverse influence on financial performance of the Holding;
- qualitative assessment - qualitative analysis of market risks, defining the reasons for their occurrence in order to assess their influence on financial performance of the Holding;
- quantitative assessment - quantitative analysis of the probability of market risk occurrence and the influence of their consequences;
- response planning - defining the procedures and methods for mitigation of adverse market risk consequences;
- monitoring and control of exposure - monitoring of market risks and performance of procedures for their timely management; evaluation of efficiency of measures undertaken to minimize market risk exposure.

### CREDIT RISK

The Holding is exposed to the credit risk which is the risk of financial instrument counterparty's failure to fulfil its obligations.

The purpose of the credit risk management system is to prevent the risk occurrence and reduce the probability of financial losses due to the borrower's failure to fulfill its financial obligations.

The credit risk management process involves the following subsequent stages:

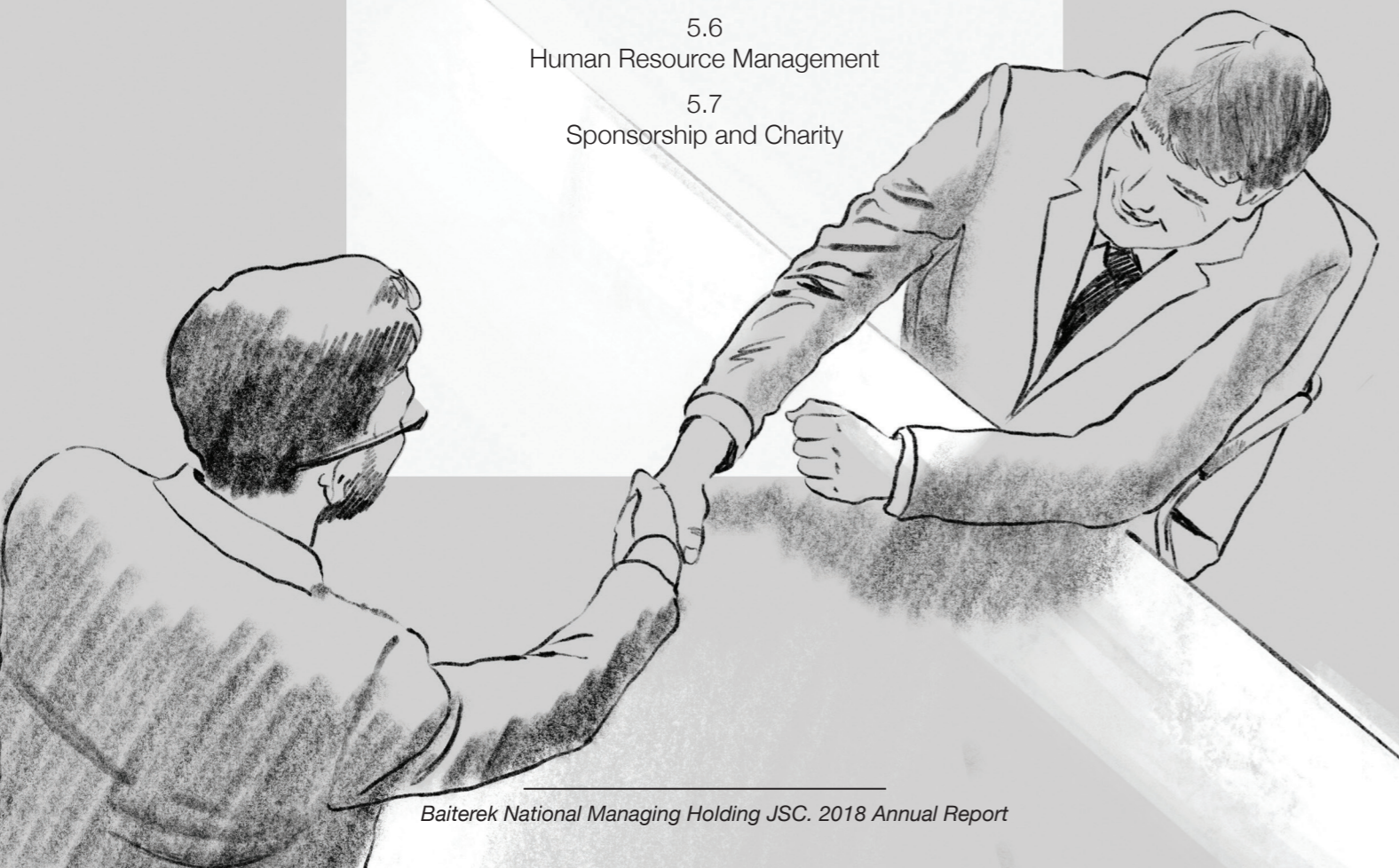
- identification - defining and documenting the credit risk factors that can have an adverse influence on financial performance of the Holding;
- qualitative assessment - qualitative analysis of credit risks, defining the reasons for their occurrence in order to assess their influence on financial performance of the Holding;
- quantitative assessment - quantitative analysis of the probability of credit risk occurrence and the influence of their consequences on financial performance of the Holding;
- response - defining the procedures and methods for mitigation of adverse credit risk consequences;
- monitoring and control of exposure - monitoring of the credit risk and performance of procedures for its timely management; efficiency evaluation of measures undertaken to minimize the Holding's exposure to credit risks.

The Holding and its subsidiaries pay special attention to credit risk and determine the credit risk level on a regular basis by setting maximum limits per one borrower and/or a group of related borrowers. In setting limits, the Holding uses credit ratings of its counterparties assigned by international rating agencies and evaluates the financial circumstances based on available information disclosed in financial statements. Monitoring and control of this type of risk on a consolidated basis is carried out by the Holding's authorized body.

# 05

## SUSTAINABLE DEVELOPMENT ACTIVITIES

- 5.1. Sustainable development management system
- 5.2. Stakeholder engagement
- 5.3. Information policy
- 5.4. Environmental protection
- 5.5. Occupational health and safety
- 5.6. Human Resource Management
- 5.7. Sponsorship and Charity



# 5.1

## SUSTAINABLE DEVELOPMENT MANAGEMENT SYSTEM

The Holding and its subsidiaries seek to ensure a balance the interests of business and society as well as harmonious management of economic, environmental and social aspects of their activities to ensure the sustainable development in the long-term period.

BY ITS DECISION DATED NOVEMBER 28, 2018, THE MANAGEMENT BOARD OF THE HOLDING APPROVED THE SUSTAINABLE DEVELOPMENT POLICY OF THE HOLDING, WHICH SETS THE GOALS, OBJECTIVES AND PRINCIPLES OF THE HOLDING IN THE FIELD OF SUSTAINABLE DEVELOPMENT.

Sustainable development of the Holding is a set of principles and obligations that the Holding adheres to in carrying out its activities, in particular:

- management of stakeholder relations;
- assessment and management of the impact on the national economy, social sphere and environment.

In carrying out its activities, the Holding is governed by the following sustainable development principles stipulated in the Corporate Governance Code of the Holding: openness; accountability; transparency; ethical conduct; compliance with stakeholders' interests; legality; compliance with human rights; anti-corruption; prohibition of conflict of interests.

The Holding also declares its commitment to the principles of the UN Global Compact:

- 1) in the field of human rights protection:
  - the Holding ensures and respects the protection of internationally declared human rights;
  - the Holding ensures non-involvement in human rights violations.

- 2) in the field of labor relations:
    - the Holding supports and recognizes the right to collective bargaining;
    - the Holding contributes to the elimination of forced and child labor, discrimination in the field of labor and employment.
  - 3) in the field of environmental protection:
    - the Holding supports the approach to environmental issues based on the precautionary principle;
    - the Holding undertakes initiatives aimed at increasing the environmental responsibility;
    - the Holding promotes the development and dissemination of environmentally friendly technologies.
  - 4) in the field of anti-corruption:
    - the Holding declares its zero tolerance to all forms of corruption and other illegal actions, including extortion and bribery.
- The Sustainable Development Policy of the Holding defines 4 main activities of the Holding in the field of sustainable development.

## Sustainable development activities of the Holding

	Activities	Holding's approach
Economic topics	Promotion of sustainable development of the national economy	<ul style="list-style-type: none"> <li>The Holding follows international best practices in environmental, social and corporate governance issues (ESG factors) in the framework of projects that receive financial support from the Holding and its subsidiaries in order to develop the practice of responsible investment.</li> </ul>
Environmental topics	Environmental impact management	<ul style="list-style-type: none"> <li>The Holding seeks to reduce excessive consumption of resources and minimize the existing negative environmental impact by introducing energy-efficient technologies, reducing water and paper consumption for office needs.</li> </ul>
Social topics	Responsible labor practice	<ul style="list-style-type: none"> <li>The Holding is guided by the principle of providing equal opportunities and does not permit discrimination towards its employees in terms of employment, remuneration, provision of access to training, promotion, dismissal on grounds such as gender, race, language, religious, political and other beliefs, citizenship, national or social background, disability.</li> </ul>
	Responsible business practice	<ul style="list-style-type: none"> <li>The Holding identifies corruption risks, implements and supports anti-corruption policies and practices.</li> <li>The Holding raises awareness among its officials, employees and counterparties in the field of anti-corruption.</li> </ul>

### MANAGEMENT OF SUSTAINABLE DEVELOPMENT IN THE HOLDING IS CARRIED OUT AS PART OF THE GENERAL MANAGEMENT SYSTEM OF THE HOLDING AND IS AN INTEGRAL PART THEREOF.

The Management Board of the Holding ensures the formation and introduction of a proper sustainable development management system, and also approves an appropriate action plan in the field of sustainable development. Since 2018, the Holding's top management incentive scheme includes sustainable development measures implemented through the KPI "Ensuring Sustainable Development of the Holding".

Officials of the Holding and its subsidiaries adhere to the principles of sustainable development when performing activities and duties, and contribute to the involvement of all employees. Special attention is paid to advanced training in the field of implementation of sustainable development in the Holding. Thus, in 2018, managers and employees of business units of the Holding and its subsidiaries completed training on the topic "Sustainable development for financial organizations".

In 2018, the Holding took an active part in the development of principles of the International Finance Corporation (hereinafter - the IFC) on managing the social and environmental impacts of the funded projects "Investing for Impact": Operating Principles for Impact Management"

(hereinafter - the principles of impact investment) based on such initiatives as the Equator Principles and the UN Principles for Responsible Investment. The principles of impact investment are aimed at ensuring a comprehensive assessment of the funded project impact on the environment and society, as well as managing potential negative consequences of the project. In April 2019, the Holding will take part in the official launch of these principles during the spring meetings of the World Bank Group and the International Monetary Fund in Washington. Following the results of the Forum, the Holding is going to sign a statement on adherence to the principles of impact investment followed by the commitment to prepare annual reports.

In September 2018, the Board of Directors approved the restated Investment Policy of the Holding, pursuant to which the financial support should be provided with due consideration for ESG factors (environmental, social factors and good corporate governance factors). In the framework of the Policy, a tool has been introduced for prioritizing potential projects - the Development Index, which makes it possible to highlight the most significant socio-economic projects that can contribute to and influence the development of the country.

The Holding is working to increase the level of transparency of the information disclosed. Thus, the Holding Group has developed minimum requirements (recommendations) for subsidiaries for disclosing information in the field of sustainable development based on the Global Reporting Initiative Standards (GRI Standards) in the field of sustainable development to improve the quality of preparing annual reports and uniformity of information disclosure approaches in the Holding Group.

In the reporting year, a "Sustainable Development" section was placed on the Holding's corporate website, which includes the Holding's approach to sustainable development, stakeholder engagement, commitment to the UN Sustainable Development Goals and basic activities in the field of sustainable development.

Activities scheduled for 2019 as part of further implementing sustainable development practices in the Holding:

- inclusion of the Holding's initiatives in the field of sustainable development in the Development Strategy of the Holding for 2014-2023;
- obtaining an international rating in the field of sustainable development (ESG rating);
- joining the IFC's impact investing initiative: "Investing for Impact: Operating Principles for Impact Management";
- updating the standard form of a procurement contract taking into account the principles of sustainable development;
- approval of internal regulatory documents in the field of sustainable development at the level of subsidiaries;
- interaction with development institutions and financial organizations in terms of sustainable development issues.

### CONTRIBUTION OF THE HOLDING TO THE ACHIEVEMENT OF THE UN SUSTAINABLE DEVELOPMENT GOALS

The Holding's management supports the 17 Sustainable Development Goals (hereinafter - the SDGs) adopted by the UN General Assembly in 2015 for the purpose of eradicating poverty, preserving the resources of the planet and ensuring universal well-being.

The Holding assists in achieving the SDGs through the application of responsible approaches to its activities. Thus, during the formation of the project portfolio, the Holding gives priority to projects that comply with the SDGs and have a significant impact on the sustainable socio-economic development of the Republic of Kazakhstan, including projects that contribute to:

- all-encompassing and sustainable industrialization;
- openness, safety, resilience and environmental sustainability of cities and settlements;
- diversification of the economy of the Republic of Kazakhstan and individual regions/cities.

In the reporting year, the Holding jointly with the UNDP reached an agreement on the implementation of the SDGs in Kazakhstan through the provision of methodological support, promotion and training.

# 5.2

## STAKEHOLDER ENGAGEMENT

### THE HOLDING PAYS GREAT ATTENTION TO ESTABLISHMENT OF EFFECTIVE AND BALANCED RELATIONSHIPS WITH ALL THE STAKEHOLDERS.

In identifying stakeholders, the Holding and its subsidiaries use international standards for identifying and engaging stakeholders.

The Stakeholder Map approved by the Holding determines the list of key stakeholders and the degree of their influence. The Map makes it possible to systematize and visualize information about the environment of the Holding and its subsidiaries for the purpose of elaborating an adequate strategy for working with each of the stakeholders.

Identifying stakeholders and working with them is one of the tools used to improve the business reputation and capitalization of the company and to establish effective and balanced relations with all stakeholders.

In assessing the significance of stakeholders, the Holding ranks the stakeholders by two factors: a degree of support/counteraction of a stakeholder, assessment of the strength of stakeholders' influence on the Holding. Based on the assessment of stakeholders' significance, business units of the Holding determine areas of interaction with stakeholders depending on a specific nature of activities.

The main forms of stakeholder engagement are: joint programs and projects, memoranda of cooperation, joint working groups, performance reporting, meetings, publications, interviews, etc.

The process of organizing the interaction between the Holding and stakeholders is based on the principle of engagement, which involves consideration of stakeholders' interests at all stages of managing the Holding's activities and involvement of stakeholders in the discussion of significant topics and important issues, potential risks and limits of responsibility.

In turn, engagement is achieved by observing the following three principles:

1) **Significance.** The Holding clearly identifies its stakeholders and is aware of their essential interests.

2) **Completeness.** In the course of its activities, the Holding pays attention to stakeholders' concerns, namely, the Holding appreciates their views, needs and expected results of activities, as well as opinions on significant issues.

3) **Response.** The Holding consistently responds to all significant issues of stakeholders.

To organize management of stakeholder relations, the Holding focuses its activities on the following basic principles:

- respect for and consideration of interests of all stakeholders;
- seeking to actively inform target audiences about activities of the Holding;
- ensuring objectivity, reliability, independence and a high level of information transparency in terms of implementation of state programs, certain internal procedures (procurement, competitive selection among external candidates for employment, provision of financial and non-financial services), as well as the use of financial resources;
- ensuring open and efficient collaboration with all stakeholders;
- fulfillment of assumed obligations to stakeholders;
- provision of feedback from stakeholders on a regular basis.

### Main groups of stakeholders and engagement methods

Stakeholder groups	Stakeholder interests	Stakeholder engagement strategy
Sole Shareholder	Compliance with the interests of the Holding's Sole Shareholder	<ul style="list-style-type: none"> <li>• Ensuring the exercise of the Sole Shareholder's rights within the framework of corporate governance principles aimed at effective adoption of key decisions in accordance with the legislation of the Republic of Kazakhstan and the Charter of the Holding.</li> <li>• Provision of reliable information on the results of financial and economic activities in accordance with the legislative requirements of the Republic of Kazakhstan, the Charter, internal documents of the Holding.</li> </ul>
Governing body	General management of the Holding's activities	<ul style="list-style-type: none"> <li>• Implementation of the overall management of the Holding's activities, except for the resolution of issues attributed by the legislation of the Republic of Kazakhstan and/or the Charter to the exclusive competence of the Holding's Sole Shareholder.</li> </ul>
Management	Management of the Holding's current activities, making decisions on activities not attributed to the competence of other bodies and officials of the Holding	<ul style="list-style-type: none"> <li>• Execution of decisions of the Sole Shareholder and the Board of Directors of the Holding.</li> <li>• Preparation and implementation of the Development Plan and other issues related to the activities of the Holding.</li> </ul>
Personnel	Labour relations with the employer. Direct performance of work under an employment contract	<ul style="list-style-type: none"> <li>• Performance of official powers aimed at implementing the tasks and functions of the Holding.</li> <li>• Implementation of an open, transparent Personnel Policy aimed at forming highly qualified and motivated staff. Providing all the employees with equal opportunities to realize their potential in the working process; ensuring impartial and fair evaluation of employees' performance results, selection and career growth of employees solely on the basis of their professional abilities, knowledge and skills.</li> </ul>
Subsidiaries	Safeguarding interests of shareholders/participants	<ul style="list-style-type: none"> <li>• Enforcement by the Holding of its rights as a shareholder/participant of a subsidiary.</li> </ul>
State bodies	Implementation of legislative and executive functions	<ul style="list-style-type: none"> <li>• Participation in working groups, forums, conferences.</li> <li>• Coordination of the main activities of the Holding.</li> </ul>
Clients, consumers	Commercial interests/Social interests	<ul style="list-style-type: none"> <li>• Ensuring compliance with the expectations of consumers of financial/non-financial products and services of the Holding and subsidiaries.</li> <li>• Conclusion of contracts, control over their fulfillment.</li> </ul>
Suppliers	Commercial interests	<ul style="list-style-type: none"> <li>• Conclusion of contracts, control over implementation of contractual relations.</li> </ul>
Investors	Investing for the purpose of making a profit	<ul style="list-style-type: none"> <li>• Attraction of investments for the implementation of projects and core activities.</li> </ul>

Stakeholder groups	Stakeholder interests	Stakeholder engagement strategy
Partners	Commercial interests	<ul style="list-style-type: none"> <li>• Mutually beneficial cooperation, improvement of business and technological processes and their automation.</li> <li>• Conclusion of contracts, control over implementation of contractual relations.</li> </ul>
Auditors, consulting company	Provision of consulting services and financial audit services	<ul style="list-style-type: none"> <li>• Conclusion of contracts for consulting and audit services.</li> <li>• Audit of financial statements, external audit.</li> </ul>
Financial institutions	Placement of free cash on deposit accounts, maintenance of special accounts	<ul style="list-style-type: none"> <li>• Conclusion of contracts, control over implementation of contractual relations.</li> <li>• Improving financial performance.</li> </ul>
Mass media	Publications and informing about the Holding's activities	<p>Organization of information activities through:</p> <ul style="list-style-type: none"> <li>– implementation of PR-programs;</li> <li>– communication of strengths and opportunities of the Holding to the target audience;</li> <li>– creation of a positive public opinion;</li> <li>– ensuring transparency of the Holding's activities through reliable, regular, continuous and timely information disclosure;</li> <li>– maintaining the Holding's brand recognition;</li> <li>– public presentation of the results of the Holding's main activities.</li> </ul>
Competitors	Increasing the share of market presence	<ul style="list-style-type: none"> <li>• Adherence to the principle of fair competition in accordance with the Corporate Governance Code, the Code of Business Conduct of the Holding.</li> <li>• Market monitoring and analysis.</li> </ul>
Population	Transparency of the Holding's activities	<ul style="list-style-type: none"> <li>• Reputation audit, public opinion polls, implementation of the PR strategy.</li> <li>• Publication of financial and non-financial reporting on activities of the Holding.</li> <li>• Demonstration of practical commitment to the principles of social responsibility, transparent activities and sustainable development.</li> <li>• Commitment to generally accepted moral and ethical standards.</li> </ul>
Public organizations	Implementation of goals and objectives of public organizations	<ul style="list-style-type: none"> <li>• Compliance with legislative requirement, implementation of charity and sponsorship activities.</li> <li>• Mutual agreement on general issues.</li> <li>• Conduct of joint activities with associations and unions.</li> </ul>

# 5.3

## INFORMATION POLICY



Information work in the Holding and subsidiaries is carried out in the framework of the Holding's PR Strategy previously approved by the Board of Directors on June 26, 2015. It is planned to update the PR Strategy in 2019 in accordance with the Development Strategy of the Holding. The updated PR Strategy of the Holding will become one of the main strategic tools in the information work of the Holding Group defining the unified standards of the communication policy.

Information is disclosed by the Holding through its distribution in the following ways:

- providing access to information (documents) to information recipients in the manner prescribed by the Law, the Charter of the Holding, the Information Disclosure Policy and other internal documents of the Holding;
- publishing in the media;
- posting on the Holding's website at: [www.baiterek.gov.kz](http://www.baiterek.gov.kz) and on the official Holding's accounts on Facebook, Instagram, Twitter, YouTube.

- placement in internal resources of the Holding ([portal.baiterek.gov.kz](http://portal.baiterek.gov.kz), Microsoft Outlook Express, Outlook Express and others);
- holding press conferences and meetings with information recipients and other methods stipulated by the legislation of the Republic of Kazakhstan and documents of the Holding.

The Holding develops an annual media plan, which is approved by the Management Board of the Holding. Besides, a media plan of newsworthy events of the Holding Group is prepared on a monthly basis and approved by the Chairman of the Holding's Management Board with subsequent submission of a report on its execution.

In framework of implementation of the media plan for 2018, the media covered 27 events of the Holding, published 52 press releases and 15 interviews, posted 14 thematic infographics, arranged 2 briefings, and created 2 video clips which were subsequently shown on "Kazakhstan", "Khabar24" and "STV" TV channels. As a result of the work done, about

800 materials about the Holding were recorded in the media and social networks. The high-quality implementation of the media plan in 2018 had a positive impact and increased the level of confidence in activities of Baiterek NMH JSC.

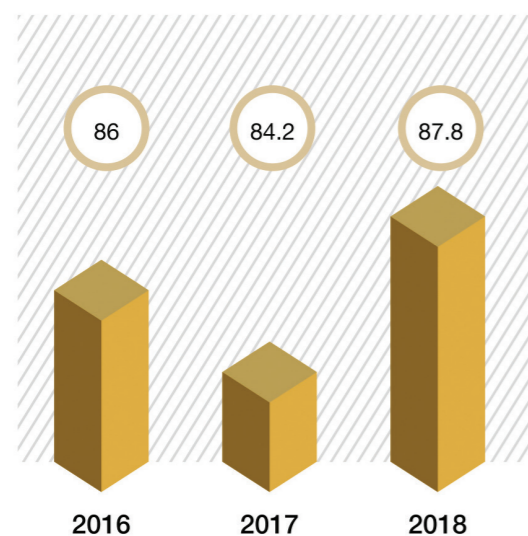
In 2018, Keycom Image LLP conducted a survey to assess the level of confidence in the Holding's activities, the purpose of which was to determine the level of awareness of the Holding's activities among target groups as well as perception and attitude of the target groups to the Holding and its activities to make necessary managerial decisions

based on the calculation of an integral confidence index, the initial data of which was based on the survey of target groups and calculations of objective confidence indicators. The survey was conducted in accordance with the Methodology for assessing the level of confidence in activities of Baiterek NMH JSC as updated by making amendments and additions in 2018. According to the survey results, the integral index of confidence in the Holding's activities among all target groups in 2018 was 87.8% and increased by 4% compared to 2017.

INDEX OF CONFIDENCE IN THE HOLDING'S ACTIVITIES IN 2018 WAS 87.8%.

87.8%

Holding Confidence Index, %



To increase the level of confidence in the Holding's activities, the following activities were implemented in 2018:

- 17 meetings with press secretaries of subsidiaries were held, at which topical issues of information work in the framework of the PR Strategy were discussed.
- a mechanism for providing regular public feedback on the Holding's website was developed. In particular, the "Questions and Answers" section <http://baiterek.gov.kz/ru/vopros-otvet> was opened, where 13 public appeals were received in 2018, the answers to which were promptly elaborated by the core Holding JVs posted on the Holding website.

## 5.4 ENVIRONMENTAL PROTECTION

Due to the specific nature of its activities, the Holding does not cause a significant environmental impact. The main resources consumed by the Holding are electric power, heat energy and water.

The Holding applies the principles and methods of rational use of natural resources that in the best way prevent adverse environmental impacts. In the course of its activities, the Holding seeks to reduce excessive consumption of resources and minimize the existing negative environmental impact by introducing energy-efficient technologies, reducing water consumption as well as decreasing paper consumption for office needs through the introduction of the electronic document management system and double-sided printing practices.

Currently, the Holding is considering a possibility of introducing a "green office" concept, an important component of which is an information campaign aimed at raising the level of environmental awareness among employees.

### "GREEN OFFICE"

A new business center of the Holding Group is built based on the environmental friendliness technology. The automated building management system provides autonomous and remote control and monitoring of equipment and internal engineering systems.

Enclosing structures of the building comprise an effective stained glass system with the use of multifunctional glass, which reduces heat losses. Also, the reduction of heat loss is achieved through the use of thermal insulation for pipelines. To ensure comfortable indoor conditions, heating devices are equipped with thermostatic valves. Also, motion sensors are installed in lighting fixtures at stairways throughout the business center to save energy.

Waste paper collection bins are installed in each office to ensure the rational use of paper.



# 5.5

## OCCUPATIONAL HEALTH AND SAFETY

As a responsible employer, the Holding and its subsidiaries seek to ensure the proper organization of workplaces and to maintain safe working conditions that meet the applicable legislative requirements of the Republic of Kazakhstan.

When performing their official duties and during stay in premises of the Holding, employees observe safety rules adopted and developed by the Holding in accordance with its policies and legislative requirement of the Republic of Kazakhstan.

To comply with occupational health and safety rules, the Holding Group holds annual training events. In 2018, seminars were held for heads of business units on the topic "Occupational Health and Safety in Enterprises and Fire Safety Basics" followed by special examination with the involvement of a state occupational health and safety inspector of Astana as a member of the commission. At the same time, the Holding arranged and held a business breakfast on the topic "Occupational Health and Safety" during

which the fundamental principles of labour safety in office and industrial premises will be explained. In 2018, the Holding also conducted drills to evacuate people from the building in case of emergencies.

In 2018, the Holding and its subsidiaries approved internal regulations in the field of occupational health and safety, including the Occupational Health and Safety Instructions for employees of Baiterek NMH JSC, Fire Safety Instructions for employees of Baiterek NMH JSC, Instructions for conducting occupational health and safety briefings for employees of Baiterek NMH JSC.

In 2018, no injuries were reported in the Holding and its subsidiaries.

In 2019, work will be continued to ensure safe working conditions taking into account the requirements of state standards, standardization regulations and guidelines, sanitary norms and regulations. It is planned to involve all employees of the Holding in active participation in occupational health and safety activities.



# 5.6

## HUMAN RESOURCE MANAGEMENT

The objective of the Personnel Policy is to attract and retain professionals in the Holding Group who are able to make a valuable contribution to the development and growth of the Holding's performance, as well as to maximize the return on investment in human resources.

In 2018, Baiterek NMH JSC significantly changed personnel management processes in the following areas: staff recruitment, remuneration and staff performance management, talent management, grading, and employer brand.

### PERSONNEL STRUCTURE

As of December 31, 2018, the average headcount of the Holding (Central Office) was 115 people, of which 47% were women. Most of the Holding's staff are employees aged from 30 to 50 years. The staff turnover rate in 2018 was equal to 4.4%.

Average headcount dynamics in 2016-2018 and staff turnover (Central Office)

	2016	2017	2018
Average headcount of Baiterek NMH JSC, person	100	106	115
Staff turnover, %	4	4.6	4.4

Personnel structure by gender and age in 2018 (Central Office)

	Up to 30 years	30 - 50 years	Over 50 years
Men	14	44	2
Women	7	43	5
<b>Total average headcount</b>	<b>21</b>	<b>87</b>	<b>7</b>

Composition of governing bodies in 2018

	30 - 50 years		Over 50 years	
	Men	Women	Men	Women
Board of Directors	6	-	4	-
Management Board	6	1	-	-



## STAFF RECRUITMENT

In June 2018, Baiterek NMH JSC introduced a new 3-stage staff recruitment principle. When a vacancy arises, the first priority is given to candidates from the Unified Talent Pool of the Group of Baiterek NMH JSC, the second priority - internal candidates (employees of Baiterek NMH JSC, subsidiaries and the outsourcing sector), and the third priority - external candidates. These changes made it possible to regulate the priority of internal selection with the aim of retaining key specialists and motivating for long-term work in the Holding Group. Information on searching for external candidates is mandatorily published on the website of Baiterek NMH JSC, on Telegram channel with notification of subscribers, and applications are accepted via e-mail or by registering on the Digital Baiterek platform. A translation of a similar principle to all subsidiaries of Baiterek NMH JSC is scheduled for 2019 to increase the efficiency and transparency of the recruitment process.

Number of employees enrolled in the talent pool in 2018

	Employees (Top-100)	Heads of business units (Top 50)	Management (Top 20)
Number of employees enrolled in the Unified Talent Pool of the Group of Baiterek National Holding JSC (as of December 31, 2017)	40	33	18

## TRAINING AND PROFESSIONAL DEVELOPMENT

Personnel training and professional development is carried out to update and obtain additional theoretical and practical knowledge, abilities, competencies and skills in the field of professional and managerial activities of employees to ensure effective Training of their duties and tasks determined in accordance with the Holding's Development Strategy. Organization of training and professional development of the Holding's employees is based on the following principles:

## TALENT MANAGEMENT

In 2018, the Holding implemented a project for selecting talented employees to the Unified Talent Pool of the Group of Baiterek NMH JSC, the key tasks of which are: efficiency of personnel costs, quick search for ready candidates for key vacancies, accelerated adaptation to the new role and preservation of continuity, motivation and retention of key specialists.

According to the competition results, succession pool members were selected among employees of Baiterek NMH JSC and its subsidiaries in three categories: Top 100 (future heads of business units), Top 50 (future managing directors and members of the Management Board) and Top 20 (executives who are ready to be appointed in the short term).

In 2018, 91 people were enrolled in the talent pool of the Holding. In 2019, Baiterek NMH JSC is planning to increase qualifications of succession pool members through training, mentoring, secondment, rotation and practical training programs.

- compliance of the topic and contents of training activities with the needs determined in accordance with official duties of an employee, his/her performance results, the goals and objectives assigned to an employee;
- focus of training activities on specific tasks ensuring the improvement of the Holding's performance, study of the best corporate practices and standards;
- systemic, applied, planned nature of training and professional development;
- covering the maximum possible number of the Holding's employees with training and professional development programs.

## Personnel training

	2016	2017	2018
Average annual training hours per employee, person-hour	107	110	259
Training costs per employee KZT	423,998	41,826	57,579

## TRAINING AND PROFESSIONAL DEVELOPMENT

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- compliance of the topic and contents of training activities with the needs determined in accordance with official duties of an employee, his/her performance results, the goals and objectives assigned to an employee;
- focus of training activities on specific tasks ensuring the improvement of the Holding's performance, study of the best corporate practices and standards;
- systemic, applied, planned nature of training and professional development;
- covering the maximum possible number of the Holding's employees with training and professional development programs.

## REMUNERATION AND STAFF PERFORMANCE MANAGEMENT

From January 1, 2018, employees of Baiterek NMH JSC has switched to a fundamentally new performance evaluation system based on the fulfilment of KPIs (on a quarterly basis), which allows the Holding to "cascade" KPIs of managers to the level of a business unit and an individual employee, to have sufficient criteria for determining a clear level of achievement of the goal set at the "threshold-goal-challenge" level, and evaluate actual performance of each employee.

In addition, once a year, employees of Baiterek NMH JSC undergo a comprehensive performance assessment, which considers the overall performance of an employee over the past year and the level of development of his/her personal and business competencies. The assessment results are distributed on a so-called "9-cell talent matrix". Based on the assessment results, no premium is paid. However, the assessment results influence decisions on the further employee motivation and stimulation (training, promotion, enrolment to the talent pool, etc.).

## GRADING

In accordance with the updated Development Strategy of Baiterek NMH JSC for 2014-2023, starting from 2017, a grading and remuneration unification system is being introduced in the Holding Group. The introduction of the unified principles ensures the internal fairness of the remuneration system and a correlation with the current situation on the labor market.

The grading system is a system of job grades (hierarchy of positions), which is based on the complexity and value of work performed by employees in their positions in accordance with the strategic goals of the organization. The methodology used in grading the assessment of positions in Baiterek NMH JSC has a more than 70-year success story in major international companies, and is also a basis for reforms in the field of public service remuneration in Kazakhstan.

As a result of the project implementation, the following goals were achieved:

- arrangement of the organization's system of job positions on the basis of grades (the base salary was established by complexity and contribution to the main activity rather by title);
- formation of a competitive remuneration system involving an annual analysis of the current labor market situation in the target economy sector (benchmarking);
- translation of the methodology to personnel departments of the Holding Group (certification of specialists, which allows performing job evaluation independently, without the involvement of external experts);
- approval of internal regulatory documents (based on the standard methodology) for job evaluation and remuneration of the Holding Group;
- change in the approach to functional responsibilities - motivation for assuming responsibility for a complex scope of work (the harder the work, the higher the grade);
- development of proposals for the remuneration system in subsidiaries taking into account the specific nature of activities.

At the same time, recognizing the limitations of applicable regulations, the work on amending the relevant regulatory acts to apply more diverse methods of material incentives is scheduled for 2019-2020.

## EMPLOYER BRAND

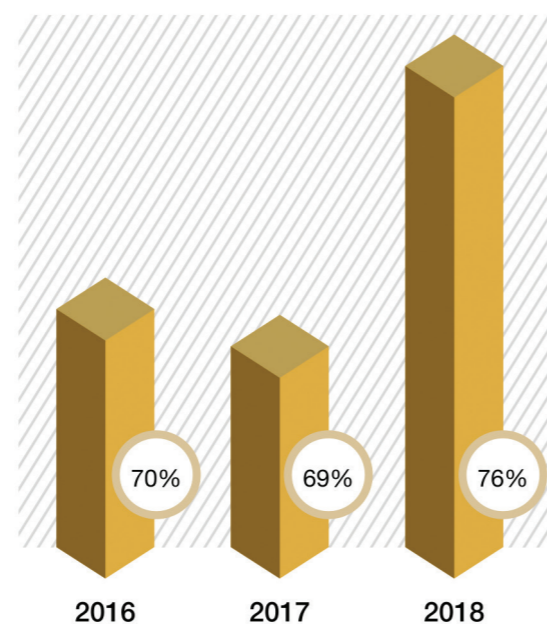
To promote the HR-brand of Baiterek NMH JSC, increase the Holding's staff involvement and ensure internal communication and transparency, a number of relevant measures were taken in 2018.

In April 2018, a Telegram channel was created for publishing company news (HR News) and a channel for publishing vacancies to search for external candidates, to which 1,709 people are currently subscribed. In 2018, Baiterek NMH JSC also initiated a project to elaborate a corporate loyalty program and created 2 Telegram bots: for adaptation and for the corporate loyalty program.

Quarterly, employees of Baiterek NMH JSC participated in a questionnaire survey to assess the work satisfaction of internal departments, including such qualities as effective teamwork in projects, mutual respect and help in solving problems. This indicator was included in the KPI scorecard of each employee. The average indicator for 4 quarters was 78% with the target value of 70%.

During 2018, more than 50 corporate events were held with the participation of subsidiaries, the effectiveness (including the lack of necessity to use budgetary funds of the organization) and creativity of which were positively assessed by the Holding employees and external HR experts in the framework of the national WOWHR contest and master classes arranged for members of the HR Managers Association of the Republic of Kazakhstan.

Level of Central Office staff involvement, %



5.7

## SPONSORSHIP AND CHARITY

The Holding continues its tradition of providing charitable assistance to vulnerable and low-income populations in the framework of revival of national values and providing support to culture, science and education.

In 2018, the Management Board of Baiterek NMH JSC made decisions to provide financial aid for to ensure medical treatment of children from low-income populations, the development of science and art, the construction of a medical center, etc. Employees of the Holding also provided at their own expense voluntary assistance to organizations and individuals.

Last year, financial aid was provided for the implementation of the Mentors Project aimed at rendering assistance to orphans and children deprived of parental care. The goal of the project was to help children discover their life potential and develop skills and habits of independent living through the communication with adult volunteers.

In May 2018, employees of the Holding and

its subsidiaries took part in a charity project devoted to homefront workers and veterans of the Great Patriotic War. Employees congratulated homefront workers and veterans and presented them flowers, memorable gifts and food baskets. The Holding also presented memorable gifts at the concert devoted to the memory of the War victims, which was held in Zhas Ulan Republican School of the Ministry of Defense of the Republic of Kazakhstan.

In July 2018, employees of the Holding took part in the charity marathon "20 Good Deeds" devoted to the celebration of the 20th Anniversary of Astana City. In the framework of the action, three wheelchairs were purchased and delivered to children with disabilities.

Before the new school year, the Holding took part in the "Road to School" charity event, during which employees purchased stationery and backpacks to for children from low-income, multi-child or single-parent families.

# 06

## APPENDICES

6.1.  
About the Report

6.2.  
Activities of subsidiaries in 2018

6.3  
Report on compliance with the principles and provisions of the Corporate Governance Code of Baiterek NMH JSC

6.4  
List of Related Party Transactions

6.5  
Annual Financial Statements

6.6  
GRI Index Table

6.7  
Glossary

# 6.1

## ABOUT THE REPORT

The Holding is aware of the significance of its economic and social activities and is seeking to provide a high level of transparency for internal and external stakeholders. Starting from 2013, the Holding discloses the results of its activities in annual reports published on the corporate website: [https://www.baiterek.gov.kz/en/resources?field\\_resource\\_type\\_target\\_id=96](https://www.baiterek.gov.kz/en/resources?field_resource_type_target_id=96)

The 2018 Annual Report of Baiterek NMH JSC (hereinafter - the Report) was prepared in accordance with the Global Reporting Initiative Standards in the field of sustainable development (GRI Standards, the "main" disclosure option), provisions of the Corporate Governance Code and other internal documents of the Holding.

This Report reflects the performance results of the Holding from January 1, 2018 till December 31, 2018. The Annual Report of Baiterek NMH JSC for 2017 was published in July 2018. This Annual Report has not been certified externally.

In the reporting year, the priority topic of the Report is "Onwards and Upwards", which reflects the 15 main achievements of the Holding for 2018 that provide businesses and the public an opportunity to effectively address priority socio-economic problems.

### DETERMINING THE CONTENT OF THE REPORT

In the reporting year, the Holding carried out work to determine a list of the most significant topics to be disclosed in the Report. The work was to analyze indicators of the GRI Standards and annual reports of peer companies. Based on the analysis results, a questionnaire including about 30 topics relevant to the Holding's activities was prepared.

All topics included in the questionnaire were divided into three groups - economic, environmental and social. The questionnaire was distributed among representatives of internal and external stakeholders of the Holding in order to select the most relevant topics from the proposed list. In particular, employees of business units, top managers, management body, subsidiaries of the Holding, investors, media representatives and other stakeholders took part in the questionnaire survey.

The summary scores of the questionnaire survey were marked on the Significance Matrix. Topics in the upper right corner of the Matrix were considered the most significant and were given a high priority during the report preparation.

## SIGNIFICANCE MATRIX OF THE HOLDING



Topics (topics considered the most significant are highlighted in gold)

Topics (topics considered the most significant are highlighted in gold)	Nº
<b>Economy</b>	
Economic efficiency	1
Market presence	2
Indirect economic impacts	3
Procurement practices	4
Anti-corruption	5
Barrier to competition	6

<b>Environment</b>	
Materials	7
Power	8
Water	9
Biodiversity	10
Emissions	11
Effluents and wastes	12
Compliance with environmental regulations	13
Environmental appraisal of suppliers	14
<b>Society</b>	
Employment	15
Labor-management relations	16
Occupational health and safety	17
Training and education	18
Diversity and equal opportunities	19
Non-discrimination	20
Freedom of association and collective bargaining	21
Child labor	22
Involuntary or compulsory labor	23
Safety practices	24
Rights of indigenous and small-numbered peoples	25
Evaluation of human rights observance	26
Local communities	27
Assessment of suppliers' impact on society	28
State policy	29
Consumer health and safety	30
Products and services labeling	31
Consumer privacy	32
Compliance	33

### REPORT BOUNDARIES

This Report contains information on activities of the Holding. More detailed information on 11 subsidiaries of the Holding is provided in Annex 6.2 "Activities of Subsidiaries in 2018"

Financial and economic results are disclosed in section 3 "Management Report" in accordance with the perimeter of IFRS consolidation. Other sections of the Report also

contain general information of the Holding Group, unless otherwise specified.

Topics of economic performance, indirect economic impacts and compliance with the environmental legislation are mainly relevant beyond the organization. The other topics are of great importance both within and beyond the organization.

# 6.2

## ACTIVITIES OF SUBSIDIARIES IN 2018

1

### DEVELOPMENT BANK OF KAZAKHSTAN JSC

The mission of DBK JSC is to promote the sustainable development of the national economy by financing the non-resource sector of the country.



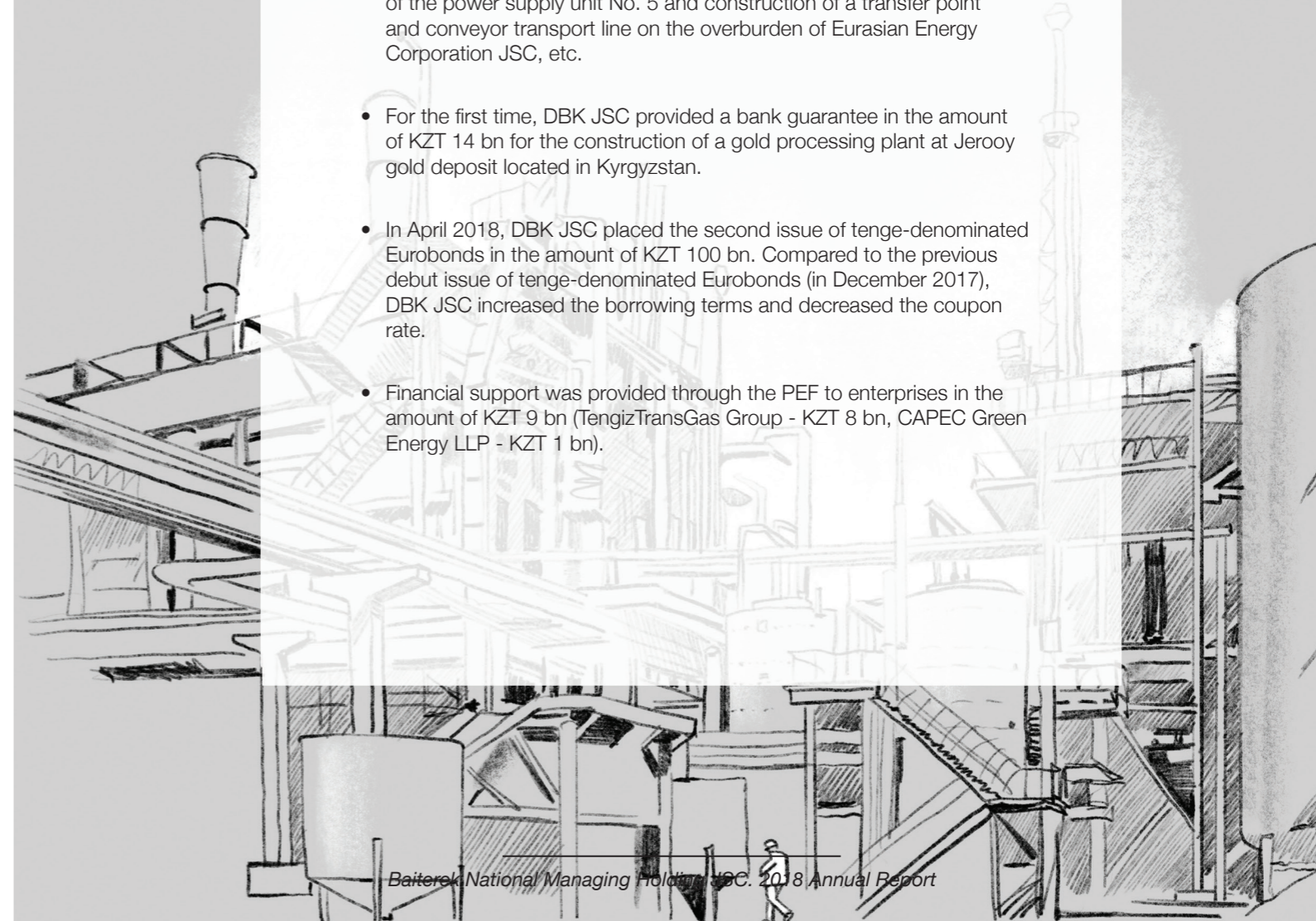
Development Bank of Kazakhstan

#### KEY INDICATORS

	2016	2017	2018
ROE	1.8%	1.2%	0.8%
ROA	0.3%	0.2%	0.1%
DEBT/EQUITY	5.6	5.3	5.7
ASSETS, KZT BN	2,449	2,564	2,537
ASSETS GROWTH,	15%	5%	-1%
NET PROFIT, KZT BN	7	5	3

## KEY PERFORMANCE RESULTS

- In 2018, DBK JSC invested KZT 443.2 bn in the economy, including the financial support for 17 investment projects in the amount of KZT 329.9 bn and 13 export (pre-export) operations totaling KZT 113.3 bn.
- The loan portfolio of DBK JSC increased 4.5 times since 2013 and as of December 31, 2018, it amounted to KZT 1.7 trillion.
- In 2018, six new enterprises worth KZT 173 bn were put into operation: the Makinsky poultry plant was built in Akmola region; the transport and logistics hub and new mineral water and beverages bottling facilities were constructed in Shymkent; a railway wheel production complex was established in Pavlodar region; the production of K5 standard motor fuel was established in West Kazakhstan region, and a fertilizer plant was upgraded in Mangistau region.
- Nine projects totaling to KZT 225 bn were approved, in particular, the construction of a ferrosilicium plant in Karaganda, the construction of Zhylyga 20 MW solar power plant in Turkestan region, the production of K5 standard motor fuels (2 stage) at Condensate JSC, upgrading of the power supply unit No. 5 and construction of a transfer point and conveyor transport line on the overburden of Eurasian Energy Corporation JSC, etc.
- For the first time, DBK JSC provided a bank guarantee in the amount of KZT 14 bn for the construction of a gold processing plant at Jeroy gold deposit located in Kyrgyzstan.
- In April 2018, DBK JSC placed the second issue of tenge-denominated Eurobonds in the amount of KZT 100 bn. Compared to the previous debut issue of tenge-denominated Eurobonds (in December 2017), DBK JSC increased the borrowing terms and decreased the coupon rate.
- Financial support was provided through the PEF to enterprises in the amount of KZT 9 bn (TengizTransGas Group - KZT 8 bn, CAPEC Green Energy LLP - KZT 1 bn).



2

ENTREPRENEURSHIP DEVELOPMENT FUND DAMU JSC

The mission of Entrepreneurship Development Fund Damu JSC is to actively promote the sustainable development of micro, small and medium enterprises (MSME) in Kazakhstan by implementing comprehensive and effective support tools.

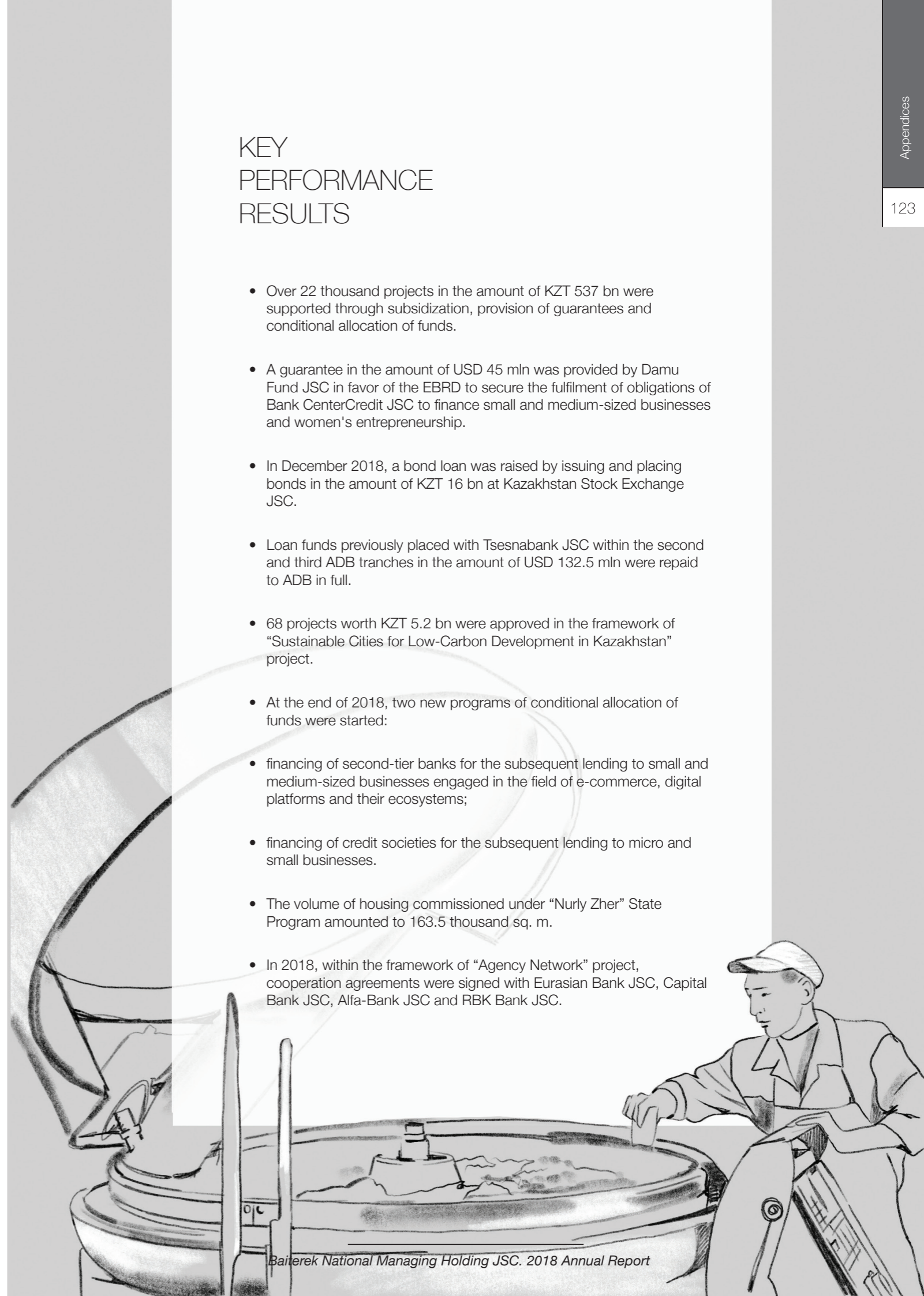


KEY INDICATORS

	2016	2017	2018
ROE	5.8%	4.1%	-13.7%
ROA	1.6%	1.2%	-3.8%
DEBT/EQUITY	2.5	2.2	3.2
ASSETS, KZT BN	349	320	304
ASSETS GROWTH,	-2%	-8%	-5%
NET PROFIT, KZT BN	6	4	-12

KEY PERFORMANCE RESULTS

- Over 22 thousand projects in the amount of KZT 537 bn were supported through subsidization, provision of guarantees and conditional allocation of funds.
- A guarantee in the amount of USD 45 mln was provided by Damu Fund JSC in favor of the EBRD to secure the fulfilment of obligations of Bank CenterCredit JSC to finance small and medium-sized businesses and women's entrepreneurship.
- In December 2018, a bond loan was raised by issuing and placing bonds in the amount of KZT 16 bn at Kazakhstan Stock Exchange JSC.
- Loan funds previously placed with Tsesnabank JSC within the second and third ADB tranches in the amount of USD 132.5 mln were repaid to ADB in full.
- 68 projects worth KZT 5.2 bn were approved in the framework of "Sustainable Cities for Low-Carbon Development in Kazakhstan" project.
- At the end of 2018, two new programs of conditional allocation of funds were started:
  - financing of second-tier banks for the subsequent lending to small and medium-sized businesses engaged in the field of e-commerce, digital platforms and their ecosystems;
  - financing of credit societies for the subsequent lending to micro and small businesses.
- The volume of housing commissioned under "Nurly Zher" State Program amounted to 163.5 thousand sq. m.
- In 2018, within the framework of "Agency Network" project, cooperation agreements were signed with Eurasian Bank JSC, Capital Bank JSC, Alfa-Bank JSC and RBK Bank JSC.



3

HOUSING CONSTRUCTION SAVINGS  
BANK OF KAZAKHSTAN JSC

The mission of HCSBK JSC is to provide the families in Kazakhstan with their own housing and strengthen the patriotic feeling towards the homeland.



KEY INDICATORS

	2016	2017	2018
ROE	20.0%	18.8%	15.0%
ROA	4.1%	3.7%	3.0%
DEBT/EQUITY	4.2	4.0	4.0
ASSETS, KZT BN	622	762	998
ASSETS GROWTH,	31%	23%	31%
NET PROFIT, KZT BN	23	26	26

KEY  
PERFORMANCE  
RESULTS

- At the end of 2018, HCSBK JSC became the leader in the mortgage market of Kazakhstan having issued 63% of all mortgage loans in the country.
- As of 31 December 2018, the number of concluded HCS contracts was about 1,297 with the savings of KZT 624,212 mln.
- The share of HCS system participants in the economically active population was equal to 14.1%.
- A new "Askeri Baspana" program was introduced for military servicemen and employees of special state bodies, for the implementation of which HCSBK JSC allocated KZT 98 bn from its own funds, of which KZT 24 bn were allocated to refinance loans previously taken from other STBs. At the end of 2018, 13,795 applications were accepted from military servicemen, of which 5,134 applicants for concessional loans were selected.
- The Online Assignment module was commissioned in the Internet Banking system. The Online Assignment service provides an opportunity to purchase or sell rights and obligations under a HCS contract concluded with HCSBK JSC. At the same time, this service enables HCSBK JSC to maintain the deposit base. In 2018, the number of assigned deposits was equal to 3,605 with the saved deposit base amounting to KZT 7,473 bn.
- As of December 31, 2018, over 130 thous. users were registered on Baspana.kz real estate portal, and 296 objects were placed under "Nurly Zher" State Program. A total of 185 thous. applications for participation in the pool of housing purchasers were submitted through the online site and 14,129 thous. apartments were sold.



4

KAZYNA CAPITAL MANAGEMENT JSC

The mission of KCM JSC is to develop private equity infrastructure in Kazakhstan in order to promote the sustainable economic development of Kazakhstan.



	KEY INDICATORS		
	2016	2017	2018
ROE	-1.5%	2.3%	2.7%
ROA	-1.4%	2.1%	2.2%
DEBT/EQUITY	141	145	187
ASSETS, KZT BN	-2%	3%	29%
NET PROFIT, KZT BN	-2	3	4

KEY PERFORMANCE RESULTS

- In 2018, the funds with the participation of KCM JSC invested in five projects in the amount of KZT 46 bn. At the same time, investments of KCM JSC in the funds in 2018 amounted to KZT 48.5 bn.
- In the reporting period, DBK Equity Fund and Baiterek Venture Fund JSC financed the project of CAPEC Green Energy LLP for the construction of wind power plants in Akmola region. The participation of KCM JSC in the project promotes the implementation of the strategy of Kazakhstan for the transition to a green economy. In addition, DBK Equity Fund invested in TengizTransGas Group of Companies to upgrade the mobile fleet of one of the largest transport and logistics operators in Kazakhstan.
- Kazakhstan Infrastructure Fund co-invested with Abu-Dhabi Mubadala in the construction of modern storage facilities in Khorgos-Eastern Gate SEZ being one of the key transit points of the New Silk Way, which will allow Kazakhstan to participate in the global Chinese initiative "One Belt - One Way".
- In the reporting period, Baiterek Venture Fund JSC concluded a transaction for the total amount of KZT 40,150 bn for the construction of Saryarka main gas pipeline (project of AstanaGas JSC). The project is being implemented in furtherance of the instruction of the First President of the Republic of Kazakhstan on the implementation of five social initiatives announced in the Address to the nation of Kazakhstan on March 5, 2018. The project envisages the construction of Saryarka main gas pipeline along Kyzylorda - Zhezkazgan - Karaganda - Temirtau - Astana route.
- During the visit of the President of Kazakhstan to the PRC in June, KCM JSC, CITIC Eurasian Capital Limited and China-Eurasian Economic Cooperation Fund signed a constituent document to create Eurasian Nurdy (Bright) Investment Fund, which will amount to USD 500 bn.





5

BAITEREK DEVELOPMENT JSC

The mission of Baiterek Development JSC is to ensure the availability of financial resources for the construction industry of the Republic of Kazakhstan.



KEY INDICATORS

	2016	2017	2018
ROE	18.0%	5.5%	17.0%
ROA	4.8%	1.1%	3.2%
DEBT/EQUITY	4.0	4.3	4.4
ASSETS, KZT BN	305	322	379
ASSETS GROWTH,	145%	6%	18%
NET PROFIT, KZT BN	10	3	11

KEY PERFORMANCE RESULTS

- Acting as a single financial operator of “Nurly Zher” State Program aimed to finance the construction of credit housing, BD JSC purchased LEA bonds for the amount of KZT 98.0 bn.
- 35.1 thous. sq. m of housing (588 apartments) were commissioned in the country with a planned figure of 34 thous. sq. m.
- At the end of 2018, in the framework of implementation of the credit housing program, 2,038 apartment purchase agreements were concluded for a total amount of KZT 21.8 bn.
- To finance the completion of construction of problematic objects in the city of Nur-Sultan, a loan amounting to KZT 20.0 bn was granted to Elorda Kurylys LLP, an authorized organization of Nur-Sultan Akimat.
- BD JSC jointly with the Institute of Digital Equipment and Technology JSC developed Nurly Zher Situation Center, the LEA portal and a mobile application to monitor the construction of real estate projects funded under “Nurly Zher” State Program.



6

MORTGAGE ORGANIZATION  
KAZAKHSTAN MORTGAGE COMPANY JSC

The mission of MO Kazakhstan Mortgage Company JSC as a financial operator is to implement the state policy in the field of providing affordable housing for the people of Kazakhstan through the mortgage credit facility and to improve housing affordability by providing rental housing to the general population in order to address socio-oriented objectives set in the Strategy-2050 and state programs.

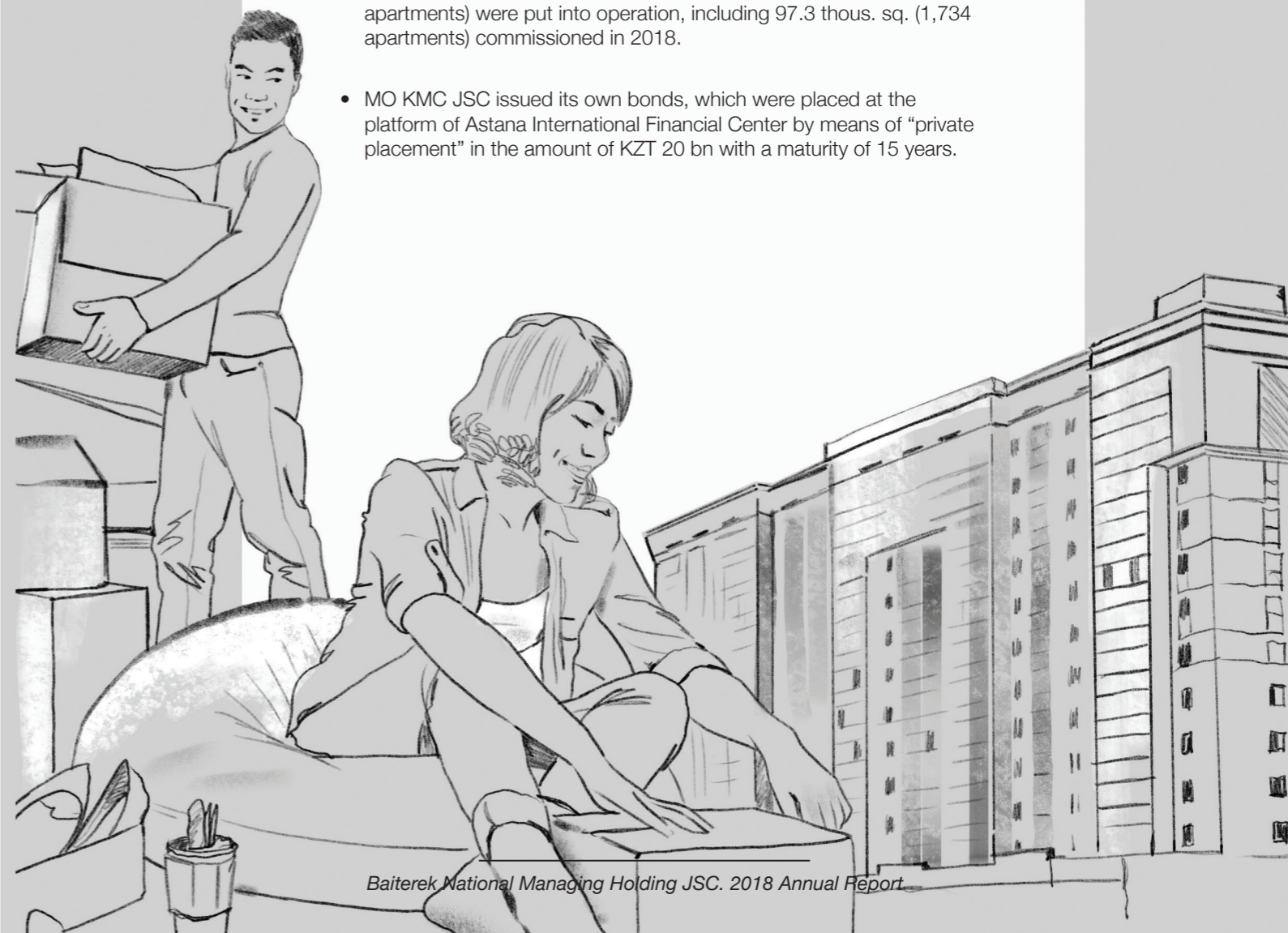


KEY INDICATORS

	2016	2017	2018
ROE	6.3%	6.7%	7.7%
ROA	1.2%	1.5%	1.8%
DEBT/EQUITY	4.0	3.3	3.3
ASSETS, KZT BN	255	250	267
ASSETS GROWTH,	5%	-2%	7%
NET PROFIT, KZT BN	3	4	5

KEY  
PERFORMANCE  
RESULTS


- The volume of mortgage loans subsidized under “Nurly Zher” State Program amounted to KZT 36,2 bn.
- Mortgage bonds of Bank CenterCredit JSC were acquired for the amount of KZT 10 bn with a yield of 11.75% per annum using the funds raised in the organized capital market.
- The rights of claim on 631 mortgage loans were acquired in the amount of KZT 4.9 bn.
- MO KMC JSC launched “Orda” mortgage program aimed at improving living conditions of citizens with average and above-average incomes who want to purchase primary or secondary housing of a higher class (the cost of which exceeds KZT 25 mln) at a rate below the average market one. As of December 31, 2018, 60 mortgage loans were issued in the amount of KZT 667 mln under the program.
- As part of “Nurly Zher” State Program, 1,054.7 thous. sq. m (18,583 apartments) were put into operation, including 97.3 thous. sq. (1,734 apartments) commissioned in 2018.
- MO KMC JSC issued its own bonds, which were placed at the platform of Astana International Financial Center by means of “private placement” in the amount of KZT 20 bn with a maturity of 15 years.



7

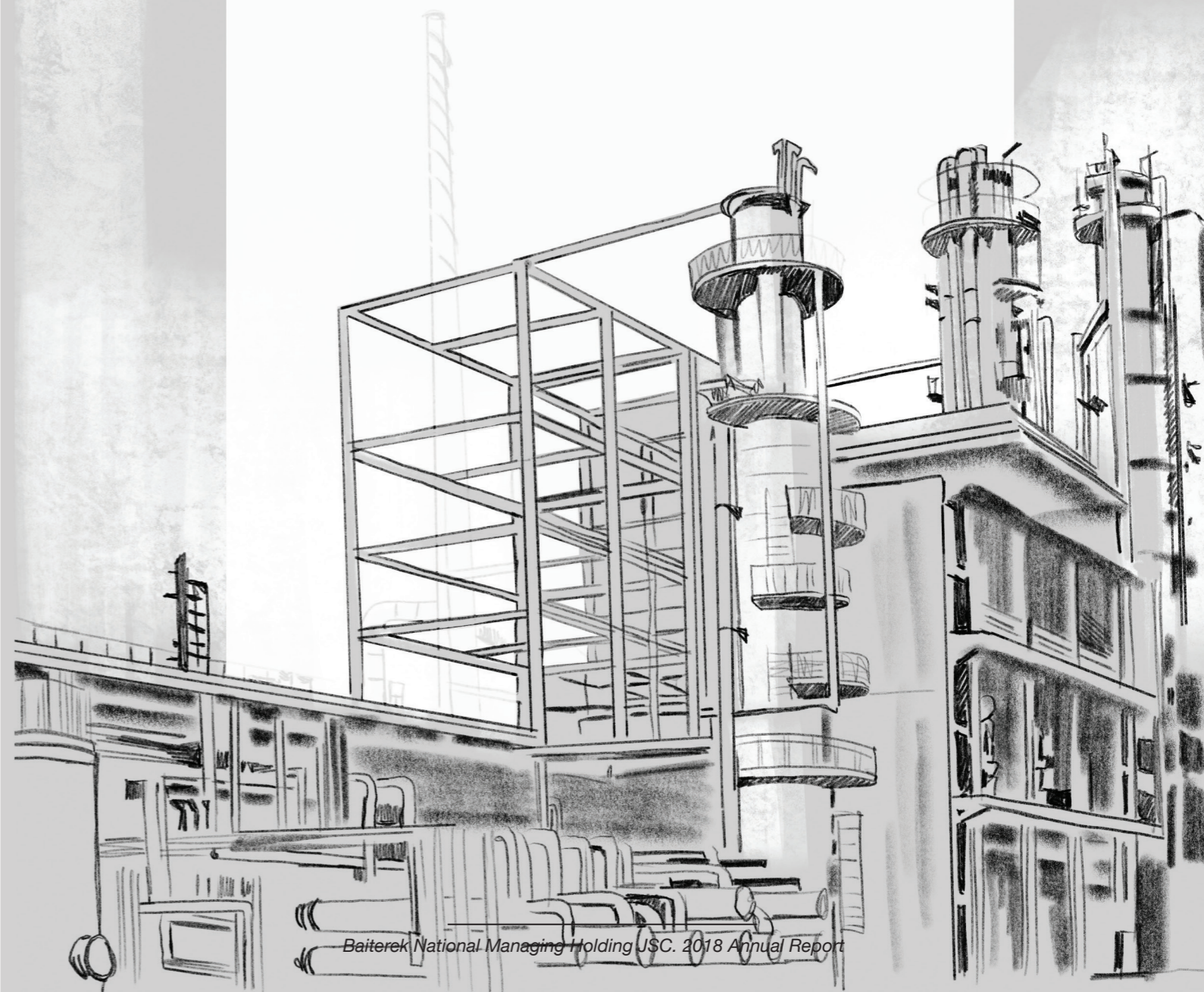
INVESTMENT FUND OF KAZAKHSTAN JSC

The mission of IFK JSC is to promote the sustainable development of the country by recovering the problem projects.

INVESTMENT FUND OF KAZAKHSTAN 	KEY INDICATORS		
	2016	2017	2018
ROE	3.9%	-9.2%	2.1%
ROA	0.7%	-1.6%	0.7%
DEBT/EQUITY	4.5	5.2	0.7
ASSETS, KZT BN	91	84	63
ASSETS GROWTH,	-19%	-7%	-25%
NET PROFIT, KZT BN	1	-1	1

KEY PERFORMANCE RESULTS

- Debt under 9 projects was repaid in the amount of KZT 2 bn.
- The property was sold under 4 projects for a total amount of KZT 2 bn, including the projects of LAD LLP (oil refining complex), Bogvi LLP (grain reception center), Zhana-Bas Agroholding LLP (meat processing plant) and 44% shares of Ranilla Kazakhstan JSC.
- The debt to Development Bank of Kazakhstan JSC was restructured under assignment agreements, as a result of which the indexed portion of liabilities was partially repaid in the amount of KZT 30 bn.



8

NATIONAL AGENCY FOR TECHNOLOGICAL DEVELOPMENT JSC

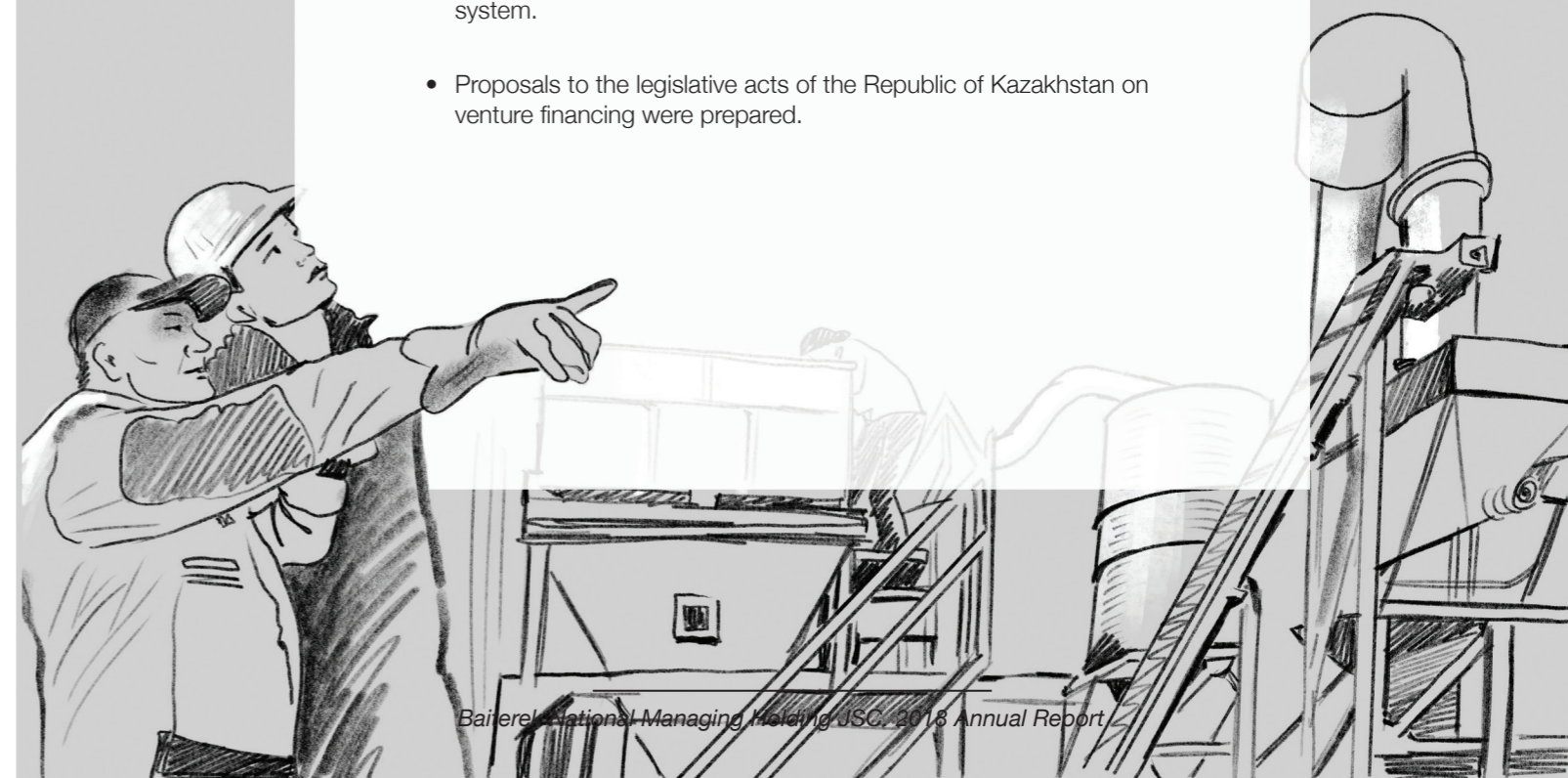
The mission of NATD JSC is to assist in the accelerated technological modernization of the economy through the comprehensive support of innovations and processes for their introduction into production, stimulation and meeting the demand for new technological solutions.



	KEY INDICATORS		
	2016	2017	2018
ROE	1.0%	-12.8%	0.8%
ROA	0.9%	-11.0%	0.7%
DEBT/EQUITY	0.2	0.2	0.2
ASSETS, KZT BN	32	28	25
ASSETS GROWTH,	-1%	-13%	-9%
NET PROFIT, KZT BN	0.3	-3	0.2

KEY PERFORMANCE RESULTS

- In 2018, the production output amounted to KZT 36 bn, 493 jobs were created.
- 214 applications for innovation grants were considered and 18 projects were supported in the amount of KZT 4,673.4 mln.
- As part of development of the technology transfer system, 19 technological proposals were received from international partners and 10 memorandums were signed with foreign partner organizations.
- The following three business incubators were selected on a competitive basis to support the “Business Roadmap - 2020” program: BelnTech LLP, SmArt.Point Almaty LLP, Young Entrepreneurs Club LLP, with which agreements were signed to provide co-financing of business incubator’s expenses and non-financial assistance for a three-year period.
- The funds previously invested in project companies and venture funds were paid back in the amount of KZT 330 mln with the planned ROI figure of KZT 71 mln.
- To promote innovation activities, in October of the reporting year, the XIII Innovation Congress and Innovative Projects Exhibition were held with the support of the Ministry of Investment and Development of the Republic of Kazakhstan. The Congress 2018 was attended by more than 1,000 local and international experts, entrepreneurs and innovators, representatives of the government and local executive authorities, heads of national holdings and national companies, development institutions, and key participants of the national innovation system.
- Proposals to the legislative acts of the Republic of Kazakhstan on venture financing were prepared.



9

EXPORT INSURANCE COMPANY  
KAZAKHEXPORT JSC

The mission of EIC KazakhExport JSC is to promote domestic producers of non-resource goods and service providers in foreign markets and to enhance their competitiveness by providing effective financial measures to support exports.



		KEY INDICATORS		
		2016	2017	2018
ROE		0.6%	6.3%	3.7%
ROA		0.5%	5.7%	3.3%
DEBT/EQUITY		0.1	0.1	0.1
ASSETS, KZT BN		29	46	49
ASSETS GROWTH,		87%	61%	5%
NET PROFIT, KZT BN		0.1	2	2

KEY  
PERFORMANCE  
RESULTS

- The volume of accepted insurance liabilities amounted to KZT 90 bn, trade financing - KZT 10 bn, pre-export financing - KZT 7 bn.
- License No. 2.1.55 dated May 21, 2018 to carry out general insurance (reinsurance) activities was reissued.
- Amendments were made to the Resolution of the Management Board of the National Bank of the Republic of Kazakhstan No. 170 dated September 13, 2017 "On establishment of regulatory values and methods for calculating prudential standards and other mandatory standards and limits for the bank capital amount on a specific date and the Rules for calculating open currency positions" in terms of classifying a voluntary loan insurance contract as hard collateral.
- EIC KazakhExport JSC joined the Council of the Insurance Ombudsman Representatives in accordance with the new requirements of the insurance legislation.
- An agreement on the implementation of joint projects was signed with Belgazprombank OJSC. The agreement envisages an absolutely new tool for financing trade projects implemented between residents of the Republic of Kazakhstan and the Republic of Belarus.
- Representative offices were opened in Kazan and Xian.
- "Digital Baiterek" Unified Information Platform was put into operation and six measures were implemented to support exporters.



10

HOUSING GUARANTEE FUND JSC

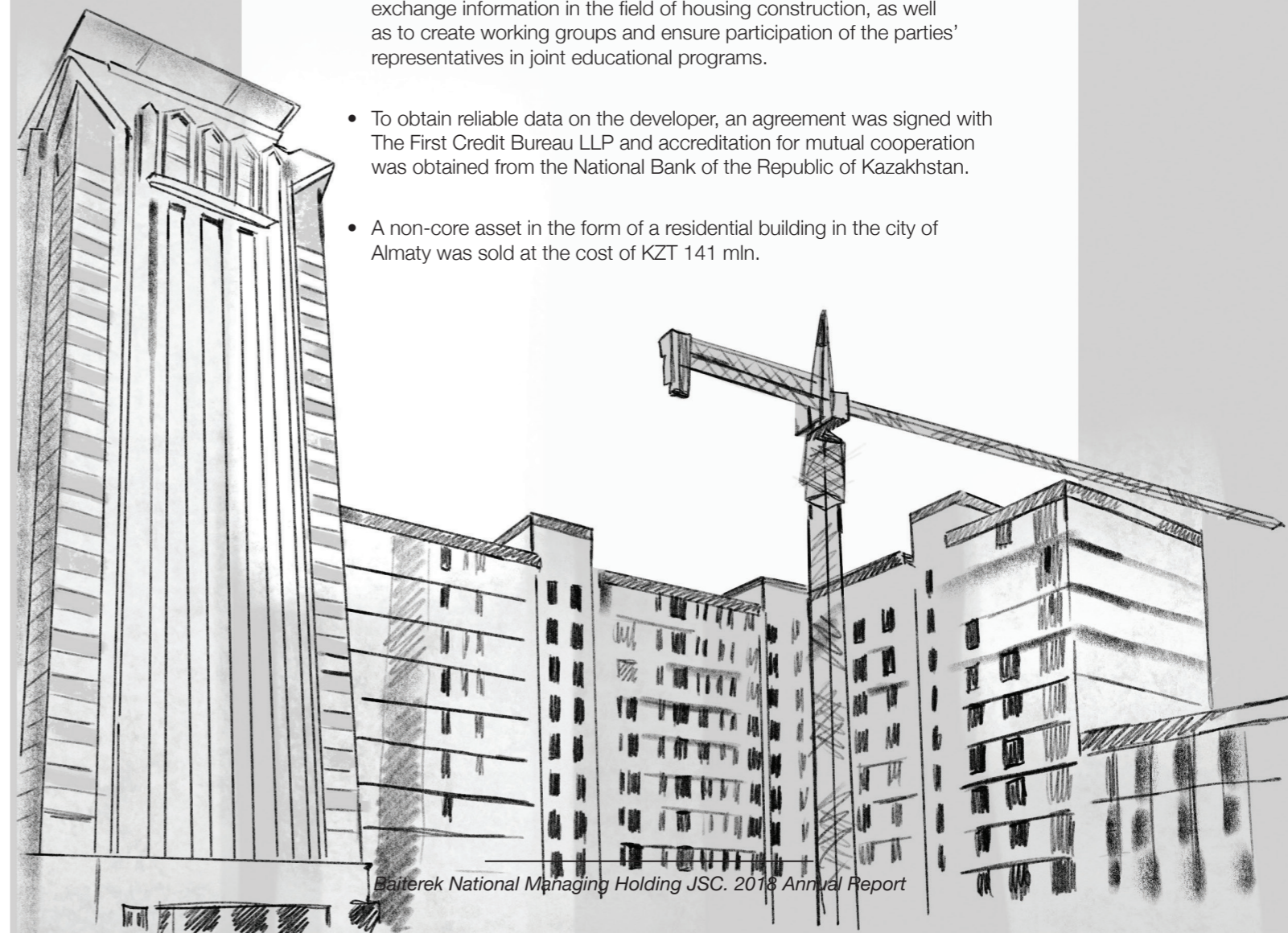
The mission of HGF JSC is to provide housing for the country's population through the development of shared housing construction.



	KEY INDICATORS		
	2016	2017	2018
ROE	3.0%	5.1%	4.6%
ROA	2.9%	5.0%	4.5%
DEBT/EQUITY	0.02	0.02	0.1
ASSETS, KZT BN	13	24	26
ASSETS GROWTH,	376%	86%	7%
NET PROFIT, KZT BN	0.2	0.9	1

KEY PERFORMANCE RESULTS

- Shared housing construction was guaranteed for the amount of KZT 56.4 bn with a planned figure of KZT 40.1 bn.
- An agreement was signed with Bank CenterCredit JSC to introduce a new product for securing deposits of housing equity holders. The product is primarily aimed at increasing the activity in bank lending to the population by providing a guarantee of the Fund to secure the obligations of housing equity holders.
- Amendments were made to the legislation in the field of equity participation in housing construction in terms of strengthening control over the construction progress and proper assessment of the developer's financial position.
- A Memorandum of Understanding was signed with the Housing Construction Corporation of the Republic of Korea to exchange knowledge and experience in the field of the housing guarantee system, conduct mutual practical trainings, expand cooperation and exchange information in the field of housing construction, as well as to create working groups and ensure participation of the parties' representatives in joint educational programs.
- To obtain reliable data on the developer, an agreement was signed with The First Credit Bureau LLP and accreditation for mutual cooperation was obtained from the National Bank of the Republic of Kazakhstan.
- A non-core asset in the form of a residential building in the city of Almaty was sold at the cost of KZT 141 mln.



### KAZAKHSTAN PROJECT PREPARATION FUND LLP

The mission of KPPF LLP is to promote investment in development projects of Kazakhstan by providing services for high-quality development and funding of project documentation as well as attraction of investors.



	KEY INDICATORS		
	2016	2017	2018
ROE	<b>-3.9%</b>	<b>1.1%</b>	<b>0.7%</b>
ROA	<b>-3.7%</b>	<b>1.1%</b>	<b>0.6%</b>
DEBT/EQUITY	<b>0.04</b>	<b>0.08</b>	<b>0.1</b>
ASSETS, KZT BN	<b>2.2</b>	<b>2.3</b>	<b>2.0</b>
ASSETS GROWTH,	<b>989%</b>	<b>5%</b>	<b>-4%</b>
NET PROFIT, KZT BN	<b>-0.04</b>	<b>0.02</b>	<b>0.01</b>

### KEY PERFORMANCE RESULTS

- PPP agreements were concluded for the following projects:
  - Construction and operation of Almaty High Ring Road - KZT 150 bn.
  - Provision of broadband Internet access in rural areas - KZT 73 bn.
  - Information system for civil aviation - KZT 5 bn.
- Procurement of EBRD technical assistance in the amount of EUR 1.5 mln to develop a concession project for the construction of a university clinic in Almaty.
- Contracts for the provision of services under industrial projects totaling to KZT 90 bn were signed.
- In the framework of the “National Champions 2.0” program, an active bidding campaign was conducted, as a result of which 113 applications for implementing investment projects were received.



# 6.3

## REPORT ON COMPLIANCE WITH THE PRINCIPLES AND PROVISIONS OF THE CORPORATE GOVERNANCE CODE OF BAITEREK NMH JSC

No.	Principles and provisions of the Corporate Governance Code of the Holding	Compliance Yes/No	Activities taken to implement the principles and provisions of the Holding's Corporate Governance Code
1.	Principle of segregation of powers	Yes	<p>The corporate governance system of the Holding provides a clear segregation of powers and responsibilities between the bodies of the Holding that ensure the consistency of corporate governance processes. The corporate governance system of the Holding ensures compliance with the procedure hierarchy when reviewing issues and making decisions by the Holding's bodies.</p> <p>The rights, responsibilities and competence of the Sole Shareholder, the Board of Directors and the Management Board are determined by the Law on Joint-Stock Companies, the Charter of the Holding and the Regulations on the Board of Directors and the Regulation on the Management Board of the Holding approved by the Board of Directors.</p> <p>Relationships (interaction) between the state body as the Sole Shareholder and the Holding and its subsidiaries are implemented through the Board of Directors and/or the Management Board of the Holding in accordance with the good corporate governance principles. The role and functions of the Chairman of the Board of Directors and the Chairman of the Management Board of the Holding are clearly segregated and set forth in the Charter and internal documents of the Holding.</p>

No.	Principles and provisions of the Corporate Governance Code of the Holding	Compliance Yes/No	Activities taken to implement the principles and provisions of the Holding's Corporate Governance Code
2.	Principle of protection of the Sole Shareholder's rights and interests	Yes	<p>Respect for the Sole Shareholder's rights is a key condition for attracting investments in the Holding and its subsidiaries.</p> <p>In accordance with clause 2 of Chapter 1 of the Regulations on the Board of Directors, the activities of the Board of Directors are based on the principles of efficiency and responsibility, maximum observance of interests of the Sole Shareholder and the Holding, as well as protection of the Sole Shareholder's rights and responsibility for the Holding's activities.</p> <p>In accordance with clause 1.4. of Chapter 1 of the Regulations on the Management Board, the Management Board is a collegial executive body of the Holding that manages the current activities of the Holding, acts in the best interests of the Holding and its Sole Shareholder and is accountable to the latter and the Board of Directors of the Holding.</p> <p>The Holding communicates to the Sole Shareholder in full and in a timely manner information on its activities affecting the interests of the Sole Shareholder in the manner established by the Charter and internal documents.</p>
3.	Principle of effective management of Baiterek NMH JSC by the Board of Directors and the Management Board	Yes	<p>The Board of Directors is the governing body providing strategic management for the Holding and control over activities of the Management Board. The Board of Directors ensures full transparency of its activities to the Sole Shareholder.</p> <p>The Board of Directors of the Holding is composed of members of the Government of the Republic of Kazakhstan, the Chairman of the Management Board of the Holding and independent directors in accordance with the legislative requirement of the Republic of Kazakhstan. Three out of ten members of the Board of Directors are independent directors.</p> <p>The Board of Directors and its committees keep a balance of skills, experience and knowledge ensuring the adoption of independent, objective and effective decisions in the best interests of the Holding.</p> <p>In the reporting year, no decisions on the performance assessment of the Board of Directors were made by the Sole Shareholder</p> <p>The Audit Committee and the Personnel, Remuneration and Social Affairs Committee of the Board of Directors are composed of independent directors of the Holding only. Independent directors are elected as chairpersons of all Committees of the Board of Directors.</p> <p>To ensure efficient organization of activities of the Board of Directors and the interaction between the Management Board, the Sole Shareholder and the Board of Directors, the Board of Directors appointed the Corporate Secretary (taking into account the Regulations on the Corporate Secretary of the Holding, Head of the Prime Minister's Office of the Republic of Kazakhstan was appointed acting Corporate Secretary).</p> <p>To ensure compliance with the principles of business ethics, optimal regulation of social and labor disputes arising in the Holding, by the decision of the Board of Directors dated July 24, 2017, M. Turganov, the Deputy Corporate Secretary - Head of the Corporate Secretary Service was appointed Ombudsman of the Holding.</p> <p>The Internal Audit Service is functioning in the Holding to carry out internal audit activities in order to provide independent and objective guarantees and advice aimed at improving the work of the Holding.</p>



No.	Principles and provisions of the Corporate Governance Code of the Holding	Compliance Yes/No	Activities taken to implement the principles and provisions of the Holding's Corporate Governance Code
4.	Principle of sustainable development	Yes	<p>The Holding and its subsidiaries are aware of the importance of their influence on the economy, ecology and society in terms of ensuring the sustainable development in the long term while maintaining a balance of stakeholders' interests.</p> <p>In the framework of implementing the Corporate Governance Code, the Holding approved its Sustainable Development Policy and an Action Plan for improving corporate governance for 2018-2019, which included a section on the implementation of the principle of sustainable development in the context of economic, environmental and social aspects:</p> <ul style="list-style-type: none"> <li>- as part of the economic component, the Holding regularly monitors the implementation of the Development Strategy of the Holding for 2014-2023 and the mid-term Development Plan of the Holding, and evaluates the implementation of KPI scorecards of the Chairman and members of the Management Board of the Holding;</li> <li>- as part of the environmental component, the restated Investment Policy of the Holding was approved. The updated Investment Policy includes a project evaluation tool - the Development Index, one of the criteria of which is the impact on sustainable economic development, including the environment;</li> <li>- as part of the social component, the Unified Personnel Policy of the Holding Group and the Concept for formation and development of the Unified Talent Pool of the Holding Group were developed.</li> </ul> <p>The Holding approved an updated Stakeholder Map defining the list of stakeholders, a degree of their influence and a strategy of interaction with them.</p>
5.	Principle of risk management, internal control and internal audit	Yes	<p>The Holding has a well-functioning risk management and internal control system aimed at ensuring reasonable confidence in the achievement of strategic and operational goals of the Holding.</p> <p>The Holding has a Risk Management Policy, the main objectives of which are to build an effective integrated system and create an integrated risk management process as an element of the Holding and its subsidiaries, as well as to ensure continuous improvement of activities based on a unified standardized approach to risk management methods and procedures.</p> <p>The Board of Directors of the Holding on a quarterly basis reviews and approves the risk report of the Holding containing information on the risk register, risk map, risk management plan and key risk indicators, risk appetite, actual sufficiency of available financial resources, and information on financial risks of the Holding.</p> <p>The Internal Audit Service is functioning in the Holding to conduct a systematic independent assessment of the reliability and efficiency of the risk management and internal control systems, as well as the corporate governance practice.</p> <p>The Internal Audit Service submits quarterly reports on the results of internal audit conducted in the reporting period for consideration by the Audit Committee and the Board of Directors of the Holding. Following the results of the revealed violations, corrective action plans are approved.</p>

No.	Principles and provisions of the Corporate Governance Code of the Holding	Compliance Yes/No	Activities taken to implement the principles and provisions of the Holding's Corporate Governance Code
6.	Principle of regulating corporate conflicts and conflicts of interests	Yes	<p>Avoidance of a conflict of interest is an essential condition for ensuring the protection of interests of the Sole Shareholder, officials and employees of the Holding.</p> <p>To prevent and resolve corporate conflicts and conflicts of interest in the Holding and to coordinate activities of all bodies and officials, the Board of Directors approved the Policy for resolving corporate conflicts and conflicts of interest. The Policy regulates the order and procedures for prejudicial settlement of conflicts as well as actions of bodies, officials and employees of the Holding within the scope of such processes.</p> <p>As for corporate conflicts and conflicts of interest, the Ombudsman coordinates his/her actions with persons responsible for resolving corporate conflicts and conflicts of interest according to the Policy for resolving corporate conflicts and conflicts of interest of the Holding.</p> <p>If corporate conflicts occur, participants shall seek the ways to resolve them through negotiations in order to ensure effective protection of both the Sole Shareholder's rights and business reputation of the Holding.</p> <p>The fundamental principles of preventing conflicts of interest, the methods of their identification, assessment and resolution are set forth in the Code of Business Conduct of the Holding.</p> <p>In 2018, no cases of corporate conflicts or conflicts of interest were reported in the Holding.</p>
7.	Principles of transparent and objective disclosure of information on activities of Baiterek NMH JSC.	Yes	<p>In its activities, the Holding adheres to the highest standards of transparency and constantly improves the accessibility, quality and promptness of disclosure of information on the Holding.</p> <p>To provide timely information to stakeholders, the Holding implements the Information Disclosure Policy that defines the principles and approaches to disclosure of information, as well as the timing, procedure and form of information disclosure.</p> <p>Information security of the Holding is regulated by the Information Security Policy.</p> <p>The Holding on an annual basis prepares its annual report, which is submitted to the Board of Directors for consideration and approval. The Annual Report of the Holding for 2017 was approved by the decision of the Board of Directors dated July 19, 2018 (Minutes No. 07/18).</p> <p>Information on the Holding is disclosed on the Holding's website, which is well structured, has easy-to-use navigation and contains information that is necessary for stakeholders. At the same time, information is posted in separate thematic sections of the website and is constantly updated.</p> <p>In accordance with the legislative requirements of the Republic of Kazakhstan and internal documents of the Holding, information on the Holding is disclosed in full and in a timely manner on the websites of the financial statements depository and the stock exchange.</p>

# 6.4

## LIST OF RELATED PARTY TRANSACTIONS

No	Transaction description	Resolution of the Board of Directors
1.	On concluding a transaction with DBK JSC for long-term leasing financing under Business Roadmap - 2020 Program	In-person decision of the Board of Directors No. 03/18 dated March 1, 2018
2.	On concluding a transaction with Baiterek Development JSC (a loan agreement totaling to KZT 10.6 bn) for financing the construction of rental and loan housing	Absentee decision of the Board of Directors No. 06/18 dated June 30, 2018
3.	On concluding a transaction with DBK JSC for financing domestic manufacturers of buses, combines and tractors	In-person decision of the Board of Directors No. 07/18 dated July 19, 2018
4.	On concluding a transaction with Baiterek Development JSC for financing the construction of rental and loan housing	In-person decision of the Board of Directors No. 08/18 dated September 20, 2018
5.	On concluding a transaction with Baiterek Development JSC for financing the construction of rental and loan housing	Absentee decision of the Board of Directors No. 10/18 dated November 13, 2018
6.	On concluding a transaction with MO KMC JSC for granting mortgage loans through STBs, purchasing rights of claims of STBs	Absentee decision of the Board of Directors No. 10/18 dated November 13, 2018
7.	On concluding a transaction with HCSBK JSC for financing the loans to participants of current and new programs of HCSBK JSC	Absentee decision of the Board of Directors No. 10/18 dated November 13, 2018
8.	On concluding a transaction between Baiterek NMH JSC, SWF Samruk-Kazyna JSC and AstanaGas KMG JSC for providing a guarantee for obligations of AstanaGas KMG JSC	Absentee decision of the Board of Directors No. 10/18 dated November 13, 2018
9.	On concluding a transaction with Tsesnabank JSC for changing the purpose of borrowing	Absentee decision of the Board of Directors No. 10/18 dated November 13, 2018
10.	On concluding a transaction with DBK JSC for financing the renewal of the passenger car fleet	In-person decision of the Board of Directors No. 11/18 dated November 23, 2018

# 6.5

## ANNUAL FINANCIAL STATEMENTS

Baiterek NMH JSC prepares and publishes its consolidated financial statements in accordance with the International Financial Reporting Standards on a semi-annual basis. The annual consolidated financial statements are audited by KPMG Audit LLP, an independent auditor selected for 2016-2018.

Full text of the consolidated financial statements for 2018, including the independent auditor's notes and report, is available at the Holding's website: <https://baiterek.gov.kz/en/resources>

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousand KZT)	31 December 2018	31 December 2017*
<b>ASSETS</b>		
Cash and cash equivalents	644,172,147	672,098,266
Financial instruments at fair value through profit or loss	130,751,305	147,403,945
Loans to banks and financial institutions	275,164,588	284,059,767
Deposits	153,048,495	196,098,624
Loans to customers	2,399,432,616	2,040,393,563
Investment securities	601,672,133	561,438,865
Finance lease receivables	275,255,229	230,652,747
Investments in associates and joint ventures	1,082,556	1,834,289
Investment property	6,630,998	12,311,523
Current income tax prepayment	18,974,333	24,073,618
Deferred income tax asset	3,844,215	4,347,437
Property, plant and equipment	15,206,946	10,072,850
Intangible assets	3,744,006	3,873,654
Non-current assets held for sale	38,318,211	30,021,009
Other financial assets	21,180,419	28,711,793
Other assets	130,368,213	185,163,395
<b>TOTAL ASSETS</b>	<b>4,718,846,410</b>	<b>4,432,555,345</b>

## CONSOLIDATED PROFIT AND LOSS STATEMENT

(in thousand KZT)	2018	2017*
Interest income calculated using the effective interest rate method	271,327,053	267,109,716
Other interest income	30,419,034	20,263,403
Interest expenses	(155,415,945)	(139,932,395)
Net interest income	146,330,142	147,440,724
Provision for loan portfolio impairment	(5,349,243)	(38,075,894)
Net interest income less provision for loan portfolio impairment	140,980,899	109,364,830
Fee and commission income	6,116,458	5,946,272
Fee and commission expenses	(4,490,844)	(2,621,876)
Net fee and commission income	1,625,614	3,324,396
Net income/(loss) from transactions with financial instruments evaluated at fair value changed through income or loss for the period	8,627,103	(12,631,038)
Net foreign exchange gain	1,452,322	1,780,198
Net income from transactions with financial assets evaluated at fair value changed through other comprehensive income	222,146	2,185,969
Net insurance premiums earned	1,413,333	709,034
Net insurance benefit expense and changes in insurance contract provisions	(1,162,108)	(278,980)
Other operating (expenses)/income, net	(3,396)	8,811,967
Operating income	153,155,913	113,266,376
Provision for impairment of other financial assets and credit related commitments	(54,858,530)	(21,098,172)
Administrative expenses	(45,879,121)	(39,859,472)
Share of financial result of associates and joint ventures	(975)	(558,499)
Profit before income tax	52,417,287	51,750,233
Income tax expense	(17,699,302)	(8,162,693)
<b>PROFIT FOR THE YEAR</b>	<b>34,717,985</b>	<b>43,587,540</b>
Profit attributable to:		
- Holding owners	34,718,048	43,667,837
- non-controlling interest	(63)	(80,297)
<b>Profit for the year</b>	<b>34,717,985</b>	<b>43,587,540</b>

\* The Holding has started applying IFRS 9 and IFRS 15 since January 1, 2018. In accordance with the selected transition methods, comparative information is not recalculated (see Note 2). As a result of applying IFRS 9, the Holding has changed the order for presenting certain items; the presentation of comparative data has also been changed accordingly (see Note 2).

<b>LIABILITIES</b>		
Customer accounts	649,472,345	539,309,735
Debt securities issued	1,439,786,546	1,125,979,806
Subordinated debt	6,074,969	5,381,557
Loans from banks and other financial institutions	837,499,715	1,010,188,639
Loans from the Government of the Republic of Kazakhstan	208,831,317	180,029,399
Current income tax liability	356,912	877
Deferred income tax liability	19,366,974	28,421,885
Insurance contracts liabilities	4,699,589	2,753,547
Liabilities directly attributable to disposal groups held for sale	95,438	22,445
Other financial liabilities	47,468,591	40,245,511
Other liabilities	444,013,320	448,371,440
<b>TOTAL LIABILITIES</b>	<b>3,657,665,716</b>	<b>3,380,704,841</b>
<b>EQUITY</b>		
Share capital	846,218,712	846,218,712
Revaluation reserve for investment securities available for sale	(12,280,740)	(12,562,781)
Revaluation reserve for financial assets reclassified from "Investment securities evaluated at fair value through other other comprehensive income" to "Loans to customers"	-	914,412
Foreign currency translation difference reserve	3,751,446	3,780,435
Business combination reserve and additional paid-in capital	133,682,001	108,407,533
Other reserves	7,964,010	7,169,251
Retained earnings	81,775,074	97,231,129
Net assets owed to the Holding's owners	1,061,110,503	1,051,158,691
Non-controlling interests	70,191	691,813
<b>TOTAL EQUITY</b>	<b>1,061,180,694</b>	<b>1,051,850,504</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,718,846,410</b>	<b>4,432,555,345</b>

\* The Holding has started applying IFRS 9 and IFRS 15 since January 1, 2018. In accordance with the selected transition methods, comparative information is not recalculated (see Note 2). As a result of applying IFRS 9, the Holding has changed the order for presenting certain items; the presentation of comparative data has also been changed accordingly (see Note 2).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousand KZT)	2018	2017*
<b>PROFIT FOR THE YEAR</b>	<b>34,717,985</b>	<b>43,587,540</b>
Other comprehensive (loss)/income:		
Items that will not be reclassified subsequently to income or loss:		
Net value of changes in the fair value of equity instruments evaluated at fair value through other comprehensive income	17,869	-
Items that may be reclassified subsequently to income or loss:		
Fair value reserve for securities:		
- net change in fair value	(4,025,339)	21,388,523
- net change in fair value transferred to income or loss	(94,997)	(2,185,969)
Foreign currency exchange differences on translation to presentation currency	(28,989)	(883,304)
Unrealized gain less losses on hedging	-	6,673
Amortization of revaluation reserve for investment securities available for sale reclassified to loans to customers	-	(2,016,907)
Other comprehensive (loss) / income for the year	(4,131,456)	16,309,016
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>30,586,529</b>	<b>59,896,556</b>
Total comprehensive income attributable to:		
- Holding owners	30,586,592	59,976,853
- non-controlling interest	(63)	(80,297)
<b>Total comprehensive income for the year</b>	<b>30,586,529</b>	<b>59,896,556</b>
Basic and diluted earnings per share, KZT	27	53

\* The Holding has started applying IFRS 9 and IFRS 15 since January 1, 2018. In accordance with the selected transition methods, comparative information is not recalculated (see Note 2). As a result of applying IFRS 9, the Holding has changed the order for presenting certain items; the presentation of comparative data has also been changed accordingly (see Note 2).

## CONSOLIDATED CASH FLOW STATEMENT

(in thousand KZT)	2018	2017*
<b>Cash flows from operating activities</b>		
Interest received	254,129,367	232,704,048
Interest expenses	(119,537,910)	(104,108,482)
Fee and commission receipts	7,480,402	5,782,626
Fee and commission expenses	(7,518,973)	(6,608,598)
Net gain from derivative financial instrument transactions	2,035,512	1,109,547
Net foreign exchange gain	2,252,136	432,839
Net insurance premium receipts	929,285	835,730
Net insurance payments	(249,591)	(98,450)
Other operating income receipts	6,539,574	6,136,945
Administrative and other operating expenses paid	(42,922,460)	(36,842,489)
Income tax paid	(17,067,590)	(7,917,165)
Cash flows from operating activities before changes in operating assets and liabilities	86,069,752	91,426,551
<b>Net (increase)/decrease in:</b>		
- Financial instruments evaluated at fair value through profit or loss for the year	20,402,745	2,424,497
- cash due from banks	24,156,151	225,049,006
- loans to customers	(274,129,621)	(282,971,890)
- finance lease receivables	17,658,647	11,052,401
- other financial assets	(820,245)	(2,859,181)
- other assets	(12,721,428)	(80,584,129)
<b>Net (decrease)/increase in:</b>		
- funds held for customers	111,029,624	85,788,164
- other financial liabilities	3,291,205	(7,585,067)
- other liabilities	(11,784,377)	14,330,604
Net cash received from/(used in) operating activities	(36,847,547)	56,070,956
Cash flows from investing activities		
Acquisition of investment securities	(397,226,691)	(304,992,496)
Proceeds from disposal and redemption of investment securities	349,381,044	286,005,123
Acquisition of property, plant and equipment and intangible assets	(3,571,535)	(2,920,804)
Proceeds from disposal of property, plant and equipment	500,073	174,778
Acquisition of investment property	(6,385,623)	-
Proceeds from disposal of a subsidiary less retired cash	200,000	-
Proceeds from disposal of associates and joint ventures	123,138	72,161
Dividends received	3,688,353	1,339,688
Net cash used in investing activities	(53,291,241)	(20,321,550)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For Holding owners											
(in thousand KZT)	Share capital	Revaluation reserve for investment securities available for sale	Revaluation reserve for financial assets reclassified from "Investment securities evaluated at fair value through other comprehensive income" to "Loans to customers"		Foreign currency translation difference reserve	Business combination reserve and additional paid-in capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2018	846,218,712	(12,562,781)	914,412		3,780,435	108,407,533	7,169,251	97,231,129	1,051,158,691	691,813	1,051,850,504
IFRS 9 transition effect as of 1 January 2018	-	4,384,508	(914,412)		-	-	-	(49,379,344)	(45,909,248)	-	(45,909,248)
Balance at 1 January 2018 (recalculated)	846,218,712	(8,178,273)	-		3,780,435	108,407,533	7,169,251	47,851,785	1,005,249,443	691,813	1,005,941,256
Profit for the year	-	-	-		-	-	-	34,718,048	34,718,048	(63)	34,717,985
Other comprehensive loss	-	(4,102,467)	-		(28,989)	-	-	-	(4,131,456)	-	(4,131,456)
Total comprehensive income for the year	-	(4,102,467)	-		(28,989)	-	-	34,718,048	30,586,592	(63)	30,586,529
Change in non-controlling interest in subsidiaries	-	-	-		-	-	-	-	-	(621,559)	(621,559)
Recognition of discount on loans from the Government, less taxes totaling KZT 1.416.161	-	-	-		-	25,274,468	-	-	25,274,468	-	25,274,468
Accrual of reserve capital	-	-	-		-	-	794,759	(794,759)	-	-	-
Balance at December 31, 2018	846,218,712	(12,280,740)	-		3,751,446	133,682,001	7,964,010	81,775,074	1,061,110,503	70,191	1,061,180,694

## 6.6

## GRI INDEX TABLE

(in thousand KZT)	2018	2017*
<b>Cash flows from financing activities</b>		
Loans from banks and other financial institutions	159,589,632	97,928,869
Repayment of loans from banks and other financial institutions	(437,557,739)	(208,052,749)
Loans from the Government of the Republic of Kazakhstan	104,756,067	164,069,693
Repayment of loans from the Government of the Republic of Kazakhstan	(29,726,415)	(1,540,384)
Proceeds from issue of ordinary shares	-	43,900,000
Proceeds from issue of debt securities	293,820,715	204,982,280
Repayment/repurchase of debt securities issued	(39,167,030)	(112,200,154)
Repayment of subordinated debt	-	(10,000,000)
<b>Net cash received from financing activities</b>	<b>51,715,230</b>	<b>179,087,555</b>
Effect of changes in currency exchange rates on cash and cash equivalents	11,248,533	5,749,206
Effect of changes in impairment reserve	(751,094)	-
Net (decrease) / increase in cash and cash equivalents	(27,926,119)	220,586,167
<b>Cash and cash equivalents at the beginning of the year</b>	<b>672,098,266</b>	<b>451,512,099</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>644,172,147</b>	<b>672,098,266</b>

\* The Holding has started applying IFRS 9 and IFRS 15 since January 1, 2018. In accordance with the selected transition methods, comparative information is not recalculated (see Note 2).

Standard No. <sup>1</sup>	Reporting Element	UN Global Compact Principle	Report Section	Comment
<b>GRI 101 (2016): Foundations</b>				
<b>GRI 102 (2016): General disclosure</b>				
<b>Company profile</b>				
102-1	Name of the organization		6.8 Contact Details, p. 148	
102-2	Activities, brands, products and services		1.4 Support Tools of the Holding, p. 20	
102-3	Location of headquarters		6.8 Contact Details, p. 148	
102-4	Location of operations		1.2 History of Development, p. Development Strategy and Achieving the Set Goals, p.9	
102-5	Ownership and legal form		1.2 History of Development, p. 16-17	
102-6	Markets served		1.2 History of Development, p. 16-17 Development Strategy and Achieving the Set Goals, p.9	
102-7	Scale of the organisation		1.2 History of Development, p. 16-17 Key Performance Indicators, p. 5 3.1 Financial Performance, p. 29-32 5.6 Human Resources Management, p. 104-105	
102-8	Information on employees and other workers	6	5.6 Human Resources Management, p. 104-105	
102-9	Supply chain	10	1.1 Business Model, p. 15 5.2 Stakeholder Engagement, p. 98-99 3.2 Raising Funds in Capital Markets, p. 33-37	
102-10	Significant changes in the scope, structure and property			In the reporting year, there were no significant changes in the scope, structure and property

Standard No. <sup>1</sup>	Reporting Element	UN Global Compact Principle	Report Section	Comment
102-11	Application of the precautionary approach	7	4.2. Risk Management and Internal Control, p. 88-93	The Holding ensures the dissemination of the principles of responsible investment for its subsidiaries in the framework of making investment decisions
102-12	External initiatives		5.1 Sustainable Development Management System, p. 93-96	
102-13	Membership in associations		3.2 Raising Funds in Capital Markets, p. 35-37	
<b>Strategy</b>				
102-14	Statement of a senior decision-making official		Address of the Chairman of the Board of Directors, p. 6 Address of the Chairman of the Board of Directors, p. 7	
102-15	Key impacts, risks and opportunities	1-10	4.2. Risk Management and Internal Control, p. 88-93 5.2 Stakeholder Engagement, p. 96-100 Development Strategy and Achieving the Set Goals, p.9	
<b>Ethics and Integrity</b>				
102-16	Values, principles, standards, and norms of behavior	1.2.6.10	4.1.8 Corporate Ethics and Settlement of Conflict of Interests, p. 85-86 4.1.9 Anti-corruption, p. 86-88	
102-17	Mechanisms for advice and concerns about ethics	1.2	4.1.8 Corporate Ethics and Settlement of Conflict of Interests, p. 86-88	
<b>Corporate Governance</b>				
102-18	Corporate governance structure		4.1 Corporate Governance System, p.	
<b>Stakeholder engagement</b>				
102-40	List of stakeholder groups		5.2 Stakeholder Engagement, p. 60	
102-42	Identification and selection of stakeholders		5.2 Stakeholder Engagement, p. 97-100	
102-43	Approach to stakeholder engagement		5.2 Stakeholder Engagement, p. 96-97	
102-44	Key topics and concerns raised		5.2 Stakeholder Engagement, p. 96-100	
<b>Reporting practice</b>				

Standard No. <sup>1</sup>	Reporting Element	UN Global Compact Principle	Report Section	Comment
102-45	Entities included in the consolidated financial statements		1.3 Organizational Structure, p. 17-19 6.1 About the Report, p. 111 6.5 Annual Financial Statements, p. 130-137	
102-46	Defining the Report content and topic boundaries		6.1 About the Report, p. 109-111	
102-47	List of material topics		6.1 About the Report, p. 109-111	
102-48	Restatement of indicators		6.1 About the Report, p. 109	
102-49	Significant changes in the scope and topic boundaries compared to previous reporting periods		6.1 About the Report, p. 109-111	
102-50	Reporting period		6.1 About the Report, p. 109	
102-51	Publication date of most recent report		6.1 About the Report, p. 109	
102-52	Reporting cycle		6.1 About the Report, p. 109	
102-53	Contact person for questions regarding the Report		6.8 Contact Details, p. 148	
102-54	Statement of the Report preparation in accordance with the GRI Standards		6.1 About the Report, p. 109	
102-55	GRI Index Table		6.6 GRI Index Table, p. 137-143	
102-56	Organization's practice in external assurance of the Report		6.1 About the Report, p. 109	
<b>GRI 103 (2016): Management approach</b>				
103-1	Materiality and boundaries		6.1 About the Report, p. 109-111	
103-3	Management evaluation			
<b>Specific elements</b>				
<b>GRI 200 Economic topics</b>				
<b>GRI201 (2016): Economic performance</b>				
103-2	Management Approach	10	3. Management Report, p. 29-33	
201-1	Direct economic value generated and distributed	10	3.1. Financial Performance, p. 29-33	

Standard No. <sup>1</sup>	Reporting Element	UN Global Compact Principle	Report Section	Comment
<b>GRI203 (2016): Indirect economic impacts</b>				
103-2	Management Approach	10	3. Management Report, p. 5, 37-41	
203-1	Infrastructure investments and gratuitous services	10	3.3 Large Business Support, p. 37-41	
203-2	Significant indirect economic impacts	10	Key Performance Indicators, p. 5	
<b>GRI205 (2016): Anti-corruption</b>				
103-2	Management Approach	10	4.1.9 Anti-Corruption, p. 86-88	
205-2	Communication and training about anti-corruption policies and procedures	10	4.1.9 Anti-Corruption, p. 86-88	
205-3	Confirmed incidents of corruption and actions take	10	4.1.9 Anti- Corruption, p. 86-88	No corruption offences committed by the Holding employees were reported in the reporting period.
<b>GRI 300 Environmental topics</b>				
<b>GRI307 (2016): Compliance with environmental requirements</b>				
103-2	Management Approach	7.8.9	5.4 Environmental Protection, p. 102	
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	7.8.9		Penalties for non-compliance with environmental laws and regulations were not reported in the reporting year
<b>GRI 400 Social topics</b>				
<b>GRI401 (2016): Employment</b>				
103-2	Management Approach	1-6. 10	5.6 Human Resources Management, p. 103-104	
401-1	Total number and share of newly hired employees and employee turnover by age group, gender and region	6	5.6 Human Resources Management, p. 103-104	
<b>GRI403 (2016): Occupational health and safety</b>				
103-2	Management Approach	1	Occupational Health and Safety, p. 102-103	

Standard No. <sup>1</sup>	Reporting Element	UN Global Compact Principle	Report Section	Comment
403-2	Types and rates of work-related injuries, occupational diseases, lost days and workplace absence, and total number of occupational fatal accidents, by region and gender	1	Occupational Health and Safety, p. 102-103	
<b>GRI404 (2016): Training and education</b>				
103-2	Management Approach	6	5.6 Human Resources Management, p. 105-106	
404-1	Average training hours per year per employee by gender and category	6	5.6 Human resources management, p. 105	
404-3	Percentage of employees undergoing regular performance and career development reviews by gender and category	2.6	5.6 Human Resources Management, p. 105-106	
<b>GRI405 (2016): Diversity and equal opportunities</b>				
103-2	Management Approach		5.6 Human Resources Management, p. 104	
405-1	Composition of management bodies and main personnel categories of the organization by gender, age group, minority group and other diversity characteristic		5.6 Human Resources Management, p. 104	
<b>GRI413 (2016): Local communities</b>				
103-2	Management Approach	1.2	5.7 Sponsorship and Charity, p. 107-108	
413-1	Business units implementing local community engagement, impact assessment and development programs	1.2	5.7 Sponsorship and Charity, p. 107-108	

<sup>1</sup> A year of publication of Standards is specified in brackets.



# 6.7

## GLOSSARY

<b>7-20-25</b>	Mortgage program developed in framework of implementation of objectives of the first initiative “New Opportunities to Purchase Housing for Every Family” announced in the Address of the President of the Republic of Kazakhstan, Elbasy Nursultan Nazarbayev to the nation “Five Social Initiatives of the President”
<b>ADB</b>	Asian Development Bank
<b>Baiterek Development JSC</b>	Baiterek Development Joint Stock Company
<b>Baiterek NMH JSC, Holding</b>	Baiterek National Managing Holding Joint Stock Company
<b>BD</b>	Board of Directors
<b>BU</b>	Business units
<b>Business Roadmap 2020</b>	Unified business support and development program “Business Roadmap 2020”
<b>CITIC</b>	China International Trust and Investment Corporation
<b>COSO</b>	The Committee of Sponsoring Organizations of the Treadway Commission
<b>Damu Fund JSC</b>	Entrepreneurship Development Fund Damu Joint Stock Company
<b>Development Bank of Kazakhstan JSC, DBK JSC</b>	Development Bank of Kazakhstan Joint Stock Company
<b>Digital Baiterek</b>	“Digital Baiterek” Unified Entrepreneurship Support Portal
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EIC KazakhExport JSC</b>	Export Insurance Company KazakhExport Joint Stock Company
<b>ESG</b>	Environmental, Social and Governance
<b>EU</b>	European Union
<b>GDP</b>	Gross domestic product
<b>GRI</b>	Global Reporting Initiative
<b>GVA</b>	Gross value added
<b>Holding Group</b>	Baiterek National Managing Holding Joint Stock Company and organizations more than fifty percent of voting shares (participatory interest in the authorized capital) of which directly or indirectly belong to the Holding on the right of ownership
<b>Housing Construction Savings Bank of Kazakhstan JSC, HCSBK JSC</b>	Housing Construction Savings Bank of Kazakhstan Joint Stock Company
<b>Housing Guarantee Fund JSC, HGF JSC</b>	Housing Guarantee Fund Joint Stock Company

<b>IAS</b>	Internal Audit Service
<b>ICT</b>	Information and Communications Technologies
<b>IFC</b>	International Finance Corporation
<b>IFRS</b>	International financial reporting standards
<b>Investment Fund of Kazakhstan JSC, IFK JSC</b>	Investment Fund of Kazakhstan Joint Stock Company
<b>IPPFIA</b>	International Professional Practices Framework of Internal Auditing
<b>IS</b>	Information system
<b>IT</b>	Information technology
<b>Kazyna Capital Management JSC</b>	Kazyna Capital Management Joint Stock Company
<b>KPI</b>	Key performance indicators
<b>KPPF LLP</b>	Kazakhstan Project Preparation Fund Limited Liability Partnership
<b>LBEs</b>	Large business entities
<b>LEA</b>	Local executive authorities
<b>MFO</b>	Microfinance organization
<b>MIID RK</b>	Ministry of Industry and Infrastructural Development of the Republic of Kazakhstan
<b>MO Kazakhstan Mortgage Company JSC, MO KMC JSC</b>	Mortgage Organization Kazakhstan Mortgage Company Joint Stock Company
<b>National Agency for Technological Development JSC, NATD JSC</b>	National Agency for Technological Development Joint Stock Company
<b>NB RK</b>	National Bank of the Republic of Kazakhstan
<b>Nurly Zher</b>	“Nurly Zher” State Housing Construction Program
<b>Nurly Zhol</b>	“Nurly Zhol” State Program of Infrastructure Development for 2015-2019
<b>PC</b>	Personal computer
<b>PEF</b>	Private equity fund
<b>PKOP</b>	PetroKazakhstan Oil Products LLP

<b>PPP</b>	<ul style="list-style-type: none"> <li>Public-private partnership</li> </ul>
<b>RB</b>	Republican budget
<b>RCC</b>	Regional Coordination Council
<b>RDP-2020</b>	Regional Development Program 2020
<b>RK</b>	Republic of Kazakhstan
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SC MNE RK</b>	Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan
<b>SDG</b>	Sustainable Development Goals - 17 goals and 169 objectives adopted in the framework of the 2030 Agenda for Sustainable Development and aimed to eradicate poverty, preserve natural resources of the planet and ensure well-being for all people
<b>SEZ</b>	Special economic zone
<b>SME</b>	Small and medium enterprise
<b>SMEs</b>	Small and medium-sized enterprises
<b>Software</b>	Computer software
<b>SPIID</b>	State Program of Industrial and Innovative Development of the Republic of Kazakhstan for 2015-2019
<b>STB</b>	Second-tier banks
<b>Subsidiaries</b>	Organizations more than fifty percent of voting shares (participatory interest in the authorized capital) of which directly or indirectly belong to the Holding on the right of ownership
<b>UN</b>	United Nations
<b>UN Global Compact Principles</b>	<p>The ten principles of the Global Compact on Human Rights (1,2), labor relations (3-6), environmental protection (7-9) and anti-corruption (10) use a general consensus and are derived from:</p> <ul style="list-style-type: none"> <li>The Universal Declaration of Human Rights</li> <li>Declaration of the International Labor Organization on fundamental principles and rights at work</li> <li>Rio Declaration on Environment and Development</li> <li>UN Conventions Against Corruption</li> </ul>
<b>USA</b>	United States of America
<b>VI</b>	Volume index
<b>VPN</b>	Virtual Private Network

## 6.8

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