IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the "Document") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Document. In accessing the Document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access. The Document has been prepared solely in connection with the proposed offering of the securities to certain institutional and professional investors as described herein. You acknowledge that this electronic transmission and the delivery of the Document is confidential and intended only for you.

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CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view the Document or make an investment decision with respect to the securities, you must be: (i) a person that is outside the United States; or (ii) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing the Document, you shall be deemed to have represented to JSC "Halyk Bank" (the "Bank"), JSC "Holding Group "ALMEX" (the "Selling Shareholder"), and Joint Bookrunners Deutsche Bank AG, London Branch, JSC Halyk Finance and J.P. Morgan Securities plc (the "Joint Global Coordinators and Joint Bookrunners") and Renaissance Securities (Cyprus) Limited (the "Joint Bookrunners") that you are: (i) either an institutional investor outside the United States; or that you are (ii) in the United States and are a QIB that is acquiring securities for your own account or for the account of another QIB; (iii) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA, to Qualified Investors (as defined in the Regulation (EU) 2017/1129 ("Prospectus Regulation")); (iv) if you are outside the U.S., U.K. and EEA (and the electronic mail addresses that you gave us and to which this document has been delivered are not located in such jurisdictions) you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located; and (v) that you consent to delivery of such Document by electronic transmission. You are reminded that the Document has been delivered to you on the basis that you are a person into whose possession the Document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation other than the specified categories of institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Global Coordinators and Joint Bookrunners or any affiliate of any of the Joint Global Coordinators and Joint Bookrunners is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Global Coordinator and Joint Bookrunner or such affiliate on behalf of the

Bank and the Selling Shareholder in such jurisdiction. Under no circumstances shall the Document constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of the Document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in this offering memorandum.

The information contained in the Document is directed solely at persons: (i) outside the United Kingdom; (ii) within the United Kingdom: (A) having professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Market Act (Financial Promotion) Order 2005 (the "Order"); or (B) to persons of a kind described in Article 49(2) (a) to (d) of the Order; or (iii) in member states of the European Economic Area ("Member States") who are "qualified investors" within the meaning of the Prospectus Regulation (all such persons together being referred to as "Relevant Persons"). Any investment activity to which the Document relates is only available to, and will only be engaged in with, Relevant Persons. The Document and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Persons who are not Relevant Persons must not rely on or act upon the information contained in the Document.

Neither the issue of the GDRs nor the offering memorandum in respect of the GDRs has been, or is intended to be, registered with the National Bank of the Republic of Kazakhstan. Information contained in this electronic transmission and the attached document is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer securities in Kazakhstan to or for the benefit of any Kazakhstan person or entity, except for those persons or entities that are capable to do so under the legislation of Kazakhstan and any other laws applicable to such capacity of such persons or entities. This electronic transmission and the attached document shall not be construed as an advertisement (i.e., information intended for an unlimited group of persons which is distributed and placed in any form and aimed to create or maintain interest in the Bank and its merchandise, trademarks, works, services and/or its securities and promote their sales) in, and for the purpose of the laws of, Kazakhstan, unless such advertisement is in full compliance with Kazakhstan laws.

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None of the Joint Global Coordinators and Joint Bookrunners, or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of the Document or for any statement made or purported to be made by it, or on its behalf, in connection with the issuer or the offer. The Joint Global Coordinators and Joint Bookrunners and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of the Document or any such statement. No representation or warranty express or implied, is made by any of the Joint Global Coordinators and Joint Bookrunners or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in the Document.

The Joint Global Coordinators and Joint Bookrunners are acting exclusively for the Bank and the Selling Shareholder and no one else in connection with the offer. They will not regard any other person (whether or not a recipient of the Document) as their client in relation to the offer and will not be responsible to anyone other than the Bank and the Selling Shareholder for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

YOU ARE RESPONSIBLE FOR PROTECTING AGAINST VIRUSES AND OTHER DESTRUCTIVE ITEMS: Your receipt of the Document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

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NOT FOR GENERAL DISTRIBUTION IN THE UNITED STATES

JSC "HALYK BANK"

(incorporated in the Republic of Kazakhstan)

Offer of 29,316,603 Global Depositary Receipts at an offer price of 11.75 U.S. Dollars per Global Depositary Receipt

This offering memorandum (the "Offering Memorandum") relates to an offering (the "GDR Offering") by JSC "Holding Group "ALMEX" ("Almex" or the "Selling Shareholder") of 29,316,603 global depositary receipts (together with all currently existing global depositary receipts, the "GDRs"), each representing an interest in 40 common shares (together with the existing common shares, the "Shares") of JSC "Halyk Bank" (the "Bank" or "Halyk Bank") at a price of U.S.$11.75 per GDR. The Bank will not directly receive any proceeds from the GDR Offering.

The Shares are listed and admitted to trading on the premium segment of the Kazakhstan Stock Exchange ("KASE") under the symbol "HSBK". The existing GDRs representing the existing Shares are admitted to the standard listing segment of the official list of the UK Financial Conduct Authority (the "Official List") and to trading on London Stock Exchange plc's (the "London Stock Exchange") main market for listed securities under the symbol "HSBK". In connection with the Bank's admission to the Official List and the London Stock Exchange on 20 December 2006 and subsequent GDR Offering completed on 20 February 2009, a total of 200,000,000 GDRs was admitted to the Official List and the London Stock Exchange. Following the GDR Offering, there will be an aggregate of approximately 77,154,094 GDRs in issue, comprising 47,837,491 existing GDRs and 29,316,603 GDRs to be issued on the closing date of the GDR Offering (the "Closing Date"). The GDRs being sold pursuant to the GDR Offering will have the same symbol and CUSIP and ISIN as the existing GDRs.

Pursuant to the prior applications made to the FCA and the London Stock Exchange in relation to GDRs to be issued from time to time against the deposit of Shares, the GDRs being offered pursuant to the GDR Offering will be admitted to trading from the date of their creation on the Closing Date. Accordingly, there will be no additional application made to the FCA, the London Stock Exchange or any other exchange in connection with the admission and trading of the GDRs being offered pursuant to the GDR Offering.

This document has not been approved by the Financial Conduct Authority ("FCA") and is not a prospectus in accordance with the Prospectus Rules of the FCA made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA").

The GDRs are being offered: (i) within the United States only to qualified institutional buyers ("QIBs"), as defined in, and in reliance upon, Rule 144A ("Rule 144A") under the United States Securities Act of 1933 (the "Securities Act"), or another exemption from, or in a transaction not subject to, registration under the Securities Act (the "Rule 144A GDRs"); and (ii) outside the United States in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act (the "Regulation S GDRs") (the "International Offering").

Concurrently with the International Offering, the Selling Shareholder is offering 5,682,603 GDRs through the Astana International Exchange (the "AIX") (the "Domestic Offering"), which represent 1.9 per cent. of Bank's outstanding shares. Application has been made to the AIX to: (i) admit the GDRs and the Shares to the official list of the AIX; and (ii) admit the GDRs and the Shares to trading on the AIX. The Domestic Offering is being carried out pursuant to a prospectus summary ("AIX Prospectus Summary") under Rule 1.4 of the AIFC Market Rules (AIFC Rules No. FR0003 of 2017) of the Astana International Financial Centre ("AIFC"). Prospective investors who intend to participate in the Domestic Offering should review the AIX Prospectus Summary which will contain important information about the Domestic Offering. The GDRs are offered in the Domestic Offering at the same price of U.S.$11.75.

The GDRs have not been and will not be registered under the Securities Act or under the applicable securities laws of any state or jurisdiction of the United States and may not be offered or sold, directly or indirectly, within the United States or any of its jurisdictions, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The GDRs are subject to selling and transfer restrictions in certain jurisdictions. See "*Selling and Transfer Restrictions*".

Investing in the GDR Offering involves risks. Prospective investors should read the entire document (including all information incorporated by reference herein) and, in particular, see the section headed "*Risk Factors*" beginning on page 12 when considering an investment in the GDRs.

The Rule 144A GDRs will be evidenced by a master Rule 144A GDR (the "Master Rule 144A GDR") and the Regulation S GDRs will be evidenced by a master Regulation S GDR (the "Master Regulation S GDR", which together with the Master Rule 144A GDR, are referred to as the "Master GDRs"). The Master Rule 144A GDR shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). The Master Regulation S GDR shall be registered in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch, as common depositary for Euroclear Bank S.A./N.V. ("Euroclear") as operator of the Euroclear System and Clearstream Banking, société anonyme ("Clearstream"). The Shares represented by the GDRs will be held by JSC "Halyk Bank", as custodian (the "Custodian"), for the Depositary. Except as described herein, beneficial interests in the Master GDRs will be held by, and transfers thereof will be elected only through, DTC, Euroclear and Clearstream and their direct and indirect participants. Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. It is expected that delivery of the GDRs will be made against payment therefor in U.S. Dollars in same day funds on or about 8 October 2019 through the facilities of DTC in respect of the Rule 144A GDRs and through Euroclear and Clearstream in respect of the Regulation S GDRs. See "*Settlement and Transfer*".

Joint Global Coordinators and Joint Bookrunners

Deutsche Bank **Halyk Finance** **J.P. Morgan**

Joint Bookrunner

Renaissance Capital

The date of this Offering Memorandum is 4 October 2019.

NOTICE TO PROSPECTIVE INVESTORS

Notice to Prospective Investors in EEA and UK

This Offering Memorandum and the GDR Offering are only addressed to, and directed at, persons in member states of the European Economic Area (the "EEA") who are "Qualified Investors" within the meaning of the Prospectus Regulation (EU) 2017/1129 (the "Prospectus Regulation").

In addition, in the United Kingdom, this Offering Memorandum is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the FSMA, or high net worth entities falling within Article 49(2)(a)-(d) of the FSMA or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "Relevant Persons"). The GDRs being sold pursuant to the GDR Offering are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (1) in the United Kingdom, Relevant Persons and (2) in any member state of the EEA other than the United Kingdom, Qualified Investors. This Offering Memorandum and its contents should not be acted upon or relied upon (1) in the United Kingdom, by persons who are not Relevant Persons or (2) in any member state of the EEA other than the United Kingdom, by persons who are not Qualified Investors.

Any person making or intending to make any offer of the GDRs being sold pursuant to the GDR Offering within the EEA should only do so in circumstances in which no obligation arises for the Bank or any of the Joint Global Coordinators and Joint Bookrunners to produce a prospectus for such offer. Neither the Bank nor the Joint Global Coordinators and Joint Bookrunners have authorised, nor do they authorise, the making of any offer of the GDRs being sold pursuant to the GDR Offering through any financial intermediary, other than offers made by the Joint Global Coordinators and Joint Bookrunners which constitute the final placement of the GDRs being sold pursuant to the GDR Offering contemplated in this Offering Memorandum.

Each person in a member state of the EEA (each, a "Member State") who receives any communication in respect of, or who acquires any GDRs being sold pursuant to the GDR Offering to whom any offer is made under the GDR Offering will be deemed to have represented, acknowledged and agreed that it is a "Qualified Investor" within the meaning of the Prospectus Regulation; and in the case of any GDRs being sold pursuant to the GDR Offering acquired by it as a financial intermediary as that term is used in Article 5 of the Prospectus Regulation, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the GDRs being sold pursuant to the GDR Offering acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than Qualified Investors, as that term is defined in the Prospectus Regulation, or in circumstances in which the prior consent of the Joint Global Coordinators and Joint Bookrunners has been given to the offer or resale; or where GDRs being sold pursuant to the GDR Offering have been acquired by it on behalf of persons in any Member State other than Qualified Investors, the offer of those GDRs to it is not treated under the Prospectus Regulation as having been made to such persons. The Selling Shareholder, the Joint Global Coordinators and Joint Bookrunners and their affiliates, and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a Qualified Investor and who has notified the Joint Global Coordinators and Joint Bookrunners of such fact in writing may, with the consent of the Joint Global Coordinators and Joint Bookrunners be permitted to subscribe for or purchase the GDRs being sold pursuant to the GDR Offering, provided that publication of a prospectus would not be required pursuant to Article 3 of the Prospectus Regulation.

The Joint Global Coordinators and Joint Bookrunners may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an "offer of GDRs to the public" in relation to any GDRs being sold pursuant to the GDR Offering in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDRs to be offered so as to enable an investor to decide to purchase or subscribe for any GDRs.

Notice to Prospective Investors in the United States

Each purchaser of the GDRs being sold pursuant to the GDR Offering in the United States will be deemed to have made the representations described in "*Selling and Transfer Restrictions—United States*" and is hereby notified that the offer and sale of the GDRs to it is being made in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

THE GDRS BEING SOLD PURSUANT TO THE GDR OFFERING HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY OR ANY UNITED STATES JURISDICTION, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OF THE GDRS BEING SOLD PURSUANT TO THE GDR OFFERING OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Notice to Prospective Investors in Kazakhstan

This Offering Memorandum and the GDR Offering do not constitute an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer securities in Kazakhstan to or for the benefit of any Kazakhstan person or entity, except for the Domestic Offering and except those persons or entities that are capable to do so under the legislation of the Republic of Kazakhstan and any other laws applicable to such capacity of such persons or entities. This Offering Memorandum and the GDR Offering shall not be construed as an advertisement (i.e., information intended for an unlimited group of persons which is distributed and placed in any form and aimed to create or maintain interest in the Bank and its merchandise, trademarks, works, services and/or its securities and promote their sales) in, and for the purpose of the laws of, Kazakhstan, unless such advertisement is in full compliance with Kazakhstan laws. The GDRs will not, directly or indirectly, be offered for subscription or purchase in Kazakhstan, nor will invitations to subscribe for or buy or sell GDRs be issued in Kazakhstan, nor will any draft or definitive document in relation to any such offer, invitation or sale be distributed in Kazakhstan, except in compliance with the laws of Kazakhstan.

Notice to Prospective Investors in Australia

This document:

a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia ("Corporations Act");

b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act;

c) has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission ("ASIC"), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and

d) may not be provided in Australia other than to select investors ("Exempt Investors") who are able to demonstrate that they: (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act; and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The GDRs may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the GDRs may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any GDRs may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the GDRs, each subscriber or purchaser of GDRs represents and warrants to the Bank, the Selling Shareholder, the Joint Global Coordinators and Joint Bookrunners and their affiliates that such subscriber or purchaser is an Exempt Investor.

As any offer of GDRs under this Offering Memorandum or any other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those GDRs for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the GDRs, each subscriber or purchaser of GDRs undertakes to the Bank, the Selling Shareholder and the Joint Global Coordinators and Joint Bookrunners that such subscriber or purchaser will not, for a period of 12 months from the date of issue or purchase of the GDRs, offer, transfer, assign or otherwise alienate those GDRs to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

Notice to Prospective Investors in South Africa

Due to restrictions under the securities laws of South Africa, the GDRs are not offered, transferred, sold, made, renounced or delivered in South Africa or to a person with an address in South Africa and the GDR Offering is not made, offered, transfer, sold, renounced or delivered in South Africa or to a person with an address in South Africa, unless such person falls within one or more of the exemptions to the securities laws relating to offers to the public set out in Section 96 of the Companies Act No. 71 of 2008 (as amended). The exemptions include:

- Offers made only to the following persons, namely (i) persons whose ordinary business, or part of whose ordinary business, is to deal in securities, whether as principals or agents; (ii) the Public Investment Corporation as defined in the Public Investment Corporation Act, No. 23 of 2004 (as amended); (iii) persons regulated by the Reserve Bank of South Africa; (iv) authorised financial services providers as defined in the Financial Advisory and Intermediary Services Act, No. 37 of 2002 (as amended); (v) financial institutions as defined in the Financial Services Board Act, No. 97 of 1990; (vi) wholly owned subsidiaries of the persons contemplated in (iii), (iv) and (v) acting as agent in the capacity of authorised portfolio manager for a pension fund registered in terms of the Pension Funds Act, No. 24 of 1956 or as a manager for a collective investment scheme registered in terms of the Collective Investment Schemes Control Act, No. 45 of 2002; (vii) any combination of the persons contemplated in (i) to (vi); and
- Offers made to a single address acting as principal where the contemplated acquisition cost of GDRs is equal to or greater than R1,000,000.

The GDR Offering does not constitute an offer for the sale or subscription for, or solicitation of an offer to buy and subscribe for, GDRs to the public as defined in the Companies Act, No. 71 of 2008 (as amended) and will not be distributed to any person in South Africa in any manner which could be construed as an offer to the public in terms of the Companies Act, No. 71 of 2008 (as amended) and should any person who does not fall into any of the above exemptions receive this Offering Memorandum they should not and will not be entitled to acquire any GDRs or otherwise act thereon. This Offering Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act, No. 71 of 2008 (as amended).

Notice to Prospective Investors in Canada

The GDRs may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the GDRs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 of NI 33-105, the Joint Global Coordinators and Joint Bookrunners are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this GDR Offering.

Notice to Prospective Investors in the United Arab Emirates (excluding the Dubai International Financial Centre)

This Offering Memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. If you are in any doubt about the contents of this document, you should consult an authorised financial adviser.

By receiving this Offering Memorandum, the person or entity to whom it has been issued understands, acknowledges and agrees that this Offering Memorandum has not been approved by or filed with the UAE Central Bank, the UAE Securities and Commodities Authority (the "SCA") or any other authorities in the UAE (outside of the financial free zones established pursuant to UAE Federal Law No. 8 of 2004), nor have the Joint Global Coordinators and Joint Bookrunners received authorisation or licensing from the UAE Central Bank, SCA or any other authorities in the UAE to market or sell securities or other investments within the UAE. No marketing of any financial products or services has been or will be made from within the UAE other than in compliance with the laws of the UAE and no subscription to any securities or other investments may or will be consummated within the UAE. It should not be assumed that any of the Joint Global Coordinators and Joint Bookrunners is a licensed broker, dealer or investment adviser under the laws applicable in the UAE, or that any of them advise individuals resident in the UAE as to the appropriateness of investing in or purchasing or selling securities or other financial products. The GDRs are not intended for circulation or distribution in or into the UAE, other than to persons who are "Qualified Investors" within the meaning of the SCA's Board of Directors Decision No. 3 of 2017 Concerning the Organisation of Promotion and Introduction to whom the materials may lawfully be communicated. This does not constitute a public offer of securities in the UAE in accordance with the SCA Chairman of the Board Resolution No. 11/R.M of 2016 on the Regulations for Issuing and Offering Shares of Public Joint Stock, or otherwise.

Nothing contained in this Offering Memorandum is intended to constitute investment, legal, tax, accounting or other professional advice. This Offering Memorandum is for your information only and nothing in this Offering Memorandum is intended to endorse or recommend a particular course of action. Any person considering acquiring securities should consult with an appropriate professional for specific advice rendered based on their respective situation.

Notice to Prospective Investors in the Dubai International Financial Centre

The GDRs have not been offered and will not be offered to any persons in the Dubai International Financial Centre except on that basis that an offer is: (a) an "Exempt Offer" in accordance with the Markets Rules ("MKT") module of the Dubai Financial Services Authority (the "DFSA"); and (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set out in it, and has no responsibility for it. The GDRs to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the GDRs offered should conduct their own due diligence on the GDRs. If you do not understand the contents of this Offering Memorandum, you should consult an authorised financial adviser.

Notice to Prospective Investors in Qatar

This Offering Memorandum is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the State of Qatar including the rules and regulations of Qatar Financial Centre Authority ("QFCA") or the Qatar Financial Centre Regulatory Authority ("QFCRA"). The GDRs have not been and will not be listed on the Qatar Exchange and are not subject to the rules and regulations of the DSM Internal Regulations applying to the Qatar Exchange, the Qatar Financial Markets Authority ("QFMA"), the Qatar Central Bank ("QCB"), the QFCA or the QFCRA, or any laws of the State of Qatar.

This Offering Memorandum has not been and will not be:

(i) lodged or registered with, or reviewed or approved by the QFCA, the QFCRA, the QCB or the QFMA; or

(ii) authorised or licenced for distribution in the State of Qatar, and the information contained in this Offering Memorandum does not, and is not intended to, constitute a public or general offer or other invitation in respect of shares or other securities in the State of Qatar or the QFC.

The offer of the GDRs and interests therein do not constitute a public offer of securities in the State of Qatar under the Commercial Companies Law No. (5) of 2002 (as amended) or otherwise under any laws of the State of Qatar, including the rules and regulations of the QFCA or QFCRA.

The GDRs are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such GDRs. No transaction will be concluded in the jurisdiction of the State of Qatar (including the jurisdiction of the Qatar Financial Centre). The Bank is not regulated by the QCB, QFMA, QFC Authority, QFC Regulatory Authority or any other government authority in the State of Qatar. The Bank does not, by virtue of this Offering Memorandum, conduct any business in the State of Qatar. The Bank is an entity regulated under laws outside the State of Qatar.

Information to Distributors

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("MiFID II"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "MiFID II Product Governance Requirements"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the GDRs being offered pursuant to the GDR Offering have been subject to a product approval process, which has determined that such GDRs are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "Target Market Assessment"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the GDRs may decline and investors could lose all or part of their investment; the GDRs offer no guaranteed income and no capital protection; and an investment in the GDRs is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the GDR Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Global Coordinators and Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the GDRs.

Each distributor is responsible for undertaking its own target market assessment in respect of the GDRs and determining appropriate distribution channels.

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SUMMARY

This summary should be read as an introduction to this Offering Memorandum only. Any decision to invest in GDRs being offered pursuant to the GDR Offering should be based on a consideration of this Offering Memorandum as a whole.

Overview

The Bank is Kazakhstan's leading financial services group, which (based on information published by the NBRK) had the largest customer base (in terms of share of total deposits) and the largest distribution network (in terms of numbers of branches) among Kazakhstan banks as at 30 June 2019.

The Bank's core business is focused on retail, corporate and SME banking. The Bank is also the largest paying agent for the Government for pension and other social security payments (in terms of the volume of payments processed and number of recipients of social payments), servicing more than 2.5 million customers. As at 30 June 2019, the Bank had the most extensive retail distribution network in Kazakhstan, comprising 24 regional branches and 617 points of sale including 120 sub-regional branches, three "VIP" centres, 110 personal service centres, 54 banking service centres, 34 business centres (servicing legal entities) and 296 cash settlement units. Other distribution channels used by the Bank included, as at 30 June 2019, 4,383 operating ATMs, 1,046 payment terminals and 74,119 point of sale ("POS") terminals located within the Bank's branches and at shopping centres and supermarkets throughout Kazakhstan, as well as the Bank's internet and mobile phone banking operations. For the six months ended 30 June 2019, the Bank processed approximately 40 per cent. of all card payments and 54 per cent. of e-pay payments made through POS terminals in Kazakhstan. See "*—Principal Business Activities—Distribution Network*". Through subsidiary companies, the Bank's services also include operations with insurance, securities brokerage, investment banking, asset management services and leasing.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, currency exchange, internet banking and mobile phone banking and ATM services. The Bank also provides a range of wholesale banking products and services to corporate clients and SME business customers, financial institutions and Government entities. As at 30 June 2019, the Bank had approximately 11.0 million retail customers, which comprised the largest retail customer base among all banks in Kazakhstan, 297,210 total SME customers (including 7,574 borrowers) and 2,967 large corporate clients (including 428 large corporate borrowers).

As at 30 June 2019, according to statistics published by the NBRK, the Bank had the leading market position in total assets with a market share of 34.4 per cent., in total deposits with a market share of 37.7 per cent., in net income (excluding banks with negative income) with a market share of 42.0 per cent., in net loans with a market share of 30.3 per cent., risk-adjusted net interest income (after credit loss expense, excluding negative net interest income) with a market share of 52.0 per cent., in insurance premiums with a market share of 27.9 per cent. and in equity with a market share of 34.6 per cent. As at 30 June 2019, the Bank had total consolidated assets of KZT 9,059,149 million (compared to KZT 8,959,024 million as at 31 December 2018) and total equity of KZT 1,127,595 million (compared to KZT 1,065,646 million as at 31 December 2018). For the six months ended 30 June 2019, the Bank's net profit after income tax expense was KZT 164,229 million (compared to KZT 85,205 million for the corresponding period in 2018), and its operating income (net interest income before impairment charges plus net fees and commissions, other non-interest income, less insurance claims incurred net of reinsurance and excluding expenses for insurance reserves) was KZT 273,474 million (compared to KZT 258,930 million for the corresponding period in 2018).

The Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both Treasury Bills of the Ministry of Finance of Kazakhstan and short-term notes of the NBRK. According to statistics published by KASE, the Bank ranks first in operations with government debt securities.

Shares of the Bank were first listed on the KASE in 1998 and common shares in the form of GDRs were listed on the London Stock Exchange in December 2006. Immediately prior to the GDR Offering, Almex owned 74.7 per cent. (on a consolidated basis) of the Bank's common shares. See "*Principal Shareholders*". The Bank's principal office is located at 40 Al Farabi Avenue, Almaty A26 M3K5, Kazakhstan.

Competitive Strengths

The Bank has the following competitive strengths, which it believes will enable it to retain and strengthen its position as a leading Kazakhstan universal financial services group:

- Operating in a large, fast growing economy with an underpenetrated banking sector.
- Domestic market champion with leading market shares across all key segments with regional leadership position.
- The largest client base in the country serviced by the broadest distribution network and rapidly advancing digital offering.
- Attractive mix of profitability underpinned by efficient operations and track record of growth
- Solid asset quality with ample liquidity.
- Robust capital position supporting shareholder returns.
- Corporate governance modelled on international standards and experienced and stable management team with proven track record.

Strategy

In 2018, the Bank formulated a new strategic plan for 2019-2021 including key drivers for the future business development which reflects strategic initiatives established as part of the KKB's integration and in response to the increase in the Bank's size and customer reach. In order to implement its strategic plan, the Bank has formulated the following strategic initiatives for 2019-2021:

- Undisputed leader at the forefront of our client needs.
- Client-orientation and focus on quality of the service.
- Focus on further development of digital offering.
- Main transactional bank of the country.
- Selective international expansion.
- Mission and values focusing on client orientation, reliability, leadership, social responsibility, integrity and professionalism.

Risk Factors

Risk Factors Relating to Kazakhstan

- Emerging markets are generally subject to greater risk than more developed markets, and actual and perceived risks associated with investing in emerging economies could adversely affect foreign investment in Kazakhstan
- The Bank's financial position and its results of operations are dependent on the legal, economic and political conditions prevailing in Kazakhstan and its neighbouring regions, as well as broader global trends
- The Bank's credit rating may be constrained by the sovereign credit rating of Kazakhstan
- Kazakhstan is heavily dependent on export trade and commodity prices, and weak demand for its export products and low commodity prices may adversely affect Kazakhstan's economy in the future
- Currency control legislation may affect the Bank's foreign currency dealings, and further devaluations of the Tenge could have an adverse impact on Kazakhstan's public finances and economy
- Should the new President of Kazakhstan deviate from the policies put in place by former President Nursultan Nazarbayev, the socio-political and macroeconomic situation in Kazakhstan could become unstable
- Sanctions imposed on Russia could have an adverse impact on Kazakhstan's economy and on the Bank
- Kazakhstan's legislative, tax and regulatory framework is underdeveloped and evolving; therefore, court decisions can be difficult to predict, and tax liabilities can be difficult to ascertain

- The Kazakhstan judiciary's lack of experience and perceived lack of independence, the difficulty of enforcing judgments and awards, and governmental discretion in enforcing claims could prevent the Bank or holders of the Shares and the GDRs from obtaining effective redress in a court proceeding
- Corruption could create an unfavourable business climate in Kazakhstan
- The corporate governance and disclosure laws and practices in Kazakhstan that apply to the Bank are less developed than corresponding requirements applicable to corporations organised in the United States, the United Kingdom and other Western European countries
- Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy
- The lack of accurate official statistics and corporate and financial information in Kazakhstan may lead to uncertainties and may limit the ability of the Bank to assess customer credit risks accurately

Risk Factors Relating to the Kazakhstan Banking Sector

- The instability of the global and the Kazakhstan credit markets and banking sectors could have a material adverse effect on the Bank's business, liquidity and financial condition
- Changes in liquidity support for the Kazakhstan banking sector, the NBRK minimum reserve requirements, capital reserve requirements and potential restrictions imposed by the NBRK may materially and adversely affect the Bank
- Risks resulting from failures, consolidations or Government-supported restructurings in Kazakhstan's banking industry could adversely affect the Bank
- Banking regulations in Kazakhstan are not as developed as in many western countries and any further changes to them might adversely affect the Bank's business
- The Bank depends on its banking and other licences
- The National Bank of Kazakhstan is currently undertaking an asset quality review of banks in Kazakhstan, and the results of this review could have material adverse effects on the Bank

Risk Factors Relating to the Bank

- The Bank faces risks associated with devaluation of the Tenge
- The instability of money markets in Kazakhstan and increased interest rates could reduce the availability of Tenge liquidity for the Bank and have a negative impact on its lending business and cost base
- The Bank's capital position may deteriorate
- The Bank may not be able to pay its debts as they fall due
- Any significant increase in the level of non-performing loans could have a negative impact on the Bank
- If the Bank cannot successfully implement its business strategy, its growth and profitability could be adversely impacted
- The Bank may face counterparty risk from other financial institutions
- Any downgrade in the credit ratings of the Bank and/or its related debt obligations could make it more expensive for the Bank to raise capital in the future
- Volatility in the real estate market in Kazakhstan may materially and adversely affect the Bank's asset quality and collateral value
- A portion of the Bank's loan portfolio is related to Government-related funding and lending, including in particular in the form of Government Support Programmes
- The Bank may be subject to high degree of scrutiny by the antimonopoly authority given its leading position in the market
- Concentrations in the Bank's loan and deposit portfolio subject it to risks of default by its large borrowers, exposure to particular sectors of the Kazakhstan economy and withdrawal of large deposits

- The Bank faces significant competition, which may increase, particularly after Kazakhstan allows foreign bank branches to open following accession to the WTO, as well as due to the development of the Astana International Financial Centre (the "AIFC")
- A significant decline in the Bank's net interest income or net interest margin could materially adversely affect the Bank's profitability
- A significant decline in the Bank's fee and commission income could materially adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations
- A lack of available capital could adversely affect both the Bank's ability to comply with applicable capital adequacy ratios and the conduct of its business
- The Bank is dependent on its deposit base, which is more volatile than other types of funding
- The Bank's business and operations are subject to securities portfolio risk
- The Bank's banking business entails operational risks
- Damage to the Bank's brand or reputation, or a decline in customer confidence in the Bank or its products, could have a material adverse effect on the Bank's profitability
- The Bank may become subject to litigation, proceedings, Government inquiries, reviews, audits or investigations which could have a material adverse effect on the Bank's business, prospects, financial condition, cash flow or results of operations
- The Bank's insurance business is subject to risks relating to future claims and financial support obligations
- The Bank may face difficulties in recruiting and retaining experienced personnel
- The Bank's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks
- The Bank's measures to prevent money laundering and/or terrorist financing may not be effective
- The Bank's IT systems may malfunction or be insufficient to support future operations
- Failure to adequately maintain and protect customer and employee information could have a material adverse effect on the Bank
- The preparation of the Bank's consolidated financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions and the inaccuracy of these estimates and assumptions could have a material adverse impact on the Bank's consolidated financial statements
- The Bank's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions
- Cybersecurity threats and data breaches could adversely impact the Bank's financial condition as well as cause legal or reputational harm
- The Bank is subject to risks relating to its foreign operations

Risk Factors Relating to Taxation

- Changes in tax and pension regulations may affect the Bank's financial position
- References to IFRS in the Tax Code could result in adverse tax assessment for the Bank
- The Bank will need to maintain the listing of its Shares and GDRs on the official securities list of the AIX in order for the holders of the Shares and GDRs to enjoy the tax exemptions provided under the AIFC Law

Risk Factors Relating to the Bank's Shares and GDRs

- The Bank's GDR price may fluctuate
- The sale or availability for sale of substantial amounts of securities could adversely affect the price of the GDRs
- There are restrictions and prohibitions under Kazakhstan law on the ownership and exercise of shareholders' rights (including voting rights) with respect to the GDRs and the Shares

- The financial markets in Kazakhstan are less developed than in western countries and there may be limited or no liquidity with respect to the Shares underlying the GDRs
- Shareholders wishing to deposit Shares into the depositary facility and convert them into GDRs will be required to notify the NBRK thereof
- Cash held by the Depositary and the Custodian for holders of the GDRs may not be available to such holders in the event of an insolvency of the Depositary or the Custodian
- U.S. holders of the GDRs may not be able to participate in pre-emptive rights offerings
- The Bank may be considered a passive foreign investment company for U.S. federal income tax purposes
- There is a risk that GDR holders may be subject to taxation in Kazakhstan
- As the Shares underlying the GDRs being offered pursuant to the GDR Offering are quoted in Tenge on the KASE, investors may be subject to potential losses arising out of exchange rate risk on the Kazakhstan Tenge and risks associated with the conversion of Tenge proceeds into foreign currency
- There are restrictions on the number of Shares for which GDRs may be exchanged
- An acquisition of 10 per cent. or more of the voting shares in the Bank requires prior consent from the NBRK
- Almex's interests as the Selling Shareholder may differ from the interests of the Bank and of the holders of GDRs
- The AIX has a very short history of operations
- The Bank may elect not to pay dividends in the future

Recent Developments

- On 20 September 2019, the Bank acquired "Astana LRT" LLP's 3.25% bonds due 2024 for the amount of U.S.$400 million. The bonds are guaranteed by the Ministry of Finance of the Republic of Kazakhstan.
- On 27 August 2019, Moody's affirmed Halyk Bank's ratings at "Ba1" and changed the outlook from stable to positive.
- On 1 August 2019, the NBRK initiated an Asset Quality Rating of 14 largest banks in Kazakhstan, including the Bank, which together represent 87 per cent. of the total assets of the country's banking system.
- On 10 July 2019, the Bank established the subsidiary bank JSC "Tenge Bank" in the Republic of Uzbekistan with a capital injection of UZS 118 billion (KZT 5 billion)
- On 3 July 2019, the Bank and the NBRK closed a one-year cross-currency swap deal existing as at 30 June 2019 and at the same concluded another one-year cross-currency swap deal for the notional amount of KZT 348,338 million. The purpose of this transaction is the placement of excess foreign currency liquidity.

Use of Proceeds

The Bank will not receive any of the proceeds from the GDR Offering.

The Selling Shareholder expects to receive gross proceeds of U.S.$344,470,085.25 and net proceeds of approximately U.S.$332 million from the GDR Offering after deduction of its share of the GDR Offering expenses (including underwriting commissions with respect to the GDRs offered by it).

Company Information

The Bank is a joint stock company incorporated under the laws of Kazakhstan with a registered office at JSC "Halyk Bank", 40 Al Farabi Avenue, Almaty A26 M3K5, Kazakhstan.

The Selling Shareholder is a joint stock company incorporated under the laws of Kazakhstan with a registered office at 17 Kabanbay Batyr ave. Block E, Esil district, 010000, Nur-Sultan, Kazakhstan.

DESCRIPTION OF THE OFFERING

Bank	JSC “Halyk Bank”
Selling Shareholder	JSC “Holding Group “ALMEX”
GDR Offering	The GDR Offering consists of an offering of 29,316,603 GDRs in the International Offering and the Domestic Offering.
International Offering	The International Offering consists of an offering of 23,634,000 GDRs by the Selling Shareholder (i) outside the United States in “offshore transactions” in reliance on Regulation S under the Securities Act to institutional investors in a number of countries and (ii) in the United States only to QIBs as defined in Rule 144A under the Securities Act, in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements of the Securities Act. The International Offering will be managed by Deutsche Bank, J.P. Morgan and Renaissance Capital.
Domestic Offering	Concurrently with the International Offering, the Selling Shareholder is offering 5,682,603 GDRs through the AIX which represents 1.9 per cent. of the Bank’s outstanding shares. The Domestic Offering is being carried out pursuant to the AIX Prospectus Summary under Rule 1.4 of the AIFC. Prospective investors who intend to participate in the Domestic Offering should review the AIX Prospectus Summary which will contain important information about the Domestic Offering. The Domestic Offering will be managed by JSC Halyk Finance.
Offer Price	U.S.$11.75 per GDR. The GDRs are offered at the same price in the International Offering and the Domestic Offering.
GDR	One GDR represents 40 common shares of the Bank.
Depositary	The Bank of New York Mellon.
Common Shares Held by the Selling Shareholder Immediately Prior to the GDR Offering	8,756,202,348 common shares, representing 74.7 per cent. (on a consolidated basis) of the Bank’s share capital.
Common Shares Held by the Selling Shareholder Immediately After the GDR Offering	7,583,538,228 common shares, representing 64.7 per cent. of the Bank’s share capital.
Use of Proceeds	The Bank will not receive any of the proceeds from the GDR Offering. The Selling Shareholder expects to receive gross proceeds of U.S.$344,470,085.25 and net proceeds of approximately U.S.$332 million from the GDR Offering after deduction of its share of the GDR Offering expenses (including underwriting commissions with respect to the GDRs offered by it in the GDR Offering).
Managers	Deutsche Bank and J.P. Morgan have been appointed Joint Global Coordinators and Joint Bookrunners for the International Offering.

	Renaissance Capital has been appointed as the Joint Bookrunner for the International Offering. JSC Halyk Finance has been appointed Joint Global Coordinator and Joint Bookrunner for the Domestic Offering.
Listing and Trading	The existing common shares of the Bank are traded on the Kazakhstan Stock Exchange under the symbol "HSBK". The existing GDRs are traded on the London Stock Exchange under the symbol "HSBK". Pursuant to the prior applications made to the FCA and the London Stock Exchange in relation to GDRs to be issued from time to time against the deposit of shares, the GDRs being offered pursuant to the GDR Offering will be admitted to trading from the date of their creation on the Closing Date. Accordingly, there will be no additional application made to the FCA, the London Stock Exchange or any other exchange in connection with the admission and trading of the GDRs being offered pursuant to the GDR Offering. Application has been made to the AIX to: (i) admit the GDRs and the Shares to the official list of the AIX; and (ii) admit the GDRs and the Shares to trading on the AIX. Trading on the AIX is expected to start on 9 October 2019.
Settlement	The GDRs being offered pursuant to the GDR Offering are expected to be delivered on or around 8 October 2019 (the "Closing Date").
Lock-up Arrangements	The Bank has agreed that, without the prior written consent of Deutsche Bank and J.P. Morgan, it will not issue, offer, pledge, sell, contract to sell or otherwise dispose of any common shares or securities convertible into common shares for a period of 365 days from the Closing Date, subject to certain exceptions. The Selling Shareholder has agreed that, without the prior written consent of Deutsche Bank and J.P. Morgan, it will not offer, pledge, sell, contract to sell or otherwise dispose of any common shares of the Bank or securities convertible into common shares of the Bank for a period of 365 days from the Closing Date, subject to certain exceptions. See "*Plan of Distribution—Lock-up Arrangements*".
Transfer Restrictions	The GDRs being offered pursuant to the GDR Offering are subject to transfer restrictions in certain jurisdictions. Prospective purchasers should read the restrictions described under "*Selling and Transfer Restrictions*".
Dividend Policy	See "*Dividend Policy*".
ISIN	Rule 144A GDRs: US46627J2033 Regulation S GDRs: US46627J3023
CUSIP	Rule 144A GDRs: 46627J203 Regulation S GDRs: 46627J302
Risk Factors	Prospective investors should read the information discussed under the heading "*Risk Factors*" and other information in this Offering Memorandum prior to making an investment decision with respect to the GDRs being offered pursuant to the GDR Offering.

SUMMARY HISTORICAL AND OTHER FINANCIAL INFORMATION

The following selected financial information as at and for the six months ended 30 June 2019 and 2018 has been extracted from the Unaudited Interim Condensed Consolidated Financial Information, and the Audited Financial Statements as at and for the financial years ended 31 December 2018, 2017 and 2016 have been extracted from the Audited Financial Statements. The selected financial information is qualified by, and should be read in conjunction with, the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", as well as the Unaudited Interim Condensed Consolidated Financial Information and the Audited Financial Statements, including the notes thereto, incorporated by reference into this Offering Memorandum. This financial information is historical and not necessarily indicative of results to be expected in any future period.

Statement of Profit or Loss and Other Comprehensive Income

The following table shows the unaudited interim condensed consolidated statements of profit or loss for the six months ended 30 June 2019 and 2018 and audited consolidated statements of profit or loss for the years ended 31 December 2018, 2017 and 2016:

	For the six months ended 30 June			For the years ended 31 December			
	2019		2018	2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*		*(U.S.$ millions)*[(1)]	*(KZT millions)*		
	(unaudited)						
Continuing Operations:							
Interest income calculated using effective interest method	929.8	352,540	332,042	1,960.2	675,699	497,597	306,557
Other interest income	9.3	3,544	2,697	18.4	6,342	8,731	26,006
Interest expense	(437.4)	(165,824)	(170,330)	(968.3)	(333,772)	(257,805)	(160,549)
Net interest income before credit loss expense	501.8	190,260	164,409	1,010.3	348,269	248,523	172,014
Credit loss expense	(33.5)	(12,686)	(22,876)	(92.8)	(31,995)	(67,302)	(25,308)
Net interest income	468.4	177,574	141,533	917.5	316,274	181,221	146,706
Fee and commission income	152.1	57,684	54,386	328.5	113,241	87,640	57,697
Fee and commission expense	(65.3)	(24,756)	(17,973)	(113.2)	(39,006)	(26,732)	(11,295)
Fees and commissions, net	86.8	32,928	36,413	215.4	74,235	60,908	46,402
Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(59.3)	(22,489)	28,763	331.2	114,158	31,423	(12,710)
Net realised gain from financial assets at fair value through other comprehensive income (2017 and 2016: IAS 39— available-for-sale Investment securities)	6.3	2,399	2,960	7.0	2,428	1,064	2,623
Net gain/(loss) on foreign exchange operations	85.7	32,479	(5,062)	(187.3)	(64,577)	(4,949)	18,506
Insurance underwriting income	116.2	44,040	32,119	195.3	67,315	55,108	28,071
Share in profit of associate	8.4	3,197	705	8.4	2,899	—	—
Other income	46.4	17,584	22,226	63.1	21,765	23,618	6,486

	For the six months ended 30 June			For the years ended 31 December			
	2019		2018	2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*		*(U.S.$ millions)*[(1)]	*(KZT millions)*		
	(unaudited)						
Other non-interest income	203.6	77,210	81,711	417.7	143,988	106,264	42,976
Operating expenses	(166.9)	(63,265)	(68,937)	(398.1)	(137,223)	(105,797)	(66,341)
Loss from impairment of non-financial assets	—	—	(30,308)	(79.2)	(27,308)	(6,533)	(2,218)
(Other credit loss expense)/ recoveries of other credit loss expense	(5.5)	(2,081)	2,347	46.3	15,951	1,737	(44)
Insurance claims incurred, net of reinsurance	(107.9)	(40,898)	(30,331)	(174.0)	(59,986)	(48,615)	(24,799)
Non-interest expenses	(280.2)	(106,244)	(127,229)	(605.1)	(208,566)	(159,208)	(93,402)
Income before income tax expense	478.6	181,468	132,428	945.5	325,931	189,185	142,682
Income tax expense	(45.5)	(17,239)	(57,197)	(239.3)	(82,474)	(25,598)	(22,183)
Profit for the period from continuing operation	433.2	164,229	75,231	706.3	243,457	163,587	120,499
Discontinued Operations:							
Profit for the period from discontinued operations	—	—	9,974	28.9	9,974	9,876	10,913
Net profit	433.2	164,229	85,205	735.2	253,431	173,463	131,412
Attributable to:							
Non-controlling interest	—	—	(969)	(2.3)	(807)	101	—
Common shareholders	433.2	164,229	86,174	737.5	254,238	173,362	131,412
Basic and diluted earnings per share (KZT)	0.04	14.06	7.84	0.1	22.75	15.77	11.96
Basic and diluted earnings per share from continuing operations (KZT)	0.04	14.06	7.52	0.1	21.86	14.88	10.99

Note:

(1) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

Statement of Financial Position

The following table shows the unaudited interim condensed consolidated statements of financial position as at 30 June 2019 and 2018 and the audited consolidated statements of financial position as at 31 December 2018, 2017 and 2016:

	As at 30 June		As at 31 December			
	2019		2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*	*(U.S.$ millions)*[(1)]	*(KZT millions)*		
	(unaudited)					
Assets						
Cash and cash equivalents	5,548.0	2,111,184	4,568.3	1,755,138	1,780,548	1,774,519
Obligatory reserves	296.8	112,958	301.3	115,741	111,039	76,122
Financial assets at fair value through profit or loss	504.2	191,856	486.3	186,836	144,976	328,737
Amounts due from credit institutions	135.0	51,357	143.2	55,035	87,736	35,542
Available-for-sale investment securities	—	—	—	—	2,565,425	599,624
Financial assets at fair value through other comprehensive income	3,772.5	1,435,565	4,596.4	1,765,933	—	—
Debt securities at amortised cost, net of allowance for expected credit losses	2,864.3	1,089,944	2,748.3	1,055,907	—	—
Precious metals	8.6	3,269	9.1	3,496	5,111	1,684
Loans to customers	9,178.2	3,492,575	9,060.6	3,481,079	3,251,102	2,319,583
Investment property	117.1	44,568	153.2	58,868	37,517	30,146
Commercial property	254.6	96,898	183.0	70,318	48,774	10,202
Assets held-for-sale	147.1	55,990	146.1	56,129	552,405	10,297
Investments in associates	63.7	24,252	53.2	20,437	—	—
Current income tax assets	70.6	26,853	89.7	34,478	15,320	3,222
Deferred income tax assets	0.6	214	0.8	323	517	831
Property and equipment	345.2	131,365	340.9	130,987	137,684	94,897
Intangible assets	23.2	8,819	22.0	8,435	8,251	9,179
Goodwill	8.1	3,085	8.0	3,085	3,085	4,954
Insurance assets	152.3	57,944	170.9	65,651	40,162	28,354
Other assets	316.5	120,453	237.2	91,148	68,129	20,590
Total assets	23,806.7	9,059,149	23,318.6	8,959,024	8,857,781	5,348,483
Liabilities and equity						
Liabilities						
Amount due to customers	16,346.8	6,220,463	16,988.4	6,526,930	6,131,750	3,820,662
Amounts due to credit institutions	1,252.7	476,703	438.3	168,379	255,151	162,134
Financial liabilities at fair value through profit or loss	31.2	11,857	18.3	7,022	5,831	2,841
Debt securities issued	2,374.4	903,536	2,344.6	900,791	962,396	584,933
Current income tax liability	8.8	3,334	474.9	126	2,720	3,311
Deferred tax liability	165.7	63,037	172.3	66,188	8,789	23,181
Provisions	12.3	4,695	6.6	2,546	16,098	987
Insurance liabilities	494.2	188,061	474.9	182,441	139,543	64,374
Other liabilities	157.3	59,868	101.4	38,955	66,419	20,467
	20,843.4	7,931,554	20,545.0	7,893,378	7,588,697	4,682,890
Liabilities directly associated with assets classified as held for sale	—	—	—	—	334,627	—
Total liabilities	20,843.4	7,931,554	20,545.0	7,893,378	7,923,324	4,682,890

	As at 30 June		As at 31 December			
	2019		2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*	*(U.S.$ millions)*[(1)]	*(KZT millions)*		
	(unaudited)					
Equity						
Share capital	549.3	209,027	544.1	209,027	143,695	143,695
Share premium reserve	4.8	1,839	4.8	1,839	1,839	1,911
Treasury shares	(292.5)	(111,320)	(290.1)	(111,441)	(104,234)	(103,121)
Retained earnings and other reserves	2,701.6	1,028,043	2,514.9	966,215	820,716	623,108
	2,963.2	1,127,589	2,773.7	1,065,640	862,016	665,593
Non-controlling interest	0.02	6	0.02	6	72,441	—
Total equity	2,963.2	1,127,595	2,773.7	1,065,646	934,457	665,593
Total liabilities and equity	23,806.7	9,059,149	23,318.6	8,959,024	8,857,781	5,348,483

Note:

(1) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

RISK FACTORS

Prospective investors should consider all of the information in this Offering Memorandum, including the following risk factors, before making an investment decision with respect to the GDRs. If any of the events described below actually occurs, the Bank's business, financial condition, results of operations or prospects could be materially adversely affected, and the value and trading price of the GDRs may decline, resulting in a loss of all or a part of any investment in the GDRs. Furthermore, the risks described below are not the only risks the Bank faces. Additional risks not currently known, or which are currently believed by the Bank to be immaterial, may also have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

Risk Factors Relating to Kazakhstan

Emerging markets are generally subject to greater risk than more developed markets, and actual and perceived risks associated with investing in emerging economies could adversely affect foreign investment in Kazakhstan

Emerging markets, such as Kazakhstan, are subject to greater risk than more developed markets, including significant legal, economic and political risks. For example, the continued instability and unrest in Ukraine and related events have had, and may continue to have, an adverse effect on the Russian economy, which could have a "contagion effect" on economies in the region, including Kazakhstan given that it is a close trading partner of Russia. In connection with such instability and unrest in Ukraine, the European Union (the "EU") and the United States have imposed sanctions on certain individuals and companies in Russia, and Russia has imposed trade sanctions on certain goods and services originating in the EU and the United States. See "—*Sanctions imposed on Russia could have an indirect adverse impact on Kazakhstan's economy and on the Bank*". Although the sanctions have so far had a limited effect on trade between Kazakhstan and Russia, if the instability in Ukraine continues, tensions between Russia and Ukraine escalate further or new tensions between Russia and other countries emerge, or if further economic or other sanctions, such as further limitations on trade, are imposed in response to such instability and tensions, this could have a further adverse effect on the economies in the region, including Kazakhstan's economy, as well as on companies and banks active in the region, including the Bank.

In addition, in emerging markets such as Kazakhstan, fraud, bribery and corruption are more commonplace than in other more developed markets. Instances of fraud, bribery and corruption, and violations of laws and regulations in Kazakhstan could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations. See "—*Corruption could create an unfavourable business climate in Kazakhstan*".

The availability of credit to entities operating within the emerging markets is also significantly influenced by the level of investor confidence in such markets as a whole and, as such, any factors that affect investor confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

Emerging economies such as Kazakhstan's are subject to rapid change, and the information set out in this Offering Memorandum may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisers before making an investment in the GDRs.

Financial problems or an increase in the perceived risks associated with investing in emerging economies may adversely affect foreign investment in Kazakhstan, Kazakhstan's economy and capital markets more generally. Companies operating in emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. The financial turmoil in any emerging economy, in particular those in the Commonwealth of Independent States (the "CIS") or Central Asian regions, which have in the past experienced significant political instability, including terrorism and internal conflicts, could negatively affect the Kazakhstan economy. Over the past few years, Kazakhstan's economy, and particularly its banking sector, has encountered a period of instability. Kazakhstan has experienced an elevated inflation rate and, as a result, the credit ratings of a number of major banks in Kazakhstan have been downgraded. Inflationary pressures in Kazakhstan are a significant factor affecting the Bank's earnings and expenses. In August 2015, the NBRK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy. According to the NBRK, after the increase of inflation in 2015 to 13.6 per cent., which was driven by the devaluation of Tenge, the rate of inflation decreased to 8.5 per cent. in 2016, 7.1 per cent. in 2017 and 5.3 per cent. in 2018. For the first six months of 2019, the inflation rate was 2.6 per cent., while in June 2019 the inflation rate was 5.4 per cent. on a year-on-year basis.

No assurance can be given that the crisis in the Kazakhstan banking sector will not continue or worsen or that inflation will not continue to increase. A decline in the Kazakhstan economy could seriously disrupt the Bank's business, which could, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations. For the first six months of 2019 the inflation rate was 2.6 per cent., while in June 2019 the inflation rate was 5.4 per cent. on a year-on-year basis.

The Bank's financial position and its results of operations are dependent on the legal, economic and political conditions prevailing in Kazakhstan and its neighbouring regions, as well as broader global trends

The Bank's financial position and results are dependent on the macroeconomic developments in Kazakhstan. Kazakhstan, in turn, depends on neighbouring states to access the world markets for a number of its major exports, including oil, natural gas, steel, copper, ferro-alloys, iron ore, aluminium, coal, lead, zinc and wheat. Kazakhstan is therefore reliant on good relations with its neighbours to ensure its ability to export. As a result, Kazakhstan has taken various steps to promote regional economic integration among neighbouring states, including accession to the Eurasian Economic Union, along with Russia, Belarus, Kyrgyzstan and Armenia. Should access to those export routes be materially impaired or the economic factors in the regional markets deteriorate, this could adversely impact the economy of Kazakhstan.

In addition, Kazakhstan could be adversely affected by the political unrest in the Central Asia region. Moreover, similar to other countries in Central Asia, Kazakhstan could be adversely affected by terrorism, military or other actions taken against sponsors of terrorism within Kazakhstan and in the wider region. Since the dissolution of the Soviet Union in 1991, a number of former Soviet Republics have experienced periods of political instability, civil unrest, military action and popular changes in governments or incidents of violence. In the summer of 2016, two terrorist attacks by militants in the cities of Almaty and Aktobe resulted in multiple deaths. Moreover, adverse economic, political or social factors in other jurisdictions within or outside the region may also adversely impact the Kazakhstan economy.

In addition, recent trade-related actions taken by the United States and China have resulted in increased market volatility, weakened business and consumer confidence, negative impact on the foreign exchange rates and diminished expectations for economic growth globally. Most of the Bank's customers have been significantly impacted by the ongoing trade war as such customers have close trade relationships with China. To the extent that the economic conditions fail to improve or worsen as a result of the trade war, there may be a decline in demand for the Bank's products which may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows, results of operations and the trading price of the GDRs.

Outside of Kazakhstan and the CIS, certain Eurozone economies may continue to suffer financial and political difficulties, high levels of indebtedness and budgetary constraints while there are signs of a noticeable slowing of economic growth in China. These factors bring significant uncertainty in predicting economic growth in the global economy, and in Kazakhstan in particular. Continued general deterioration in the world economy, including declines in economic activity, business and consumer confidence, slowing or reversal of growth in household income, unemployment trends, the state of the housing market, the commercial real estate sector, equity markets, bond markets, foreign exchange markets, counterparty risk, inflation, the availability and cost of credit, lower transaction volumes in key markets, the liquidity of the global financial markets and market interest rates, would further reduce the level of demand for, and supply of, the Bank's products and services. Any future legal, economic or political instability in Kazakhstan or its neighbouring regions, as well as broader negative macro trends globally may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank's credit rating may be constrained by the sovereign credit rating of Kazakhstan

In July 2017, Moody's Investors Service Ltd. ("Moody's") changed the outlook of Kazakhstan's credit rating stable from negative on the basis of Moody's assessment that the adjustment of Kazakhstan's economy, public finances and banking system to structurally lower oil prices had advanced. In September 2017, S&P Global Ratings Europe Limited ("S&P") changed the outlook of Kazakhstan's credit rating from negative to stable. S&P and Moody's confirmed Kazakhstan's sovereign credit rating in September 2018 and April 2018, respectively. In August 2019, Moody's changed the outlook of Kazakhstan's credit rating to from stable to positive. On 6 September 2019, S&P affirmed the outlook of Kazakhstan's credit rating as stable. As of the date of this Offering Memorandum, Kazakhstan has credit ratings of BBB- by S&P with a stable outlook, Baa3 by Moody's with a positive outlook and BBB by Fitch Ratings Limited ("Fitch") with a stable positive outlook. Any further changes to Kazakhstan's outlook or a rating downgrade may result in changes to the outlook or ratings of the

Bank, which may, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan is heavily dependent on export trade and commodity prices, and weak demand for its export products and low commodity prices may adversely affect Kazakhstan's economy in the future

Kazakhstan produces and exports large quantities of crude oil, natural gas and other resources. In 2018, 75 per cent. of Kazakhstan's exports were mineral products including oil and 21 per cent. of total GDP was oil sector contribution, which makes the country's economy particularly vulnerable to fluctuations in global commodities prices. As at the date of this Offering Memorandum, crude oil prices are at levels significantly below prices seen in 2010 to 2015 and have been particularly volatile in recent years. The price of Brent Crude oil reached a peak in March 2012 and began to significantly decrease in the second half of 2014 from U.S.$112.36 per barrel of Brent Crude oil on 30 June 2014 to U.S.$55.27 per barrel on 31 December 2014, and continued to decrease in 2015, reaching U.S.$37.28 per barrel on 31 December 2015. Brent Crude oil prices continued to decline in 2016, falling below U.S.$28.00 per barrel in January 2016, the lowest Brent Crude oil price since 2004. While the Brent Crude oil price has since recovered to U.S.$66.55 per barrel on 30 June 2019, it continues to be volatile and unstable. Kazakhstan's economic growth slowed between 2014 and 2016, in large part because of the fall in oil prices. Domestic demand was also affected by the decrease in consumer purchasing power and consumer confidence after the Tenge devaluations in February 2014 and August 2015. A weaker external demand (mainly from China, certain European countries and Iran) and lower prices for oil as well as for metal ores have caused Kazakhstan's current account and fiscal balances to deteriorate and have had a negative effect on Kazakhstan's economy since 2014. As a result, Kazakhstan's budget deficit increased from 1.6 per cent. in 2016 to 2.7 per cent. in 2017 followed by a decrease to 1.4 per cent. in 2018, with the current account balance improving from negative 5.9 per cent. in 2016 to negative 3.1 per cent. in 2017 and negative 0.0 per cent. in 2018. The real GDP growth in Kazakhstan increased from 1.1 per cent. in 2016 to 4.1 per cent. in 2017 and 4.1 per cent. in 2018. Real GDP growth year-on-year in the six months ended 30 June 2019 was 4.1 per cent., as compared to 4.2 per cent. in the six months ended 30 June 2018. Any deterioration in oil and commodity prices might adversely affect Kazakhstan's economy in the future, which may, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Currency control legislation may affect the Bank's foreign currency dealings, and further devaluations of the Tenge could have an adverse impact on Kazakhstan's public finances and economy

Pursuant to the Kazakhstan's Law "On Currency Regulation and Currency Control" dated 2 July 2018, as amended (the "Currency Law"), the Government of Kazakhstan (the "Government") has the right to impose, under certain emergency circumstances, restrictions in respect of currency operations of residents and non-residents of Kazakhstan. Such restrictions may be imposed within the framework of the "special currency regime" introduced by the Government upon consultation with the NBRK and other relevant state bodies if there is a threat to the economic security of Kazakhstan and the stability of its financial system. For example, the Government may require, among other things, that certain currency operations may be carried out only upon obtaining a prior permit from the NBRK, impose restrictions on the use of foreign bank accounts and/or require funds from currency operations to be deposited with a non-interest-bearing deposit account with Kazakhstan-authorised banks or the NBRK.

Moreover, the Government may also impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened. Kazakhstan has not applied the special currency regime so far.

The Currency Law also restricts the conversion of the Tenge into foreign currency. Specifically, under the Currency Law, resident legal entities (other than banks) can convert the Tenge into foreign currency (up to an equivalent of U.S.$100,000) for purposes other than repaying foreign currency-denominated obligations only within certain limits. In order for Kazakhstan to remain in compliance with its membership obligations under the Charter of the International Monetary Fund, the new currency regime may not restrict residents from repaying foreign currency-denominated obligations. It is not clear at this stage how the new currency control regime would ultimately impact the Bank, including its effect on the Bank's fee generation ability from foreign currency conversion services. However, significant restrictions on the Bank's foreign currency dealings could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Although the Tenge is convertible for current account transactions, it is not a fully convertible currency for capital account transactions outside of Kazakhstan. Since the NBRK adopted a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. On 11 February 2014, the NBRK devalued the Tenge by 18.3 per cent. to KZT 184.50 per U.S.$1.00. The NBRK stated that such devaluation was made in light of the situation in the global financial and commodity markets and the depreciation of the Russian Rouble over the course of 2013 and 2014. Effective 21 August 2015, the Government implemented a transition to a freely floating exchange rate. Following the floating of the currency, the exchange rate has continued to fluctuate significantly. The exchange rate on 30 June 2019 was KZT 380.53 per U.S.$1.00 compared to KZT 384.20 per U.S.$1.00 on 31 December 2018, KZT 332.33 per U.S.$1.00 on 31 December 2017 and KZT 333.29 per U.S.$1.00 on 31 December 2016. This exchange rate fluctuation has negatively affected the Bank in a number of ways, including by increasing the actual costs to the Bank of financing its U.S. Dollar-denominated liabilities, making it more difficult for Kazakhstan borrowers to service their U.S. Dollar-denominated loans and increase the Bank's foreign currency-denominated deposit base. See "*—Risk Factors Relating to the Bank—The Bank faces risks associated with devaluation of the Tenge*".

There can be no assurance that, by itself or coupled with other inflationary pressures, the Tenge devaluations will not lead to an increase in inflation in the future. In addition, there can be no assurance that the NBRK will intervene to prevent any future volatility in the financial system. Any change in the NBRK's exchange rate policy or further devaluations of the Tenge could have an adverse effect on Kazakhstan's public finances and economy, which could, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Should the new President of Kazakhstan deviate from the policies put in place by former President Nursultan Nazarbayev, the socio-political and macroeconomic situation in Kazakhstan could become unstable

The former President of Kazakhstan, Nursultan Nazarbayev, served in office from 1991, when Kazakhstan became an independent sovereign state, until 19 March 2019, when he resigned and appointed Kassym-Jomart Tokayev as acting President of Kazakhstan pending snap presidential elections. On 9 June 2019, Kassym-Jomart Tokayev was elected the new President of Kazakhstan for a five-year term. The former President Nazarbayev will remain Elbasy (Leader of the Nation), the head of the Security Council of Kazakhstan, and the leader of the ruling Nur Otan political party, which is likely to afford him a significant degree of ongoing political influence and power to determine the country's external and domestic policies. If President Tokayev's administration deviates from the policies put in place by former President Nazarbayev, including, among others, the continuation of existing foreign policy, the openness of Kazakhstan to foreign investors, liberalisation and privatisation, the economy in Kazakhstan may be adversely affected. In addition, the political instability in Kazakhstan or changes to its property, tax or regulatory regimes or other changes, resulting from a new administration or otherwise, could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Sanctions imposed on Russia could have an adverse impact on Kazakhstan's economy and on the Bank

The United States and the EU (as well as other nations, such as Australia, Canada, Japan and Switzerland) have imposed sanctions on certain Russian and Ukrainian persons and entities in connection with the current conflict in Ukraine. The sanctions imposed to date have had an adverse effect on the Russian economy, prompting downward revisions to the credit ratings of the Russian Federation and a number of major Russian companies that are ultimately controlled by the Russian Federation or certain Russian persons, causing extensive capital outflows from Russia and impairing the ability of Russian issuers to access the international capital markets. Given the further sanctions imposed by the United States in 2018 and 2019, it is unlikely that these adverse conditions will improve in the near future.

While Kazakhstan maintains strong diplomatic relationships with both Russia and Ukraine and has confirmed its neutral position with respect to the tensions between the two countries, Kazakhstan has significant economic and political relations with Russia. Russia and Kazakhstan, together with Belarus, are members of the Customs Union and Common Economic Space and have established the Eurasian Economic Union (the "EEU") with effect from 1 January 2015. Armenia and Kyrgyzstan joined the EEU in January 2015 and August 2015, respectively. The EEU largely represents a continuation of the Customs Union and Common Economic Space structures that have been in place since 1 January 2010 and 1 January 2012, respectively, and is expected to continue to strengthen Kazakhstan's economic relations with Russia. In 2018, based on actual trade flows, Kazakhstan's imports from Russia accounted for 38.1 per cent. of Kazakhstan's total imports, and its exports to Russia accounted for 8.5 per cent. of its total exports. In addition, a significant amount of the natural gas transported through Kazakhstan's natural gas pipeline system is transported to Russia or from one part of Russia to another through Kazakhstan's territory.

As at 30 June 2019, according to statistics published by the NBRK, the total assets of four Russian banks operating in Kazakhstan (JSC SB Sberbank, JSC SB Alfa-Bank, VTB Bank (Kazakhstan) and JSC SB Home Credit) represented 12.0 per cent. of the total assets of the Kazakhstan banking sector. Primarily due to the effects of the recent increase in commodity prices, Kazakhstan's trade turnover with Russia increased by 10 per cent. between 2017 and 2018, and it may continue to increase further, as may the activities of the Russian banks operating in Kazakhstan. Kazakhstan's close economic links with Russia, the existing sanctions imposed on Russia or any future sanctions could have a material adverse effect on Kazakhstan's economy, which could, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Moreover, the Bank has a wholly-owned subsidiary, JSC CB Moskommertsbank ("Moskom"), which is based in Russia. Moskom's financial results over the past few years have been partly affected by the stagnated lending environment in Russia. The sanctions imposed on Russian entities, as well as low oil prices, have contributed to this stagnation. If the sanctions are not lifted or further sanctions are imposed in the future, this could, in part, continue to restrict Moskom's business, which could, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Kazakhstan's legislative, tax and regulatory framework is underdeveloped and evolving; therefore, court decisions can be difficult to predict, and tax liabilities can be difficult to ascertain

Although a large volume of legislation has been enacted since early 1995 (including new tax codes enacted in 2002, 2009 and January 2018) and new laws relating to foreign arbitration and foreign investment, additional regulation of the banking sector and other legislation covering such matters as securities exchanges, economic partnerships and companies, and state enterprise reform and privatisation throughout the period, the legal framework in Kazakhstan (although one of the most developed among the countries of the former Soviet Union) is still evolving compared to countries with established market economies.

The judicial system, judicial officials and other Government officials in Kazakhstan may not be fully independent of external social, economic and political forces. For example, there have been instances of improper payments being made to public officials. Therefore, court decisions can be difficult to predict, and administrative decisions have on occasion been inconsistent. Kazakhstan is a civil law-based jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. See "*—The Kazakhstan judiciary's lack of experience and perceived lack of independence, the difficulty of enforcing judgments and awards, and governmental discretion in enforcing claims could prevent the Bank or holders of the Shares and the GDRs from obtaining effective redress in a court proceeding*".

Furthermore, the legal and tax authorities may make arbitrary judgments and assessments of tax liabilities and challenge previous judgments and tax assessments, thereby rendering it difficult for companies to ascertain whether they are liable for additional taxes, penalties and interest. As a result of these ambiguities, including, in particular, the uncertainty surrounding judgments rendered under the Code of the Republic of Kazakhstan "On Taxes and Other Mandatory Payments to the Budget" introduced with effect from 1 January 2018 (as amended) (the "Tax Code"), as well as a lack of an established system of precedent or consistency in legal interpretation, the legal and tax risks involved in doing business in Kazakhstan are substantially more significant than those in jurisdictions with a more developed legal and tax system.

The continuing evolvement of Kazakhstan's tax and other regulation may result in the reduced predictability of the regulatory landscape and may cause difficulties in interpretation in the absence of court precedents or guidance from the regulators, which could be significant and have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Kazakhstan judiciary's lack of experience and perceived lack of independence, the difficulty of enforcing judgments and awards, and governmental discretion in enforcing claims could prevent the Bank or holders of the Shares and the GDRs from obtaining effective redress in a court proceeding

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Kazakhstan cannot be guaranteed. The judicial system is often understaffed and underfunded. Judges are generally inexperienced in business and corporate law matters. Not all Kazakhstan legislation and court decisions are readily available to the public or organised in a manner that facilitates understanding. The Kazakhstan judicial system can be slow and court orders are not always enforced or followed by law enforcement agencies. All of these shortcomings may affect the ability of the Bank or holders of the GDRs to obtain effective legal redress in Kazakhstan courts. In addition, the press has reported that court claims and government prosecutions are often used to further political aims that the courts support. The Bank may be subject to such political claims and may not receive a fair hearing.

The Republic of Kazakhstan is not a party to any multilateral or bilateral treaties with the United Kingdom or the United States (or indeed most western jurisdictions) for the mutual enforcement of court judgments. While the law effective from 1 January 2016 provides for enforcement of foreign court awards on the basis of reciprocity, there is no guidance or practice on this matter and currently it is uncertain whether or not Kazakhstan courts will enforce decisions from foreign courts on such a basis.

The Republic of Kazakhstan is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention"). However, the New York Convention has not been ratified by the Republic of Kazakhstan. Therefore, the New York Convention shall apply to the extent it does not contradict Kazakhstan law. Accordingly, a foreign arbitral award obtained in a state which is party to the New York Convention will be enforceable by a Kazakhstan court, subject to (i) the qualifications in the New York Convention and (ii) compliance with the Kazakhstan civil procedure and the procedures established by the Kazakhstan law on commercial arbitration for the enforcement of arbitral awards.

In practice, reliance upon international treaties (such as the New York Convention) can require the relevant Kazakhstan officials to be educated as to the effect and procedures under the treaty. The procedures applied by the relevant Kazakhstan officials may not be entirely consistent with the legislation relating to procedure or with court rules. This could delay enforcement procedures in the Republic of Kazakhstan, particularly if enforcement is sought to be made in courts outside the principal commercial centres such as Almaty and Nur-Sultan.

Furthermore, claims arising from the use of the infrastructure of the AIX by virtue of the Shares being listed and GDRs being listed and traded on the AIX will be subject to consideration by the recently created court of the Astana International Financial Centre, which operates on the principles of English law. However, due to its very limited history of operation, the outcome of any such proceedings are difficult to predict. These uncertainties make judicial decisions in Kazakhstan difficult to predict and effective redress uncertain and could have a material adverse effect on the price of the GDRs.

Corruption could create an unfavourable business climate in Kazakhstan

Despite the changes in the political, legal and economic situation occurring in Kazakhstan since it became an independent country in 1991, instances of private and governmental corruption have been widely reported in the international media. International press reports have also contained allegations that Government officials have engaged in selective investigations and prosecutions of businesses and their management, boards of directors and shareholders in order to further the interests of the Government, individual Government officials or other business groups. Independent analysts, including analysts at Transparency International, have identified corruption as a problem in Kazakhstan. Among the countries and territories included in the 2018 Corruption Perceptions Index published by Transparency International, Kazakhstan ranked number 124, indicating that a perception of public sector corruption occurring within the country remains widespread. Any future allegations of corruption in Kazakhstan could have a negative effect on the ability of Kazakhstan to attract foreign investment, and thus have a negative effect on the economy of Kazakhstan, which could in turn have a material adverse impact on the Bank's business, prospects, financial condition, cash flows or results of operations.

The corporate governance and disclosure laws and practices in Kazakhstan that apply to the Bank are less developed than corresponding requirements applicable to corporations organised in the United States, the United Kingdom and other Western European countries

The Bank's corporate affairs are regulated by laws and regulations governing companies incorporated in Kazakhstan, including the JSC Law, Banking Law and the Bank's corporate governance code (the "Corporate Governance Code"), as well as the Bank's own charter. Although the Corporate Governance Code implements certain provisions of the UK Corporate Governance Code, such as those related to remuneration, performance evaluation, information and professional development of the directors, dialogue with shareholders, the establishment of audit, nomination and remuneration committees of the board of directors of the Bank (the "Board of Directors"), the corporate governance regime in Kazakhstan is generally less developed than that in the United States, the United Kingdom and other Western European countries. In addition, the rights of shareholders and the responsibilities of members of the Board of Directors and the management board of the Bank (the

"Management Board") under Kazakhstan law are different from, and may be subject to certain requirements not generally applicable to, corporations incorporated in the United States, the United Kingdom and other Western European countries.

A principal objective of the securities laws of the United States, the United Kingdom and other Western European countries is to promote the full and fair disclosure of all material corporate information to the public. Although the Bank is subject to certain UK and European law disclosure requirements by virtue of being listed on the London Stock Exchange, Kazakhstan requirements are less stringent than the comparable requirements in the United States, the United Kingdom and other Western European jurisdictions.

The Government intends to continue reforming the corporate governance regulations to which the Bank and all other joint stock companies are subject, with a view towards increasing disclosure and transparency in the corporate sector in order to promote growth and stability. There can be no assurance, however, that the Government will continue to pursue such policy in the future or that such policy, if continued, will ultimately prove to be successful.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and the rest of Western Europe, which may hinder the development of Kazakhstan's economy

An organised securities market was established in Kazakhstan in the mid-1990s and procedures for settlement, clearing and registration of securities transactions may, therefore, be subject to legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, including an initiative to develop Nur-Sultan as a regional financial centre and the related launch of the AIX, the sophisticated legal and regulatory frameworks necessary for the efficient functioning of modern capital markets have yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan as they are in the United States, the United Kingdom and other Western European countries, and existing laws and regulations may be applied inconsistently. In addition, less information relating to Kazakhstan entities is required to be made publicly available as compared to disclosure requirements for entities listed in the United States, the United Kingdom or other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan, which may hinder the development of Kazakhstan's economy, which could in turn have a material adverse effect on the Bank's business, prospects, financial condition, cash flows, results of operations and/or the price of the GDRs.

The lack of accurate official statistics and corporate and financial information in Kazakhstan may lead to uncertainties and may limit the ability of the Bank to assess customer credit risks accurately

Kazakhstan's system for gathering and publishing statistical information relating to its economy generally, or specific economic sectors within it, and corporate or financial information relating to companies or other economic enterprises, is not as comprehensive as those of many countries with established market economies. Official statistics and other data published by Kazakhstan authorities may not be as complete as those of more developed countries and may be produced on a different basis from those used in more developed countries. The Bank has not independently verified such official statistics and other data, and any discussion of matters relating to Kazakhstan in this Offering Memorandum is, therefore, subject to uncertainty due to questions regarding the completeness or reliability of such information. Specifically, investors should be aware that certain statistical information and other data contained in this Offering Memorandum have been extracted from official Government sources. See "*Market Share, Industry and Economic Data*".

Risk Factors Relating to the Kazakhstan Banking Sector

The instability of the global and the Kazakhstan credit markets and banking sectors could have a material adverse effect on the Bank's business, liquidity and financial condition

The global economy and the global financial system have experienced a period of significant turbulence and uncertainty in recent years, particularly the severe disruption of the financial markets around the world that began in August 2007 with adverse consequences for many large global commercial and investment banks, insurance companies and other financial institutions. Volatility and market disruption in the global banking sector and the financial markets continued through 2012 to 2016 for many reasons, including the European sovereign debt crisis, affecting, amongst others, Greece, Ireland, Portugal, Spain and Italy, and leading to concerns over the stability of the European monetary system, as well as the sovereign rating downgrades of, amongst others, the United States, the United Kingdom, France and Austria. This disruption has severely impacted general levels of liquidity and the availability of credit together with the terms on which credit is available and these liquidity constraints continue to impact the Kazakhstan banking sector and the Bank. Governments around the world, including that of Kazakhstan, have sought to inject liquidity into banking systems and to recapitalise their banking sectors to reduce the risk of systemic failure and increase confidence in the financial markets. This market disruption has also been accompanied by a slowdown in many economies including that of Kazakhstan.

The Kazakhstan banking sector has been particularly affected by the lack of availability of international wholesale debt financing and the volatility of deposits. Kazakhstan banks have historically relied heavily on such source of funding. If the Bank suffers from increased volatility of its deposit base, or if as a result of poor credit market conditions the Bank is unable to obtain further wholesale debt financing from the international loan and capital markets, this might adversely affect the Bank's operations and perceived stability. The effect of any of these conditions may be further exacerbated by a deterioration of the financial condition of other banks in Kazakhstan and could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Weaknesses in the global financial markets since the onset of the global financial crisis have also contributed to several major bank failures in Kazakhstan, consolidations (including that of the Bank and JSC Kazkommertsbank ("KKB")) and restructurings, all of which may continue in the short- to medium-term. See"*—Risks resulting from failures, consolidations or Government-supported restructurings in Kazakhstan's banking industry could adversely affect the Bank*". Certain industries have struggled to recover fully after this crisis, as demonstrated by the relatively weak demand for new loans from Kazakhstan banks by corporates and small and medium-sized enterprises ("SMEs") and still elevated levels of non-performing loans in the sector. There can be no assurance that the reforms recently implemented by the NBRK with the aim of reducing non-performing loans will be successful or sufficient (see "*The Banking Sector in Kazakhstan—Regulation of Banking Activities*"). There is also a high level of concentration in the banking sector, with the five largest banks, including the Bank, holding more than half of all customer deposits. There remains a risk that further reforms may be required to address and reduce systemic risk, the impact of which is not certain. In addition, there is a risk that further financial assistance to the banking sector may be needed from the State, which it may not be willing and/or able to provide.

Any of these factors could lead to lower volumes of collateral sales as well as write-downs and impairments of investments and negative fair value adjustments of assets, and could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Changes in liquidity support for the Kazakhstan banking sector, the NBRK minimum reserve requirements, capital reserve requirements and potential restrictions imposed by the NBRK may materially and adversely affect the Bank

Between 2008 and 2017, the NBRK and the Government took steps, including the provision of short-term liquidity support, to support the Kazakhstan banking sector from the recent instability in the financial markets. The measures taken included a recommendation that temporary excess cash of state-owned enterprises and joint stock companies which are wholly or partially owned by the Government, or controlled by the NBRK, should be deposited into local commercial banks, as well as the establishment by the NBRK of a non-performing loans fund to buy loans at risk of default from commercial banks. If the NBRK and the Government were to withdraw this funding from the banking sector, this would lead to decreased liquidity in the Kazakhstan banking sector, and likely result in an increase in the Bank's funding costs if the Bank had to attract alternative sources of funding at higher cost (see "*Business of the Bank—Government Support Programmes*").

In order to strengthen the requirements for bank capital, bank liquidity and bank leverage, the NBRK stated in January 2015 that it would begin to implement the standards of the Basel III International Convergence of Capital Measurement and Capital Standards (the "Basel III") with respect to bank capital adequacy, stress testing and market liquidity risk in Kazakhstan. The process of transition to the new standards for the Kazakhstan banking sector is incremental and had originally been expected to be completed by 2019. However, this timing was adjusted in October 2015, and the NBRK has postponed plans to adopt Basel III standards by 2021, while confirming its commitment to move gradually towards this goal. The recovery of the banking sector remains a top priority for the Government and the NBRK has adopted policies to strengthen oversight and capital requirements, de-dollarise assets and liabilities, resolve bad assets, and encourage consolidation.

In 2018, as part of the transition to the Basel III standards, the NBRK introduced new regulatory liquidity ratios: the liquidity coverage ratio ("LCR") and the net stable funding ratio, which the Bank must comply with. Moreover, the exact nature of the remaining requirements under the Basel III standards to be implemented and the timetable for the implementation may be subject to further change by the NBRK. These factors may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Risks resulting from failures, consolidations or Government-supported restructurings in Kazakhstan's banking industry could adversely affect the Bank

The Kazakhstan banking system remains under stress with banks seeking to deleverage through partial debt repayments of debt and debt restructurings. Although certain Kazakhstan banks have been restructured, further defaults and debt restructurings cannot be ruled out. As a result, the Bank may be exposed to the risk of further bank failures, which could result in the Government's resources becoming limited and result in a more selective allocation of the Government's available funds. Further bank failures might negatively affect customer and investor confidence in the stability of Kazakhstan's banking sector and hence might negatively affect the Bank's potential ability to attract further deposits and demand for loans.

In addition, certain Government-supported consolidations have also occurred since 2017. For example, in 2017, the controlling shareholder of KKB, Mr. Kenges Rakishev, approached the Bank with a request to consider an acquisition of a 71.31 per cent. stake in KKB. In 2017, following a Government-supported agreement for JSC BTA Bank ("BTA Bank") to repay certain indebtedness to KKB, the Bank acquired a combined 96.81 per cent. stake in KKB comprising 86.09 per cent. from Mr. Kenges Rakishev and 10.72 per cent. from JSC Sovereign Wealth Fund Samruk-Kazyna ("Samruk-Kazyna"). In July 2018, KKB merged into the Bank following a voluntary reorganisation. (see "*The Banking Sector in Kazakhstan—Effects of the Global Financial Crisis and the State Support to the Banking Sector of Kazakhstan—KKB*"). Consolidations (Government-supported or otherwise) can affect the Bank in a number of ways, including by creating difficulties in integrating the employees, systems and controls of acquired businesses into the Bank, as well increasing non-performing loan levels or provisions, and there can be no assurance that the Bank will be able to successfully manage these risks going forward.

In September 2018, the Government and the NBRK announced their intention to purchase certain agricultural loans from JSC TsesnaBank ("TsesnaBank"), one of the largest banks in Kazakhstan. The transaction was intended to increase TsesnaBank's liquidity and sustainability and improve the quality of its credit portfolio. In connection with this acquisition, in January 2019, JSC Fund of Problem Loans ("FPL") (which is a wholly-owned subsidiary of the Government) agreed to buy TsesnaBank's portfolio of agricultural loans for 604 billion Tenge. In February 2019, 99.5 per cent. of TsesnaBank's share capital was sold to JSC First Heartland Securities ("FHS") which is the investment division of the financial holding company of the group of autonomous educational organisations, including Nazarbayev University, Nazarbayev Intellectual Schools and Nazarbayev Fund. As a result of the acquisition, TsesnaBank was recapitalised by KZT 70 billion and renamed as JSC First Heartland Jusan Bank. On 27 June 2019, at the joint shareholders' meeting, it was resolved that JSC First Heartland Bank ("FHB") will acquire JSC First Heartland Jusan Bank.

In addition, in the past several years the NBRK terminated the licences of a number of mid-size banks, including those of JSC Delta Bank, JSC KazInvest Bank, JSC Qazaq Bank, JSC Bank Astana and JSC ExIm Bank, due to systematic violation of the banking legislation on prudential requirements (see "*The Banking Sector in Kazakhstan—Effects of the Global Financial Crisis and the State Support to the Banking Sector of Kazakhstan*"). In addition, if the NBRK continues to terminate banking licences, this could reduce the public's trust in banking services which may, in turn, lead to a decrease in the use of the Bank's services.

While the Government has implemented measures aimed at balancing the systemic risk, the Kazakhstan banks continue to experience liquidity difficulties. In 2017, the NBRK announced a U.S.$2 billion troubled asset facility, which was closed in February 2018, having limited participation in the programme to five mid-sized banks. Although the interdependency within Kazakhstan's banking industry is less than in certain other jurisdictions, the default of one or more institutions could lead to defaults by other institutions. Concerns about, or a default by, one or more institutions could also prevent the Bank from accessing international credit lines or raising new or additional funds in the international markets and could also significantly reduce depositors' confidence in the banking industry in general and in the Bank in particular. The commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships and, accordingly, such concerns or defaults could also lead to significant liquidity problems, losses or defaults by other institutions. This risk, referred to as "systemic risk" or "contagion risk", may adversely affect financial intermediaries, such as banks, securities firms and exchanges with whom the Bank interacts on a daily basis. This could, in turn, have a material adverse effect on the Bank's ability to raise new funds and have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Banking regulations in Kazakhstan are not as developed as in many western countries and any further changes to them might adversely affect the Bank's business

The Bank (including its subsidiaries) operates in a highly regulated environment. However, like most of Kazakhstan's legislation regarding business activities, Kazakhstan's laws regarding banking activities and consumer finance legislation have been adopted only relatively recently and are subject to change, which could be rapid and unexpected. Furthermore, starting from 1 January 2019, in order to enhance a risk-focused approach in bank regulation and supervision, the NBRK has expanded its supervisory powers of applying its "motivated" judgment in relation to the early identification of problem banks and taking measures in respect of such banks, and identifying related parties of the banks with a view to regulate related party transactions of banks. There is a risk that the NBRK may arbitrarily apply its "motivated" judgment while supervising the Bank. (See "*The Banking Sector in Kazakhstan—Regulation of Banking Activities—The NBRK's Powers under the Banking Law*"). In addition, there is also a risk that the NBRK may impose certain limitations on maximum levels of interest rates that banks can charge on specific types of loans as has been the case in other jurisdictions. Additionally, the Bank is subject to a risk that NBRK might impose a maximum level of interchange fees and certain other fee rates not associated with the bank loans. As at the date of this Offering Memorandum, second-tier banks in Kazakhstan, including the Bank, are subject to limitations (currently set at 56 per cent.) on the maximum level of annual effective interest rate on interests and fees (e.g. commissions) associated with bank loans that it can charge, which might change in the future.

It is difficult to forecast how changes in the banking and financial regulation may affect the Kazakhstan banking system, and no assurance can be given that the regulatory system will not change in a way that will impair the Bank's ability to provide a full range of banking and financial services, thus having a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations. In addition, the regulatory standards applicable to banks in Kazakhstan and the oversight and enforcement thereof by the relevant regulators may differ from those applicable to banking operations in countries with more developed regulatory regimes, including the United States, the United Kingdom and other Western European countries. As a result, prospective investors in the GDRs may not have the benefit of all of the protections available in such other countries.

The Bank depends on its banking and other licences

All banks operating in Kazakhstan require a licence by the NBRK, which also acts as the competent licensing and supervisory authority for companies engaged in securities and insurance services business in Kazakhstan. The Bank is subject to unannounced periodic reviews by the NBRK. Under the NBRK rules and regulations, repeated infractions (including immaterial findings) for violations of banking regulations could result in sanctions, such as administrative fines. The administrative fines are calculated in accordance with monthly calculation indexes (each, an "MCI") established by the Government budget for the respective year (in 2019 one MCI equals KZT 2,525 and in 2018 one MCI equalled KZT 2,405) and can range from 50 to 600 monthly calculation indexes (which is equivalent to KZT 126,250 to KZT 5,050,000) (depending on the type and nature of the infractions). The NBRK can also impose other sanctions for violation of prudential or other mandatory regulations (see "*The Banking Sector in Kazakhstan—Regulation of Banking Activities—The NBRK's Powers under the Banking Law*"). Although the Bank believes that it is in compliance with its existing material licence obligations as at the date of this Offering Memorandum, there is no assurance that the Bank will be able to maintain such licences in the future. If the Bank loses its general banking licence or such licence is temporarily suspended, the Bank will be unable to perform any banking operations. The loss of any of its licences, a temporary suspension thereof, a breach of the terms of a licence by the Bank or failure to obtain any further required licences in the future for any reason could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The National Bank of Kazakhstan is currently undertaking an asset quality review of banks in Kazakhstan, and the results of this review could have material adverse effects on the Bank

The National Bank of Kazakhstan is responsible for the regulatory supervision of all banks in Kazakhstan. The supervisory functions of the National Bank include, among other things, analysis of bank credit policies, review of lending practices and procedures, review of adequacy of provisions and stress testing banks' loan portfolios. In addition, on 1 August 2019 the NBRK initiated an Asset Quality Rating ("AQR") of the 14 largest banks in Kazakhstan, which together represent 87% of the total assets of the country's banking system. The AQR will be in accordance with the methodologies of the European Central Bank, as adjusted for the specifics of Kazakhstan legislation and local market conditions.

According to the NBRK, AQR is a prudential exercise designed to define capital requirements of banks, assess quality of credit portfolios and credit practices of banks. The aim of this exercise is to enhance the transparency of the banking sector, strengthen financial stability and increase the confidence of investors and depositors in the banking sector.

The AQR process is also enabled to define deviations from accounting principles or regulatory requirements with specific corrective measures which are expected from banks (including correction of balance sheet value of assets). These may result in corrections of regulatory capital and prudential capital adequacy ratios on the next reporting dates.

The results of these reviews are, by their very nature, uncertain and only partly predictable by the banks involved because the evaluation methods used may differ from the evaluation methods adopted by the individual banks involved.

The Bank does not exclude the possibility that, based on the AQR results, it may receive recommendations for further improvement of existing banking business processes and/or be required to take corrective measures. In addition, some AQR results might be recognised in the Bank's profit and loss statement, and the other AQR results will be taken into account as a regulatory buffer for capital adequacy ratios, depending on the reasons of adjustments.

Furthermore, a loss of confidence following poor results by the Kazakhstan banking sector as a whole, or market perception that the AQR is not rigorous enough, could have a negative effect on the cost of funding for the Bank and may therefore have a material adverse effect on its business, financial condition and results of operations.

Moreover, further stress tests or AQRs could be conducted in the future, or Kazakhstan banks could be required to meet more stringent capital requirements. If the Bank were to fail to meet any such new tests or requirements, it could have a material adverse effect on the Bank's business, financial condition and results of operations.

Risk Factors Relating to the Bank

The Bank faces risks associated with devaluation of the Tenge

Following the adoption by the NBRK of a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. On 11 February 2014, the NBRK devalued the Tenge by 18.3 per cent. to KZT 184.50 per U.S.$1.00 and on 21 August 2015, by 35.5 per cent. to KZT 255.26 per U.S.$1.00. Following the devaluation, the Tenge experienced significant fluctuation and, as a result, the NBRK introduced a number of exchange rate policies seeking to stabilise the Tenge. For example, in August 2015, the NBRK adopted a free-floating exchange rate and medium-term inflation targeting policy, however, this resulted in a 26.2 per cent. depreciation against the U.S. Dollar. The Tenge has continued to fluctuate significantly against the U.S. Dollar. The exchange rate on 30 June 2019 was KZT 380.53 per U.S.$1.00 compared to KZT 384.20 per U.S.$1.00 on 31 December 2018, KZT 332.33 per U.S.$1.00 on 31 December 2017 and KZT 333.29 per U.S.$1.00 on 31 December 2016.

The Bank's business is sensitive to currency exchange rate fluctuations, and the weakening of the Tenge against the U.S. Dollar and other foreign currencies has affected the Bank in a number of ways:

- The Bank maintains open currency positions which are affected by currency fluctuations, subject to regulatory limits on permitted currency exposures (see "*Asset, Liability and Risk Management—Foreign Currency Risk Management*"). Although the net effect of currency exposures on the Bank following the 2014 and 2015 devaluations was neutral, there can be no guarantee that any future significant exchange rate fluctuations, to the extent that the risks are not managed correctly, will not inflict losses on the Bank which have a material and adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.
- While the Bank's capital is denominated in Tenge, a significant part of its risk-weighted assets is denominated in foreign currencies. Consequently, the proportional increase in risk-weighted assets resulting from the Tenge devaluations has impacted the Bank's capital adequacy ratios. 84.1 per cent., 5.3 per cent. and 1.8 per cent. of the Bank's foreign currency-denominated assets are denominated in U.S. Dollars, Euros and Russian Roubles, respectively, as at 30 June 2019. As at 30 June 2019 and 31 December 2018, the Bank's assets denominated in foreign currencies represented 36.5 per cent. and 39.1 per cent., respectively, of the Bank's total assets. The Bank's risk-weighted assets increased to KZT 5,976 billion as at 30 June 2019, KZT 5,550 billion as at 31 December 2018 from KZT 5,396 billion as at 31 December 2017 and

KZT 3,303 billion as at 31 December 2016, including as a result of the devaluation effect of the Tenge. At the same time, the Bank's Tier I capital adequacy ratio increased to 18.3 per cent. as at 30 June 2019, 18.5 per cent. as at 31 December 2018 from 16.9 per cent. as at 31 December 2017 largely due to net profit generated by the Bank. Although the Bank believes that it has an adequate buffer, any further substantial currency devaluations may have a material adverse effect on the Bank's capital adequacy position and require further actions to remedy the shortfall, including capital injections. See also "*—A lack of available capital could adversely affect both the Bank's ability to comply with applicable capital adequacy ratios and the conduct of its business*".

- The depreciation of the Tenge against the U.S. Dollar has made it more difficult for some Kazakhstan borrowers to service their U.S. Dollar loans, especially borrowers whose revenues are predominantly in Tenge. As at 30 June 2019, 26.2 per cent. of the Bank's gross loans were denominated in U.S. Dollars., compared to 30.2 per cent, 27.4 per cent. and 31.1 per cent. as at 31 December 2018, 31 December 2017 and 31 December 2016, respectively. Although the Bank lends in U.S. Dollars primarily to legal persons with U.S. Dollar revenues or to retail customers who have made U.S. Dollar deposits with the Bank, any further Tenge devaluation may lead to a deterioration in the quality of the Bank's U.S. Dollar-denominated lending portfolio leading to higher credit risk concentrations and putting additional pressure on the Bank's capital and provisioning requirements. Additionally, fluctuations in exchange rate might cause the value of the Bank's loans to fluctuate. For further information about the amount of the Bank's U.S. Dollar-denominated loans, see "*Selected Consolidated Financial Data—Balance sheet data*". The Bank applies higher risk-weights to certain foreign denominated loans versus Tenge loans and, therefore, holds a higher level of capital against them. Specifically, the Bank applies higher risk-weights to foreign denominated loans issued after 1 January 2016 with a maturity of more than one year with no foreign currency revenue.

- The Tenge depreciation has also subjected the Bank to higher interest payments on its foreign currency-denominated liabilities when calculated in Tenge terms. The interest expense on debt securities issued increased by KZT 1,028 million, or 2.3 per cent., to KZT 45,125 million for the six months ended 30 June 2019 from KZT 44,097 million for the corresponding period in 2018, primarily due to the higher interest expense paid on outstanding balances of the Bank's U.S. Dollar-denominated Eurobonds. The Bank plans to continue to access the international debt capital markets, which subjects it to further risks inherent in currency fluctuations and the uncertainty of using these markets as a reliable funding source.

- The devaluation of the Tenge was accompanied by a significant increase in the dollarisation of the deposit base held by Kazakhstan banks, including the Bank, between the second half of 2014 and 2016, with a large proportion of the Bank's current accounts and deposits from customers being non-KZT-denominated (mainly in U.S. Dollar and Euro). Since 2014, various measures were introduced aimed at stimulating demand for Tenge deposits to reduce the level of dollarisation of the deposit base. For example, in January 2015, the NBRK reduced the maximum interest rate on foreign currency deposits from 4 per cent. per annum to 3 per cent. per annum (and then to 2 per cent. per annum from 1 February 2015). In addition, from 1 January 2017, the maximum interest rates recommended by the Kazakhstan Deposit Insurance Fund ("KDIF") began to apply to annual effective rates rather than to nominal rates from July 2017, and the maximum interest rate on new deposits from individuals in foreign currency recommended by the KDIF decreased further to 1.5 per cent. per annum. and then to 1 per cent. per annum from December 2017. From June 2019, the maximum interest rate on newly attracted savings and term deposits of individuals in foreign currency with maturities of 12 months and over increased to 2 per cent. per annum and remained at 1 per cent. per annum for on-demand deposits as well as for savings and term deposits in foreign currency with maturities of less than 12 months. In addition to the maximum interest rate on foreign currency deposits, to further stimulate demand for the Tenge, in January 2015, the NBRK increased the guaranteed amount of Tenge deposits from KZT 5 million to KZT 10 million. In 2016 and 2017, the recommended maximum interest rate for Tenge deposits remained at 14 per cent. In July 2018, the maximum interest rate on new deposits from individuals recommended by the KDIF in Tenge decreased to 12 per cent. per annum. In 2018, the KDIF introduced a new classification for Tenge-denominated deposits of individuals, according to which such deposits are divided into non-term (on-demand) deposits, term deposits and savings deposits. Under the new classification, the maximum interest rates for each of these classes vary depending on the maturity of the deposits. From June 2019, the same classification applied to foreign currency-denominated deposits of individuals. In July 2019, the KDIF stated that starting from September 2019 it will announce maximum interest rates on new deposits from individuals on a monthly basis. In addition, the KDIF stated that the maximum interest rates will be a sum of either a weighted average market interest rate or the NBRK base rate, depending on the type and maturity of the deposit, and a spread over that rate which will be set by the KDIF's board of directors. Currently, there is a stable trend of de-dollarisation of household deposits by way of converting foreign currency-denominated deposits into Tenge-denominated deposits. As at 30 June 2019, 48.5 per cent. of the Bank's current account and deposits from customers were KZT-denominated compared to 44.5 per cent. as at 31 December 2018 and 44.5 per cent. as at 31 December 2017 (see "*The instability of money markets in Kazakhstan and increased interest rates could reduce the availability of Tenge liquidity for the Bank and have a negative impact on its lending business and cost base*"). Additionally, fluctuations in exchange rate might cause the value of the Bank's deposits to fluctuate.

- Furthermore, in a period of exchange rate instability, such as Kazakhstan experienced in the second half of 2015 and the first quarter of 2016, it is particularly difficult for the Bank to predict whether and when it may experience significant customer withdrawals or conversion of KZT-denominated deposits into U.S. Dollars (and vice versa). This increases the difficulty of matching the Bank's KZT-denominated assets to its liabilities. The Bank was able to obtain some currency exchange risk protection during the period of instability through U.S. Dollar/KZT currency swaps with the NBRK (see "*Selected Statistical and Other Information—Securities Portfolio—Financial Assets at Fair Value through Profit or Loss*"). The Bank was also able to obtain extra KZT liquidity in February 2015 by issuing senior unsubordinated local notes which were placed with the JSC Unified Accumulative Pension Fund (see "*Selected Statistical and Other Information—Funding Sources—Unsubordinated Debt Securities*") and to place excess U.S. Dollar liquidity by making deposits with the NBRK (see "*Selected Statistical and Other Information—Cash and Cash Equivalents*"). However, the lack of a developed framework for trading and accounting mechanisms in the derivatives market in Kazakhstan, combined with an underdeveloped banking sector, means that futures, options and forward currency trading are rare. Consequently, it is difficult for the Bank to hedge against this foreign exchange risk and there can be no assurance that the Bank will be able to protect itself from the adverse effects of future interest rate fluctuations and currency mismatches between its assets and liabilities.

If any of the factors described above were to subsist or be aggravated by a further devaluation of the Tenge, this could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The instability of money markets in Kazakhstan and increased interest rates could reduce the availability of Tenge liquidity for the Bank and have a negative impact on its lending business and cost base

Following the devaluations of the Tenge in 2014 and 2015, as well as the resulting inflation, domestic money market rates in Kazakhstan remained high. The KazPrime interbank offer rate, which reflects the average interbank deposit rate in Kazakhstan, briefly reached 22 per cent. at the beginning for 2016, decreasing to 10 per cent. as at 30 June 2019. Kazakhstan banks, including the Bank, rely on borrowing from the NBRK and on interbank borrowing to ensure liquidity.

The increase in interest rates coupled with the general dollarisation of deposits (see "*The Bank faces risks associated with devaluation of the Tenge*") resulted in a shortage of Tenge liquidity in the banking system which reached its peak in the last quarter of 2015 and the first quarter of 2016. This, in turn, had a negative impact on Kazakhstan banks' lending activities and funding costs. As a result, interest rates on limited KZT funds on the money markets reached 80 per cent., increasing interest expenses for commercial banks and hindering lending activity in the system.

Since Kazakhstan banks use the NBRK base rate as a benchmark when determining the interest rates for their loans to customers, the reduced Tenge liquidity and the increased costs of Tenge borrowing led to a decrease in availability and demand for loans. In 2017, following three rate cuts, the base rate reached 10.25 per cent., compared to 12 per cent. as of 2016. In 2018, the base rate reached 9.25 per cent. as a result of four rate cuts by the NBRK as well external and internal inflationary signals, according to the NBRK. In a press release dated 9 September 2019, the NBRK stated that in order to achieve the announced inflation target, the National Bank will make further decisions on the base rate, taking into account the alignment of actual and forecasted inflation to the target range, risk realisation originating from the domestic demand, import growth, and developments in the global economy.

In February 2016, the NBRK introduced certain measures to stimulate the Tenge liquidity (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting the Bank's Results of Operations—Funding Costs and Interest Rate Environment*"). While these measures did cause an increase in KZT liquidity as from the second quarter of 2016, demand for loans did not pick up, and the Bank has had to find various other means of placing this excess liquidity, notably by putting it on deposit with the NBRK and by purchasing notes issued by the NBRK. If the downturn in demand for loans continues or the rates paid on deposits and other instruments by the NBRK drop, there can be no guarantee that the Bank will be able to refocus its lending business or find other ways of placing excess liquidity to ensure continued revenue generation. Although lending has accelerated over the past few years, the excess liquidity in Kazakhstan's banking system was KZT 4.3 billion, KZT 4.3 billion, KZT 3.8 billion and KZT 3.2 billion as at 30 June 2019, 31 December 2018, 2017 and 2016, respectively.

While KZT-denominated deposits typically produce a higher yield compared to foreign exchange-denominated deposits, KZT-denominated deposits also increase the Bank's funding costs. The Bank's total interest expense decreased by KZT 4,506 million, or 2.6 per cent., to KZT 165,824 million for the six months ended 30 June 2019 from KZT 170,330 million for the corresponding period in 2018, mainly due to decreases in the rates of deposits. Any further fluctuations in market interest rates could lead to a reduction in associated net interest income.

Any instability in the Kazakhstan money markets, a withdrawal of Government support and increases in borrowing costs could reduce the Tenge liquidity which would have a consequential effect on the Bank's lending activities and may, in turn, lead to a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank's capital position may deteriorate

The Bank's consolidated risk-based total capital adequacy ratio, calculated in accordance with Basel III, was 19.6 per cent., 19.9 per cent., 18.9 per cent. and 19.4 per cent. as at 30 June 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively. The Bank's consolidated Tier I capital adequacy ratio was 18.3 per cent., 18.5 per cent., 16.9 per cent. and 19.4 per cent. as at 30 June 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively. The Bank's consolidated Common Equity Tier I ("CET1") capital adequacy ratio was 18.3 per cent., 18.5 per cent., 16.9 per cent. and 19.4 per cent. as at 30 June 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively. According to prudential norms set by NBRK (the "Prudential Norms"), which are based on principles and norms prescribed by the Basel Committee on Banking Supervision (the "Basel Committee"), the Bank is required to hold a minimum risk-based total capital adequacy ratio of 12 per cent., calculated in accordance with Basel III.

Under the Kazakhstan banking legislation, the NBRK may request to recapitalise the Bank in case of a deterioration of its financial condition, systemic non-compliance with Prudential Norms by the Bank and in some other cases as stipulated by the law. Additionally, the NBRK may raise the minimum required capital ratios for the Bank or implement new and other prudential norms in the future. The Bank's failure to comply with the minimum capital requirements set by the NBRK could lead to the Bank being subject to sanctions by the NBRK, an increase in reputational risk or even a risk of losing its banking licence.

If the Bank requires additional capital in the future for any reason, including among others higher capital requirements set by the NBRK or a decrease in capital levels due to financial losses, there is no guarantee that it will be able to obtain the required capital in a timely manner and on favourable terms. If the Bank is unable to raise further capital to support its growth or if its capital position otherwise deteriorates, the Bank's ability to implement its business strategy may be materially adversely affected. The Bank's ability to obtain additional capital may be restricted by a number of factors, including the Bank's future financial condition, results of operations, any necessary government regulatory approvals, regulatory changes and general market conditions for capital raising activities by financial institutions.

Furthermore, the Bank's subsidiaries operating in other jurisdictions are subject to local regulations and capital requirements set by local regulators. As at 30 June 2019, all the Bank's international banking subsidiaries were in full compliance with local capital requirements. In December 2018, the Bank increased the provisions of Moskom and increased the regulatory capital of Moskom. As at 30 June 2019, Moskom had a capital adequacy ratio (CET1) of 39 per cent., compared to 37.5 per cent., 26.7 per cent. and 26.1 per cent. as at 31 December 2018, 31 December 2017 and 31 December 2016, respectively. If any of the Bank's subsidiaries will require additional capital in the future for any reason, it is likely that the Bank would be required to contribute the additional capital.

The Bank may not be able to pay its debts as they fall due

As at 30 June 2019, the Bank had total liabilities, including non-KZT denominated debt, of KZT 7,931,554 million (from this short-term balance due within a year comprised KZT 5,709,639 million) of which KZT 903,536 million represented debt securities issued and KZT 476,703 million represented amounts due to credit institutions, compared to, as at 31 December 2018, 31 December 2017 and 31 December 2016, KZT 7,893,378 million, KZT 7,923,324 million and KZT 4,682,890 million of total liabilities, respectively, from this short-term balance due within a year comprised KZT 900,791 million, KZT 962,396 million, KZT 584,933 million of total debt securities, respectively, and KZT 168,379 million, KZT 255,151 million, KZT 162,134 million of amounts due to credit institutions, respectively. See "*Selected Statistical and Other Information*". Although the Bank believes it currently has sufficient liquidity, including significant stable corporate and retail deposits, the Bank's ability to service, repay and refinance its indebtedness will depend on its ability to generate cash in the future, which is, in turn, to a certain extent, subject to general economic, financial, competitive, legislative, regulatory and other factors beyond the Bank's control. If the Bank is unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments in respect of its indebtedness, it may be forced to default, following which the holders of the Bank's indebtedness would be entitled to accelerate the maturity of such indebtedness, which could cause cross defaults under, and potential acceleration of, certain of the Bank's other indebtedness, which could, in turn, materially and adversely affect the Bank's business, financial condition, results of operations or prospects. For an analysis of the maturity profile of the Bank's financing arrangements, see Note 15 to the Unaudited Interim Condensed Consolidated Financial Information and Note 28 to the Audited Financial Statements, incorporated by reference into this Offering Memorandum.

Any significant increase in the level of non-performing loans could have a negative impact on the Bank

The Bank reports non-performing loans on an unconsolidated basis only. As at 30 June 2019, the Bank had non-performing loans of KZT 324,449 million (counting the total principal amount of such loans (on an unconsolidated basis pursuant to IFRS standards) in respect of which any portion of principal or interest is overdue by more than 90 days), comprising 8.7 per cent. of total gross loans to customers on an unconsolidated basis. As at 30 June 2019, the Bank had recorded provisions of KZT 416,681 million, representing 128.4 per cent. of the Bank's total non-performing loans and 10.7 per cent. of total gross loans to customers. In comparison, as at 31 December 2018, the Bank had non-performing loans of KZT 317,138 million, comprising 8.5 per cent. of total gross loans to customers on an unconsolidated basis and had recorded provisions of KZT 409,793 million, representing 129.2 per cent. of the Bank's total non-performing loans and 10.5 per cent. of total gross loans to customers. For further details about write-offs and the Bank's write-offs policy, see "*Asset, Liability and Risk Management—Portfolio Supervision—Non-Performing Loans*" and "*Asset, Liability and Risk Management—Write-Off Policy*".

As at 30 June 2019, on a consolidated basis in accordance with IFRS, the Bank had allowances for expected credit losses of KZT 416,681 million, representing 10.7 per cent. of total gross loans to customers of KZT 3,909,256 million (on a consolidated basis in accordance with IFRS), compared to allowances for expected credit losses of KZT 409,793 million, representing 10.5 per cent. of total gross loans to customers of KZT 3,890,872 million (on a consolidated basis in accordance with IFRS), as at 31 December 2018.

In January 2018, the Bank completed the implementation of IFRS 9 Financial Instruments, replacing the International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement guidance (see "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy*"), and began reporting asset quality indicators under IFRS 9. As at 30 June 2019, the Bank had KZT 137,494 million stage 2 loans representing 3.5 per cent. of total gross loans to customers, KZT 641,704 million stage 3 loans representing 16.4 per cent. of total gross loans to customers and KZT 85,279 million purchased or originated credit-impaired assets ("POCI") representing 2.2 per cent. of total gross loans to customers. As at 31 December 2018, the Bank had KZT 142,664 million stage 2 loans representing 3.7 per cent. of total gross loans to customers, KZT 671,406 million stage 3 loans representing 17.3 per cent. of total gross loans to customers and KZT 91,990 million POCI representing 2.4 per cent. of total gross loans to customers.

The Bank's asset quality could deteriorate in the future and its non-performing loan portfolio could increase due to external factors beyond the control of the Bank, such as a downturn in economic development of the country as well as any failures and shortcomings of the Bank's credit risk policies. As such, the Bank is subject to the risk of its customers not being able to service the loans on time or in full according to their contracts. Since the Bank's loan portfolio is largely comprised of loans to corporates, the default by a single borrower might lead to a significant increase in the Bank's non-performing loans and cost of risk if any of its large borrowers would default.

In addition, the Bank's credit risk may be exacerbated if the collateral that it holds cannot be realised as a result of market conditions, regulatory intervention or difficulty in enforcing on the collateral, or if it is liquidated at prices not sufficient to recover the full amount of the loan that is due to Bank. This is most likely to occur during periods of illiquidity or depressed asset valuations.

Moreover, the Bank's customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While the Bank maintains allowances for expected credit losses to provide for loan defaults and non-performance, losses may exceed the value of the collateral securing the loans and the allowances may not fully cover any excess loss.

The Bank has a credit risk monitoring system, which it applies to individual borrowers, as well as on an overall loan portfolio level (see "*Asset, Liability and Risk Management—Lending Policies and Procedures*", "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy*"). Whilst the Bank continuously monitors the quality of its credit portfolio, any failure in the Bank's risk monitoring policies, adequacy of current provisioning levels and increase in non-performing loans that might not have adequate provisioning levels might impose a risk of unexpected losses and, in turn, lead to a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank aims to expand its non-secured lending activities in a measured way to retail customer who do not have payroll projects with the Bank and has begun testing this model (see "*Business of the Bank—Principal Business Activities—Retail banking—Retail Lending*"). The share of consumer loans issued within the framework of payroll projects, which are collateralised by cash receivable from the employees of companies within the framework of payroll projects, of gross loans was 14.7 per cent. as of 30 June 2019, compared to 13.0 per cent., 12.5 per cent. and 15.6 per cent. as at 31 December 2018, 31 December 2017 and 31 December 2016, respectively. The financial condition, and particularly the level of disposable income, of retail customers in Kazakhstan is generally more variable and their credit risk is, on average, less predictable than in more mature markets and economies, which makes assessment more difficult. Therefore, notwithstanding the Bank's credit risk evaluation procedures (including recourse to external data bases such as the credit bureau and state pension payment centre (see "*Asset, Liability and Risk Management—Lending Policies and Procedures—Retail Loans*")), the Bank may be unable to accurately assess the current financial condition of existing or potential borrowers or counterparties and to accurately determine the ability of such borrowers or counterparties to meet their financial obligations to the Bank. Moreover, Kazakhstan's system for gathering and publishing statistical information relating to its economy generally, or specific economic sectors within it, and corporate or financial information relating to companies or other economic enterprises, is not as comprehensive as those of many countries with established market economies.

As a consequence of the above, provisions for expected credit losses may be insufficient to cover actual losses. Material additions to the provision for expected credit losses and increases in the cost of risk could materially decrease the Bank's net profit. It is not possible to determine in advance the actual amount of future provisions for loan losses, which may vary from the amounts of past provisions. Any increase in the provision for expected credit losses may have a material adverse effect on the Bank's results of operations and financial condition.

If the Bank cannot successfully implement its business strategy, its growth and profitability could be adversely impacted

The Bank's future results are dependent in large part upon its ability to implement its business strategy. In 2018, the Bank created a new strategic business vision for 2019-2021, formulating key drivers for future business development of the Bank that reflect strategic initiatives established as a result of the integration of KKB and the resulting increase in the Bank's size and customer reach. In order to implement its strategy, the Bank has formulated a number of strategic principles for 2019-2021, including, among others, expanding into new jurisdictions, such as the Bank's expansion into the Republic of Uzbekistan, and developing its digital services and solutions (see "*Business of the Bank—Strategy*"). If the Bank is unable to implement its business strategy successfully, including in relation to its expansion into Uzbekistan and/or failing to advance its planned digital services, the Bank's long-term growth and profitability may be adversely affected. Even if the Bank is able to implement some or all of the initiatives of its business strategy successfully, its operating results may not improve to the extent it anticipates, or at all. Implementation of the Bank's strategic plan could also be affected by a number of factors beyond the Bank's control, such as increased competition, legal developments, regulation, general economic conditions or increased operating costs or expenses. In addition, to the extent the Bank has misjudged the nature and extent of industry trends or its competition, it may have difficulty in achieving its strategic objectives. Any failure to implement the Bank's business strategy successfully may have a material adverse effect on the Bank's results of operations and financial condition.

The Bank may face counterparty risk from other financial institutions

The Bank remains subject to the risk of a deterioration in the commercial soundness of other financial service institutions within and outside of Kazakhstan as a result of the lack of liquidity and high cost of funds that have characterised the interbank lending market during the recent volatility and market disruption witnessed by the banking sector globally and in Kazakhstan in particular. Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships, resulting in a "systemic risk" that may adversely affect financial intermediates, clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Bank interacts on a daily basis, all of which could have an adverse effect on the Bank's ability to raise new funding.

The Bank routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers and commercial banks. As a result, the Bank is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of, one or more financial service institutions could lead to significant systematic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

Any downgrade in the credit ratings of the Bank and/or its related debt obligations could make it more expensive for the Bank to raise capital in the future

As at 6 September 2019, the Bank had credit ratings of BB by S&P with a stable outlook, Ba1 by Moody's with a positive outlook and BB by Fitch with a stable positive. Any downgrade in the ratings of the Bank and/or its rated obligations could make it more difficult and/or expensive for it to raise capital going forward. The Bank's ratings are also sensitive to changes in the sovereign rating of Kazakhstan. Some of the Bank's debt obligations have credit ratings, upon which investors rely in varying degrees, and which may be a prerequisite to investing for certain investors holding such debt obligations. Since the global financial and economic crisis, the credit rating agencies have revised the criteria to determine the credit ratings of debt obligations and/or changing their credit ratings of companies and their rated obligations. Any further change in the methodology used by rating agencies could result in a change of outlook, or a downgrade in the ratings of a company or its rated obligations. (See "*—Risk Factors Relating to Kazakhstan—The Bank's financial position and its results of operations are dependent on the legal, economic and political conditions prevailing in Kazakhstan and its neighbouring regions, as well as broader global trends.*"). The Bank's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, any downgrade in the credit ratings of the Bank's debt obligations or the Bank could adversely affect the price that a subsequent investor would be willing to pay for the GDRs.

Volatility in the real estate market in Kazakhstan may materially and adversely affect the Bank's asset quality and collateral value

The Bank has a relatively high exposure to the construction and real estate sectors, with loans to these sectors reaching 5.3 per cent. and 6.6 per cent., respectively, of gross loans as at 30 June 2019 and 5.7 per cent. and 8.3 per cent., respectively, of gross loans as at 31 December 2018. Real estate prices in Kazakhstan have remained depressed following the global financial crisis. The downturn in the real estate market has had, and could continue to have, an adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Some of the borrowers constituting the Bank's 10 largest exposures are involved in sectors that have been affected by the decline in the real estate market, particularly the sectors relating to real estate and construction (see "*Selected Statistical and Other Information—Loan Portfolio—Loans by Sector*").

In addition, a substantial amount of the Bank's loans to customers are secured by real estate. As at 30 June 2019, 39.6 per cent. of total loans to customers were collateralised by real estate (41.2 per cent. as at 31 December 2018), while 20.0 per cent. were collateralised by guarantees (18.1 per cent. as at 31 December 2018) and 14.7 per cent. were consumer loans issued within the framework of payroll projects (13.0 per cent. as at 31 December 2018). For further information on the Bank's policies in requesting collateral against its loans, see "*Asset, Liability and Risk Management—Lending Policies and Procedures*" and "*Asset, Liability and Risk Management—Collateral Policies*".

The declines in prices of real estate in Almaty and Nur-Sultan have made it difficult to value certain collateral held by the Bank. The collateral value ultimately realised by the Bank will depend on the fair value as determined at the time the collateralised asset is realised and may be materially different from the current or estimated fair value. If the realised value of the collateral is materially different than the estimated fair value, the Bank might experience lower than expected recovery levels, which might impose losses due to a need for additional impairment. In addition, the real estate market in Kazakhstan suffers from low liquidity and the Bank may be unable to liquidate its real estate collateral in a reasonably short time frame. Although the Bank continuously assesses the value of collateral, in the event that a portion of the Bank's loans to customers which are secured by real estate go into default, the Bank may not be able to recover the full value of the loan by taking ownership and disposing of the underlying real estate, or to do so in an acceptable period of time, which may result in a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Furthermore, the Bank may face issues of security enforcement as the foreclosure proceedings might be unsuccessful, take longer time and incur higher costs than expected and the borrowers might oppose the enforcement of security by filing a lawsuit against the Bank.

A portion of the Bank's loan portfolio is related to Government-related funding and lending, including in particular in the form of Government Support Programmes

A portion of the Bank's funding base and its corporate lending portfolio relates to Government Support Programmes designed to support borrowers in the agricultural, real estate, local car production and other sectors of the economy in Kazakhstan ("Government Support Programmes"). See "*Business of the Bank—Government Support Programmes*".

Since 2009, the Bank has been actively participating in Government Support Programmes aimed at providing support to private businesses in order to promote the stability and balanced growth of regional businesses in the primary sectors of the economy, as well as to maintain and create new jobs in these sectors. As at 30 June 2019, the Bank's participation in these programmes represented 5.6 per cent. of the Bank's total corporate (including SME) lending portfolio, compared to 5.2 per cent. as at 31 December 2018, 5.2 per cent. as at 31 December 2017 and 5.3 per cent. as at 31 December 2016, and 8.6 per cent. of the Bank's total corporate (including SME) deposit base as at 30 June 2019, compared to 7.9 per cent. as at 31 December 2018, 4.5 per cent. as at 31 December 2017 and 6.9 per cent. as at 31 December 2016.

Loans granted to the Bank under this programme include loans from JSC National Managing Holding KazAgro, the Damu Fund and JSC Development Bank of Kazakhstan in the amounts of KZT 2.8 billion, KZT 88.4 billion and KZT 38.1 billion, respectively, as at 30 June 2019 (see "*Selected Statistical and Other Information—Other Sources of Funding*").

In conjunction with the programme, the Bank also holds significant deposits from the Programme Operators (mainly state-related entities) aimed at subsidising the lending programmes in the total amount of KZT 257.6 billion as at 30 June 2019 compared to KZT 241.8 billion as at 31 December 2018, KZT 88.6 billion as at 31 December 2017 and KZT 127.1 billion as at 31 December 2016. See "*Selected Statistical and Other Information—Funding Sources—Customer Accounts*". These deposits often yield a rate of interest that is below market rate decreasing the Bank's cost of funding.

Although the Government has not publicly declared that it intends to reduce or terminate these programmes, there can be no assurance that it will continue to support them in the future, especially if economic conditions in Kazakhstan or globally change or a decision is made to focus away from support of production and agriculture.

Pursuant to the terms of the Government Support Programmes, the Government sets the maximum margin which the Bank is allowed to charge between its funding rate and the rate at which it lends out the money to borrowers under these programmes. While this margin typically compensates the Bank for the associated funding costs, it may not necessarily be consistent with actual market prices for loans in Kazakhstan, or adequately compensate the Bank for the credit exposures taken in connection with lending under these programmes. If policy changes in this respect such that this margin is considerably reduced, it may no longer be profitable for the Bank to continue to be involved in these programmes.

Moreover, the Bank's ability to participate in new Government Support Programmes in the future or further drawdowns under existing programmes is contingent upon the Bank's meeting the criteria set by the Government for lending institutions involved in such programmes. In particular, lenders involved in the programmes are expected to meet certain tests including levels of non-performing loans, capital adequacy, profitability and market profile and penetration. Although as at the date of this Offering Memorandum, the Bank has been in compliance with such tests, there can, however, be no assurance that the Bank will continue to meet these criteria or that the Government will not impose additional or different criteria which the Bank is unable to fulfil.

Under the Government Support Programmes, the Bank may be required to make early prepayment of funds allocated to the Bank if certain covenants contained in the loan and deposit agreements with the State-related lending institutions are no longer maintained or a default is triggered. If early repayment is demanded as a result of a breach under any of the above Government Support Programmes, the Bank would need to rapidly find funds to make such repayments.

Furthermore, if the Bank ceased to be able to rely on the significant deposit base from the State-related entities used to fund the Government Support Programmes, it would need to replace those deposits with other funding sources, where the rate of interest payable or funding costs may be higher resulting in higher interest expense.

If the Government Support Programmes cease to be available to the Bank, whether as a result of a government policy to reduce or end them, or as a result of the Bank failing to the meet the criteria for lenders, or as a result of the Bank being required following a default to repay moneys thereunder, or the programmes cease to be profitable, the Bank would need to refocus some of its lending activities, particularly in the SME sector, and find alternative sources of funding to make up the shortfall in its funding base. In addition, if Government subsidies on deposits were to be ended, this may trigger a corresponding increase in interest rates that the Bank charges on its loans, which could increase its funding costs and credit default risk and, consequently, have a negative impact on the net interest margin. There might also be other effects, such as the credit quality of the borrowers under these programmes tends to be higher than other corporate lenders due to the more stringent loan monitoring and assessment processes involved. Consequently, a reduction in the number of these loans could result in a relative weakening of the loan portfolio as a whole and proportional increase in non-performing loans. Inability to effectively deal with the consequences of non-availability of these loans could have an adverse effect on the Bank’s business, financial condition, cash flows or results of operations.

The Bank may be subject to high degree of scrutiny by the antimonopoly authority given its leading position in the market

The Bank further strengthened its position as the largest bank in Kazakhstan following the acquisition of KKB in 2017, and it has continued to strengthen its leading position in Kazakhstan’s banking sector, accounting for approximately 29.3 per cent. of systemwide gross loans and 37.7 per cent. of total deposits as at 30 June 2019. The Bank obtained the consent of the antimonopoly authority for the acquisition of KKB on 1 June 2017, and such consent was not subject to any specific conditions relating to the potential dominant position of the Bank after the KKB acquisition (the “Antimonopoly Consent”).

It also has the largest distribution network in Kazakhstan with 641 branches and outlets throughout the country as at 30 June 2019. The Bank also holds a leading position in the insurance and brokerage services market through its subsidiary companies. Starting from 1 January 2017, the register of entities holding a dominant or monopolistic position in the regulated markets of the Republic of Kazakhstan has been repealed. However, this does not release such entities from complying with requirements stipulated by law in respect of entities occupying a dominant (monopolistic) position in the market. Thus, for the purposes of prevention of violations of the legislation in the sphere of competition protection, the antimonopoly authority conducts an analysis of competition in the relevant markets. As such, entities holding a leading position, such as the Bank and certain of its subsidiary companies, are in greater degree exposed to monitoring from the antimonopoly authority. As such, the Bank may be subject to inspections by the antimonopoly authority. Although the Bank has obtained the Antimonopoly Consent and complies with all provisions of competition law in all material respects, there are no guarantees that the Bank will not be subject to any investigations or administrative sanctions in the future imposed by the antimonopoly authority for violation of its leading status in the financial market.

Concentrations in the Bank’s loan and deposit portfolio subject it to risks of default by its large borrowers, exposure to particular sectors of the Kazakhstan economy and withdrawal of large deposits

The Bank’s loan portfolio shows industry and borrower concentration. As at 30 June 2019, loans to the Bank’s 10 largest borrowers represented 18 per cent. (compared to 19 per cent. as at 31 December 2018) of the Bank’s loans to customers before allowance for expected credit losses and 62 per cent. (compared to 66 per cent. as at 31 December 2018) of the Bank’s total equity. As at 30 June 2019, the Bank’s exposure to its single largest borrower was KZT 124,104 million and constituted 3.2 per cent. (compared to KZT 182,183 million and 4.7 per cent. as at 31 December 2018) of the Bank’s loans to customers before allowance for expected credit losses and 11.0 per cent. (compared to 17.1 per cent. as at 31 December 2018) of the Bank’s equity. Deterioration in the credit quality of any of the Bank’s large corporate customers could have a negative effect on the Bank’s asset quality and level of impairments. In addition, corporate customers tend to be more sensitive to the cost of borrowing than retail customers and are more likely to repay their loans earlier or move their loans to any of the Bank's competitors.

The Bank's 10 largest groups of related depositors (where each group of related customers represents customers related to each other within that group) accounted for approximately 26 per cent. of amounts due to customers as at 30 June 2019 (compared to 27 per cent. as at 31 December 2018). As at 30 June 2019, the Bank's exposure to its five largest groups of related depositors (where each group of related customers represents customers related to each other within that group) was KZT 1,346,606 million and constituted 21.6 per cent. of the total amounts due to customers (compared to KZT 1,462,698 million and 22.4 per cent. as at 31 December 2018). The withdrawal of a significant portion of deposits could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Moreover, a downturn in the business, financial condition, results of operations or prospects of the Bank's large borrowers or depositors or in the sectors in which they operate may adversely affect their ability to repay loans or maintain deposits (as the case may be), which could, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank faces significant competition, which may increase, particularly after Kazakhstan allows foreign bank branches to open following accession to the WTO, as well as due to the development of the Astana International Financial Centre (the "AIFC")

The Bank is subject to competition from both domestic and foreign banks. Increasing levels of competition in the Kazakhstan banking sector could pose a considerable challenge to the implementation of the Bank's business plan, which may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

As at 30 June 2019, according to NBRK statistics, there were 28 commercial banks in Kazakhstan (excluding the Development Bank of Kazakhstan, which is not a typical commercial bank), of which 14 were banks with foreign shareholders (see "*Business of the Bank—Competition*").

There is an ongoing process of consolidation of banks in Kazakhstan (see "*The Banking Sector in Kazakhstan—Effects of the Global Financial Crisis and the State Support to the Banking Sector of Kazakhstan*"). Such consolidation can be expected to create banks with significant market share and strong growth potential which could pose a competitive threat to the Bank in the future and potentially result in a deterioration of the Bank's market position.

Foreign-owned banks also present increasing competition in the Kazakhstan banking sector, in particular, a recent growth in the subsidiaries of Russian banks. In addition, since the 50 per cent. limit on foreign ownership of banks in Kazakhstan was eliminated in 2005, it has become easier for foreign banks to increase their market penetration in Kazakhstan, and, accordingly, these entities have become increasingly competitive. Furthermore, as at the date of this Offering Memorandum, foreign banks are prohibited from opening branches in Kazakhstan, and are only permitted to operate by way of a newly incorporated joint stock company subsidiary. However, in connection with Kazakhstan's accession to the World Trade Organisation ("WTO"), it is expected that foreign banks (including foreign insurance companies) will be allowed to establish their branches in Kazakhstan with the permission of the NBRK starting from December 2020 (see "*The Banking Sector in Kazakhstan—Foreign capital in the banking sector*"). As a result, the presence of foreign banks in Kazakhstan may increase significantly, since the ability to open and operate via a branch will remove the time and cost hurdles associated with having to incorporate and operate via a separate subsidiary.

In addition, in July 2018, the AIFC was launched in the capital of Kazakhstan, Nur-Sultan. The AIFC is intended to become a financial hub for CIS countries and the region, with the active involvement of international financial institutions. The acts of the AIFC allow the establishment of foreign financial institutions (banks and insurance companies) within the territory of the AIFC. The acts of the AIFC in respect of the establishment of financial institutions at the territory of the AIFC as well as prudential requirements for such financial institutions are generally less rigorous than the requirements set forth in the banking legislation of Kazakhstan. Moreover, the AIFC also provides significant benefits for its participants (for example, in the form of tax preferences). Therefore, the establishment of foreign banks in the AIFC may be more attractive to foreign investors. As a result, further development of the AIFC may lead to an increase in the presence of foreign banks in Kazakhstan.

There is also increased competition in the retail and SME markets. This is partly due to lower barriers to entry, which allow smaller banks to enter that sector offering higher interest rates on customer deposits than the Bank in an attempt to win market share. Competition also comes from certain larger banks, which, in the current economic climate, are focussing their lending activities away from larger corporates and towards SMEs. This increased competition, particularly on the basis of rates, may result in downward pressure on the Bank's margins and, accordingly, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Significant decline in the Bank's net interest income or net interest margin could materially affect the Bank's profitability

Interest income represents a significant portion of the Bank's external revenue, which comprises interest income, fee and commission income, net gain on foreign exchange operations, share in profit of associates, insurance underwriting income and other income. As a percentage of external revenue, interest income comprised 69.3 per cent. for the six months ended 30 June 2019 and 66.9 per cent., 71.6 per cent. and 74.6 per cent., respectively, for the years ended 31 December 2018, 2017 and 2016. The Bank's net interest margin, which is the net interest income on its average interest earning assets, is a significant factor in determining the Bank's profitability. Net interest margins in Kazakhstan remain generally higher than those in most western countries, although interest margins have been generally declining over recent years. The Bank's net interest margin increased to 5.1 per cent. for the six months ended 30 June 2019 from 4.8 per cent. for the six months ended 30 June 2018 primarily due to higher increase in the average balances of interest-earning assets compared to average balances of interest-bearing liabilities and due to continuous repricing of retail term deposits following the decrease of deposit interest rate cap by the KDIF. Interest rates are highly sensitive to many factors beyond the Bank's control, including the reserve policies of the NBRK and domestic and international economic and political factors. As noted above, the increasing competition in the Kazakhstan banking sector also puts downward pressure on the Bank's margins. See "*—The Bank faces significant competition, which may increase, particularly after Kazakhstan allows foreign bank branches to open following accession to the WTO, as well as due to the development of the Astana International Financial Centre (the "AIFC")*". There can be no assurance that the Bank will be able to protect itself from the negative effects of future declines in its net interest margin. Any decrease in market interest rates on the Bank's loans, alone or in combination with increases in rates payable on deposits or other interest-bearing liabilities, could lead to a reduction in net interest income and net interest margin and materially adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

Significant decline in the Bank's fee and commission income could affect the Bank's business, prospects, financial condition, cash flows or results of operations

Fee and commission income represents a significant portion of the Bank's external revenue, which comprises interest income, fee and commission income, net gain on foreign exchange operations, share in profit of associates, insurance underwriting income and other income. As a percentage of external revenue, fee and commission income comprised 11.2 per cent. for the six months ended 30 June 2019 and 11.1 per cent., 12.4 per cent. and 12.9 per cent., respectively, for the years ended 31 December 2018, 2017 and 2016. The Bank's fee and commission income increased to KZT 57,684 million for the six months ended 30 June 2019 from KZT 54,386 million for the six months ended 30 June 2018 mainly due to fees relating to payment card operations. The Bank has historically generated higher fees from new external customers than from internal transactions. However, the increased competition for customers had resulted in a decrease in fees being charged to external customers and transactions of customers of other banks within the existing network. Any increase in the share of internal transactions or continued increase in the competition for new customers may decrease the Bank's fee and commission income, which could adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

A lack of available capital could adversely affect both the Bank's ability to comply with applicable capital adequacy ratios and the conduct of its business

Although the Bank currently meets the capital adequacy requirements introduced by Basel III, as well as relevant regulatory requirements in Kazakhstan, any significant deterioration in the Bank's loan portfolio quality and the consequent need to take additional impairment charges may also require the Bank to raise additional capital to meet required capital adequacy levels (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital and Capital Adequacy*").

In addition, although the Selling Shareholder, Almex, has provided additional capital to the Bank in the past, there is no assurance that Almex will be willing or able to provide such support in the future. In addition, through its ownership of a significant majority of the Bank's voting share capital, Almex has the ability to block any increase in the Bank's capital and no assurance can be given that, if the Bank requires a capital increase, the Selling Shareholder will approve such increase or participate in the subscription for any new shares or otherwise provide financing to the Bank. Any inability to raise sufficient amounts of capital could substantially limit the Bank's ability to increase the size of its asset base, while aggressive asset growth may result in a breach of the capital adequacy requirements applicable to the Bank or a breach of certain covenants contained in certain of its outstanding financing documents requiring the Bank to maintain a minimum capital adequacy ratio (see "*Selected Statistical and Other Information—Funding Sources—Other sources of funding*"). Any such events could materially and adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank is dependent on its deposit base, which is more volatile than other types of funding

The Bank is exposed to liquidity risk arising out of the mismatches between the maturities of the Bank's assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner.

As at 30 June 2019, current accounts and client deposits amounted to 78.4 per cent. of the total amount of the Bank's liabilities (82.7 per cent. as at 31 December 2018). As a result, the Bank meets a significant portion of its requirements for financing utilising funds from customer deposits.

As at 30 June 2019, 52 per cent. of these customer accounts were individual deposits (52 per cent. as at 31 December 2018). As at the date of this Offering Memorandum, Kazakhstan law entitles depositors who are individuals to withdraw deposits at any time, including time deposits (excluding savings deposits). In addition, it is difficult for the Bank to predict the behaviour of depositors or the time when they may withdraw their funds. For example, following the devaluation of the Tenge in February 2014, three of Kazakhstan's largest banks (not including the Bank) suffered cyberattacks, during which account holders received text messages on their mobile phones falsely claiming that the banks were on the verge of bankruptcy and urging the account holders to withdraw their savings. As a result, depositors withdrew significant amounts of deposits from these banks. This text message attack demonstrated the ongoing risk of relying on an unstable system of short-term deposits.

The remaining deposits are accounts of corporate clients. As at 30 June 2019, KZT 1,523,995 million or 24.5 per cent. (26.9 per cent. as at 31 December 2018) of these corporate client accounts are serviced on the basis of payment on demand. Some of the Bank's corporate depositors may withdraw significant amounts of their deposits, which could consequently lead to a lack of available liquidity.

Unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits as described above may result in liquidity gaps that the Bank may not be able to cover without incurring additional expenses, if at all. The liquidity gap may affect the ability of the Bank to continue its business effectively. This could lead to a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The remainder of the Bank's funding resources (21.6 per cent. of the total amount of the Bank's liabilities as at 30 June 2019 and 17.3 per cent. as at 31 December 2018) are derived from the domestic and international capital markets and interbank markets. Adverse market conditions since 2008 have significantly reduced access by banks to funding from these markets at commercially justifiable costs (see "*Selected Statistical and Other Information—Funding Sources—Other Sources of Funding*"). The Bank's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be further adversely affected by a number of factors, including, in particular, any further deterioration in Kazakhstan and international economic conditions and the state of the Kazakhstan financial and market systems.

If the sources of short- and long-term funding are not available, or if maturity mismatches between the Bank's assets and liabilities occur, this could lead to a material adverse effect on the Bank's business, prospects, financial condition, cash flow or results of operations.

The Bank's business and operations are subject to securities portfolio risk

The Bank faces securities portfolio risk arising from its investment and trading in securities (KZT 2,717,365 million as at 30 June 2019 and KZT 3,008,676 million as at 31 December 2018). These risks relate to the movement of market prices in the underlying instruments, including the risk of unfavourable market price movements relative to the Bank's long or short positions, a decline in the market liquidity of the relevant instruments and volatility in market prices, interest rates or foreign currency exchange rates relating to these positions. The Bank has established various limits on operations with securities, including instrument-specific limits and limits on the activities of individual traders, in order to balance profit and risk in its portfolio. However, interest rate and price movements on both the domestic and international markets may have a material adverse effect on the value of the Bank's securities portfolio, which, in turn, may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank's banking business entails operational risks

The Bank is exposed to operational risk. Operational risk is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. The Bank is susceptible to and has experienced in the past, among other things, fraud by employees or outsiders, unauthorised transactions by employees and operational errors, including clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems. In addition, the Bank processes a number of transactions manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that may be difficult to detect.

The Bank maintains a system of controls designed to monitor and control operational risk. There can be no assurance, however, that the Bank will not suffer losses from any failure of these controls to detect or contain operational risk in the future. Consequently, the inadequacy of the Bank's internal processes or systems may result in unauthorised transactions and errors not being detected and, particularly given the Bank's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. The Bank is the biggest payment card issuer in Kazakhstan, and, although the Bank believes it has relatively low exposure to fraud compared to its peers, given its large presence the potential exposure to fraud could be larger than that of its peers. The Bank's insurance coverage may not be sufficient to cover losses from such unauthorised transactions, errors or fraud and, accordingly, any such developments may, in turn, have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Bank will be unable to comply with its obligations as a company with securities admitted to the Official List.

Damage to the Bank's brand or reputation, or a decline in customer confidence in the Bank or its products, could have a material adverse effect on the Bank's profitability

The Bank's business is dependent, in part, upon the strength of its brand and the reputation of its business. The Bank operates in a consumer-oriented industry where customer trust is important due to the need for public confidence in the quality of the Bank's services, its treatment of customers and in the security and integrity of its information technology ("IT") and communications systems. The Bank could suffer damage to its reputation and brand as a result of adverse publicity from legislators, pressure groups or the press, even if there is a relatively high level of satisfaction among the Bank's current customers. The Bank might also be the object of virtual misinformation attacks such as the text message attack in 2014 which affected a number of its competitors. See "*—The Bank is dependent on its deposit base, which is more volatile than other types of funding*". Adverse publicity and damage to the brand could directly affect customer willingness to use the Bank's products or deposit funds with the Bank, which may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank may become subject to litigation, proceedings, Government inquiries, reviews, audits or investigations which could have a material adverse effect on the Bank's business, prospects, financial condition, cash flow or results of operations

The Bank may become subject to litigation, proceedings, government inquiries, reviews, audits or investigations in the future, including potential claims against the Bank, with or without merit. Some of these matters and claims may result in significant defence costs and potentially significant judgments against the Bank, some of which the Bank is not, or cannot be, insured against. The Bank cannot be certain of the ultimate outcomes of any claims or other matters that may arise in the future. Resolution of these types of matters against the Bank may result in it having to pay significant fines, judgments or settlements, which, if uninsured, or if the fines, judgments and settlements exceed insured levels, could have a material adverse effect on the Bank's business, prospects, financial condition, cash flow or results of operation.

The Bank's insurance business is subject to risks relating to future claims and financial support obligations

For the six months ended 30 June 2019, the Bank's general insurance subsidiary, JSC Halyk Insurance Company ("Halyk Insurance") generated a net income of KZT 1,705.7 million and its life insurance subsidiary Halyk Life generated a net income of KZT 3,150.3 million (net income of KZT 3,451.6 million and net income of KZT 4,028.9 million for the year ended 31 December 2018, respectively) (see "*Business of the Bank—Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—Insurance—Halyk Insurance and Halyk Life*"). For the six months ended 30 June 2019, the Bank's general insurance subsidiary, Halyk Insurance had a solvency ratio of 1.89 and its life insurance subsidiary Halyk Life had a solvency ratio of 1.82 (4.47 and 3.46 for the year ended 31 December 2018, respectively). Future claims in the Bank's general and life assurance business may be higher than expected as a result of changing trends in claims experience resulting from catastrophic weather conditions, demographic developments, changes in mortality, damage to property and other causes outside the Bank's control. Such changes would affect the profitability of current and future insurance products and services. In addition, although the Bank self-reinsures some of the risks it has assumed (Halyk Insurance: 54.7 per cent. of gross premiums written for the six months ended 30 June 2019 (57.6 per cent. for the six months ended 30 June 2018); Halyk Life: 4.8 per cent. of gross premiums written for the six months ended 30 June 2019 (17.3 per cent. for the six months ended 30 June 2018)), it is, accordingly, exposed to the risk of loss should its reinsurers become unable or unwilling to pay claims made by the Bank against them.

Since the Bank holds 99.99 per cent. of the issued and outstanding shares in Halyk Insurance and 100 per cent. of the issued and outstanding shares of Halyk Life, the Bank is considered an "insurance holding" under the existing legislation (as the regulatory threshold is a shareholding of 25 per cent. or more). As such, under the legislation, the Bank is subject to financial support obligations to the extent that Halyk Insurance and Halyk Life are not in compliance with the applicable prudential ratios. Accordingly, if the financial position of either Halyk Insurance or Halyk Life deteriorates, or it is unable to comply with the applicable capital adequacy requirements, the Bank may be obliged to provide (including at the NBRK's request) capital to them to ensure their financial stability (see "*The Banking Sector in Kazakhstan—Capital Adequacy and Liquidity Ratios*").

The Bank may face difficulties in recruiting and retaining experienced personnel

The banking and insurance industries are relatively new in Kazakhstan and there is a limited number of experienced banking and insurance managers in the country. There is also a high level of competition for the services of these individuals. While the Bank believes it has been successful in attracting skilled and motivated employees and officers, it may be at risk of losing qualified personnel in this increasingly competitive environment. The loss of the Bank's senior management for any reason could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks

Although the Bank invests substantial time and effort in the development, implementation and monitoring of its risk management strategies and techniques, it may nevertheless fail to adequately manage risks under certain circumstances, particularly when it is confronted with risks that it has not identified or anticipated. If circumstances arise that the Bank has not identified or anticipated in developing its statistical models, its losses could be greater than expected. If its measures to assess and mitigate risk prove insufficient, or if its models yield inaccurate results or incorrect valuations, the Bank may experience material unexpected losses. For example, assets that are not traded on public trading markets, such as derivative contracts between banks, may be assigned values using mathematical models that may be inadequate or imperfect and, accordingly, generate values that may be incorrect. Such mistaken or inaccurate assessments of asset values could, in turn, lead to unexpected losses, which could materially adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank's measures to prevent money laundering and/or terrorist financing may not be effective

The existence of "black" and "grey" market economies in Kazakhstan, less developed legislation and insufficient administrative guidance on the interpretation of such legislation increase the risk of Kazakhstan's financial institutions being used as vehicles for money laundering.

The Law of the Republic of Kazakhstan No. 191-IV ZRK "On Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism", dated 28 August 2009 (as amended) became effective on 8 March 2010 (the "AML Law"). The AML Law identifies various types of transactions that are subject to financial monitoring and establishes thresholds for each of them, such as (among others) (i) exchanges of cash equalling or exceeding the equivalent of KZT 10 million, (ii) withdrawing funds from, or crediting funds to, bank accounts equalling or exceeding the equivalent of KZT 10 million, (iii) insurance payments equalling or exceeding the equivalent of KZT 10 million, (iv) transactions in securities equalling or exceeding the equivalent of KZT 45 million or immovable property equalling or exceeding the equivalent of KZT 200 million, respectively, and (v) receiving funds, including in electronic form, through the proceeds of betting, gambling in a gaming establishment or lottery equal to or more than the equivalent of KZT 3 million. Banks, pension funds, insurance and reinsurance companies and certain other financial institutions and individuals are obliged to monitor any such transactions entered into by their clients by conducting due diligence as outlined in the AML Law with respect both to the clients and the transactions. If it is not possible to conduct such due diligence, the financial institution must prevent its clients from entering into any such transaction. The AML Law requires any suspicious transaction to be reported to an authorised state body within 24 hours.

The Bank has implemented measures aimed at preventing it from being used as a vehicle for money laundering, including "Know Your Customer" policies and the adoption of anti-money laundering and compliance procedures in all its branches, in compliance with the AML Law. Over the past three years, the Bank has received fines for technical violations of the AML Law of less than U.S.$60,000 in total. There can be no assurance that attempts to launder money through the Bank will not be made in the future, that its anti-money laundering measures will be effective or that the Bank will not receive fines for technical violations of the AML Law in the future. If the Bank were associated with money laundering as a result of any failure or insufficiency of its anti-money laundering procedures or if it were unable to comply with all of the relevant laws regarding financial assistance or money laundering, it could be subject to significant fines as well as harm to its reputation, and its business, prospects, financial condition, cash flows or results of operations could be materially adversely affected. Additionally, although the U.S. and EU sanctions do not directly apply to Kazakhstan, the Bank sought to adhere to these where applicable. See "*Business of the Bank—Security and Anti-Money Laundering*".

The Bank's IT systems may malfunction or be insufficient to support future operations

The Bank relies heavily on information systems to conduct its business and the development of new technology and digitised products and services is a key element of the Bank's strategy (see "*Business of the Bank—Strategy*"). The Bank considers information technology to be an integral component of its daily operations, having invested KZT 4.3 billion in 2018 (KZT 5.3 billion in 2017) in its IT systems, including cybersecurity. See "*Business of the Bank—Information Systems*". While the Bank is currently upgrading a number of its information technology systems, including for the purpose of providing greater automation of reporting systems and database integration and centralisation, there can be no assurance that the improved information technology systems will be developed according to schedule or that the new systems will address all of the shortcomings of the current systems. Due to the degree of penetration of information technologies in the business processes of the Bank, any failure of, interruption in, or breach in security of, the Bank's systems could result in failures or interruptions in the Bank's risk management, deposit servicing and/or loan origination systems or errors in its accounting books and records. Although the Bank has back-up processes in place and the implementation of disaster recovery plans, including two fully-equipped disaster recovery centres in Almaty, as well as a third centre in Nur-Sultan, if the Bank's information systems fail, even for a short period of time (for example as a result of the occurrence of a disaster), the Bank might be unable to serve some customers' needs on a timely basis and might lose their business. Likewise, a temporary shutdown of the Bank's information systems may result in the Bank incurring costs associated with information retrieval and verification. In addition, a failure to further update and develop the Bank's existing information systems may result in a competitive disadvantage. No assurance can be given that such failures or interruptions will not occur or that the Bank will adequately address them if they do occur. Accordingly, the occurrence of any failures or interruptions or failure to implement properly any systems could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Furthermore, various privacy laws, particularly the European General Data Protection Regulation ("GDPR"), forbid the disclosure of confidential information and, among other things, impose on the Bank an obligation to notify the supervisory authority of a breach of confidential information. Fraudulent abuse of data and the inappropriate disclosure of confidential information may cause the Bank to fail to meet statutory or regulatory requirements regarding data protection, such as the GDPR. The enforcement of regulations like the GDPR may also encourage compliance regimes and authorities in other jurisdictions in which the Bank operates to enact similar regulations which would further increase these risks.

Failure to adequately maintain and protect customer and employee information could have a material adverse effect on the Bank

The Bank collects and processes personal data (including names, addresses, age, bank and credit card details and other personal data) from its customers, business contacts and employees as part of the operation of its business and it must comply with data protection and privacy laws and industry standards in Kazakhstan (including the Law of the Republic of Kazakhstan "On Personal Data and Its Protection" dated 21 May 2013, as amended). Those laws and standards impose certain requirements on the Bank in respect of the collection, use, processing and storage of such personal data. There is a risk that data collected by the Bank and its appointed third parties are not processed by the Bank in accordance with notifications made to, or obligations imposed by, data subjects, regulators, or other counterparties or applicable law. Failure to operate effective data controls in respect of the collection, use, processing and storage of such personal data could potentially lead to regulatory censure, fines, reputational damage and financial costs as well as result in potential inaccurate rating of risks or overpayment of claims.

In addition, the Bank is exposed to the risk that the personal data it controls could be wrongfully accessed and/or used, whether by employees, agents or other third parties, or otherwise lost or disclosed or processed in breach of data protection regulations. If the Bank or any of the third-party service providers on which it relies fail to process, store or protect such personal data in a secure manner or if any such theft or loss of personal data were otherwise to occur, the Bank could face liability under data protection laws. This could also result in damage to the Bank's reputation as well as the loss of business, any of which could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The preparation of the Bank's consolidated financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions and the inaccuracy of these estimates and assumptions could have a material adverse impact on the Bank's consolidated financial statements

The preparation of the Bank's consolidated financial statements under IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and of income and expenses during the relevant reporting period. These judgments, estimates and assumptions are based on a number of factors, including information available at the time and historical experience. Although estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates, and such differences may be material. Judgments that have the most significant effect on the amounts recorded in the consolidated financial statements include impairment of loans and receivables, valuation of financial instruments, insurance liabilities and taxation (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*"). Should circumstances change, the outcome may be materially different from what was envisaged at the time such judgments, estimates and assumptions were made. Should this occur, it could have a material adverse effect on the Bank's consolidated financial statements, including its reported net profit and balance sheet.

Additionally, the Bank is subject to changes in accounting standards that might materially affect the Bank's financial condition. Any changes in IFRS accounting policies are difficult to anticipate and might affect the Bank's future results as well as previous results if accounting changes require the application of new standards retrospectively. As at 1 January 2018, the Bank has completed implementation of IFRS 9 Financial Instruments replacing the guidance IAS 39 Financial Instruments: Recognition and Measurement (see "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy*"). As a result of the adoption of IFRS 9, the Bank had to report a one-off negative impact on the Bank's equity of KZT 54,863 million.

The Bank's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions

The insurance industry in Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. Moreover, the amount of such insurance coverage is generally more limited than that which would normally be acquired by similar companies in more developed economies. The Bank does not have full coverage for its premises and equipment, business interruption or third-party liability in respect of property or environmental damage arising from accidents on its property or relating to its operations. The Bank can give no assurance that the proceeds of insurance are adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Bank may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage which could in turn have a material adverse effect on its business, prospects, financial condition, cash flows or results of operations (see "*Business of the Bank—Insurance Cover*").

Cybersecurity threats and data breaches could adversely impact the Bank's financial condition as well as cause legal or reputational harm

The Bank's operations are heavily dependent on the secure processing, transmission, and storage of confidential and other information in the Bank's computer systems and networks. Cybersecurity risks for banking organisations have significantly increased in recent years due to the proliferation of new technologies, the increased use of the internet to conduct financial transactions, and the increased sophistication of attackers, such as hackers. In addition, customers may use personal mobile or computing devices to access the Bank's products or services that are outside of its network environment and are subject to their own cybersecurity risks.

A cyberattack, security breach, or a technology failure could adversely affect the Bank's ability to conduct its business, result in the disclosure or misuse of confidential information, cause the Bank to spend significant resources to investigate and remediate exposures, and adversely impact the Bank's operations and liquidity. The Bank may also be subject to litigation and financial losses and it could suffer reputational harm and a loss of confidence in the systems and products of the Bank.

As cyber threats continue to evolve, the Bank may be required to expend significant additional resources to continue to modify or enhance its protective measures or to investigate and remediate any information security vulnerabilities or incidents. Cyber threats are rapidly evolving and the Bank may not be able to anticipate or prevent all such attacks. There can be no reassurance that the Bank will not be subject to a data breach and its security measures may not detect all cyberattacks. A cyberattack or other information or security breach could result in a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The Bank is subject to risks relating to its foreign operations

The Bank operates a number of subsidiaries outside of Kazakhstan. The Bank's operations in foreign jurisdictions may be subject to additional risks customarily associated with such operations, including: the complexity of foreign laws, regulations and markets; the uncertainty of enforcement of remedies in foreign jurisdictions; the effect of currency exchange rate fluctuations; the impact of foreign labour laws and disputes; the ability to attract and retain key personnel in foreign jurisdictions; and the economic, tax and regulatory policies of local governments. Although the Bank has policies and controls in place that are designed to ensure compliance with these laws, any violation of foreign laws may have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to Taxation

Changes in tax and pension regulations may affect the Bank's financial position

Taxes in Kazakhstan to which the Bank is subject include value added tax, corporate income tax, social taxes, and other taxes. The current statutory corporate income tax rate in Kazakhstan is 20 per cent. The Bank's effective tax rate was 9.5 per cent. for the six months ended 30 June 2019 and 43.2 per cent. for the six months ended 30 June 2018. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Six Months ended 30 June 2019 and 30 June 2018—Taxation*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years ended 31 December 2018, 2017 and 2016—Taxation*".

Kazakhstan's taxation system is continually evolving and is subject to frequent and, at times, ambiguous changes, which could have an adverse effect on the Bank. Additionally, the Tax Code has been in force for a short period relative to the tax laws and regulations in more developed market economies and, therefore, risks of tax assessments within its jurisdiction are more probable than in nations with more developed tax systems. The Banks' operations are principally conducted and most of the Bank's assets are located in Kazakhstan and, therefore, shortcomings of the Kazakhstan tax system could adversely affect the Bank.

Historically, the system of tax collection in Kazakhstan has been difficult and unpredictable resulting in continual changes to the tax legislation, which sometimes have occurred on a short notice and have been applied retrospectively. Such kind of changes to the Kazakhstan tax legislation may apply not only to the provisions that establish the rules of tax administration, but also to other provisions such as tax base determination and tax rate. Furthermore, the Kazakhstan tax legislation is subject to amendments on a regular basis. These changes produce tax uncertainties, which may result in adverse tax implications for the Group.

Differing interpretations of tax regulations exist both among and within government bodies. Such differing interpretations increase the level of uncertainty and, therefore, tax risks, and could potentially lead to the inconsistent enforcement of these laws and regulations. Official explanations and court decisions are often unclear and contradictory, while tax disputes could result in significant litigation costs for the Bank. For example, clarifications of the tax authorities on particular Tax Code clauses are not legally binding on either taxpayers or the tax authorities and may not be taken into account during the settlement of tax disputes. In addition, the responsibility of the tax authorities for misinterpreting the articles of the Tax Code is not established by law. Thus, the tax authorities are allowed to change their position regarding the application of a particular article. Additionally, judges considering court cases related to resolution of tax disputes sometimes issue decisions that can be considered as arguable. The creation of an investment court in 2016 for resolution of investors' disputes, including tax disputes of investors, did not lead to a significant improvement in the quality of tax litigation and substantial positive changes in resolution of tax disputes.

As a consequence of the complexity of the precise legal description of the taxation mechanism, the shortcomings of legal techniques, as well as gaps and contradictions that exist in the tax legislation, there are frequently different interpretations of the tax legislation by taxpayers and the tax authorities. During settlements of tax disputes, the tax authorities and courts often issue decisions in favour of the state budget. Therefore, taxation in Kazakhstan is often unclear or inconsistent, and may result in unexpected tax assessments and liabilities that could lead to a material adverse effect on, *inter alia*, the Bank's business, financial condition, results of operations or prospects. Moreover, future changes in tax legislation could result in application of the higher tax rates or the imposition of additional taxes, which could, in turn, have a material adverse effect on the business, prospects, financial condition, cash flows or results of operations of the Bank and its borrowers.

Under the Law of the Republic of Kazakhstan "On Amendments and Additions to Some Legislative Acts of the Republic of Kazakhstan on Pension Issues" dated 2 August 2015, all employers (including the Bank) were expected to be required to make mandatory pension contributions to the JSC Unified Accumulative Pension Fund, starting from 1 January 2020, at the expense of the employer's own funds, in the amount of 5 per cent. of the employee's monthly income. This was subsequently suspended by a decree of the President. On 2 September 2019, the President of the Republic of Kazakhstan delivered the State of the Nation Address, according to which the additional pension contributions to the JSC Unified Accumulative Pension Fund in the amount of 5 per cent. were postponed until 2023. Accordingly, the Government will revisit the issue of implementation of the above additional mandatory pension contributions at a later stage.

References to IFRS in the Tax Code could result in adverse tax assessment for the Bank

A significant part of the Tax Code contains direct links to IFRS, which makes IFRS an important and considerable element for tax purposes. Therefore, since IFRS is built on a "substance over form" principle, the application of certain principles and methods of IFRS is a matter of professional judgment, which may result in tax disputes between the Bank and the tax authorities. During tax audits, the tax authorities sometimes interpret IFRS in a way that could differ from the professional judgment of financial reporting specialists and/or auditors. In addition, the tax authorities issue letters where they give their own interpretation of IFRS, which does not take into account all aspects of application of standards.

The complicated nature of IFRS judicial-making and application of IFRS in the Kazakhstan taxation system entails a risk of ambiguous interpretation and practical application of IFRS provisions by taxpayers and the tax authorities, and may, therefore, lead to additional and, potentially, material, tax assessments on the Bank that could have a material adverse effect on, *inter alia*, the Bank's business, financial condition, results of operations or prospects.

The Bank will need to maintain the listing of its Shares and GDRs on the official securities list of the AIX in order for the holders of the Shares and GDRs to enjoy the tax exemptions provided under the AIFC Law

Under the AIFC Law, dividends paid on the securities and capital gains derived from sale of the securities will be exempt until 1 January 2066 from corporate income tax provided that such securities are included in the official securities list of the AIX at the time the dividends are accrued and at the date of their sale, respectively. The provisions of the AIFC Law in terms of tax benefits are broader than the provisions of the Tax Code, which gives more flexibility and advantages to holders of the securities. As at the date of this Offering Memorandum, the Shares and GDRs are included in the official securities list of the AIX. Accordingly, if the Shares and GDRs will be delisted from the official securities list of the AIX for any reason, the holders of the Shares and GDRs will lose the tax benefits under the AIFC Law. As such, if GDRs and Shares are delisted from the official securities list of the AIX, dividends payable to the holders of GDRs and Shares may become subject to Kazakhstan withholding tax at the rate of 15 per cent. A rate of 20 per cent. is applied if payment is made to a GDR or Share holder resident in a Country with a Favourable Tax Regime. A reduced rate is payable if payment is made to a GDR or Share holder resident in a country that is a party to a double tax treaty with Kazakhstan. In each case the rate is subject to provision of the relevant documents by such GDR or Share holder. If the Shares and GDRs will be delisted from the AIX, the holders of the Shares and the GDRs will have to continue to follow the practice that existed prior to the listing of the Shares and the GDRs on the AIX. See "*Taxation—Kazakhstan Taxation*".

Risk Factors Relating to the Bank's Shares and GDRs

The Bank's GDR price may fluctuate

The market price of the GDRs being offered pursuant to the GDR Offering may be subject to significant fluctuations due to a change in sentiment in the market regarding such GDRs (or securities similar to them). Such risks depend on the market's perception of the likelihood of completion of the GDR Offering and/or in response to various facts and events, including any regulatory changes affecting the Bank's operations, variations in the Bank's operating results and business developments of the Bank and/or its competitors. Stock markets may continue to experience significant price and volume fluctuations affecting the market prices for securities and which may be unrelated to the Bank's operating performance or prospects. Furthermore, the Bank's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the GDRs being offered pursuant to the GDR Offering.

The sale or availability for sale of substantial amounts of securities could adversely affect the price of the GDRs

The market price of the GDRs and Shares could be negatively affected by sales of substantial amounts of GDRs and/or Shares in the public markets. Sales of a substantial number of GDRs or Shares by the Bank and/or the Selling Shareholder, or the knowledge that they will, or the perception that these sales may occur, could depress the market price of the GDRs and/or Shares and could impair the Bank's ability to raise capital through the sale of additional equity securities.

The Bank and the Selling Shareholder have entered into customary lock-up arrangements with the Joint Global Coordinators: (i) for 365 days for the Bank; and (ii) for 365 days for the Selling Shareholder, in each case from the Closing Date. The lock-up arrangements entered into by the Bank and the Selling Shareholders may be waived by Deutsche Bank and J.P. Morgan and are subject to certain exemptions. See "*Plan of Distribution—Lock-up Arrangements*".

There are restrictions and prohibitions under Kazakhstan law on the ownership and exercise of shareholders' rights (including voting rights) with respect to the GDRs and the Shares

Under Kazakhstan law, legal entities registered in certain specified off-shore jurisdictions such as, for example, Andorra, the British Virgin Islands, Guernsey, Jersey, Isle of Man, Liechtenstein, Liberia, Monaco, the Marshall Islands or Panama (the "Restricted Parties") are not permitted to, directly or indirectly, own Shares. Accordingly, any Restricted Party that holds GDRs will not be able to convert such GDRs into Shares and will not be able to hold or dispose of Shares. Furthermore, under Kazakhstan law, any Restricted Party that holds GDRs will not be entitled to exercise any voting rights in respect of such GDRs through the Depositary (or otherwise) at shareholder meetings. Although Kazakhstan law does not explicitly prohibit Restricted Parties from holding GDRs or from exercising or benefitting from any rights (excluding voting rights) attached thereto (including rights to receive dividends and rights of pre-emption), there can be no guarantee that the NBRK or any other relevant authority (such as a Kazakhstan court) will not take an alternative view, as a result of an alternative interpretation of Kazakhstan law or otherwise, in which case Restricted Parties may be prevented from holding GDRs and/or exercising such rights (see "*The Banking Sector in Kazakhstan—Acquisition of Interests in Kazakhstan Banks—Blacklisted Jurisdictions prohibition*").

The financial markets in Kazakhstan are less developed than in western countries and there may be limited or no liquidity with respect to the Shares underlying the GDRs

As at the date of this Offering Memorandum, the trading market for shares in Kazakhstan is insignificant and restricted in comparison with Western stock markets, which could lead to the illiquidity of the securities (including the Shares and the GDRs) on the KASE and AIX. If there is a trading interruption on the KASE or AIX, this could have a negative effect on the price (in the case of KASE) of the underlying shares and indirectly on the GDRs or (in the case of AIX) the GDRs.

Shareholders wishing to deposit Shares into the depositary facility and convert them into GDRs will be required to notify the NBRK thereof

Any shareholder wishing to deposit Shares into the depositary facility and convert them into GDRs (including holders of GDRs who have converted their GDRs into Shares and wish to convert back into GDRs) will be required to notify the NBRK thereof within 30 days of such a decision being made. There is no minimum shareholding threshold and minority shareholders will therefore also be required to notify the NBRK of such a decision. Failure to do so may result in fines being levied by the NBRK.

Cash held by the Depositary and the Custodian for holders of the GDRs may not be available to such holders in the event of an insolvency of the Depositary or the Custodian

Any cash held by the Depositary for holders of the GDRs ("Holders") is held by the Depositary as a bank. Under current U.S. and English law, it is expected that any cash held for Holders by the Depositary under the terms and conditions of the GDRs would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for any such cash that would also be available to the general creditors of the Depositary. As a result, in the event of an insolvency of the Depositary, Holders may not receive any of the cash held by the Depositary for them or may receive only a proportion of such cash.

On an insolvency of the Bank acting in its capacity as Custodian, it is uncertain whether any cash held by the Custodian in its capacity as Custodian would constitute assets of the Custodian and whether the Holders would have ownership rights relating to such cash. The uncertainty results from the difference in the treatment of cash as between Article 45.5 of the Kazakhstan Securities Market Law, which specifically provides that cash held by professional securities market participants (such as the Custodian) should be excluded from its bankruptcy estate, and Article 74-1.2 of the Kazakhstan Banking Law, which does not specifically provide that cash should be excluded from the bankruptcy estate. It is unclear whether a Kazakhstan liquidation commission would apply the Securities Market Law or the Banking Law on an insolvency of the Custodian and, if it were to apply the Banking Law, whether it would interpret the applicable provisions of the Banking Law to include cash held by the Custodian for the Holders in the bankruptcy estate or to exclude such cash from the bankruptcy estate. As a result, in the event of an insolvency of the Custodian, Holders may not receive any of the cash held by the Custodian for them or may receive only a proportion of such cash if the Kazakhstan liquidation commission of the Custodian applies the Banking Law and interprets it to include cash held for Holders as part of the Custodian's bankruptcy estate.

U.S. holders of the GDRs may not be able to participate in pre-emptive rights offerings

Under Kazakhstan law, subject to certain exceptions, prior to the issue of any new Shares for cash, the Bank must offer all holders of existing Shares pre-emptive rights to subscribe and pay for a sufficient number of Shares to maintain their existing ownership percentages.

U.S. holders of Shares or GDRs may not be able to receive or exercise pre-emptive rights for new Shares unless a registration statement under the U.S. Securities Act is effective with respect to such rights or an exemption from the registration requirements of the U.S. Securities Act is available. As at the date of this Offering Memorandum, the Bank does not plan to register the Shares, GDRs or any future rights under U.S. securities laws. If U.S. holders of Shares or GDRs are not able to receive or exercise pre-emptive rights granted in respect of their Shares or GDRs in any rights offering by the Bank, then they may not receive the economic benefit of those rights. In addition, their proportional ownership interests in the Bank will be diluted. Similar restrictions may apply in other countries.

The Bank may be considered a passive foreign investment company for U.S. federal income tax purposes

There is a significant risk that the Bank will be a passive foreign investment company ("PFIC") for U.S. federal income tax purposes for its current taxable year and in future taxable years. Such classification could result in materially adverse U.S. federal income tax consequences to U.S. investors of Shares or GDRs.

A non-U.S. corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules," either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. For this purpose, "passive income" generally includes interests, dividends, royalties, and gains from securities transactions.

Based on the composition of its income, the valuation of its assets and the activities conducted by the Bank, there is a significant risk that the Bank will be a PFIC for its current taxable year and in future taxable years. If the Bank is a PFIC, U.S. investors who hold the Shares or GDRs may be subject to materially adverse U.S. federal income tax consequences, such as taxation at the highest marginal ordinary income tax rates on capital gains and on certain actual or deemed dividends, interest charges on certain taxes treated as deferred, and additional reporting requirements. Prospective U.S. investors should consult their own tax advisers regarding the potential application of the PFIC rules to an investment in the Shares or GDRs. See "*Taxation—Certain U.S. Federal Income Tax Considerations—Passive Foreign Investment Company Considerations*".

There is a risk that GDR holders may be subject to taxation in Kazakhstan

Kazakhstan tax authorities may take into account economic similarities between GDR holders and holders of Shares and attempt to subject GDR holders to tax as owners of Shares (see "*Taxation—Kazakhstan Taxation*").

The Kazakhstan tax legislation does not provide clear and explicit treatment of certain operations performed on stock exchanges. In particular, under the Tax Code, both depositary receipts and shares are treated as securities. Therefore, should a sale of GDRs be treated as a sale of respective underlying assets (i.e., Shares of the Bank), disposal of GDRs might be subject to taxation in Kazakhstan in accordance with provisions on taxation of capital gains derived from disposal of the Shares (see "*Taxation—Kazakhstan Taxation*").

As the Shares underlying the GDRs being offered pursuant to the GDR Offering are quoted in Tenge on the KASE, investors may be subject to potential losses arising out of exchange rate risk on the Kazakhstan Tenge and risks associated with the conversion of Tenge proceeds into foreign currency

Investors that purchase the GDRs being offered pursuant to the GDR Offering are required to pay for such GDRs in U.S. Dollars. Investors are subject to currency fluctuation risk and convertibility risk since the Shares underlying GDRs being offered pursuant to the GDR Offering are quoted in Tenge on the KASE and AIX. Upon the admission of the GDRs, that are listed on AIX, to trading, such GDRs will be quoted in U.S. Dollars on the AIX. Dividends on the Shares will also be paid in Tenge, and then converted into U.S. Dollars for distribution to investors of the GDR Offering. Any devaluation or depreciation in the Tenge resulting in a decreased value of the Shares or a decreased value of dividend payments could have an adverse effect on holders of the Shares or the GDRs being offered pursuant to the GDR Offering. There can be no assurance that such devaluation or depreciation will not occur in the future.

There are restrictions on the number of Shares for which GDRs may be exchanged

Pursuant to Kazakhstan banking laws, no shareholder may own 10 per cent. or more of the Bank's outstanding Shares without the prior consent of the NBRK. No holder will be able to exchange GDRs for the Bank's Shares if such exchange would result in such holder owning 10 per cent. or more of the Bank's Shares unless such holder has the prior approval of the NBRK. Pursuant to the Deposit Agreement and the terms and conditions of the GDRs, the Depositary will restrict the exchange of GDRs for Shares where the Bank notifies the Depositary that such exchange would result in ownership of Shares exceeding the applicable limit or would otherwise violate applicable laws. In addition, the Central Securities Depository JSC ("Central Securities Depository") will not record a transfer of Shares if the holding of such Shares by the holder would violate Kazakhstan laws or regulations. Holders who beneficially own more than 10 per cent. of the Bank's outstanding Shares must obtain consent from the NBRK for such ownership interest and notify the NBRK of any changes therein.

An acquisition of 10 per cent. or more of the voting shares in the Bank requires prior consent from the NBRK

Under Kazakhstan law, a person is required to obtain prior written consent from the NBRK to own, whether independently or jointly with another person, directly or indirectly, 10 per cent. or more of the voting shares in the Bank. A legal entity which is planning to acquire, whether independently or jointly with another person, directly or indirectly, 25 per cent. or more of the voting shares in the Bank will be required to obtain the prior written consent of the NBRK for acquiring the status of a Bank Holding (see "*The Banking Sector in Kazakhstan—Acquisition of Interests in Kazakhstan Banks*"). In case GDR holders plan to disclose their identity to the Central Securities Depositary in order for such GDR holders to be able to exercise their voting rights at a general meeting of shareholders (the "Disclosure"), they will be required to obtain prior written consent of the NBRK prior to such Disclosure if the above thresholds are met. As such, in case the Disclosure is made, the GDRs will represent voting shares, and, accordingly, the requirement to obtain prior written consent of the NBRK may be triggered if the above thresholds are met. Under the Banking Law, the NBRK consent is issued by the NBRK within six months after the relevant application is submitted to the NBRK, and such consent must be obtained before the (i) acquisition of shares or (ii) Disclosure is made. In case a person acquires, directly or indirectly, 10 per cent. or more of the voting shares of a bank without the written consent of the NBRK, the NBRK has the right to apply to this person the supervisory response measures provided for by the Banking Law which include, *inter alia*, the requirement for the sale of shares in a bank within a period not exceeding six months. (See "*The Banking Sector in Kazakhstan—Acquisition of Interests in Kazakhstan Banks*"). In addition, exercising a right to vote at a general meeting of shareholders without the relevant NBRK consent may entail the possibility of challenging the legality of the general meeting and decisions taken at such general meeting of shareholders. The owner of 10 per cent. or more of the voting shares in the Bank also assumes certain obligations including an obligation to support the Bank in remedying any financial problems it may incur, an obligation to obtain a credit rating and ongoing reporting obligations.

Almex's interests as the Selling Shareholder may differ from the interests of the Bank and of the holders of GDRs

Although the Selling Shareholder will be selling a significant number of Shares (in the form of GDRs), it intends to retain a controlling interest in the Bank. Although there is no shareholder agreement in place between the Bank and Almex, due to the size of its ownership interest (74.7 per cent. (on a consolidated basis) at the date of this Offering Memorandum and not less than 51 per cent. following the GDR Offering), Almex, the Selling Shareholder, has the ability to influence significantly the Bank's strategy and business through actions that require a majority vote approval by the shareholders, including, without limitation, the appointment of all members of the Board of Directors, certain acquisitions, divestitures and financings and any increase in the share capital of the Bank required for funding purposes or otherwise. There can be no assurance that the Selling Shareholder will approve actions deemed advisable by the Bank's management, which require shareholders' approval, and there is nothing to prevent the Selling Shareholder from engaging in activities that compete directly with the Bank's businesses or activities. The interests of the Selling Shareholder may differ significantly from or compete with the Bank's interests, and there can be no assurance that the Selling Shareholder will exercise influence over the Bank in a manner that is in the best interests of the Bank or the holders of GDRs. Any failure of the Selling Shareholder to act in the interests of the Bank could materially and adversely affect the Bank's business, prospects, financial condition, cash flows or results of operations.

In addition, parties, directly and indirectly, related to Almex and its shareholders have transactions and balances with the Bank. See "*Related Party Transactions*". A change in the nature of the relationship with these parties could have a material adverse effect on the Bank's business, prospects, financial condition, cash flows or results of operations.

The AIX has a very short history of operations

The AIX was launched in July 2018 and therefore has a very short history of operations. There may be no assurance that the AIX will attract a sufficient number of market participants and issuers to ensure acceptable trading volumes in the foreseeable future or at all. Moreover, as at the date of this Offering Memorandum, the technological platform of AIX remains relatively untested given the early stages of its operations. Accordingly, market participants, issuers and other involved parties may experience technical difficulties with various aspects of AIX's operations, such as quotation and trading information and settlement. Any of these events could adversely affect the price of the GDRs.

The Bank may elect not to pay dividends in the future

To the extent that the Bank declares and pays dividends on its Shares, owners of the GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreements. The Bank declared and paid dividends in the amount of KZT 69,363 million in 2018. The Bank did not declare any dividends in 2017 and 2016. However, any future decision to declare and pay dividends will be subject to: (i) restrictions set out in applicable law, such as the prohibition on payment of dividends for companies with negative equity capital or which are insolvent or companies whose equity capital would become negative or which would become insolvent as a result of paying dividends; and (ii) restrictive covenants set out in agreements to which the Bank is a party. Under the terms of the Bank's U.S.$500 million 7.25 per cent. Notes due 2021 ("Notes due 2021"), the Bank is restricted from paying any dividends, in cash or otherwise: (i) when an event of default has occurred (as defined in the Notes due 2021); (ii) more than once during any calendar year; and (iii) in an aggregate amount exceeding 50 per cent. of the Bank's net income for the period in respect of which the dividends are being paid. Under the terms of the Bank's Eurobond due 2022, the Bank is restricted from paying any dividends, in cash or otherwise: (i) when an event of default has occurred (as defined in the Eurobond due 2022); (ii) more than once during any calendar year; or (iii) in an aggregate amount exceeding 50 per cent. of the Bank's net income for the period in respect of which the dividends are being paid. The Bank's ability to declare and pay dividends will also depend on, among other things: (i) the availability of the Bank's net profits to be distributed; (ii) any restraints upon the payment of dividends under Kazakhstan legislation and/or pursuant to the Bank's current and future contractual obligations; (iii) the Bank's credit ratings; (iv) prevention of default or situations when payment can cause default with respect to the Bank's liabilities; and (v) compliance with the projected CET1 capital adequacy ratio on a consolidated basis, taking into account the projected dividend payment, at a level of, not less than, 17 per cent. See "*Dividend Policy*".

Furthermore, in rendering its proposal to the Bank's general shareholders' meeting, the Bank's Board of Directors may take into account any factors it may deem relevant, such as the Bank's net profit, solvency and financial condition and cash requirements, among others. Accordingly, the Bank can give no assurance that it will pay any dividends in the future. As a result, holders of GDRs may not receive any return on their investment in the GDRs unless they sell their GDRs for a price greater than that which they paid for them.

IMPORTANT INFORMATION ABOUT THIS OFFERING MEMORANDUM

No representation or warranty, express or implied, is made, nor any responsibility assumed, by the Joint Global Coordinators and Joint Bookrunners or any of their respective affiliates or advisers as to the accuracy, completeness or sufficiency of any information contained or incorporated by reference into this Offering Memorandum, and nothing contained or incorporated by reference into this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Joint Global Coordinators and Joint Bookrunners or any of their respective affiliates or advisers as to the past or the future. Accordingly, each of the Joint Global Coordinators and Joint Bookrunners and each of their respective affiliates or advisers disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which each might otherwise be found to have in respect of this Offering Memorandum and the information contained or incorporated by reference herein.

Deutsche Bank AG, London Branch ("Deutsche Bank") and J.P. Morgan Securities plc ("J.P. Morgan") are authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. JSC Halyk Finance ("Halyk Finance") is authorised and regulated by the National Bank of the Republic of Kazakhstan (the "NBRK"). Renaissance Securities (Cyprus) Limited ("Renaissance Capital") is authorised and regulated by the Cyprus Securities and Exchange Commission.

The Joint Global Coordinators and Joint Bookrunners are acting exclusively for the Bank and the Selling Shareholder and no one else in connection with the GDR Offering and will not regard any other person (whether or not a recipient of this Offering Memorandum) as their respective clients in relation to the GDR Offering and will not be responsible to any other person, other than the Bank and the Selling Shareholder, for providing the protections afforded to their respective clients nor for providing advice in relation to the GDR Offering or any transaction or arrangement referred to herein. Save for the responsibilities, if any, which may be imposed under the FSMA to the extent the exclusion of responsibility would be illegal, void or unenforceable, none of the Joint Global Coordinators and Joint Bookrunners nor any of their respective affiliates accepts any responsibility whatsoever for the contents of this Offering Memorandum or its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Bank, the GDRs being sold pursuant to the GDR Offering or the GDR Offering.

In making an investment decision, prospective investors must rely on their own examination, analysis and enquiry of the Bank, and their own determination of the suitability of any such investments, with particular reference to their own investment objectives and experience and any other factors that may be relevant to such prospective investors in connection with an investment in the GDRs being sold pursuant to the GDR Offering, and the terms of the GDR Offering, including the merits and risks involved. Any decision to buy the GDRs being sold pursuant to the GDR Offering should be based solely on the information contained or incorporated by reference into this Offering Memorandum. No person has been authorised to give any information or to make any representation in connection with the GDR Offering other than those contained in this Offering Memorandum. If any such information is given or any such representations are made, such information or representations must not be relied upon as having been authorised by the Bank, the Selling Shareholder or the Joint Global Coordinators and Joint Bookrunners, any of their respective affiliates, advisers or any other person. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in the Bank's affairs or that the information set forth in this Offering Memorandum is correct as of any date subsequent to the date hereof.

No representation is made by the Bank, the Selling Shareholder or the Joint Global Coordinators and Joint Bookrunners or any of its or their respective representatives to prospective investors as to the legality of an investment in the GDRs being sold pursuant to the GDR Offering by such offeree or purchaser under the laws applicable to such offeree or purchaser. Prospective investors should not construe anything in this Offering Memorandum as legal, business, financial, investment, tax or related advice. Prospective investors should consult their own advisers as to the legal, business, financial, investment, tax and related aspects of an investment in the GDRs being sold pursuant to the GDR Offering.

The investors also acknowledge that: (i) they have not relied on the Joint Global Coordinators and Joint Bookrunners or any person affiliated with the Joint Global Coordinators and Joint Bookrunners in connection with any investigation of the accuracy of any information contained or incorporated by reference into this Offering Memorandum or their investment decision; (ii) they have relied only on the information contained or incorporated by reference into this Offering Memorandum; and (iii) that no person has been authorised to give any information or to make any representation concerning the Bank or its subsidiaries or the GDRs being sold pursuant to the GDR Offering (other than as contained or incorporated by reference into this Offering Memorandum) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Bank, the Selling Shareholder or the Joint Global Coordinators and Joint Bookrunners.

The Offering Memorandum does not constitute or form part of an offer to sell, or a solicitation of an offer to buy, any security other than the GDRs being sold pursuant to the GDR Offering by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. The distribution of this Offering Memorandum and the GDR Offering may, in certain jurisdictions, be restricted by law and this Offering Memorandum may not be used for the purposes of, or in connection with, any offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Offering Memorandum comes are required to inform themselves of and observe all such restrictions and obtain any consent, approval or permission required. None of the Bank, the Selling Shareholder or any of the Joint Global Coordinators and Joint Bookrunners accepts any legal responsibility for any violation by any person, whether or not a prospective investor, of any such restrictions.

No action has been or will be taken in any jurisdiction that would permit a public offering of GDRs being sold pursuant to the GDR Offering or the possession, circulation of this Offering Memorandum or any other material relating to the Bank or the GDRs being sold pursuant to the GDR Offering in any jurisdiction where action for those purposes is required. Accordingly, the GDRs being sold pursuant to the GDR Offering may not be offered or sold, directly or indirectly, and neither this Offering Memorandum, nor any other offering material or advertisements in connection with the GDRs being sold pursuant to the GDR Offering may be distributed or published in or from any country or jurisdiction except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction. Further information with regard to restrictions on offers and sales of the GDRs being sold pursuant to the GDR Offering is set forth under "*Plan of Distribution*" and "*Selling and Transfer Restrictions*".

In connection with the GDR Offering, each of the Joint Global Coordinators and Joint Bookrunners and any of their respective affiliates, acting as an investor for its own account, may take up a portion of the GDRs in the GDR Offering as a principal position and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any of the Bank's other securities or other related investments in connection with this GDR Offering or otherwise. Accordingly, references in this Offering Memorandum to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Joint Global Coordinators and Joint Bookrunners or any of them and any of their respective affiliates acting as an investor for its or their own account(s). In addition, certain of the Joint Global Coordinators and Joint Bookrunners or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Joint Global Coordinators and Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of the GDRs. None of the Joint Global Coordinators and Joint Bookrunners intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Selling Shareholder may withdraw the GDR Offering at any time, and, alongside the Joint Global Coordinators and Joint Bookrunners, reserve the right to reject any offer to purchase GDRs being sold pursuant to the GDR Offering, in whole or in part, and to sell to any prospective investor less than the full amount of the GDRs sought by such investor. The Joint Global Coordinators and Joint Bookrunners and certain related entities may acquire a portion of the GDRs being sold pursuant to the GDR Offering for their own accounts.

Provision of Information

The Bank has agreed that, for so long as any GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which the Bank is neither subject to Section 13 or 15(d) under the United States Securities Exchange Act of 1934 (the "Exchange Act"), nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such GDRs or to any prospective purchaser of such GDRs designated by such holder or beneficial owner, on the request of such holder, beneficial owner or prospective purchaser, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

Recipients of this Offering Memorandum in the United States are hereby notified that this document is not to be reproduced, retransmitted or otherwise redistributed, in whole or in part, under any circumstances. Furthermore, recipients are authorised to use it solely for the purpose of considering a purchase of the GDRs in this GDR Offering and may not disclose any of the contents of this Offering Memorandum or use any information herein for any other purpose. The information contained or incorporated by reference into this document has been provided by the Bank and other sources identified herein. This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the GDRs. Such recipients of this Offering Memorandum agree to the foregoing by accepting delivery of this Offering Memorandum. This agreement shall be relied upon by the Bank, the Selling Shareholder, the Joint Global Coordinators and Joint Bookrunners and their respective affiliates and agents, as well as persons acting on their behalf.

No Incorporation of Website Information

The contents of the Bank's website do not form part of this Offering Memorandum.

Enforcement of Foreign Judgments

Each of the Bank and the Selling Shareholder is incorporated under the laws of the Republic of Kazakhstan. The Bank's operations are mainly located in the Republic of Kazakhstan and all of the Selling Shareholder's operations are located in the Republic of Kazakhstan. None of the Bank's directors or executive officers is a resident of the United States and all of the Bank's assets and the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Bank or such persons or to enforce against any of them judgments of U.S. federal or state courts, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States.

Kazakhstan's courts will not enforce any judgment obtained in a court established in a country other than Kazakhstan unless (i) there is in effect a treaty between such country and Kazakhstan providing for reciprocal enforcement of judgments and then only in accordance with the terms of such treaty or (ii) there is actual reciprocity in such country with regard to judgments obtained in Kazakhstan (i.e., the particular judge is satisfied that there is evidence that judgments obtained in Kazakhstan are enforceable (or were actually enforced) in such other country). There is no such treaty in effect between Kazakhstan and the United Kingdom or the United States; and the existence of actual reciprocity in the United Kingdom or the United States with regard to Kazakhstan could be difficult to prove. However, Kazakhstan is a party to the New York Convention and, accordingly, an arbitral award rendered in a country which is also a party to the New York Convention should be recognised and enforceable in Kazakhstan provided the conditions to recognition and enforcement set out in the New York Convention and the laws of Kazakhstan are met.

Forward-Looking Statements

Certain statements in this Offering Memorandum are not historical facts but constitute "forward-looking statements" within the meaning of section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical fact. The words "believe", "expect", "anticipate", "intend", "project", "estimate", "will", "may", "should" and similar expressions identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Risk Factors*" and "*Business of the Bank*". By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to statements regarding the Bank's ability to: achieve leading positions in all of its key customer segments; develop services, product offerings and other solutions in line with the best market practices; develop its digital offering; implement specialized digital services and payment solutions, including increasing the number of active payment cards in circulation and enhancing its network of fixed and remote sales channels; and successfully expand its footprint internationally. Factors that might affect such forward-looking statements include, among other things, risks associated with emerging markets, which are generally subject to greater risk than more developed markets; the legal, economic and political conditions prevailing in Kazakhstan and its neighbouring regions, as well as broader global trends; export trade and commodity prices; currency control legislation; sanctions imposed on Russia; overall economic and business conditions, including the global and the Kazakhstan credit market; changes in liquidity support for the Kazakhstan banking sector; the devaluations of the Tenge; the demand for the Bank's services; competitive factors; changes in Government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); the Bank's capital position; a significant increase in the level of the Bank's non-performing loans; results of any litigation or arbitration proceedings; interest rate and currency fluctuations and other market conditions; economic and political conditions in international markets; and the timing, impact and other uncertainties of future actions. See "*Risk Factors*" for a discussion of important factors that could cause actual results to differ materially from these forward-looking statements.

When reading any forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Bank operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Bank does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise unless required to do so by applicable law. The Bank does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

The Bank maintains its books of account and prepares its accounts for regulatory purposes in accordance with International Financial Reporting Standards ("IFRS"). Since 1 January 2004, the Bank has been required to comply with the requirements of the NBRK (the Prudential Norms). The term "Bank" shall mean JSC "Halyk Bank" and its consolidated subsidiaries.

The financial information of the Bank set forth herein, has, unless otherwise indicated, been extracted from (i) the audited consolidated statements of financial position as at 31 December 2018, 2017 and 2016 and consolidated statements of profit or loss and consolidated statements of other comprehensive income, changes in equity and cash flows for the years ended 31 December 2018, 2017 and 2016 (together, the "Audited Financial Statements") and (ii) the unaudited interim condensed consolidated statements of financial position as at 30 June 2019 and 2018 and the related unaudited interim condensed consolidated statements of profit or loss and the unaudited interim condensed consolidated statements of other comprehensive income, changes in equity and cash flows for the six months ended 30 June 2019 and 2018 (together, the "Unaudited Interim Condensed Consolidated Financial Information"). The Audited Financial Statements and the Unaudited Interim Condensed Consolidated Financial Information, including the relevant notes thereto, together with the auditors' reports thereon and notes thereto, are incorporated by reference into this Offering Memorandum. Prospective investors are advised that the financial information of the Bank set forth herein should be read together with the Audited Financial Statements and the Unaudited Interim Condensed Consolidated Financial Information and the notes thereto incorporated by reference into this Offering Memorandum.

In this Offering Memorandum, references to "Tenge" or "KZT" are to Kazakhstan Tenge, the lawful currency of Kazakhstan; references to "U.S. Dollars" or "U.S.$" are to United States Dollars, the lawful currency of the United States of America; references to "Russian Roubles" or "RUB" are to Russian Roubles, the lawful currency of the Russian Federation; references to "SOM" are to Kyrgyz Som, the lawful currency of Kyrgyzstan; references to "GEL" are to Georgian Lari, the lawful currency of Georgia; and references to "Euros" or "EUR" are to the lawful currency of the member states of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Communities, as amended by the Treaty on European Union and as further amended by the Treaty of Amsterdam. References to "Kazakhstan", the "Republic" or the "State" are to the Republic of Kazakhstan; references to the "Government" are to the government of the Republic of Kazakhstan; and references to the "CIS" are to the Commonwealth of Independent States. "GDP" means gross domestic product.

Solely for the convenience of the reader, this Offering Memorandum presents unaudited translations of certain Tenge amounts into U.S. Dollars at specified rates. Unless otherwise stated, any statement of financial position or profit or loss statement data in U.S. Dollars is translated from Tenge at the applicable exchange rate on the date of the latest year-end or, if applicable, interim statement of financial position data (or, if no such rate was quoted on such date, the immediately preceding date on which such rate was quoted), in each case calculated in accordance with the official monthly average exchange rates for U.S. Dollars as reported by the NBRK. For further details of applicable exchange rates, see the Audited Financial Statements and Unaudited Interim Condensed Consolidated Financial Information incorporated by reference into this Offering Memorandum.

The following table sets out, for the periods indicated, certain average (derived on the basis of monthly rates) and period-end Tenge/U.S. Dollar exchange rates on the KASE as reported by the NBRK:

	Period Average	**Period-end**
	(KZT per U.S. Dollar)	
Year ended 31 December		
2018	333.29	342.16
2017	325.10	332.33
2016	342.16	333.29

Source: the NBRK

	Period Average	**Period-end**
	(KZT per U.S. Dollar)	
Six months ended 30 June		
2019	379.14	380.53
2018	326.49	341.08

Source: the NBRK

As at 25 September 2019, the exchange rate for U.S. Dollars on the KASE as reported by the NBRK was KZT 386.44 per U.S. $1.00.

No representation is made that the Tenge or U.S. Dollar amounts in this Offering Memorandum could have been converted into U.S. Dollars or Tenge, as the case may be, at any particular rate or at all. Certain amounts which appear in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Presentation of Non-Performing Loans Data

This Offering Memorandum contains references to non-performing loans, which the Bank calculates on an unconsolidated basis without taking into account non-performing loans of any of its subsidiaries in and outside of Kazakhstan. The Bank calculates such non-performing loans on an unconsolidated basis because the principal share of the overdue loans portfolio in the Bank's consolidated financial statements, as well as the largest overdue borrowers, are represented by the portfolios of the Bank together with the migrated portfolio of KKB.

Adoption of IFRS 16—Leases

The Group adopted IFRS 16—Leases as at 1 January 2019 with no implementation impact on retained earnings as at that date. The Group applied IFRS 16—Leases using the modified retrospective approach, meaning that the new standard was adopted from 1 January 2019 with no restatement of comparative periods (i.e., comparative period is presented as previously reported under IAS 17 and related interpretations).

Alternative Performance Measures

The alternative performance measures ("APMs") disclosed in this Offering Memorandum are unaudited supplementary measures of the Group's performance and liquidity that are not required by, or presented in accordance with, IFRS. These measures are not defined by IFRS and the Group's use and definition of these metrics may not be comparable to similarly titled APMs used by other companies in the financial industry due to differences in accounting policies or differences in the calculation methodology. These APMs have limitations and should not be considered in isolation, or as substitutes for financial information as reported under IFRS. Accordingly, undue reliance should not be placed on the APMs presented in this Offering Memorandum. The Group has included these measures because it believes that they enhance an investor's understanding of the Group's financial performance. The Group also believes that these APMs are commonly used by investors in comparing the performance of businesses. The management of the Group uses these measures to monitor and analyse Group's performance.

APMs used by the Group include:

- *Return on average common shareholders' equity*: Performance measure. Return on average common shareholders' equity is (x) net profit attributable to common shareholders for the period, divided by (y) average common shareholders' equity for the period, where common shareholders' equity comprises total equity, less non-controlling interest. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
- *Return on average total assets*: Performance measure. Return on average total assets comprises (x) net profit attributable to common shareholders for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
- *Net interest margin*: Performance measure. Net interest margin comprises (x) net interest income before credit loss expense for the period divided by (y) average interest-earning assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
- *Net interest spread*: Performance measure. Net interest spread comprises the difference between (x) the average interest rate earned on interest-earning assets for the period and (y) the average interest rate paid on interest-bearing liabilities for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
- *Net interest income before credit loss expense/operating income before credit loss expense*: Performance measure. Net interest income before credit loss expense/operating income before credit loss expense

comprises (x) net interest income before credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

- *Liquid assets/total assets*: Liquidity measure. Liquid assets consist of cash and cash equivalents, the NBRK notes, Treasury Bills of the Ministry of Finance of Kazakhstan, Treasury Bills of the governments of other countries, notes of national banks of other countries and bonds of quasi-sovereign banks. Liquid assets/total assets comprises (x) liquid assets divided by (y) total assets. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

- *Operating expenses/operating income before credit loss expense*: Performance measure. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance, excluding expenses for insurance reserves. Credit loss expense includes credit loss expense on loan losses and other assets. Operating expenses/operating income before credit loss expense comprises (x) operating expenses for the period divided by (y) operating income before credit loss expense for the period.

- *Operating expenses/net interest income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating expenses/net interest income before credit loss expense comprises (x) operating expense for the period divided by (y) net interest income before credit loss expense for the period.

- *Operating expenses/average total assets*: Performance measure. Operating expenses/average total assets comprises (x) operating expenses for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

- *Credit loss expense/operating income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance and excluding expenses for insurance reserves. Credit loss expense/operating income before credit loss expense comprises (x) credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

- *Credit loss expense/average loans to customers before allowance for expected credit losses*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Credit loss expense/average loans to customers before allowance for expected credit losses comprises (x) credit loss expense for the period divided by (y) average loans to customers before allowance for expected credit losses for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

- *Allowance for expected credit losses/loans to customers before allowance for expected credit losses*: Performance measure. Allowance for expected credit losses/loans to customers before allowance for expected credit losses comprises (x) allowance for expected credit losses divided by (y) loans to customers before allowance for expected credit losses.

- *Net loans/deposits*: Performance measure. Net loans consist of gross loans less allowances for expected credit losses. Net loans/deposits comprises (x) net loans divided by (y) deposits.

- *Amounts due to customers/net loans to customers*: Performance measure. Net loans consist of gross loans less allowances for expected credit losses. Amounts due to customers/loans to customers comprises (x) amounts due to customers divided by (y) loans to customers.

- *Amounts due to customers/total assets*: Performance measure. Amounts due to customers/total assets comprises (x) amounts due to customers divided by (y) total assets.

- *Net loans to customers/total assets*: Performance measure. Net loans consist of gross loans less allowances for expected credit losses. Net loans to customers/total assets comprises (x) net loans to customers divided by (y) total assets.

- *Total equity/total assets*: Performance measure. Total equity/total assets comprises (x) total equity divided by (y) total assets.

- *Cost of risk*: Performance measure. Cost of risk comprises (x) credit loss expense on loans to customers for the period, divided by (y) monthly average balances of gross loans to customers for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

MARKET SHARE, INDUSTRY AND ECONOMIC DATA

Certain statistical and market information that is presented in this Offering Memorandum on such topics and related subjects has, unless otherwise stated herein, been extracted from documents and other publications released by the NBRK, the Committee of Statistics of the Ministry of National Economy of the Republic of Kazakhstan (the "Committee of Statistics") and the KASE.

In addition, certain information in the section "*The Banking Sector in Kazakhstan*" has been extracted from documents and other publications released by various officials and other public and private sources, including participants in the capital markets and financial sector in Kazakhstan.

It is difficult to obtain precise industry and market information on the Kazakhstan banking sector or macroeconomic data on Kazakhstan and there is not necessarily any uniformity of views among such sources as to the information provided therein. Prospective investors are therefore advised to consider this data with caution. Where third party information has been used in this Offering Memorandum, the source of such information has been identified. Prospective investors should note that some of the Bank's estimates are based on such third-party information. Neither the Bank nor the Joint Global Coordinators and Joint Bookrunners have independently verified the figures, market data or other information on which third parties have based their studies.

Official data published by Kazakhstan governmental or regional agencies is substantially less complete or researched than those of more developed countries. Furthermore, official statistics, including those published by the NBRK, the Committee of Statistics and the KASE, may be produced on different bases than those used in more developed countries. Macroeconomic data, which appears in this Offering Memorandum, has been derived from statistics published by the Committee of Statistics, the NBRK and the Economist Intelligence Unit. See "*Risk Factors—Risk Factors Relating to Kazakhstan—The lack of accurate official statistics and corporate and financial information in Kazakhstan may lead to uncertainties and may limit the ability of the Bank to assess customer credit risks accurately*" Any discussion of matters relating to Kazakhstan's banking sector, economy and related topics as well as other participants in the Kazakhstan banking sector in this Offering Memorandum is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

USE OF PROCEEDS

The Bank will not receive any of the proceeds from the GDR Offering.

The Selling Shareholder expects to receive gross proceeds of U.S.$344,470,085.25 and net proceeds of approximately U.S.$332 million from the GDR Offering after deduction of its share of the GDR Offering expenses (including underwriting commissions with respect to the GDRs offered by it).

CAPITALISATION OF THE BANK

The following table sets out the consolidated capitalisation of the Bank as at 30 June 2019. This information is unaudited and should be read in conjunction with "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Selected Consolidated Financial Data*" and "*Selected Statistical and Other Information*" and the Bank's Unaudited Interim Condensed Consolidated Financial Information, and related notes thereto, incorporated by reference into this Offering Memorandum.

	As at 30 June 2019	
	(U.S.$[1] millions)	*(KZT millions)*
	(unaudited)	
Indebtedness		
Senior long-term liabilities[2]	4,899	1,864,212
Subordinated long-term debt[3]	224	85,101
Total long-term liabilities	5,123	1,949,313
Equity		
Share capital[4]	549	209,027
Share premium reserve	5	1,839
Treasury shares	(293)	(111,320)
Retained earnings and other reserves	2,702	1,028,043
Non-controlling interest	0	6
Total shareholders' equity	2,963	1,127,595
Total capitalisation	8,086	3,076,908

Notes:

(1) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

(2) Senior long-term liabilities represent amounts due to customers, amounts due to credit institutions, financial liabilities at fair value through profit or loss, debt securities, lease liabilities issued and other financial liabilities that fall due after one year and are not subordinated. For additional information on our senior long-term liabilities, please see "*Selected Statistical and Other Information—Unsubordinated Debt Securities*".

(3) Subordinated long-term debt represents subordinated debt that falls due after one year. For additional information on our subordinated long-term debt, please see "*Selected Statistical and Other Information—Subordinated Debt Securities*".

(4) As at 30 June 2019, the Bank's issued and fully paid share capital consisted of 13,447,544,782 common shares. As at 30 June 2019, the Bank and its consolidated subsidiaries held 1,766,376,370 of the Bank's common shares, of which 1,693,495,385 common shares belonged to the Bank as treasury shares and 72,880,985 (including existing GDRs) common shares belonged to its consolidated subsidiaries.

Save as disclosed herein, there has been no material change in the Bank's total capitalisation and total long-term liabilities since 30 June 2019.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below as at and for the six months ended 30 June 2019 and 2018 have been derived from and should be read in conjunction with the Bank's Unaudited Interim Condensed Consolidated Financial Information, including the notes thereto, incorporated by reference into this Offering Memorandum. The selected consolidated financial data presented below as at and for the three years ended 31 December 2018, 2017 and 2016 have been derived from and should be read in conjunction with the Bank's Audited Financial Statements, including the notes thereto, incorporated by reference into this Offering Memorandum.

The Unaudited Interim Condensed Consolidated Financial Information has been prepared in accordance with IAS 34, Interim Financial Reporting. These interim results, however, are not necessarily indicative of results to be expected for the full year.

Prospective investors should read the summary consolidated financial information in conjunction with the information contained in "*Risk Factors*", "*Capitalisation of the Bank*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Selected Statistical and Other Information*" and "*Business of the Bank*", as well as the Unaudited Interim Condensed Consolidated Financial Information and the Audited Financial Statements, in each case, including the notes thereto, incorporated by reference into this Offering Memorandum and all other financial data appearing elsewhere in this Offering Memorandum.

Statement of profit or loss data

The following table shows the unaudited interim condensed consolidated statements of profit or loss for the six months ended 30 June 2019 and 2018 and audited consolidated statements of profit or loss for the years ended 31 December 2018, 2017 and 2016:

	For the six months ended 30 June			For the years ended 31 December			
	2019		2018	2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*		*(U.S.$ millions)*[(1)]	*(KZT millions)*		
		(unaudited)					
Continuing Operations:							
Interest income calculated using effective interest method	929.8	352,540	332,042	1,960.2	675,699	497,597	306,557
Other interest income	9.3	3,544	2,697	18.4	6,342	8,731	26,006
Interest expense	(437.4)	(165,824)	(170,330)	(968.3)	(333,772)	(257,805)	(160,549)
Net interest income before credit loss expense	501.8	190,260	164,409	1,010.3	348,269	248,523	172,014
Credit loss expense	(33.5)	(12,686)	(22,876)	(92.8)	(31,995)	(67,302)	(25,308)
Net interest income	468.4	177,574	141,533	917.5	316,274	181,221	146,706
Fee and commission income	152.1	57,684	54,386	328.5	113,241	87,640	57,697
Fee and commission expense	(65.3)	(24,756)	(17,973)	(113.2)	(39,006)	(26,732)	(11,295)
Fees and commissions, net	86.8	32,928	36,413	215.4	74,235	60,908	46,402
Net (loss)/gain from financial assets and liabilities at fair value through profit or loss	(59.3)	(22,489)	28,763	331.2	114,158	31,423	(12,710)
Net realised gain from financial assets at fair value through other comprehensive income (2017 and 2016: IAS 39—available-for-sale Investment securities)	6.3	2,399	2,960	7.0	2,428	1,064	2,623
Net gain/(loss) on foreign exchange operations	85.7	32,479	(5,062)	(187.3)	(64,577)	(4,949)	18,506
Insurance underwriting income	116.2	44,040	32,119	195.3	67,315	55,108	28,071
Share in profit of associate	8.4	3,197	705	8.4	2,899	—	—
Other income	46.4	17,584	22,226	63.1	21,765	23,618	6,486
Other non-interest income	203.6	77,210	81,711	417.7	143,988	106,264	42,976

	For the six months ended 30 June			For the years ended 31 December			
	2019		2018	2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*		*(U.S.$ millions)*[(1)]	*(KZT millions)*		
		(unaudited)					
Operating expenses	(166.9)	(63,265)	(68,937)	(398.1)	(137,223)	(105,797)	(66,341)
Loss from impairment of non-financial assets	—	—	(30,308)	(79.2)	(27,308)	(6,533)	(2,218)
Recoveries of other credit loss expense/(other credit loss expense)	(5.5)	(2,081)	2,347	46.3	15,951	1,737	(44)
Insurance claims incurred, net of reinsurance	(107.9)	(40,898)	(30,331)	(174.0)	(59,986)	(48,615)	(24,799)
Non-interest expenses	(280.2)	(106,244)	(127,229)	(605.1)	(208,566)	(159,208)	(93,402)
Income before income tax expense	478.6	181,468	132,428	945.5	325,931	189,185	142,682
Income tax expense	(45.5)	(17,239)	(57,197)	(239.3)	(82,474)	(25,598)	(22,183)
Profit for the period from continuing operation	433.2	164,229	75,231	706.3	243,457	163,587	120,499
Discontinued Operations:							
Profit for the period from discontinued operations	—	—	9,974	28.9	9,974	9,876	10,913
Net profit	433.2	164,229	85,205	735.2	253,431	173,463	131,412
Attributable to:							
Non-controlling interest	—	—	(969)	(2.3)	(807)	101	—
Common shareholders	433.2	164,229	86,174	737.5	254,238	173,362	131,412
Basic and diluted earnings per share (KZT)	0.04	14.06	7.84	0.1	22.75	15.77	11.96
Basic and diluted earnings per share from continuing operations (KZT)	0.04	14.06	7.52	0.1	21.86	14.88	10.99

Note:

(1) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

Statement of financial position data

The following table shows the unaudited interim condensed consolidated statements of financial position as at 30 June 2019 and 2018 and the audited consolidated statements of financial position as at 31 December 2018, 2017 and 2016:

	As at 30 June		As at 31 December			
	2019		2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*	*(U.S.$ millions)*[(1)]	*(KZT millions)*		
	(unaudited)					
Assets						
Cash and cash equivalents	5,548.0	2,111,184	4,568.3	1,755,138	1,780,548	1,774,519
Obligatory reserves	296.8	112,958	301.3	115,741	111,039	76,122
Financial assets at fair value through profit or loss	504.2	191,856	486.3	186,836	144,976	328,737
Amounts due from credit institutions	135.0	51,357	143.2	55,035	87,736	35,542
Available-for-sale investment securities	—	—	—	—	2,565,425	599,624
Financial assets at fair value through other comprehensive income	3,772.5	1,435,565	4,596.4	1,765,933	—	—
Debt securities at amortised cost, net of allowance for expected credit losses	2,864.3	1,089,944	2,748.3	1,055,907	—	—
Precious metals	8.6	3,269	9.1	3,496	5,111	1,684
Loans to customers	9,178.2	3,492,575	9,060.6	3,481,079	3,251,102	2,319,583
Investment property	117.1	44,568	153.2	58,868	37,517	30,146
Commercial property	254.6	96,898	183.0	70,318	48,774	10,202
Assets held-for-sale	147.1	55,990	146.1	56,129	552,405	10,297
Investments in associates	63.7	24,252	53.2	20,437	—	—
Current income tax assets	70.6	26,853	89.7	34,478	15,320	3,222
Deferred income tax assets	0.6	214	0.8	323	517	831
Property and equipment	345.2	131,365	340.9	130,987	137,684	94,897
Intangible assets	23.2	8,819	22.0	8,435	8,251	9,179
Goodwill	8.1	3,085	8.0	3,085	3,085	4,954
Insurance assets	152.3	57,944	170.9	65,651	40,162	28,354
Other assets	316.5	120,453	237.2	91,148	68,129	20,590
Total assets	23,806.7	9,059,149	23,318.6	8,959,024	8,857,781	5,348,483
Liabilities and equity						
Liabilities						
Amount due to customers	16,346.8	6,220,463	16,988.4	6,526,930	6,131,750	3,820,662
Amounts due to credit institutions	1,252.7	476,703	438.3	168,379	255,151	162,134
Financial liabilities at fair value through profit or loss	31.2	11,857	18.3	7,022	5,831	2,841
Debt securities issued	2,374.4	903,536	2,344.6	900,791	962,396	584,933
Current income tax liability	8.8	3,334	474.9	126	2,720	3,311
Deferred tax liability	165.7	63,037	172.3	66,188	8,789	23,181
Provisions	12.3	4,695	6.6	2,546	16,098	987
Insurance liabilities	494.2	188,061	474.9	182,441	139,543	64,374
Other liabilities	157.3	59,868	101.4	38,955	66,419	20,467
	20,843.4	7,931,554	20,545.0	7,893,378	7,588,697	4,682,890
Liabilities directly associated with assets classified as held for sale	—	—	—	—	334,627	—
Total liabilities	20,843.4	7,931,554	20,545.0	7,893,378	7,923,324	4,682,890

	As at 30 June		As at 31 December			
	2019		2018		2017	2016
	(U.S.$ millions)[(1)]	*(KZT millions)*	*(U.S.$ millions)[(1)]*	*(KZT millions)*		
	(unaudited)					
Equity						
Share capital	549.3	209,027	544.1	209,027	143,695	143,695
Share premium reserve	4.8	1,839	4.8	1,839	1,839	1,911
Treasury shares	(292.5)	(111,320)	(290.1)	(111,441)	(104,234)	(103,121)
Retained earnings and other reserves	2,701.6	1,028,043	2,514.9	966,215	820,716	623,108
	2,963.2	1,127,589	2,773.7	1,065,640	862,016	665,593
Non-controlling interest	0.02	6	0.02	6	72,441	—
Total equity	2,963.2	1,127,595	2,773.7	1,065,646	934,457	665,593
Total liabilities and equity	23,806.7	9,059,149	23,318.6	8,959,024	8,857,781	5,348,483

Note:

(1) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

Common shareholders' equity[(1)]

	As at 30 June		As at 31 December			
	2019		2018		2017	2016
	(U.S.$ millions)[(2)]	*(KZT millions)[(2)]*	*(U.S.$ millions)[(2)]*	*(KZT millions)[(2)]*		
	(unaudited)					
Total equity	2,963	1,127,595	2,774	1,065,646	934,457	665,593
Non-controlling interest	0.02	6	0.02	6	72,441	—
Common shareholders' equity	2,963	1,127,589	2,773.7	1,065,640	862,016	665,593

Notes:

(1) Common shareholders' equity comprises total equity, less non-controlling interest and preferred shares (where applicable) from each of share capital and share premium reserve.

(2) See "*Presentation of Financial and Certain Other Information*" for information as to the U.S. Dollar/Tenge exchange rate used to calculate U.S. Dollar amounts.

Selected financial ratios and economic data

The following table provides details of the principal economic and financial indicators used by the management to monitor the financial performance, together with information regarding their calculation. For further information on calculation of certain of this data, see "*Presentation of Financial and Certain Other Information—Alternative Performance Measures*".

	As at and for the six months ended 30 June		As at and for the years ended 31 December		
	2019	2018	2018	2017	2016
	(unaudited) *(% except exchange rates and Balance Sheet Ratios)*				
Growth Ratio					
Loan growth[1]	0.3	0.3	7.1	40.2	6.6
Profitability Ratios					
Return on average common shareholders' equity[2]	29.8[3]	20.4[3]	27.9	22.7	22.3
Return on average total assets[4]	3.7[3]	2.1[3]	3.0	2.6	2.8
Net interest margin[5]	5.1[3]	4.8[3]	5.1	5.0	5.4
Net interest spread[6]	5.1	4.9	5.2	5.5	6.1
Operating expenses/operating income before credit loss expense[7]	23.1	26.6	26.4	27.8	27.2
Operating expenses/net interest income before credit loss expense[8]	33.3	41.9	39.4	42.6	38.6
Operating expenses/average total assets[9]	1.4	1.6	1.6	1.6	1.4
Credit loss expense/operating income before credit loss expense[10]	4.6	8.8	6.2	17.7	10.4
Credit loss expense/average loans to customers before allowance for expected credit losses[11]	0.7	1.3	0.9	2.3	1.1
Loan Portfolio Quality					
Allowance for expected credit losses/loans to customers before allowance for expected credit losses[12]	10.7	9.8	10.5	8.9	10.9
Net loans/deposits (per cent.)[13]	56.1	53.2	53.3	53.0	60.7
Balance Sheet Ratios					
Amounts due to customers/net loans to customers[14]	1.78	1.88	1.87	1.89	1.65
Amounts due to customers/total assets[15]	0.69	0.74	0.73	0.69	0.71
Net loans to customers/total assets[16]	0.39	0.39	0.39	0.37	0.43
Total equity/total assets[17]	0.12	0.11	0.12	0.11	0.12
Liquid assets/total assets[18]	0.48	0.47	0.48	0.45	0.47
Capital Adequacy (Basel III ratios)					
CET1 capital adequacy ratio[19]	18.3	17.2	18.5	16.9	19.4
Tier I capital ratio[20]	18.3	17.2	18.5	16.9	19.4
Total capital ratio[21]	19.6	19.1	19.9	18.9	19.4
Economic Data					
Period-end exchange rate (KZT/U.S.$)	380.53	341.08	384.20	332.33	333.29
Average exchange rate for period (KZT/U.S.$)	380.55	329.76	344.71	326.0	342.16
Inflation rate (consumer product inflation) (*source: NBRK*)	5.4	5.9	5.3	7.1	8.5
GDP growth (real) (*source: NBRK*)	4.1	4.2	4.1	4.1	1.2

Notes:

(1) Calculated from the beginning of the relevant period.

(2) *Return on average common shareholders' equity*: Performance measure. Return on average common shareholders' equity is (x) net profit attributable to common shareholders for the period, divided by (y) average common shareholders' equity for the period, where common shareholders' equity comprises total equity, less non-controlling interest. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(3) Annualised. The calculation reflects six-monthly multiplied by two. See "*Selected Statistical and Other Information—Average Balances and Rates*".

(4) *Return on average total assets*: Performance measure. Return on average total assets comprises (x) net profit attributable to common shareholders for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(5) *Net interest margin*: Performance measure. Net interest margin comprises (x) net interest income before credit loss expense for the period divided by (y) average interest-earning assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
(6) *Net interest spread*: Performance measure. Net interest spread comprises the difference between (x) the average interest rate earned on interest-earning assets for the period and (y) the average interest rate paid on interest-bearing liabilities for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
(7) *Operating expenses/operating income before credit loss expense:* Performance measure. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance, excluding expenses for insurance reserves. Credit loss expense includes credit loss expense on loan losses and other assets. Operating expenses/operating income before credit loss expense comprises (x) operating expenses for the period divided by (y) operating income before credit loss expense for the period.
(8) *Operating expenses/net interest income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating expenses/net interest income before credit loss expense comprises (x) operating expense for the period divided by (y) net interest income before credit loss expense for the period.
(9) *Operating expenses/average total assets:* Performance measure. Operating expenses/average total assets comprises (x) operating expenses for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
(10) *Credit loss expense/operating income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance and excluding expenses for insurance reserves. Credit loss expense/operating income before credit loss expense comprises (x) credit loss expense for the period divided by (y) operating income before credit loss expense for the period.
(11) *Credit loss expense/average loans to customers before allowance for expected credit losses*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Credit loss expense/average loans to customers before allowance for expected credit losses comprises (x) credit loss expense for the period divided by (y) average loans to customers before allowance for expected credit losses for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
(12) *Allowance for expected credit losses/loans to customers before allowance for expected credit losses*: Performance measure. Allowance for expected credit losses/loans to customers before allowance for expected credit losses comprises (x) allowance for expected credit losses divided by (y) loans to customers before allowance for expected credit losses.
(13) *Net loans/deposits*: Performance measure. Net loans consist of gross loans less allowances for expected credit losses. Net loans/deposits comprises (x) net loans divided by (y) deposits.
(14) *Amounts due to customers/net loans to customers*: Performance measure. Net loans consist of gross loans less allowances for expected credit losses. Amounts due to customers/loans to customers comprises (x) amounts due to customers divided by (y) loans to customers.
(15) *Amounts due to customers/total assets*: Performance measure. Amounts due to customers/total assets comprises (x) amounts due to customers divided by (y) total assets.
(16) *Net loans to customers/total assets*: Performance measure. Net loans consist of gross loans less allowances for expected credit losses. Net loans to customers/total assets comprises (x) net loans to customers divided by (y) total assets.
(17) *Total equity/total assets*: Performance measure. Total equity/total assets comprises (x) total equity divided by (y) total assets.
(18) *Liquid assets/total assets*: Liquidity measure. Liquid assets consist of cash and cash equivalents, the NBRK notes, Treasury Bills of the Ministry of Finance of Kazakhstan, Treasury Bills of the governments of other countries, notes of national banks of other countries and bonds of quasi-sovereign banks. Liquid assets/total assets comprises (x) liquid assets divided by (y) total assets. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.
(19) *CET1 capital adequacy ratio*: CET1 capital adequacy ratio consists of share capital, share premium reserve, retained earnings and other reserves, less treasury shares and intangible assets, including goodwill divided by risk weighted assets
(20) *Tier I capital ratio*: Tier I capital ratio consists of share capital, share premium reserve, retained earnings and other reserves, capital instruments with no fixed maturity, less treasury shares and intangible assets, including goodwill divided by risk weighted assets
(21) *Total capital ratio*: Total capital ratio comprises consists of Tier I capital, Tier II capital less regulatory provisions divided by risk weighted assets
(22) *Tier II capital:* Tier II capital consists of subordinated debt less investments in subordinated debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Bank's results of operations and financial condition as at and for the six months ended 30 June 2019 and 2018, and as at and for the three years ended 31 December 2018, 2017 and 2016. Historical results may not indicate future performance. The forward-looking statements contained in this review are subject to a variety of factors that could cause actual results to differ materially from those contemplated by such statements. Factors that may cause such differences include, but are not limited to, those discussed in "*Important Information about this Offering Memorandum—Forward-Looking Statements*" and "*Risk Factors*". In this Offering Memorandum, the consolidated financial statements presented are those of the Bank and its subsidiaries. Unless otherwise indicated, all of the financial data and discussions thereof are based on, and should be read in conjunction with, the Unaudited Interim Condensed Consolidated Financial Information and the Audited Financial Statements, in each case, including the notes thereto, prepared in accordance with IFRS and incorporated by reference into this Offering Memorandum. See "*Presentation of Financial and Certain Other Information*".

Key Factors Affecting the Bank's Results of Operations

The Bank's financial condition and results of operations have been and are expected to be affected by numerous factors. The Bank's management believes that the following are of particular importance:

Economic Conditions in Kazakhstan

Most of the Bank's operations are based in, and substantially all of the Bank's income is derived from, Kazakhstan. As a result, Kazakhstan macroeconomic trends, including the rate of growth of the Kazakhstan economy, significantly influence the Bank's performance. The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Following a period of increased oil production and large levels of foreign direct investment in Kazakhstan, the global economic crisis beginning in 2007 resulted in, among other things, a lower level of capital market funding, a significant decline in the real estate sector, lower liquidity levels across the banking sector and tighter credit conditions within Kazakhstan and generally for Kazakhstan companies, and weakened global demand for and decline in prices of crude oil and other commodities.

Kazakhstan's economy began to decline between 2014 and 2016, when the EU and United States imposed sanctions on Russia and at the same time the price of Brent Crude oil began to decline. The price of Brent Crude oil reached a peak in March 2012 and began to significantly decrease in the second half of 2014 from U.S.$112.36 per barrel of Brent Crude oil on 30 June 2014 to U.S.$55.27 per barrel on 31 December 2014, and continued to decrease in 2015, reaching U.S.$37.28 per barrel on 31 December 2015. Brent Crude oil prices continued to decline in 2016, falling below U.S.$28.00 per barrel in January 2016, the lowest Brent Crude oil price since 2004. While the Brent Crude oil price has since recovered to U.S.$66.55 per barrel on 30 June 2019, it continues to be volatile and unstable. Kazakhstan's economic growth slowed between 2014 and 2016, in large part because of the fall in oil prices. Domestic demand was also affected by the decrease in consumer purchasing power and consumer confidence after the Tenge devaluations in February 2014 and August 2015. A weaker external demand (mainly from China, certain European countries and Iran) and lower prices for oil as well as for metal ores have caused Kazakhstan's current account and fiscal balances to deteriorate and have had a negative effect on Kazakhstan's economy since 2014. As a result, Kazakhstan's budget deficit increased from 1.6 per cent. in 2016 to 2.7 per cent. in 2017 followed by a decrease to 1.4 per cent. in 2018, with the current account balance improving from negative 5.9 per cent. in 2016 to negative 3.1 per cent. in 2017 and negative 0.0 per cent. in 2018. The real GDP growth in Kazakhstan increased from 1.1 per cent. in 2016 to 4.1 per cent. in 2017 and 4.1 per cent. in 2018. Real GDP growth year-on-year in the six months ended 30 June 2019 was 4.1 per cent., as compared to 4.2 per cent. in the six months ended 30 June 2018. According to the NBRK, the recent GDP growth in Kazakhstan was a result of, among other things, an increase in oil production, strong demand for metals and mining production, and the production launch at Kashagan, a major offshore oil field in the Caspian Sea in Western Kazakhstan. Despite the recent increase in oil prices, economic growth in 2018 remained flat as compared to the previous year. The lack of additional growth may indicate a weak impact of the Government's economic policy to move away from dependency on the commodity sector and that the peak of economic growth in the current economic cycle may have also already passed.

Higher oil prices, coupled with a weaker Tenge despite elevated Government expenditures, brought the country's budget closer to balance in 2018, with a deficit of 1.4 per cent. of GDP, following a deficit of 2.7 per cent. of

GDP in 2017. Reserve accumulation of the national fund resumed, and along with this increased budget dependence on oil, while the use of extra-budgetary funds (according to the NBRK and JSC Unified Accumulative Pension Fund) also rose. Inflation in 2018 decreased to 5.3 per cent. in 2018 from 7.1 per cent. in 2017, which was close to the lower end of the target band of 5 to 7 per cent. that was set for 2018. In 2019, annualized inflation since the beginning of the year has been 5.4 per cent.

During the period under review, the banking sector experienced adverse conditions, primarily due to issues stemming from the devaluation of the Tenge and a general deterioration in asset quality. To provide assistance to the banking sector, following an improvement in budget revenue, the Government instituted a programme to provide injections of KZT 700 billion into the financial system in 2017, KZT 500 billion in 2018 and KZT 604 billion was spent in early 2019 mainly through the purchase of bad loans throughout the banking industry (see "*Business of the Bank—Government Support Programmes*").

The Bank's management believes that the Bank's financial performance and operations are strongly correlated to developments in the Kazakhstan economy. This is exemplified by recent improvements in Kazakhstan's economy and the Bank's performance between 2016 and 2018 as well as the first six months ended 30 June 2019. The condition of the Kazakhstan economy will continue to have a significant effect on the Bank's results of operations.

Exchange Rate Volatility

Fluctuations in the Tenge/U.S. Dollar exchange rate have affected the Bank's results of operations. Following the adoption by the NBRK of a floating rate exchange policy for the Tenge in April 1999, the Tenge has fluctuated significantly. In August 2015, the NBRK announced the adoption of a free-floating exchange rate and medium-term inflation targeting policy, which resulted in a 26.2 per cent. depreciation against the U.S. Dollar. The Tenge has continued to fluctuate significantly against the U.S. Dollar since the enactment of this policy. The exchange rate on 30 June 2019 was KZT 380.53 per U.S.$1.00 compared to KZT 384.2 per U.S.$1.00 on 31 December 2018, KZT 332.33 per U.S.$1.00 on 31 December 2017 and KZT 333.29 per U.S.$1.00 on 31 December 2016.

The devaluation of the Tenge was accompanied by a significant increase in the dollarisation of the deposit base held by the Bank during the first quarter of 2016. To stimulate demand for the Tenge, among other things, in January 2015, the NBRK reduced the maximum interest rate on foreign currency deposits from 4 per cent. per annum to 3 per cent. per annum (and then to 2 per cent. per annum from 1 February 2016). From 1 January 2017, the maximum interest rates recommended by the KDIF began to apply to annual effective rates rather than to nominal rates, from July 2017, the maximum interest rate on new deposits from individuals in foreign currency recommended by the KDIF decreased further to 1.5 per cent. per annum. and then to 1 per cent. per annum from December 2017. As announced by the KDIF in May 2019 the maximum interest rate on newly attracted savings and term deposits of individuals in foreign currency with maturities of 12 months and over increased to 2 per cent. per annum in June 2019 and will remain at 1 per cent. per annum for on-demand deposits as well as for savings and term deposits in foreign currency with maturities of less than 12 months.

In addition to the maximum interest rate on foreign currency deposits, to further stimulate demand for the Tenge, in January 2015, the NBRK increased the guaranteed amount of Tenge deposits from KZT 5 million to KZT 10 million. In 2016 and 2017, the recommended maximum interest rate for Tenge deposits remained at 14 per cent. From July 2018, the maximum interest rate on new deposits from individuals recommended by the KDIF in Tenge decreased to 12 per cent. per annum. In 2018, the KDIF introduced a new classification for Tenge-denominated deposits of individuals, according to which such deposits are divided into non-term (on-demand) deposits, term deposits and savings deposits. Under the new classification, the maximum interest rates for each of these classes vary depending on the maturity of the deposits. Beginning in June 2019, the same classification will apply to foreign currency-denominated deposits of individuals. In July 2019, the KDIF stated that starting from September 2019 it will announce maximum interest rates on new deposits from individuals on a monthly basis. In addition, the KDIF stated that the maximum interest rates will be a sum of either a weighted average market interest rate or the NBRK's base rate, depending on the type and maturity of the deposit, and a spread over that rate which will be set by the KDIF's board of directors. Currently, there is a stable trend of de-dollarisation of household deposits by way of converting foreign currency-denominated deposits into Tenge-denominated deposits. According to the statistics published by the NBRK, as of 30 June 2019, foreign currency-denominated deposits of individuals accounted for 45.4 per cent. of total deposits of individuals, compared to 47.7 per cent. and 52.4 per cent. as at 31 December 2017 and 31 December 2018 accordingly. In 2018, there was a slight increase in corporate deposit dollarisation from 42.9 per cent. as at 31 December 2017 to 45.8 per cent. as at 31 December 2018. The growth of dollarisation in addition to outflows and inflows of deposits in 2018 was influenced by the weakening of the Tenge by 15 per cent. in 2018. However, the dollarisation of corporate deposits decreased to 40.7 per cent. as at 30 June 2019 (42.8 – as at 31 July 2019) mainly due to significant withdrawal of foreign currency denominated deposits from the banking system by the quasi-sovereign companies for the repayment of their external debt obligations. Overall, dollarisation of total deposits decreased from 47.6 per cent. as at 31 December 2017 to 46.8 per cent. as of 31 December 2018, and further to 43.4 per cent. as at 30 June 2019 (43.6 per cent. as at 31 July 2019).

During the period under review, the weakening of the Tenge against the U.S. Dollar and other foreign currencies has affected the Bank in a number of ways, including: (i) to the Bank's open currency positions (see "*Asset, Liability and Risk Management—Foreign Currency Risk Management*"); (ii) the Bank's capital adequacy ratios; (iii) making it more difficult for some Kazakhstan borrowers to service their U.S. Dollar loans and, consequently, higher levels of non-performing loans and defaults; and (iv) subjecting the Bank to higher interest payments on its foreign currency-denominated liabilities when calculated in Tenge terms.

Funding Costs and Interest Rate Environment

Introduction

During the period of falling oil prices in 2014, the functioning of the Kazakhstan and international capital markets was disrupted, with market liquidity and funding becoming scarce. Investors' lack of confidence in the banking industry adversely affected wholesale funding markets globally, leading to higher borrowing costs and restricting access to liquidity for banks, including the Bank. Starting from 2016, as a result of the NBRK's actions to build a mechanism for providing liquidity in the context of monetary policy implementation, liquidity in the banking system began to improve. Tenge liquidity at the end of 2018 was KZT 4.3 trillion.

The Bank's funding strategy has consequently been focused on raising funding from retail and corporate deposits and domestic bond issues, as opposed to international capital markets (see "*Selected Statistical and Other Information—Other Sources of Funding*"). Customer accounts represented 78.4 per cent., 82.7 per cent., 77.4 per cent. and 81.6 per cent. of the Bank's total liabilities as at 30 June 2019, and 31 December 2018, 2017 and 2016, respectively (see "*Selected Statistical and Other Information—Other Sources of Funding*").

A significant portion of the Bank's assets and liabilities are interest bearing, and changes in prevailing interest rates, both in Kazakhstan and internationally, can materially affect the Bank's results (average balance of interest-earning assets: KZT 7,494,645 million as at the six months ended 30 June 2019, KZT 6,883,327 million as at the year ended 31 December 2018, KZT 5,057,176 million as at the year ended 31 December 2017 and KZT 3,171,718 million as at the year ended 31 December 2016; average balance of interest-bearing liabilities: KZT 7,495,930 million as at the six months ended 30 June 2019, KZT 7,155,998 million as at the year ended 31 December 2018, KZT 5,611,132 million as at the year ended 31 December 2017 and KZT 3,664,434 million as at the year ended 31 December 2016; average balance of total assets: KZT 8,959,643 million as at the six months ended 30 June 2019, KZT 7,888,845 million as at the year ended 31 December 2018, KZT 6,771,414 million as at the year ended 31 December 2017, KZT 4,656,092 million as at the year ended 31 December 2016; and average balance of total liabilities: KZT 7,857,639 million as at six months ended 30 June 2019, KZT 7,545,069 million as at the year ended 31 December 2018, KZT 5,995,508 million as at the year ended 31 December 2017 and KZT 4,066,280 million as at the year ended 31 December 2016). Since the Bank has both interest-earning assets and interest-bearing liabilities, rising interest rates can lead to higher or lower interest margins, depending on whether the Bank's interest-earning assets re-price at a faster rate than its interest-bearing liabilities (see "*Selected Statistical and Other Information—Average Balances and Rates*").

Interest rate environment during the period under review

In the last quarter of 2015 and the first quarter of 2016, the Kazakhstan banking system experienced a significant shortage of KZT liquidity. As a result, interest rates on interbank loans reached 80 per cent. in January 2016, which led to an increase of short-term rates of corporate deposits, increasing the interest expense of commercial banks and limiting lending in the banking system.

On 1 February 2016, the NBRK introduced unlimited access to its KZT funds at a base rate of 17 per cent. ±2 percentage points. The NBRK provided KZT liquidity to banks at 19 per cent. until 11 February 2016, which resulted in the banking system experiencing excess liquidity, and banks typically placed excess funds with the NBRK at the lower end of the base rate. On 6 May 2016, the NBRK revised the base rate to 15 per cent. ±1 percentage point, and, on 11 July 2016, the NBRK reduced the base rate further to 13 per cent. ±1 percentage point. On 3 October 2016, the NBRK revised the base rate again to 12.5 per cent. ±1 percentage point. Following the October rate decrease, the NBRK revised the rate in November of 2016 to 12.5 per cent. In 2017, the NBRK revised the rate to 10.25 per cent. and in mid-2018 decreased it further to 9.0 per cent. In October 2018, the rate was changed again to 9.25 per cent. due to inflationary pressures, and in April 2019 it was further decreased to 9.0 per cent. as a result of decreased inflation expectations. On 9 September 2019, the NBRK increased the base rate to 9.25 per cent. The next decision on the base rate is expected to be announced on 28 October 2019.

When pricing its interest-earning assets and interest-bearing liabilities, the Bank generally follows the prevailing market trends, including movements of the base rate. However, this may not always be appropriate in specific situations, such as acquisitions or disposals. For example, despite the overall decrease of the base rate in 2018, the Bank's average interest rate on loans to customers increased to 13.5 per cent. in 2018 from 13.0 per cent. in 2017 primarily as a result of KKB's loans to customers, which bear higher interest rates. See "*—Results of Operations for the Years ended 31 December 2018, 2017 and 2016—Interest Income*".

Effect on the Bank's liabilities and funding costs

During the period under review up to June 2019, the U.S. Dollar proportion of customer deposits remained sizable (see "*—Key Factors Affecting the Bank's Results of Operations—Exchange Rate Volatility*") which helped to keep the Bank's costs low as interest rates on U.S. Dollar-denominated deposits are lower than on Tenge-denominated deposits. Given that the currency structure of assets and liabilities is within regulatory limits, a change in KZT exchange rates is not expected to have a significant negative impact. However, the growth of dollarisation of deposits is expected to have a negative effect on lending growth, due to the inability of Kazakhstan banks to effectively use foreign currency deposits for lending. The Bank expects to place a portion of its foreign exchange funds on accounts with the NBRK at a rate between 0 per cent. and 0.5 per cent, which will also have a negative impact on the Bank's income.

Government Support Programmes

A portion of the Bank's funding base and its corporate lending portfolio relates to Government Support Programmes designed to support borrowers in the agricultural, real estate, local car production and other sectors of the economy in Kazakhstan. See "*Business of the Bank—Government Support Programmes*".

Since 2009, the Bank has actively participated in Government programmes aimed at providing support to private businesses to promote the stability and balanced growth of regional businesses in the primary sectors of the Kazakhstan economy, as well as to maintain and create new jobs in these sectors. As at 30 June 2019, the Bank's participation in these programmes represented 5.6 per cent. of its total corporate (including SME) lending portfolio, compared to 5.2 per cent. as at 31 December 2018, 5.2 per cent. as at 31 December 2017 and 5.3 per cent. as at 31 December 2016, and 8.6 per cent. of the Bank's total corporate (including SME) deposit base as at 30 June 2019, compared to 7.9 per cent. as at 31 December 2018, 4.5 per cent. as at 31 December 2017 and 6.9 per cent. as at 31 December 2016.

The programmes operate by making financing available on favourable terms through lending from development funds or through Government-subsidised interest rates. Under these arrangements, the Bank borrows from programme operators and on-lends the money to SMEs and large corporates. The Bank services the loans and retains a margin on the interest earned. Alternatively, the Bank makes a loan from its own funds at a lower than usual interest rate payable by the borrower, with the Government subsidising and making up the difference in the interest rates by way of direct payments to the Bank. Companies in certain specified sectors of production in Kazakhstan, such as agriculture, are priority recipients of these loans.

Loans granted to the Bank under this programme include loans from JSC National Managing Holding KazAgro, Damu Fund and JSC Development Bank of Kazakhstan (see "*Selected Statistical and Other Information—Other Sources of Funding*").

As part of the Government Support Programmes, the Bank also receives deposits. As at 30 June 2019, the Bank's term deposits from legal entities included two separate deposits from JSC Kazakhstan Sustainability Fund. The first deposit was placed for 20 years, until 2035, at an interest rate of 2.99 per cent. per annum. Under the terms of the deposit agreement, the Bank is responsible for using the deposit funds for refinancing its borrowers' residential mortgage loans at an interest rate of 3.0 per cent. per annum within the framework of the Government Mortgage and Residential Mortgage Refinancing Program. As at 30 June 2019 and 31 December 2018, this deposit amounted to KZT 53.8 billion and KZT 52.6 billion, respectively. The second deposit from JSC

Kazakhstan Sustainability Fund was placed for 20 years, until 2038, at an interest rate of 0.01 per cent. per annum. Under the terms of the deposit agreement Bank will refinance foreign-exchange-denominated mortgage loans to Tenge-denominated mortgage loans at a preferential exchange rate of KZT 188.35 for U.S.$ 1.00. The difference between rates will be covered through a higher margin gained by the Bank on this particular deposit. As at 30 June 2019 and 31 December 2018, this deposit amounted to KZT 10.5 billion and KZT 2.5 billion, respectively.

Further, the Government increased funding for several programmes designed to stimulate KZT-denominated borrowing, in which the Bank is an active participant (see "*Business of the Bank—Government Support Programmes*"). The Bank places surplus Tenge liquidity and currency liquidity mainly on the accounts of the NBRK and in NBRK instruments. As at 30 June 2019, the share of liquid assets of the Bank was 48.0 per cent. compared to 48.3 per cent. and 45.3 per cent. as at 31 December 2018 and 31 December 2017, respectively.

Certain Acquisitions and Disposals

In June 2017, the Bank entered into sale and purchase agreements with Mr. Kenges Rakishev to acquire 86.09 per cent. of ordinary shares of KKB for the consideration of 1 Tenge, and separately with Samruk-Kazyna to acquire 10.72 per cent. of ordinary shares of KKB, also for the consideration of 1 Tenge. In July 2017, the Bank completed the acquisition of 96.81 per cent. of the common shares of KKB. In July 2018, the Bank assumed all property, rights and obligations of KKB as a result of a voluntary reorganisation of the Bank and KKB in the form of KKB's merger into the Bank (although KKB's financial results, including its assets and liabilities, were consolidated into the Bank's financial results as at the date of purchase of KKB shares by the Bank which took place on 4 July 2017).

On 24 April 2018, the Bank completed the sale of 60 per cent. of the share capital in JSC Altyn Bank to China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd for a total consideration of KZT 26,558 million. Altyn Bank operates as a bank in Kazakhstan providing a wide range of products and services to corporate and retail customers (see "*Business of the Bank—Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—JSC Altyn Bank*"). The net assets disposed at the date of the sale were KZT 37,771 million.

Diversification of Revenue Streams

In recent years, interest income, fee and commission income and income generated by the Bank's insurance businesses have been major contributors to the Bank's revenues. The Bank has sought to diversify the revenue mix in order to mitigate adverse effects on its interest income that may be impacted by future changes in interest rates, which reflect, to a certain degree, short-term and long-term rates in Kazakhstan and the United States as well as inflation expectations in Kazakhstan. By maintaining a balanced revenue mix, the Bank believes it will be better positioned to address future changes in interest rates, which may negatively affect the interest margins and may result in liquidity problems.

Taxes

Taxes in Kazakhstan to which the Bank is subject include value added tax, corporate income tax, social taxes and other taxes. The current statutory corporate income tax rate in Kazakhstan is 20 per cent. The Bank's effective tax rate was 9.5 per cent. and 43.2 per cent. for the six months ended 30 June 2019 and 30 June 2018, respectively. The effective tax rate of 43.2 per cent. for the six months ended 30 June 2018 was as a result of KKB's derecognition of tax loss carry forward of KZT 43.3 billion due to the merger into Halyk Bank. Previously, KKB recognised deferred tax asset on its books in connection with tax loss carry forward. As Kazakhstan's Tax Code does not allow any transfer of the tax losses carry forward to another entity, it was derecognised before KKB was merged into the Bank and reflected as an additional tax expense on the statement of profit and loss. See "*—Results of Operations for the Six Months ended 30 June 2019 and 30 June 2018—Taxation*" and "*—Results of Operations for the Years ended 31 December 2018, 2017 and 2016—Taxation*". The Bank's effective tax rate is lower than the statutory tax rate as certain interest income, in particular interest on government and other qualifying securities, is not taxable. Tax legislation may further change in the future and, if it does, the Bank's effective tax rate could change substantially. See "*Risk Factors—Risk Factors Relating to Taxation—Changes in tax and pension regulations may affect the Bank's financial position*".

Kazakhstan tax regulations generally do not provide for the filing of consolidated income tax returns. Accordingly, the Bank and its subsidiaries file individual tax returns. The Bank and its subsidiaries, other than

Moskom, CJSC "Halyk Bank Tajikistan" ("Halyk Bank Tajikistan"), OJSC Halyk Bank Kyrgyzstan ("Halyk Bank Kyrgyzstan"), JSC Halyk Bank Georgia ("Halyk Bank Georgia") and JSC Tenge Bank ("Tenge Bank"), are subject to taxation in Kazakhstan. Moskom is subject to income tax in the Russian Federation; Halyk Bank Tajikistan is subject to income tax in Tajikistan; Halyk Bank Kyrgyzstan is subject to income tax in Kyrgyzstan; Halyk Bank Georgia is subject to income tax in Georgia; and Tenge Bank is subject to income tax in Uzbekistan. Kazakhstan has concluded a double taxation treaty with each of these jurisdictions, such that a credit towards income tax in Kazakhstan was given for income tax paid on dividends in these jurisdictions. The Tax Code provides an exemption from income tax for dividends paid to Kazakhstan legal entities (with certain exceptions) irrespective of whether such dividends are received from subsidiaries in Kazakhstan or abroad.

Critical Accounting Policies

The Bank's accounting policies are integral to understanding the financial condition and results of operations presented in the audited consolidated financial statements and the related notes thereto. The Bank's significant accounting estimates are described in Note 4 of the Unaudited Interim Condensed Consolidated Financial Information and Note 4 of the Audited Financial Statements incorporated by reference into this Offering Memorandum. The preparation of the Unaudited Interim Condensed Consolidated Financial Information and the Audited Financial Statements requires the Bank's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reported period. On an ongoing basis, the Bank's management evaluates its estimates and judgments, including those related to allowances for losses, income taxes, insurance reserves, contingencies, fair value of financial instruments and properties, and litigation and arbitration. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

The Bank's management believes that the following critical significant accounting policies require more critical judgments or estimates or involve a relatively greater degree of complexity in the application of accounting policies that affect the Bank's financial condition and results of operations:

Adoption of IFRS 16 Leases

The Group adopted IFRS 16—Leases as at 1 January 2019 with no implementation impact on retained earnings as at that date. The Group applied IFRS 16—Leases using the modified retrospective approach, meaning that the new standard was adopted from 1 January 2019 with no restatement of comparative periods (i.e., comparative period is presented as previously reported under IAS 17 and related interpretations).

Accounting of financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss. Transaction costs directly attributable to the acquisition of financial assets classified as at fair value through profit or loss are recognised immediately as profit or loss.

All recognised financial assets that are within the scope of IFRS 9 Financial Instruments ("IFRS 9") are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- *Retention of an asset to obtain the cash flows stipulated by the contract*. Under this business model, the financial asset management aims to realise cash flows by receiving principal and interest payments over the life of the financial instrument. Within the framework of this business model, holding a financial asset to maturity is a priority, but early disposal is not prohibited.
- *Retention of an asset with a view for obtaining contractual cash flows and sale of financial assets.* This business model assumes that the management of financial assets is aimed at both obtaining contractual cash flows and sale of the financial assets. Within the framework of this business model, the receipt of cash from the sale of a financial asset is a priority, which is characterised by a greater frequency and volume of sales compared to "holding an asset to receive contractual cash flows" business model.

- *Retention of an asset for other purposes.* Within the framework of this business model, financial assets can be managed with the following purposes:
  - management with a view to sell cash flows through the sale of financial assets;
  - liquidity management to meet daily funding needs;
  - management of a portfolio, the management and performance of which is measured on a fair value basis; and
  - management of a portfolio, which matches the definition of held for trading. Financial assets are deemed to be held for trading if they were acquired mainly with a view to subsequent disposal in the near future (up to 180 days), gaining short-term profit, or if such assets represent derivative financial instruments (except for a financial guarantee or derivative financial instrument that was designated as a hedging instrument).

In accordance with IFRS 9, financial assets are classified as follows:

- Bank loans classified as assets at amortised cost are contained within the framework of a business model which aims to receive cash flows exclusively for repayment of unpaid interest and principal stipulated by loan agreement and that have contractual cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding;
- Balances on correspondent accounts, interbank loans/deposits, repo transactions are classified, as a rule, as assets, estimated at amortised cost, since these are managed within the framework of a business model, which aims to receive cash flows stipulated by the contract, and that have contractual cash flows that are SPPI;
- Debt securities may be classified into any of the three classification categories, taking into account the selected business model and compliance with the SPPI criterion;
- Equity securities are generally classified as instruments at fair value through profit or loss;
- Trading securities and derivatives are classified as financial assets at fair value through profit or loss.

Allowance for expected credit losses ("ECL") on loans to customers

The Bank regularly reviews its loans and receivables to assess impairment.

Calculation of financial assets impairment is carried out taking into account the following factors:

- in order to calculate the ECL, the Bank performs loan assessment on an individual basis and on a group basis depending on general credit risk features;
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate ("EIR");
- calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Bank's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and the borrower's credit track record.

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down.
- for bank loans, the calculation of ECL takes into account the possible estimated effects of changes in macroeconomic parameters on forecasted cash flows, migration of collective loans and collateral coverage.

When measuring ECL, the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a Bank, and national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. Historical loss experience is adjusted, on the basis of observable data, to reflect current conditions not affecting the period of historical experience.

The allowances for impairment of financial assets in the consolidated financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in Kazakhstan and in other countries where it operates and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in the future.

Taxation

Kazakhstan tax, currency and customs legislations are subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant regional and state authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review.

Management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained. Significant additional actual taxes, penalties and interest may be assessed following any challenges by the relevant authorities, which could have a material impact on the Bank's reported net income. The Bank has exposure to taxation in other jurisdictions as well.

Claims liability arising from insurance contracts

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of incurred but not reported reserves ("IBNR") claims at the reporting date. For certain lines of business, IBNR claims form the majority of the statement of financial position claims provision. It can take a significant period of time before the ultimate claims cost can be established with certainty. For hull, property, accident and liability insurance, the Bank actuarially determines the liability using past claim settlement trends to predict future claims settlement amounts. In estimating the cost of reported and IBNR claims for certain other lines of business, management applies current government guidance as provided by the NBRK, due to the absence of sufficient historical data. Under this guidance, the IBNR reserve is calculated using the expected loss ratio for each line of business, less the cumulative losses actually reported. General insurance claims provisions are not discounted for the time value of money. The gross reserves for claims and the related receivables for reinsurance recoveries are based on information available to management and the ultimate amounts may vary as a result of subsequent information and events and may result in adjustments to the amounts recovered. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of settling individual claims may differ from costs previously estimated. Any adjustments to the amount of reserves will be reflected in the consolidated financial statements in the period in which the necessary adjustments become known and estimable.

Goodwill impairment testing

Goodwill is the excess cost of an acquisition over the fair value of its net assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management's judgment, for example, those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. Difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortised but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Bank's cash-generating units or Banks of cash-generating units expected to benefit from the combination.

Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or Bank of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or Bank of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable and willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

Recent Developments

On 20 September 2019, the Bank acquired "Astana LRT" LLP's 3.25% bonds due 2024 for the amount of U.S.$400 million. The bonds are guaranteed by the Ministry of Finance of the Republic of Kazakhstan.

On 27 August 2019, Moody's affirmed Halyk Bank's ratings at "Ba1" and changed the outlook from stable to positive.

On 1 August 2019, the National Bank of Kazakhstan began an AQR of the 14 largest banks in Kazakhstan (including the Bank), which together represent 87% of the total assets of the country's banking system. For further details, see "*Risk Factors—Risk Factors Relating to the Kazakhstan Banking Sector—The National Bank of Kazakhstan is currently undertaking an asset quality review of banks in Kazakhstan, and the results of this review could have material adverse effects on the Bank*."

On 10 July 2019, the Bank established the subsidiary bank Tenge Bank in the Republic of Uzbekistan with a capital injection of UZS 118 billion (KZT 5 billion). The Bank believes Uzbekistan is a growing and attractive market for banking services.

On 3 July 2019, the Bank and the NBRK terminated a one-year cross-currency swap deal which had been entered into in 2018 and simultaneously entered into another one-year cross-currency swap deal for the notional amount of KZT 348,338 million. The purpose of the deal is the placement of excess foreign currency liquidity.

Results of Operations for the Six Months ended 30 June 2019 and 30 June 2018

Net Profit

The following table sets out the main components of the Bank's net profit and certain statements of profit or loss ratios for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		*(KZT millions)*	*(%)*
	(unaudited)			
Interest income	356,084	334,739	21,345	6.4
Interest income calculated using effective interest method	352,540	332,042	20,498	6.2
Other interest income	3,544	2,697	847	31.4
Interest expense	(165,824)	(170,330)	4,506	(2.6)
Net interest income before credit loss expense	190,260	164,409	25,851	15.7
Credit loss expense	(12,686)	(22,876)	10,190	(44.5)
Net interest income	177,574	141,533	36,041	25.5
Fees and commissions, net	32,928	36,413	(3,485)	(9.6)
Other non-interest income	77,210	81,711	(4,501)	(5.5)
Non-interest expenses	(106,244)	(127,229)	20,985	(16.5)
Income before income tax expense	181,468	132,428	49,040	37.0
Income tax expense	(17,239)	(57,197)	39,958	(69,9)
Profit for the period from continuing operations	164,229	75,231	88,998	118.3
Profit for the year from discontinued operations	—	9,974	(9,974)	(100.0)
Net profit	164,229	85,205	79,024	92.7

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		(KZT millions)	(%)
	(unaudited)			
Profitability ratios:				
Return on average common shareholders' equity[1] (per cent.)	29.8[2]	20.4[2]		
Return on average total assets[3] (per cent.)	3.7[2]	2.1[2]		
Net interest margin[4] (per cent.)	5.1[2]	4.8[2]		
Operating expenses/operating income before credit loss expense[5] (per cent.)	23.1	26.6		
Credit loss expense/operating income before credit loss expense[6] (per cent.)	4.6	8.8		
Basic and diluted earnings per share (in KZT)	14.06	7.84		
Basic and diluted earnings per share from continuing operations (in KZT)	14.06	7.52		

Notes:

(1) *Return on average common shareholders' equity*: Performance measure. Return on average common shareholders' equity is (x) net profit attributable to common shareholders for the period, divided by (y) average common shareholders' equity for the period, where common shareholders' equity comprises total equity, less non-controlling interest. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(2) Annualised. The calculation comprises a six-monthly basis multiplied by two. See "*Selected Statistical and Other Information—Return on Assets and Equity*".

(3) *Return on average total assets*: Performance measure. Return on average total assets comprises (x) net profit attributable to common shareholders for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(4) *Net interest margin*: Performance measure. Net interest margin comprises (x) net interest income before credit loss expense for the period divided by (y) average interest-earning assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(5) *Operating expenses/operating income before credit loss expense*: Performance measure. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance, excluding expenses for insurance reserves. Credit loss expense includes credit loss expense on loan losses and other assets. Operating expenses/operating income before credit loss expense comprises (x) operating expenses for the period divided by (y) operating income before credit loss expense for the period.

(6) *Credit loss expense/operating income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance and excluding expenses for insurance reserves. Credit loss expense/operating income before credit loss expense comprises (x) credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

The Bank's net profit after income tax expense increased by KZT 79,024 million, or 92.7 per cent., to KZT 164,229 million for the six months ended 30 June 2019 from KZT 85,205 million for the corresponding period in 2018. This increase was mainly attributable to the growth of the business, the continuous repricing of retail term deposits following the decrease of the deposit interest rate cap by the KDIF, and was also due to a loss from impairment of non-financial assets of KZT 30.3 billion in the six months ended 30 June 2018 and KKB's de-recognition of tax loss carry forward of KZT 43.3 billion in the six months ended 30 June 2018 due to the merger into Halyk Bank.

Interest Income

The following table sets out the principal components of the Bank's interest income for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		(KZT millions)	(%)
	(unaudited)			
Loans to customers	217,263	209,535	7,728	3.7
Financial assets at fair value through other comprehensive income	60,043	53,252	6,791	12.8
Debt securities at amortised cost, net of allowance for expected credit losses	46,828	47,663	(835)	(1.8)
Amounts due from credit institutions and cash and cash equivalents	23,897	18,339	5,558	30.3
Financial assets at fair value through profit or loss	3,544	2,697	847	31.4
Other financial assets	4,509	3,253	1,256	38.6
Total interest income	356,084	334,739	21,345	6.4

Total interest income increased by KZT 21,345 million, or 6.4 per cent., to KZT 356,084 million for the six months ended 30 June 2019 from KZT 334,739 million for the corresponding period in 2018, mainly due to increases in interest income on loans to customers, interest income on financial assets at fair value through other comprehensive income and interest income on amounts due from credit institutions and cash and cash equivalents.

Interest income on loans to customers increased by KZT 7,728 million, or 3.7 per cent., to KZT 217,263 million for the six months ended 30 June 2019 from KZT 209,535 million for the corresponding period in 2018. This increase was primarily due to an increase in the average balances of loans to customers.

Interest income on financial assets at fair value through other comprehensive income increased by KZT 6,791 million, or 12.8 per cent., to KZT 60,043 million for the six months ended 30 June 2019 from KZT 53,252 million for the corresponding period in 2018, mainly due to an increase in the average balances of these assets.

Interest income on amounts due from credit institutions and interest-earning cash equivalents increased by KZT 5,558 million, or 30.3 per cent., to KZT 23,897 million for the six months ended 30 June 2019 from KZT 18,339 million for the corresponding period in 2018, mainly due to an increase in the volume of deposits placed with the NBRK.

The following table sets out the average interest rates on the Bank's interest-earning assets for the periods indicated:

	For the six months ended 30 June	
	2019	**2018**
	(All currencies) *(unaudited)* *(%)*	
Loans to customers, net of allowance for expected credit losses	12.5	13.0
Debt securities	7.4	7.7
Amounts due from credit institutions and cash and cash equivalents	4.5	3.8
Average interest rates on interest-earning assets	9.5	9.7

The average interest rate on the Bank's interest-earning assets decreased to 9.5 per cent. for the six months ended 30 June 2019 from 9.7 per cent. for the corresponding period in 2018, primarily as a result of decreases in average interest rates on loans to customers and debt securities, partially offset by the increase in the average interest rate on amounts due from credit institutions.

The average interest rate on the loan portfolio decreased to 12.5 per cent. for the six months ended 30 June 2019 from 13.0 per cent. for the corresponding period in 2018 due to a decrease in the interest rate on the Bank's KZT-denominated loans and loans denominated in foreign currency.

The average interest rate on debt securities decreased to 7.4 per cent. for the six months ended 30 June 2019 from 7.7 per cent. for the corresponding period in 2018. This decrease was mainly due to an increase in the volume of debt securities denominated in foreign currency, which have lower interest rates than KZT-denominated debt securities. The average interest rate on amounts due from credit institutions and interest-earning cash equivalents increased to 4.5 per cent. for the six months ended 30 June 2019 from 3.8 per cent. for the corresponding period in 2018. This increase was primarily due to an increase in the volume of the Bank's deposits in the NBRK, which offered higher interest rates in the six months ended 30 June 2019.

As at 30 June 2019, the Bank's assets are principally fixed rate with only a small proportion of floating rate instruments.

Interest Expense

The following table sets out the principal components of the Bank's interest expense for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		*(KZT millions)*	*(%)*
		(unaudited)		
Interest on amounts due to customers	(111,338)	(124,443)	13,105	(10.5)
Interest on debt securities issued	(45,125)	(44,097)	(1,028)	2.3
Interest on amounts due to credit institutions	(2,042)	(1,790)	(252)	14.1
Other interest expense	(7,169)	—	(7,169)	100.0
Other financial liabilities	(150)	—	(150)	100.0
Total interest expense	(165,824)	(170,330)	4,506	(2.6)

Total interest expense decreased by KZT 4,506 million, or 2.6 per cent., to KZT 165,824 million for the six months ended 30 June 2019 from KZT 170,330 million for the corresponding period in 2018, mainly due to continuous repricing of retail term deposits following the decrease of the deposit interest rate cap by the KDIF, partially offset by the accelerated amortisation of discount on the Bank's Eurobonds in the amount of KZT 7.4 billion, due to its early partial prepayment on 1 March 2019, as well as offset by net negative amortisation of discount/premium on a number of loans written off or repaid by KKB clients.

Interest expense on amounts due to customers decreased by KZT 13,105 million, or 10.5 per cent., to KZT 111,338 million for the six months ended 30 June 2019 from KZT 124,443 million for the corresponding period in 2018, primarily due to a decrease in the average interest rates on the Bank's customer deposits.

Interest expense on debt securities issued increased by KZT 1,028 million, or 2.3 per cent., to KZT 45,125 million for the six months ended 30 June 2019 from KZT 44,907 million for the corresponding period in 2018, primarily due to accelerated amortisation of discount on the Bank's Eurobonds in the amount of KZT 7.4 billion due to its early partial prepayment on 1 March 2019, partially offset by coupon savings as a result of repayment of expensive external debt obligations of KKB during the six months ended 30 June 2018.

Interest expense on amounts due to credit institutions increased by KZT 252 million, or 14.1 per cent., to KZT 2,042 million for the six months ended 30 June 2019 from KZT 1,790 million for the corresponding period in 2018. This increase was primarily attributable to an increase in loans from Kazakhstan banks under repurchase agreements.

Other interest expense increased by KZT 7,169 million, or 100.0 per cent., to KZT 7,169 million for the six months ended 30 June 2019 from KZT 0 for the corresponding period in 2018, primarily due to the amortisation of discount on receivables on sale of assets in instalments.

The following table sets out the average interest rates paid by the Bank on its interest-bearing liabilities for the periods indicated:

	For the six months ended 30 June	
	2019	2018
	(All currencies) *(unaudited)* *(%)*	
Amounts due to customers	3.5	4.2
Debt securities issued	10.2	9.6
Amounts due to credit institutions	1.7	2.0
Average interest rates on interest-bearing liabilities	4.4	4.9

The average interest rate paid on the Bank's interest-bearing liabilities decreased to 4.4 per cent. for the six months ended 30 June 2019 from 4.9 per cent. for the corresponding period in 2018, primarily as a result of a decrease in the average rates on the amounts due to customers and credit institutions, partially offset by an increase in the average rates on debt securities issued.

The average interest rate paid on amounts due to customers decreased to 3.5 per cent. for the six months ended 30 June 2019 from 4.2 per cent. for the corresponding period in 2018, primarily due to the overall decrease in the interest rates on the Bank's customer deposits, as well as an increase in average balances of customers' current accounts which bear almost no interest.

The average interest rate paid on debt securities issued increased to 10.2 per cent. for the six months ended 30 June 2019 from 9.6 per cent. for the corresponding period in 2018. This increase mainly reflects partial early redemption of KKB's 5.5 per cent. Eurobond (originally issued by BTA Bank) in March 2019 for a total principal amount of U.S.$200 million with a one-off amortisation of the discount, which, in turn, resulted in the higher interest expense recorded for the lower average balance of the Bank's debt securities issued.

The average interest rate on amounts due to credit institutions decreased to 1.7 per cent. for the six months ended 30 June 2019 from 2.0 per cent. for the corresponding period in 2018, primarily due to an increase in volumes of lower interest-bearing amounts due to credit institutions in foreign currency.

Net Interest Income before Credit Loss Expense

The following table sets out certain data and ratios relating to net interest income before credit loss expense for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	**2018**	**2019/2018**	
	(KZT millions)		*(KZT millions)*	*(%)*
	(unaudited)			
Interest income	356,084	334,739	21,345	6.4
Interest income calculated using effective interest method	352,540	332,042	20,498	6.2
Other interest income	3,544	2,697	847	31.4
Interest expense	(165,824)	(170,330)	4,506	(2.6)
Net interest income before credit loss expense	190,260	164,409	25,851	15.7
Net interest income before credit loss expense/operating income before credit loss expense[(1)] (per cent.)	69.6	63.5		
Net interest margin[(2)(3)] (per cent.)	5.1	4.8		

Notes:

(1) *Net interest income before credit loss expense/operating income before credit loss expense*: Performance measure. Net interest income before credit loss expense/operating income before credit loss expense comprises (x) net interest income before credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

(1) *Net interest margin*: Performance measure. Net interest margin comprises (x) net interest income before credit loss expense for the period divided by (y) average interest-earning assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(2) Annualised. The calculation comprises a six-monthly basis multiplied by two.

Net interest income before credit loss expense increased by KZT 25,851 million, or 15.7 per cent., to KZT 190,260 million for the six months ended 30 June 2019 from KZT 164,409 million for the corresponding period in 2018, primarily due to an increase in interest income on the back of increase in average balances of interest-earning assets and a decrease in interest expense as a result of repricing of retail term deposits following the decrease of deposit interest rate cap by the KDIF.

Net interest income before credit loss expense as a percentage of operating income before credit loss expense increased to 69.6 per cent. for the six months ended 30 June 2019 from 63.5 per cent. for the corresponding period in 2018. This increase primarily reflected an increase in net interest income before credit loss expense.

Credit Loss Expense

The following table sets out certain data and ratios relating to credit loss expense for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions) *(unaudited)*		*(KZT millions)*	*(%)*
Credit loss expense (KZT millions)	(12,686)	(22,876)	10,190	(44.5)
Credit loss expense on loans to customers (KZT millions)	(8,863)	(16,304)	7,441	(45.6)
Cost of risk[(1)] (per cent.)	0.5	0.9		
Allowance for loan losses/loans to customers before allowance for expected credit losses (per cent.)	10.7	9.8		
Credit loss expense/operating income before credit loss expense[(2)] (per cent.)	4.6	8.8		

Notes:

(1) *Cost of risk*: Performance measure. Cost of risk comprises (x) credit loss expense on loans to customers for the period, divided by (y) monthly average balances of gross loans to customers for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(2) *Credit loss expense/operating income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance and excluding expenses for insurance reserves. Credit loss expense/operating income before credit loss expense comprises (x) credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

Credit loss expense for the six months ended 30 June 2019 decreased by KZT 10,190 million, or 44.5 per cent., to KZT 12,686 million, from KZT 22,876 million for the corresponding period in 2018, primarily due to one-off repayments of large ticket problem loans. As a result, cost of risk decreased to 0.5 per cent. per annum for the six months ended 30 June 2019 from 0.9 per cent. per annum for the corresponding period in 2018.

The allowance for loan losses as a percentage of loans to customers before allowance for expected credit losses increased to 10.7 per cent. for the six months ended 30 June 2019 from 9.8 per cent. for the corresponding period in 2018, primarily due to recognition of allowances within normalised cost of risk.

Credit loss expense as a percentage of operating income before credit loss expense decreased to 4.6 per cent. for the six months ended 30 June 2019 compared to 8.8 per cent. for the corresponding period in 2018, mainly due to a reduction of credit loss expense in the six months ended 30 June 2018.

Fees and Commissions

Net fee and commission income decreased by KZT 3,485 million, or 9.6 per cent., to KZT 32,928 million for the six months ended 30 June 2019, from KZT 36,413 million for the corresponding period in 2018, as a result of a higher increase in the fee and commission expense compared to the increase in the fee and commission income.

Fee and Commission Income

The following table sets out certain information relating to the Bank's fee and commission income for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions) *(unaudited)*		*(KZT millions)*	*(%)*
Payment cards operations	28,849	25,238	3,611	14.3
Bank transfers—settlements	7,326	8,452	(1,126)	(13.3)
Cash operations	5,462	5,556	(94)	(1.7)
Letters of credit and guarantees issued	4,753	3,260	1,493	45.8
Servicing customers' pension payments	4,010	3,922	88	2.2
Bank transfers—salary projects	3,524	3,724	(200)	(5.4)
Maintenance of customer accounts	1,508	2,188	(680)	(31.1)
Other	2,252	2,046	206	10.1
Total fee and commission income	57,684	54,386	3,298	6.1

Fee and commission income increased by KZT 3,298 million, or 6.1 per cent., to KZT 57,684 million for the six months ended 30 June 2019 from KZT 54,386 million for the corresponding period in 2018, mainly due to an increase in fee and commission income on payment card operations and letters of credit and guarantees issued, partially offset by a decrease in fee and commission income on bank transfers settlements and maintenance of customer accounts.

Fees and commissions income from payment cards operations increased by KZT 3,611 million, or 14.3 per cent., to KZT 28,849 million for the six months ended 30 June 2019 from KZT 25,238 million for the corresponding period in 2018, mainly due to an increase in the number of external cards serviced by the Bank's acquiring network.

Fees and commissions income from letters of credit and guarantees issued increased by KZT 1,493 million, or 45.8 per cent., to KZT 4,753 million for the six months ended 30 June 2019 from KZT 3,260 million for the corresponding period in 2018, primarily due to growing volume of letters of credit and guarantees portfolio.

Fees and commissions income from bank transfers—settlements decreased by KZT 1,126 million, or 13.3 per cent., to KZT 7,326 million for the six months ended 30 June 2019 from KZT 8,452 million for the corresponding period in 2018. Prior to the merger, transfers within legal entities' current accounts in the Bank and KKB were treated as external transfers and the relevant fees were applied. Following the integration, transfers between those current accounts were treated as internal and therefore are free of charge.

Fees and commissions income from maintenance of customer accounts decreased by KZT 680 million, or 31.1 per cent., to KZT 1,508 million for the six months ended 30 June 2019 from KZT 2,188 million for the corresponding period in 2018, primarily due to unification of tariffs following the merger of KKB into the Bank.

Fee and Commission Expense

The following table sets out information on the Bank's fee and commission expense for the periods indicated:

	For the six months ended 30 June		**Variation**	
	2019	**2018**	**2019/2018**	
	(KZT millions) *(unaudited)*			*(%)*
Payment cards	(16,207)	(9,571)	(6,636)	69.3
Deposit insurance	(5,870)	(6,293)	423	(6.7)
Bank transfers	(632)	(758)	126	(16.6)
Cash operations	(498)	(418)	(80)	19.1
Commission paid to collectors	(168)	(209)	41	(19.6)
Other	(1,381)	(724)	(657)	90.7
Total fee and commission expense	(24,756)	(17,973)	(6,783)	37.7

Fee and commission expense increased by KZT 6,783 million, or 37.7 per cent., to KZT 24,756 million for the six months ended 30 June 2019 from KZT 17,973 million for the corresponding period in 2018, primarily due to an increase in fee and commission expense on payment cards, partially offset by a decrease in deposit insurance expense.

Fee and commission expense on payment cards increased by KZT 6,636 million, or 69.3 per cent., to KZT 16,207 million for the six months ended 30 June 2019 from KZT 9,571 million for the corresponding period in 2018, mainly due to increased number of transactions of other banks' cards in the acquiring network of the Bank.

Deposit insurance expense decreased by KZT 423 million, or 6.7 per cent., to KZT 5,870 million for the six months ended 30 June 2019 from KZT 6,293 million for the corresponding period in 2018, mainly due to a decrease in the KDIF fee level paid by the Bank following the merger of KKB into the Bank, which are payable by each member of the KDIF. Prior to the merger the KDIF fee level paid by KKB was higher on the back of its lower credit ratings.

Other Non-Interest Income

The following table sets out certain information on the Bank's other non-interest income for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	**2018**	**2019/2018**	
	(KZT millions)		*(KZT millions)*	*(%)*
		(unaudited)		
Net gain/(loss) from financial assets and liabilities at fair value through profit or loss	(22,489)	28,763	(51,252)	(178.2)
Net realised gain from financial assets at fair value through other comprehensive income (2017 and 2016: IAS 39—available-for-sale Investment securities)	2,399	2,960	(561)	(19.0)
Net gain/(loss) on foreign exchange operations	32,479	(5,062)	37,541	(741.6)
Insurance underwriting income	44,040	32,119	11,921	37.1
Share in profit of associate	3,197	705	2,492	353.5
Other income	17,584	22,226	(4,642)	(20.9)
Total other non-interest income	77,210	81,711	(4,501)	(5.5)

Total other non-interest income decreased by KZT 4,501 million, or 5.5 per cent., to KZT 77,210 million for the six months ended 30 June 2019, from KZT 81,711 million for the corresponding period in 2018, primarily due to a net loss from financial assets and liabilities at fair value through profit and loss, partially offset by a net gain on foreign exchange operations.

The Bank reported a net loss from financial assets and liabilities at fair value through profit and loss of KZT 22,489 million for the six months ended 30 June 2019, which was changed by KZT 51,252 million, or 78.2 per cent., from KZT 28,763 million of net gain from financial assets and liabilities at fair value through profit and loss for the corresponding period in 2018, primarily due to revaluation of the cross-currency swap with the NBRK.

Net gain on foreign exchange operations increased by KZT 37,541 million, or 741.6 per cent., to KZT 32,479 million for the six months ended 30 June 2019 from a loss of KZT 5,062 million for the corresponding period in 2018., primarily due to revaluation of the cross-currency swap with the NBRK.

Non-Interest Expenses

The following table sets out certain information on the Bank's non-interest expenses for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	**2018**	**2019/2018**	
	(KZT millions)		*(KZT millions)*	*(%)*
		(unaudited)		
Operating expenses	(63,265)	(68,937)	5,672	(8.2)
Loss from impairment of non-financial assets	—	(30,308)	30,308	(100.0)
(Other credit loss expense)/recoveries of other credit loss expense	(2,081)	2,347	(4,428)	(188.7)
Insurance claims incurred, net of reinsurance	(40,898)	(30,331)	(10,567)	34.8
Total non-interest expenses	(106,244)	(127,229)	20,985	(16.5)

Non-interest expenses decreased by KZT 20,985 million, or 16.5 per cent., to KZT 106,244 million for the six months ended 30 June 2019 from KZT 127,229 million for the corresponding period in 2018. This decrease was attributable to decreases in operating expenses and in loss from impairment of non-financial assets partially offset by an increase in insurance claims incurred, net of reinsurance.

Operating expenses decreased by KZT 5,672 million, or 8.2 per cent., to KZT 63,265 million for the six months ended 30 June 2019 from KZT 68,937 million for the corresponding period in 2018, mainly due to a synergy effect mainly in headcount reduction resulting from cost optimisation following and during the merger of KKB into the Bank.

Operating Expenses

The following table sets out information on the Bank's operating expenses for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		*(KZT millions)*	*(%)*
		(unaudited)		
Salaries and other employee benefits	36,785	39,837	(3,052)	(7.7)
Depreciation and amortisation expenses	5,836	5,618	218	3.9
Taxes other than income tax	3,468	3,252	216	6.6
Repairs and maintenance	1,826	2,781	(955)	(34.3)
Communication	1,921	1,967	(46)	(2.3)
Utilities expenses	2,035	1,718	317	18.5
Information services	2,021	1,712	309	18.0
Security	1,957	2,697	(740)	(27.4)
Insurance agents' fees	1,880	926	954	103.0
Rent	1,636	2,562	(926)	(36.1)
Stationery and office supplies	710	757	(47)	(6.2)
Business trip expenses	591	550	41	7.5
Advertisement	610	864	(254)	(29.4)
Transportation	399	446	(47)	(10.5)
Professional services	316	900	(584)	(64.9)
Other	1,274	2,350	(1,076)	(45.8)
Total operating expenses	63,265	68,937	(5,672)	(8.2)

Operating expenses decreased by KZT 5,672 million, or 8.2 per cent., to KZT 63,265 million for the six months ended 30 June 2019 from KZT 68,937 million for the corresponding period in 2018. This decrease was mainly attributable to a decrease in salaries and other employee benefits, other operating expenses, rent, security, repairs and maintenance as well as in professional services expenses.

Salaries and other employee benefits decreased by KZT 3,052 million, or 7.7 per cent., for the six months ended 30 June 2019 to KZT 36,785 million from KZT 39,837 million for the corresponding period in 2018, primarily as a result of optimisation of the number of employees following and during the process of integration of KKB into the Bank.

Rent expenses decreased by KZT 926 million, or 36.1 per cent., to KZT 1,636 million for the six months ended 30 June 2019 from KZT 2,562 million for the corresponding period in 2018, mainly due to changes in accounting of long-term rent agreements.

Security expenses decreased by KZT 740 million, or 27.4 per cent., for the six months ended 30 June 2019 to KZT 1,957 million from KZT 2,697 million for the corresponding period in 2018, mainly due to optimisation of servicing contracts during, and after the process of integration of KKB into the Bank.

Repairs and maintenance expenses decreased by KZT 955 million, or 34.3 per cent., to KZT 1,826 million for the six months ended 30 June 2019 from KZT 2,781 million for the corresponding period in 2018, mainly due to the representation differences related to certain components of repair and maintenance expenses attributable to KKB, prior to the merger of KKB into the Bank.

Expenses on professional services decreased by KZT 584 million, or 64.9 per cent., for the six months ended 30 June 2019 to KZT 316 million from KZT 900 million for the corresponding period in 2018, mainly due to expenses on consulting related to the integration of KKB into the Bank.

Taxation

The Bank had an income tax expense of KZT 17,239 million for the six months ended 30 June 2019, compared to KZT 57,197 million for the corresponding period in 2018.

The following table sets out certain information on the Bank's income tax expense for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		*(KZT millions)*	*(%)*
		(unaudited)		
Current tax charge	20,075	17,067	3,008	(15.0)
Deferred tax expense/(benefit) relating to origination and reversal of temporary differences	(2,836)	40,130	(42,966)	(1,515.0)
Total income tax expense	17,239	57,197	(39,958)	231.8

The Bank's current tax charge increased by KZT 3,008 million, or 15.0 per cent., for the six months ended 30 June 2019 to KZT 20,075 million from KZT 17,067 million for the corresponding period in 2018 primarily due to the change in the portion of tax-exempt income included in the Bank's income before income tax expense. The Bank's effective tax rate decreased to 9.5 per cent. for the six months ended 30 June 2019 from 43.2 per cent. for the corresponding period in 2018 mainly as a result of KKB's derecognition of a tax loss carry forward of KZT 43.3 billion due to the merger into the Bank. Previously, KKB recognised a deferred tax asset on its books in connection with tax loss carry forward. As Kazakhstan's Tax Code does not allow any transfer of the tax losses carry forward to another entity, it was derecognised before KKB was merged into the Bank and reflected as an additional tax expense on the Bank's statement of profit or loss. The difference between the effective and the statutory income tax rate for the six months ended 30 June 2019 was primarily due to tax-exempt interest income and other related income on state and other qualifying securities.

A decrease in net deferred tax expense for the six months ended 30 June 2019 in comparison with the six months ended 30 June 2018 was due to derecognition of unused tax losses associated with the merger of KKB into the Bank.

Capital Expenditures

The following table sets out information on the Bank's capital expenditures for the periods indicated:

	For the six months ended 30 June		Variation	
	2019	2018	2019/2018	
	(KZT millions)		*(KZT millions)*	*(%)*
		(unaudited)		
Plant	0	799	(799)	(100.0)
Buildings and constructions	4,333	170	4,163	2,445.2
Machines and equipment	828	384	444	115.9
Vehicles	487	10	477	4,687.8
Computer equipment	474	1,730	(1,256)	(72.6)
Construction in progress	14	99	(85)	(86.1)
Other fixed assets	455	513	(58)	(11.3)
Intangible assets	1,797	469	1,328	283.3
Capital expenditures[(1)], total	8,388	4,174	4,214	100.9

Note:

(1) Additions to the Bank's property and equipment and intangible assets.

Capital expenditures increased by KZT 4,214 million, or 100.9 per cent., to KZT 8,388 million for the six months ended 30 June 2019 from KZT 4,174 million for the corresponding period in 2018, primarily due to an increase in expenditures on buildings and constructions and intangible assets, partially offset by a decrease in expenditures on computer equipment and plant.

Results of Operations for the Years ended 31 December 2018, 2017 and 2016

The following table sets out the Bank's statements of profit or loss and certain statements of profit or loss ratios for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Net income							
Interest income	682,041	506,328	332,563	175,713	34.7	173,765	52.3
Interest expense	(333,772)	(257,805)	(160,549)	75,967	29.5	(97,256)	60.6
Net interest income before credit loss expense	348,269	248,523	172,014	99,746	40.1	76,509	44.5
Credit loss expense	(31,995)	(67,302)	(25,308)	35,307	(52.5)	(41,994)	165.9
Net interest income	316,274	181,221	146,706	135,053	74.5	34,515	23.5
Fees and commissions, net	74,235	60,908	46,402	13,327	21.9	14,506	31.3
Other non-interest income	143,988	106,264	42,976	37,724	35.5	63,288	147.3
Non-interest expenses	(208,566)	(159,208)	(93,402)	(49,358)	31.0	(65,806)	70.5
Income before income tax expense	325,931	189,185	142,682	136,746	72.3	46,503	32.6
Income tax expense	(82,474)	(25,598)	(22,183)	56,876	222.2	(3,415)	15.4
Profit for the year from discontinued operations	9,974	9,876	10,913	98	1.0	(1,037)	(9.5)
Net profit	253,431	173,463	131,412	79,968	46.1	42,051	32.0
Profitability ratios							
Return on average common shareholders' equity[(1)(3)] (per cent.)	27.9	22.7	22.3				
Return on average assets[(1)(4)] (per cent.)	3.0	2.6	2.8				
Net interest margin[(1)(5)] (per cent.)	5.1	5.0	5.4				
Operating expenses/operating income before credit loss expense[(6)] (per cent.)	26.4	27.8	27.2				
Credit loss expense/operating income before credit loss expense[(7)] (per cent.)	6.2	17.7	10.4				
Basic and diluted earnings per share (in KZT)	22.75	15.77	11.96				
Basic and diluted earnings per share from continuing operations (in KZT)	21.86	14.88	10.99				

Notes:

(1) Amounts used in ratios are average monthly balances for the periods. See "*Selected Statistical and Other Information—Average Balances and Rates*".

(2) *Return on average common shareholders' equity*: Performance measure. Return on average common shareholders' equity is (x) net profit attributable to common shareholders for the period, divided by (y) average common shareholders' equity for the period, where common shareholders' equity comprises total equity, less non-controlling interest. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(3) *Return on average total assets*: Performance measure. Return on average total assets comprises (x) net profit attributable to common shareholders for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(4) *Net interest margin*: Performance measure. Net interest margin comprises (x) net interest income before credit loss expense for the period divided by (y) average interest-earning assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(5) *Operating expenses/operating income before credit loss expense*: Performance measure. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance, excluding expenses for insurance reserves. Credit loss expense includes credit loss expense on loan losses and other assets. Operating expenses/operating income before credit loss expense comprises (x) operating expenses for the period divided by (y) operating income before credit loss expense for the period.

(6) *Credit loss expense/operating income before credit loss expense:* Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance and excluding expenses for insurance reserves. Credit loss expense/operating income before credit loss expense comprises (x) credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

Net Profit

The Bank's net profit increased by KZT 79,968 million, or 46.1 per cent., to KZT 253,431 million for 2018 from KZT 173,463 million for 2017, primarily reflecting increases in net interest income, other non-interest income and net fees and commissions, partially offset by increases in income tax expense and non-interest expenses, following the consolidation of KKB's income in the third quarter of 2017.

The Bank's net profit increased by KZT 42,051 million, or 32.0 per cent., in 2017 from KZT 131,412 million for 2016, primarily reflecting increases in net interest income before credit loss expense, other non-interest income and net fees and commissions, partially offset by increases in non-interest expenses, credit loss expense and income tax expense, following the consolidation of KKB's income in the third quarter of 2017.

Interest Income

The following table sets out the principal components of the Bank's interest income for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Interest on loans to customers	433,270	343,796	268,989	89,474	26.0	74,807	27.8
Interest on debt securities[1]	204,061	138,368	51,404	65,693	47.5	86,964	169.2
Interest on amounts due from credit institutions and cash and cash equivalents	36,535	24,164	12,170	12,371	51.2	11,994	98.6
Other financial assets	8,175	—	—	8,175	—	—	—
Interest income, total	682,041	506,328	332,563	175,713	34.7	173,765	52.3

Note:

(1) Interest on debt securities comprises interest income on financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income (2017 and 2016: IAS 39—available-for-sale investment securities) and debt securities at amortised cost, net of allowance for expected credit losses (2016—investments held-to-maturity).

Total interest income increased by KZT 175,713 million, or 34.7 per cent., to KZT 682,041 million for 2018 from KZT 506,328 million for 2017, and by KZT 173,765 million, or 52.3 per cent., in 2017 from KZT 332,563 million for 2016, due to an increase in the average balances of the interest-earning assets, mainly due to consolidation of KKB's assets in the third quarter of 2017.

Interest income on loans to customers increased by KZT 89,474 million, or 26.0 per cent., to KZT 433,270 million for 2018 from KZT 343,796 million for 2017, after having increased by KZT 74,807 million, or 27.8 per cent., in 2017 from KZT 268,989 million for 2016. These year-on-year increases, in each case, primarily reflected the increases in average balances of loans to customers due to the consolidation of KKB's loan portfolio in the third quarter of 2017 and the higher average interest rates charged on KKB's loans to customers. See "*Selected Statistical and Other Information—Loan Portfolio*".

Interest income on debt securities, principally Treasury Bills of the Ministry of Finance of Kazakhstan, short-term notes issued by the NBRK, Treasury Bills of the USA and corporate bonds, increased by KZT 65,693 million, or 47.5 per cent., to KZT 204,061 million for 2018 from KZT 138,368 million for 2017, after having increased by KZT 86,964 million, or 169.2 per cent., in 2017 from KZT 51.404 million for 2016. These year-on-year increases were, in each case, mainly due to the consolidation of KKB's securities portfolio in the third quarter of 2017 and purchase of Treasury Bills of the Ministry of Finance of Kazakhstan for KZT 1.0 trillion acquired by KKB on special terms.

Interest income on the amounts due from credit institutions increased by KZT 12,371 million, or 51.2 per cent., to KZT 36,535 million for 2018 from KZT 24,164 million for 2017, after having increased by KZT 11,994 million, or 98.6 per cent., in 2017 from KZT 12,170 million for 2016. These year-on-year increases, in each case, were mainly due to an increase in interest rates on the U.S. Dollar-denominated interbank deposits and deposits in foreign banks and due to an increase in the U.S.$ to KZT exchange rate.

The following table sets out the effective average annual interest rates or the Bank's interest-earning assets for the periods indicated:

	For the years ended 31 December		
	2018	2017	2016
		(All currencies) (%)	
Loans to customers	13.5	13.2	12.8
Amounts due from credit institutions	3.9	3.5	2.3
Debt securities	7.6	8.3	9.2
Average interest rates on interest-earning assets	9.9	10.2	10.5

The average interest rate on the Bank's interest-earning assets slightly decreased to 9.9 per cent. for 2018 from 10.0 per cent. for 2017, after having decreased in 2017, from 10.5 per cent. for 2016. These year-on-year decreases were, in each case, driven by the increase in the average interest rates on both loans to customers and amounts due from credit institutions, partially offset by a decrease in the average interest rates on the Bank's debt securities portfolio.

The average interest rate on the loan portfolio increased to 13.5 per cent. for 2018 from 13.0 per cent. for 2017, after having slightly increased, in 2017, from 12.9 per cent. for 2016. The increase in 2018 was mainly as a result of active workout procedures under KKB's problem loans, and the increase in 2017 was mainly due to higher average interest rates, charged on KKB's loans to customers, following the consolidation of KKB's loan portfolio in the third quarter of 2017.

The average interest rate on amounts due from credit institutions increased to 3.9 per cent. for 2018 from 3.4 per cent. for 2017, after having increased, in 2017, from 2.4 per cent. for 2016. These year-on-year increases were, in each case, primarily due to the higher average interest rates charged on KKB's amounts due from credit institutions. The average interest rate on debt securities decreased to 7.6 per cent. for 2018 from 8.1 per cent. for 2017, after having decreased, in 2017, from 8.3 per cent. for 2016. These year-on-year decreases, in each case, were primarily due to gradual decrease of interest rates on NBRK Notes, which the Bank has started to purchase to its portfolio from the second quarter of 2016.

As at 31 December 2018, 31 December 2017 and 31 December 2016, the Bank's assets are principally fixed interest rate instruments.

Interest Expense

The following table sets out the principal components of the Bank's interest expense for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		(KZT millions)	(%)	(KZT millions)	(%)
Interest on amounts due to customers	(246,223)	(191,715)	(108,838)	(54,508)	28.4	(82,877)	76.1
Interest on debt securities issued	(84,126)	(61,729)	(45,822)	(22,397)	36.3	(15,907)	34.7
Interest on amounts due to credit institutions	(3,423)	(4,361)	(5,889)	938	(21.5)	1,528	(25.9)
Interest expense, total	(333,772)	(257,805)	(160,549)	(75,967)	29.5	(97,256)	60.6

Total interest expense increased by KZT 75,967 million, or 29.5 per cent., to KZT 333,772 million for 2018 from KZT 257,805 million for 2017, after having increased by KZT 97,256 million, or 60.6 per cent., in 2017 from KZT 160,549 million for 2016, mostly due to an increase in average balances on interesting bearing liabilities by 42.5%, as well as an increase in the average interest rates on interest-bearing liabilities as a result of the consolidation of KKB in the third quarter of 2017.

Interest expense on the amounts due to customers increased by KZT 54,508 million to KZT 246,223 million for 2018 from KZT 191,715 million for 2017 and increased by KZT 82,877 million, or 76.1 per cent. from KZT 108,838 million for 2016, primarily due the consolidation of KKB in the third quarter of 2017.Interest expense on debt securities issued increased by KZT 22,397 million, or 36.3 per cent., to KZT 84,126 million for 2018 from KZT 61,729 million for 2017, after having increased, in 2017, by KZT 15,907 million, or 34.7 per cent. from KZT 45,822 million for 2016. These year-on-year increases were, in each case, primarily due to consolidation of KKB's debt securities issued in the third quarter of 2017. The increased interest expense paid by the Bank in 2018 on its debt securities issued was primarily as a result of one-off interest expense due to amortisation of a discount on perpetual bond redeemed by KKB in February 2018. This increase was partially offset by the Bank's repayment of KKB's U.S.$300 million Eurobond in May 2018. The Bank did not issue any new debt securities in 2017. See "*Selected Statistical and Other Information—Funding Sources—Unsubordinated Debt Securities*".

Interest expense on amounts due to credit institutions decreased by KZT 938 million, or 21.5 per cent., to KZT 3,423 million for 2018 from KZT 4,361 million for 2017, after having decreased in 2017 by KZT 1,528 million, or 25.9 per cent., from KZT 5,889 million for 2016. The decrease in 2018 was primarily attributable to a decrease in the interest expense paid by the Bank on loans from credit institutions resulted from the decrease in the average rates on those loans. See "*Selected Statistical and Other Information—Funding Sources—Other Sources of Funding—Amounts due to Credit Institutions by Type of Account*". The decrease in 2017 was primarily attributable to the decreases in average interest rates on amounts due to credit institutions reflecting the general market trends

The following table sets out the effective average annual interest rates or the Bank's interest-bearing liabilities for the periods indicated:

	For the years ended 31 December		
	2018	**2017**	**2016**
		(All currencies) *(%)*	
Amounts due to customers	4.0	4.2	3.7
Amounts due to credit institutions	2.0	2.8	4.0
Debt securities issued	9.3	8.5	7.7
Average interest rates on interest-bearing liabilities	4.7	4.7	4.4

The average interest rate on the Bank's interest-bearing liabilities slightly increased to 4.7 per cent. for 2018 from 4.6 per cent. for 2017, after having increased, in 2017, from 4.1 per cent. for 2016. The year-on-year increase in 2018 was primarily due to an increase in the average interest rates on debt securities issued. The year-on-year increase in 2017 was primarily attributable to the acquisition of KKB, which had more expensive client liabilities and debt securities issued compared to similar products of the Bank.

The average interest rate paid on amounts due to customers slightly decreased to 4.0 per cent. for 2018 from 4.1 per cent. for 2017, after having increased, in 2017, from 3.4 per cent. for 2016. The decrease in 2018, compared to 2017, was mainly due to the continuous repricing of retail term deposits following the decrease of the deposit interest rate cap by the KDIF. The increase in 2017, compared to 2016, was primarily attributable to the consolidation with KKB, which had higher interest rates on their deposits from customers.

The average interest rate paid on amounts due to credit institutions decreased to 2.0 per cent. for 2018 from 2.6 per cent. in 2017, after having decreased from 3.6 per cent. in 2016. The year-on-year decrease in 2018 was mainly due to an early repayment fee paid by the Bank under the loan from an international financial institution in 2017. The year-on-year decrease in 2017 was primarily attributable to the Bank's raising of funds at high interest rates in the first quarter of 2016 caused by the lower liquidity of the Tenge.

The average interest rate paid on debt securities issued increased to 9.3 per cent. for 2018 from 8.5 per cent. for 2017, after having increased from 7.7 per cent. in 2016. The year-on-year increase in 2018 was mainly as a result of one-off interest expense due to amortisation of a discount on perpetual bond redeemed by KKB in February 2018 and decrease of share of FX debt securities in the Bank's total debt securities following the redemption of the KKB's Eurobonds with an initial placement amount of U.S. $300 million in May 2018. . The year-on-year increase in 2017 was primarily attributable to the acquisition of KKB, which had higher interest rates on debt securities issued.

Net Interest Income before Credit Loss Expense

The following table sets out certain information relating to net interest income before credit loss expense for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Interest income	682,041	506,328	332,563	175,713	34.7	173,765	52.3
Interest expense	(333,772)	(257,805)	(160,549)	(75,967)	29.5	(97,256)	60.6
Net interest income before credit loss expense	348,269	248,523	172,014	99,746	40.1	76,509	44.5
Net interest income before credit loss expense/operating income before credit loss expense[(1)] (per cent.)	67.0	65.2	70.4				
Net interest margin[(2)] (per cent.)	5.1	5.0	5.4				

Notes:

(1) *Net interest income before credit loss expense/operating income before credit loss expense*: Performance measure. Net interest income before credit loss expense/operating income before credit loss expense comprises (x) net interest income before credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

(2) *Net interest margin:* Performance measure. Net interest margin comprises (x) net interest income before credit loss expense for the period divided by (y) average interest-earning assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

Net interest income before credit loss expense increased by KZT 99,746 million, or 40.1 per cent., to KZT 348,269 million for 2018 from KZT 248,523 million for 2017, after having increased, in 2017, by KZT 76,509 million, or 44.5 per cent., from KZT 172,014 million for 2016. These year-on-year increases mainly resulted from the consolidation of KKB in the third quarter of 2017. Net interest income before credit loss expense increased as a percentage of operating income before credit loss expense to 67.0 per cent. for 2018 from 65.2 per cent. for 2017, after having decreased, in 2017, from 70.4 per cent. for 2016. The year-on-year increase in 2018 was primarily due to the fact that compared to 2017 the other income remained flat on the back of one-off other income received in 2017 following the consolidation of KKB in 3Q 2017.The year-on-year decrease in 2017 was primarily due to consolidation of KKB which had a larger share of other non-interest income in operating income.

Net interest margin increased to 5.1 per cent. for 2018 from 5.0 per cent. for 2017 mainly as a result of the higher increase in average balances of interest-earning assets compared to the increase in average balances of interest-bearing liabilities. Notwithstanding the increase in net interest income before credit loss expense, net interest margin decreased to 5.0 per cent., in 2017, from 5.4 per cent. for 2016, primarily due to the lower net interest margin of KKB. See "*Selected Statistical and Other Information—Average Balances and Rates*".

Credit Loss Expense

The following table sets out certain data and ratios relating to credit loss expense for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Credit loss expense	(31,995)	(67,302)	(25,308)	35,307	(52.5)	(41,994)	165.9
Credit loss expense on loans to customers	(17,903)	(65,210)	(25,873)	47,307	(72.5)	(39,337)	152.0
Cost of risk (per cent.)[(1)]	0.5	2.3	1.1				
Allowance for loan losses/loans to customers before allowance for credit loss expense (per cent.)	10.5	8.9	10.9				
Credit loss expense/operating income before credit loss expense[(2)] (per cent.)	6.2	17.7	10.4				

Notes:

(1) *Cost of risk*: Performance measure. Cost of risk comprises (x) credit loss expense on loans to customers for the period, divided by (y) monthly average balances of gross loans to customers for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(2) *Credit loss expense/operating income before credit loss expense*: Performance measure. Credit loss expense includes credit loss expense on loan losses and other assets. Operating income before credit loss expense is net interest income before credit loss expense, plus net fees and commissions, plus other non-interest income, net of insurance claims incurred, net of reinsurance and excluding expenses for insurance reserves. Credit loss expense/operating income before credit loss expense comprises (x) credit loss expense for the period divided by (y) operating income before credit loss expense for the period.

The Bank's credit loss expense decreased by KZT 35,307 million, or 52.5 per cent., to KZT 31,995 million for 2018 from KZT 67,302 million for 2017, after having increased in 2017 by KZT 41,994 million, or 165.9 per cent., from KZT 25,308 million for 2016. The year-on-year decrease in 2018 mainly reflected the repayment of problem loans and the release of provisions as a result of the repossession of collateral of certain problem corporate loans. Those repossessed assets were transferred to doubtful and bad asset management subsidiary companies. The year-on-year increase in 2017 was mainly attributable to the consolidation of KKB's loan portfolio starting from the third quarter of 2017. See "*Asset, Liability and Risk Management—Lending Policies and Procedures*" and "*Asset, Liability and Risk Management—Loan Classification and Provisioning Policy*".

Net Fees and Commissions

Net fee and commissions income increased by KZT 13,327 million, or 21.9 per cent., to KZT 74,235 million for 2018 from KZT 60,908 million for 2017, after having increased, in 2017, by KZT 14,506 million, or 31.3 per cent., from KZT 46,402 million for 2016, primarily as a result of the increases in fee and commission income being higher than the increase in fee and commission expense.

Fee and Commission Income

The following table sets out information on the Bank's fee and commission income for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Payment cards maintenance	31,010	23,332	11,116	7,678	32.9	12,216	109.9
Bank transfers—settlements	26,614	18,943	14,438	7,671	40.5	4,505	31.2
Cash operations	24,537	18,159	10,353	6,378	35.1	7,806	75.4
Servicing customers' pension payments	8,037	7,776	6,953	261	3.4	823	11.8
Bank transfers—salary projects	7,200	7,261	6,912	(61)	(0.8)	349	5.0
Letters of credit and guarantees issued	7,035	5,406	3,818	1,629	30.1	1,588	41.6
Maintenance of customer accounts	4,351	3,006	1,884	1,345	44.7	1,122	59.6
Other	4,457	3,757	2,223	700	18.6	1,534	69.0
Fee and commission income, total	113,241	87,640	57,697	25,601	29.2	29,943	51.9

Fee and commission income increased by KZT 25,601 million, or 29.2 per cent., to KZT 113,241 million for 2018 from KZT 87,640 million for 2017, after having increased, in 2017, by KZT 29,943 million, or 51.9 per cent., from KZT 57,697 million for 2016. These year-on-year increases, in each case, were primarily attributable to the increases in fee and commission income derived by the Bank from payment cards maintenance, bank transfer-settlement operations and cash operations.

Fees from payment card maintenance increased by KZT 7,678 million, or 32.9 per cent., to KZT 31,010 million for 2018 from KZT 23,332 million for 2017, after having increased, in 2017, by KZT 12,216 million, or 109.9 per cent., from KZT 11,116 million for 2016. These year-on-year increases were, in each case mainly as a result of consolidation of KKB in the third quarter of 2017, as well as growing volumes in payment card maintenance. Fees from bank transfers-settlements increased by KZT 7,671 million, or 40.5 per cent., to KZT 26,614 million for 2018 from KZT 18,943 million for 2017, after having increased, in 2017, by KZT 4,505 million, or 31.2 per cent., from KZT 14,438 million for 2016. These year-on-year increases were, in each case, mainly as a result of consolidation of KKB in the third quarter of 2017.

Fee and Commission Expense

The following table sets out information on the Bank's fee and commission expense for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
	(KZT millions)			*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Payment cards	21,278	12,024	2,001	9,254	77.0	10,023	500.9
Deposit insurance	12,293	10,729	5,327	1,564	14.6	5,402	101.4
Bank transfers	1,797	1,364	593	433	31.7	771	130.0
Foreign currency operations	1,131	803	557	328	40.8	246	44.2
Commission paid to collectors	459	342	427	117	34.2	(85)	(19.9)
Other	2,048	1,470	2,390	578	39.3	(920)	(38.5)
Fee and commission expense, total	39,006	26,732	11,295	12,274	45.9	15,437	136.7

Fee and commission expense increased by KZT 12,274 million, or 45.9 per cent., to KZT 39,006 million for 2018 from KZT 26,732 million for 2017, after having increased, in 2017, by KZT 15,437 million, or 136.7 per cent., from KZT 11,295 million for 2016. These year-on-year increases were, in each case, mainly as a result of consolidation of KKB in the third quarter of 2017.

Other Non-Interest Income

The following table sets out certain information on the Bank's other non-interest income for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
	(KZT millions)			*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss	114,158	31,423	(12,710)	82,735	263.3	44,133	(347.2)
Net realised (loss)/gain from available-for-sale investment securities	2,428	1,064	2,623	1,364	128.2	(1,559)	(59.4)
Net foreign exchange (loss)/gain	(64,577)	(4,949)	18,506	(59,628)	1204.8	(23,455)	(126.7)
Insurance underwriting income	67,315	55,108	28,071	12,207	22.2	27,037	96.3
Share in profit of associate	2,899	—	—	2,899	—	—	—
Other income	21,765	23,618	6,486	(1,853)	(7.8)	17,132	264.1
Other non-interest income, total	143,988	106,264	42,976	37,724	35.5	63,288	147.3

Total other non-interest income increased by KZT 37,724 million, or 35.5 per cent., to KZT 143,988 million for 2018 from KZT 106,264 million for 2017, after having increased in 2017 by KZT 63,288 million, or 147.3 per cent., from KZT 42,976 million for 2016. The year-on-year increases in 2018 and 2017 were, in each case, primarily attributable to increases in net gain from financial assets and liabilities at fair value through profit or loss, as well as the increases in insurance underwriting income, which were, in each case, substantially offset by the increases in net foreign exchange losses.

Net gain on financial assets and liabilities at fair value through profit or loss increased by KZT 82,735 million, or 263.3 per cent., to KZT 114,158 million for 2018 from KZT 31,423 million for 2017, after having increased in 2017 by KZT 44,133 million, or 347.2 per cent., from KZT 12,710 million of net loss on financial assets and liabilities at fair value through profit or loss for 2016. Net foreign exchange loss increased by KZT 59,628 million, or 1,204.8 per cent., to KZT 64,577 million for 2018 from KZT 4,949 million for 2017, after having decreased in 2017 by KZT 23,455 million, or 126.7 per cent., from KZT 18,506 million of net foreign exchange gain for 2016. These year-on-year significant changes in net gain/(loss) on financial assets and liabilities at fair value through profit or loss and net foreign exchange (loss)/gain in 2018 and 2017 were, in each case, mainly due to a one-year swap agreement with the NBRK in July 2017, the revaluation effect of which was reflected in both 2018 and 2017. The overall effect of the swap revaluation was zero. The swap was repaid and a new swap was entered into in July 2019.

Insurance underwriting income increased by KZT 12,207 million, or 22.2 per cent., to KZT 67,315 million for 2018 from KZT 55,108 million for 2017, after having increased in 2017 by KZT 27,037 million, or 96.3 per cent., from KZT 28,071 million for 2016. The year-on-year increase in 2017 was primarily attributable to an increase in insurance premiums of Halyk Life.

Other income decreased by KZT 1,853 million, or 7.8 per cent., to KZT 21,765 million for 2018 from KZT 23,618 million for 2017, after having increased, in 2017, by KZT 17,132 million, or 264.1 per cent., from KZT 6,486 million for 2016. The decrease in 2018 was mainly due to one-off higher income figures in 2017, partially offset by KZT 9.2 billion of net income from sale of fixed assets and intangible assets, and the increase in 2017 was mainly a result of KZT 9.8 billion of recoveries of provisions on KKB loans created before the consolidation of KKB, which were reflected in other income and KZT 3.5 billion of income from KKB's sale of fixed assets and sale of inventories, following the consolidation of KKB.

Non-Interest Expenses

The following table sets out the composition of the Bank's non-interest expenses for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Operating expenses	(137,223)	(105,797)	(66,341)	(31,426)	29.7	(39,456)	59.5
Loss from impairment of non-financial assets	(27,308)	(6,533)	(2,218)	(20,755)	318.0	(4,315)	194.5
Recoveries of other credit loss expense/(Other credit loss expense)	15,951	1,737	(44)	14,214	818.3	1,781	(4,047.7)
Insurance claims incurred, net of reinsurance	(59,986)	(48,615)	(24,799)	(11,371)	23.4	(23,816)	96.0
Non-interest expenses, total	(208,566)	(159,208)	(93,402)	(49,358)	31.0	(65,806)	70.5

Non-interest expenses increased by KZT 49,358 million, or 31.0 per cent., to KZT 208,566 million for 2018 from KZT 159,208 million for 2017, after having increased in 2017 by KZT 65,806 million, or 70.5 per cent., from KZT 93,402 million for 2016. The year-on-year increases in 2018 and 2017, were, in each case, mainly attributable to increases in operating expenses, loss from impairment of non-financial assets and insurance claims incurred, net of reinsurance, which were, in each case, partially offset by increases in recoveries of other credit loss expense.

Operating Expenses

The following table sets out information on the Bank's operating expenses for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Salaries and other employee benefits	77,563	51,124	38,551	26,439	51.7	12,573	32.6
Depreciation and amortisation expenses	10,929	9,692	6,169	1,237	12.8	3,523	57.1
Taxes other than income tax	8,432	7,038	3,456	1,394	19.8	3,582	103.6
Repair and maintenance	5,796	3,451	2,006	2,345	68.0	1,445	72.0
Rent	5,064	3,512	1,734	1,552	44.2	1,778	102.5
Information services	4,490	3,314	2,219	1,176	35.5	1,095	49.3
Security	4,214	3,662	1,963	552	15.1	1,699	86.6
Communication	3,982	2,829	1,577	1,153	40.8	1,252	79.4
Utilities	3,549	2,876	1,630	673	23.4	1,246	76.4
Stationery and office supplies	1,792	1,249	892	543	43.5	357	40.0
Advertisement	1,683	1,481	759	202	13.6	722	95.1
Insurance agents fees	1,670	1,888	489	(218)	(11.5)	1,399	286.1
Professional services	1,521	4,895	564	(3,374)	(68.9)	4,331	767.9
Business trip expenses	1,104	958	590	146	15.2	368	62.4
Charity	1,011	1,643	639	(632)	(38.5)	1,004	157.1

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Transportation	853	696	502	157	22.6	194	38.6
Social events	208	142	77	66	46.5	65	84.4
Hospitality expenses	140	81	77	59	72.8	4	5.2
Other	3,222	5,266	2,447	(2,044)	(38.8)	2,819	115.2
Operating expenses, total	137,223	105,797	66,341	31,426	29.7	39,456	59.5

Operating expenses increased by KZT 31,426 million, or 29.7 per cent., to KZT 137,223 million for 2018, from KZT 105,797 million for 2017, after having increased in 2017 by KZT 39,456 million, or 59.5 per cent., from KZT 66,341 million for 2016.

The increase in operating expenses for 2018, compared to 2017, primarily reflected increases in salaries and other employee benefits, including one-off integration related payments, as well as repair and maintenance, following the consolidation of KKB in the third quarter of 2017, and were partially offset by decreases in professional services and other operating expenses.

The increase in operating expenses for 2017, compared to 2016, was primarily due to increases in salaries and other employee benefits and professional services due to KKB's acquisition by the Bank.

Taxation

The Bank reported income tax expenses of KZT 82,474 million for 2018, KZT 25,598 million for 2017 and KZT 22,183 million for 2016. The change in income tax expenses from year to year was mainly due to changes in the Bank's effective tax rate as a result of the merger of KKB into the Bank that resulted in derecognition of unused tax losses.

The Bank's effective tax rate was 25.3 per cent., 13.5 per cent. and 15.5 per cent. for 2018, 2017 and 2016, respectively. The Bank's effective tax rate was higher for 2018, compared to 2017, primarily as a result of KKB's derecognition of a tax loss carry forward of KZT 43.3 billion due to the merger into the Bank. Previously, KKB recognised deferred tax asset on its books in connection with tax loss carry forward. As Kazakhstan's Tax Code does not allow any transfer of the tax losses carry forward to another entity, it was derecognised before KKB was merged into the Bank and reflected as an additional tax expense on the Bank's statement of profit or loss. The Bank's effective tax rate was lower for 2017, compared to 2016, primarily due to a change in the amount of tax-exempt interest income and other related income on state and other qualifying securities. The Bank's effective tax rate was higher than the statutory tax rate of 20.0 per cent. in 2018 and was lower than the statutory tax rate of 20.0 per cent. in 2017 and 2016 primarily due to the same reasons, as described above.

The following table sets out certain information on the Bank's income tax expense for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Current tax charge	24,881	38,817	36,205	(13,936)	35.9	2,612	7.2
Deferred income tax expense/(benefit) relating to origination and reversal of temporary differences	57,593	(13,219)	(14,022)	70,812	(535.7)	803	(5.7)
Income tax expense	82,474	25,598	22,183	56,876	222.2	3,415	15.4

The Bank had a net deferred tax expense of KZT 57,593 million for 2018, primarily due to derecognition of unused tax losses of prior years as a result of the merger of KKB into the Bank.

The Bank had a net deferred tax benefit of KZT 13,219 million for 2017, of KZT 14,022 million for 2016, primarily due to the repayment of swaps with the NBRK.

For further information on the Bank's deferred tax assets and liabilities, see Note 25 to the Audited Financial Statements incorporated by reference into this Offering Memorandum.

Capital Expenditures

The following table sets out information on the Bank's capital expenditures for the periods indicated:

	For the years ended 31 December			Variation			
	2018	2017	2016	2018/2017		2017/2016	
		(KZT millions)		*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Buildings and constructions	1,348	777	3,844	571	73.5	(3,067)	(79.8)
Vehicles	833	483	320	350	72.5	163	50.9
Computer and banking equipment	3,223	1,607	4,334	1,616	100.6	(2,727)	(62.9)
Construction in progress	474	394	6,114	80	20.3	(5,720)	(93.6)
Other fixed assets	1,777	2,454	3,677	(677)	(27.6)	(1,223)	(33.3)
Intangible assets	3,030	2,479	3,434	551	22.2	(955)	(27.8)
Capital expenditures[(1)],total	10,685	8,194	21,723	2,491	30.4	(13,529)	(62.3)

Note:
(1) Additions to the Bank's property and equipment and intangible assets.

Capital expenditures increased in 2018 by KZT 2,491 million, or 30.4 per cent., to KZT 10,685 million for 2018 from KZT 8,194 million for 2017, primarily due to increases in computer and banking equipment, investments in buildings and constructions, as well as intangible assets, which was partially offset by decreased expenditures in other fixed assets.

Capital expenditures decreased in 2017 by KZT 13,529 million, or 62.3 per cent., for 2017 from KZT 21,723 million for 2016, primarily due to decreases across all components of the capital expenditures, mainly in construction in progress and buildings and construction, except for vehicles, which increased insignificantly. The high level of investment in buildings and construction in 2016 resulted from construction and repairment of the Head Office.

Contingent Liabilities and Other Off-Balance Sheet Arrangements

See "*Selected Statistical and Other Information—Contingent Liabilities and Other Off-Balance Sheet Arrangements*".

Capital and Capital Adequacy

See "*Selected Statistical and Other Information—Capital and Capital Adequacy*".

SELECTED STATISTICAL AND OTHER INFORMATION

The following discussion sets out information with respect to the assets, liabilities and equity of the Bank, together with certain selected statistical information, ratios and other data that have been extracted, subject to rounding, without material adjustment from the Audited Financial Statements and the Unaudited Interim Condensed Consolidated Financial Information, in each case, including the notes thereto, which are incorporated by reference into this Offering Memorandum, and from management reports and accounting records. The discussions and selected statistical information and other data set forth below should be read in conjunction with, and are qualified in their entirety by reference to the information set forth under the caption "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", as well as the Audited Financial Statements and the Unaudited Interim Condensed Consolidated Financial Information, in each case, including the notes thereto, incorporated by reference into this Offering Memorandum. Unless otherwise indicated, all figures are expressed in or derived from amounts in Tenge.

Total Assets

The Bank's total assets increased by KZT 100,125 million, or 1.1 per cent., to KZT 9,059,149 million as at 30 June 2019 from KZT 8,959,024 million as at 31 December 2018, after having increased, in 2018, by KZT 101,243 million, or 1.1 per cent., from KZT 8,857,781 million as at 31 December 2017 and in 2017, by KZT 3,509,298 million, or 65.6 per cent., from KZT 5,348,483 million as at 31 December 2016. The increase as at 30 June 2019, compared to 31 December 2018, was mainly attributable to increase in cash and cash equivalents, debt securities at amortised cost, other assets, commercial property and loans to customers. This increase was partially offset by a decrease in financial assets at fair value through other comprehensive income, investment property, insurance assets, current income tax assets and amounts due to credit institutions. The increase as at 31 December 2018, compared to 31 December 2017, was mainly attributable to increases in financial assets at fair value through other comprehensive income, in debt securities at amortised cost, net of allowance for expected credit losses and in loans to customers, partially offset by the decrease in assets classified as held for sale (see "*Business of the Bank—Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—JSC Altyn Bank*"). The increase as at 31 December 2017, compared to 31 December 2016, was mostly driven by the Bank's acquisition of KKB in July 2017 and was mainly attributable to increases, available-for-sale investment securities, loans to customers and in assets classified as held for sale (see "*Business of the Bank—History*"), partially offset by a decrease in financial assets at fair value through profit or loss.

Total Liabilities

The Bank's total liabilities increased by KZT 38,176 million, or 0.5 per cent., to KZT 7,931,554 million as at 30 June 2019 from KZT 7,893,378 million as at 31 December 2018, after having decreased, in 2018, by KZT 29,946 million, or 0.4 per cent., from KZT 7,923,324 million as at 31 December 2017 after having increased in 2017 by KZT 3,240,434 million, or 69.2 per cent., from KZT 4,682,890 million as at 31 December 2016. The increase as at 30 June 2019, compared to 31 December 2018, was primarily attributable to an increase in the amounts due to credit institutions, other liabilities, insurance liabilities and in financial liabilities at fair value through profit or loss. This increase was partially offset by a decrease in the amounts due to customers and deferred tax liability. The decrease as at 31 December 2018, compared to 31 December 2017, was primarily attributable to a decrease in liabilities directly associated with the assets classified as held for sale, amounts due to credit institutions and debt securities issued, which was partially offset by an increase in the amounts due to customers, which mainly reflected an increase in corporate current accounts and retail deposit base (see "*—Funding Sources—Deposits by Account and Customer Type*"). The increase as at 31 December 2017, compared to 31 December 2016, was primarily driven by the Bank's acquisition of KKB in July 2017 and was mainly attributable to increases in all balances of the Bank's funding sources structure.

The following table sets out the liability structure of the Bank:

Liability	As at 30 June 2019
	(%)
Retail customers term deposits	34.9
Corporate clients term deposits	18.3
Retail customers current accounts	5.9
Corporate clients current accounts	19.2
Debt securities issued	11.4
Amounts due to credit institutions	6.0
Other	4.3

Average Balances and Rates

The average balances included in this Offering Memorandum are calculated as the average of the relevant monthly balances as at each month-end during the six months ended 30 June 2019 and 2018 and as at each month-end during the years ended 31 December 2018, 2017 and 2016. Balances as at 30 June 2019 and 2018 have been derived from the Unaudited Interim Condensed Consolidated Financial Information, while balances as at 31 December 2018, 2017 and 2016 have been derived from the Audited Financial Statements incorporated by reference into this Offering Memorandum. Information included in this section, except where otherwise stated, relates to the Bank and its subsidiaries, excluding discontinued operations only. Therefore, the comparative figures for the year ended 31 December 2016 for the interest earning assets and interest-bearing liabilities were recalculated to exclude discontinued operations of JSC Altyn bank. Calculation of average balances on a "weighted average" or "daily" basis could result in material differences from the figures set forth below, included elsewhere in this Offering Memorandum or incorporated by reference into this Offering Memorandum.

The following table sets out the average balances of the Bank's assets, as well as the rates and amounts of interest earned on interest-earning assets, for the periods indicated:

	For the six months ended 30 June						For the years ended 31 December								
	2019			2018			2018			2017			2016		
	Average balance	Interest	Average rate (%)(1)	Average balance	Interest	Average rate (%)(1)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
	(KZT millions)														
Interest-earning assets															
Loans to customers, net	3,469,096	217,263	12.5	3,231,508	209,535	13.0	3,278,477	441,445	13.5	2,600,878	343,796	13.2	2,095,037	268,989	12.8
Amounts due from credit institutions	1,053,182	23,897	4.5	968,542	18,339	3.8	935,384	36,535	3.9	690,143	24,165	3.5	519,748	12,170	2.3
Debt securities(2)	2,972,366	110,414	7.4	2,675,233	103,612	7.7	2,669,466	204,061	7.6	1,669,709	138,368	8.3	556,932	51,404	9.2
Other	—	4,509	—	—	3,253	—	—	—	—	—	—	—	—	—	—
Total interest-earning assets	7,494,645	356,084	9.5	6,875,283	334,739	9.7	6,883,327	682,041	9.9	4,960,730	506,328	10.2	3,171,718	332,563	10.5
Non-interest-earning assets															
Cash and non-interest deposits	691,622			599,616			795,565			886,133			741,011		
Obligatory reserves	113,702			105,090			108,249			85,545			64,191		
Property and equipment	131,540			136,918			134,685			112,501			90,338		
Other non-interest-earning assets	527,612			644,246			573,854			726,505			588,834		
Total non-interest-earning assets	1,464,476			1,485,870			1,612,352			1,810,684			1,484,374		
Total assets	8,959,121			8,361,153			8,495,679			6,771,414			4,656,092		

Note:

(1) Annualised. The calculation reflects compounding over six months multiplied by two.

(2) Debt securities consist of amount of Financial assets at fair value through profit or loss, plus Financial assets at fair value through other comprehensive income, plus Debt securities at amortized cost, net of allowance for expected credit losses, less Derivative financial instruments.

The following table sets out the average balances of the Bank's liabilities, as well as the rates and amounts of interest paid on interest-bearing liabilities, for the periods indicated:

	For the six months ended 30 June						For the years ended 31 December								
	2019			2018			2018			2017			2016		
	Average balance	Interest	Average rate (%)(1)	Average balance	Interest	Average rate (%)(1)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)	Average balance	Interest	Average rate (%)
							(KZT millions)								
Interest-bearing liabilities															
Amounts due to credit institutions	247,316	2,042	1.7	176,788	1,790	2.0	170,913	3,423	2.0	156,954	4,361	2.8	147,288	5,889	4.0
Amounts due to customers	6,362,680	111,489	3.5	5,890,836	124,442	4.2	6,080,234	246,223	4.0	4,588,039	191,716	4.2	2,921,931	108,839	3.7
Debt securities issued	887,357	45,125	10.2	916,777	44,098	9.6	904,850	84,126	9.3	727,151	61,729	8.5	595,215	45,822	7.7
Other	—	7,169	—	—	—	—	—	—	—	—	—	—	—	—	—
Total interest-bearing liabilities	7,497,353	165,824	4.4	6,984401	170,330	4.9	7,155,998	333,772	4.7	5,472,144	257,805	4.7	3,664,434	160,550	4.4
Non-interest-bearing liabilities															
Tax liabilities	65,184			11,523			35,150			19,465			34,175		
Provisions	3,442			16,488			14,706			8,488			437		
Other non-interest-bearing liabilities	292,424			433,235			339,215			495,410			367,233		
Total non-interest-bearing liabilities	361,051			461,246			389,072			523,364			401,845		
Liabilities	7,858,404			7,445,647			7,545,069			5,995,508			4,066,280		

Note:

(1) Annualised. The calculation reflects over six months multiplied by two.

Interest-Earning Assets, Yields, Margins and Spreads

The following table sets out the net interest income, yields, margins and spreads of the Bank for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2019	2018	2018	2017	2016
	(unaudited)				
			(KZT millions)		
Net interest income before credit loss expense					
Total	190,260	164,409	348,269	248,523	172,014
			(%)		
Yield(1)(2)					
Average	9.5	9.7	9.9	10.2	10.5
Margin(2)(3)					
Average	5.1	4.8	5.1	5.0	5.4
Spread(4)					
Average	5.1	4.9	5.2	5.5	6.1

Notes:

(1) "Yield" is interest income as a percentage of average interest-earning assets, calculated from monthly averages for the six months ended 30 June 2019 and 30 June 2018 and for the years ended 31 December 2018, 2017 and 2016.

(2) Annualised for the six months ended 30 June 2019 and 30 June 2018 using six-monthly multiplied by two.

(3) "Margin" is net interest income before credit loss expense as a percentage of average interest-earning assets.

(4) "Spread" is the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities.

Volume and Rate Analysis

The following table sets out certain information regarding changes in the Bank's interest income and interest expense due to changes in volumes of and rates on various components of the Bank's interest-earning assets and interest-bearing liabilities during the periods indicated:

	For the six months ended 30 June			For the years ended 31 December					
	2019/2018 Increase/(Decrease) due to changes in			2018/2017 Increase/(Decrease) due to changes in			2017/2016 Increase/(Decrease) due to changes in		
	Volume(1)	Rate(2)	Total(3)	Volume(1)	Rate(2)	Total(3)	Volume(1)	Rate(2)	Total(3)
	(unaudited)			*(KZT millions)*					
Interest income									
Attributable to:									
Loans to customers	15,406	(7,677)	7,729	89,568	8,081	97,649	64,947	9,860	74,807
Amounts due from credit institutions	1,603	3,955	5,558	8,587	3,783	12,371	3,990	8,005	11,994
Debt securities(4)	11,508	(4,706)	6,802	82,849	(17,156)	65,693	102,708	(15,744)	86,964
Other	—	—	1,256	—	—	—	—	—	—
Total interest income	28,517	(8,428)	21,345	181,004	(5,292)	175,713	171,645	2,121	173,765
Interest expenses									
Attributable to:									
Amounts due to credit institutions	715	(463)	252	388	(1,325)	(938)	386	(1,914)	(1,528)
Amounts due to customers	9,966	(22,921)	(12,955)	62,353	(7,846)	54,508	62,060	20,816	82,877
Debt securities issued	(1,415)	2,443	1,028	15,085	7,313	22,397	10,157	5,750	15,907
Other	—	—	7,169	—	—	—	—	—	—
Total interest expense	9,266	(20,941)	(4,506)	77,826	(1,858)	75,967	72,603	24,652	97,256
Net changes in net interest income	19,251	12,513	25,851	103,178	(3,434)	99,746	99,042	(22,531)	76,509

Notes:

(1) Changes in volume are changes in average outstanding balances, calculated from monthly averages, multiplied by the prior period's average interest rate.

(2) Changes in rate are changes in average interest rate multiplied by the average outstanding balances, calculated from monthly averages, at the end of the period.

(3) Net changes attributable to changes in both volume and interest rate have been allocated proportionately to the changes in volume and the changes in interest rate.

(4) Debt securities consist of amount of Financial assets at fair value through profit or loss, plus Financial assets at fair value through other comprehensive income, plus Debt securities at amortized cost, net of allowance for expected credit losses, less Derivative financial instruments.

Net interest income before credit loss expense increased by KZT 25,851 million, or 15.7 per cent., to KZT 190,260 million for the six months ended 30 June 2019, compared to the six months ended 30 June 2018. This increase was primarily due to higher increase in the average balances of interest-earning assets compared to average balances of interest-bearing liabilities and due to continuous repricing of retail term deposits following the decrease of deposit interest rate cap by the KDIF. Net interest income before credit loss expense increased by KZT 99,746 million, or 40.1 per cent., for the year ended 31 December 2018, compared to the same period in 2017, mainly due to the increase in average balances of the Bank's loans to customers and debt securities portfolio, partially offset by the increase in average balances of the Bank's amounts due to customers and debt securities issued, as well as the lower average interest rate on the Bank's debt securities portfolio. Net interest income before credit loss expense increased by KZT 76,509 million for the year ended 31 December 2017, compared to the same period in 2016, primarily due to increases in the average balances of the Bank's debt securities portfolio and loans to customers, partially offset by increases in both the average balances of, and the average interest rate on, the Bank's amounts due to customers, resulting in higher interest paid on them.

Loan Portfolio

Loans to customers represent the largest part of the Bank's assets. Total loans to customers, net of allowance for expected credit losses, represented 38.6 per cent. of total assets as at 30 June 2019, as compared to 38.9 per cent. as at 31 December 2018, 36.7 per cent. as at 31 December 2017 and 43.4 per cent. as at 31 December 2016. Total loans to customers, net of allowance for expected credit losses, increased slightly by KZT 11,496 million, or 0.3 per cent., to KZT 3,492,575 million as at 30 June 2019 from KZT 3,481,079 million as at 31 December 2018, after having increased, in 2018, by KZT 229,977 million, or 7.1 per cent., from KZT 3,251,102 million as at 31 December 2017 and having increased, in 2017, by KZT 931,519 million, or 40.2 per cent., from KZT 2,319,583 million as at 31 December 2016. The increase in the first six months of 2019 was mainly attributable to an increase in lending to customers in communication, services, consumer loans and wholesale trade sectors. In 2018, loans to customers increased by 9.0 per cent. on a gross basis and by 7.1 per cent. on a net basis. Due to IFRS requirements, KKB loans were consolidated on net basis (i.e., net of provisions created before 4 July 2017). Since 4 July 2017 certain KKB loans were modified and/or restructured. Such loans were booked as new loans on gross basis, i.e., increasing stock of provisions, while having no effect on net loans. This resulted in higher growth rate of gross loans as at 31 December 2018 compared to 31 December 2017 compared to the growth rate of net loans. In addition, the increase in 2018 was mainly driven by the overall increase in lending to customers, and in particular, to customers in the real estate, services, oil and gas, metallurgy, retail trade, retail loans, wholesale trade, transportation and mining sectors. The increase in 2017 was mostly driven by the Bank's acquisition of KKB in July 2017 and was mainly attributable to an increase in loans that were granted in retail loans sector by KZT 324,065 million, or 52.2 per cent., from KZT 621,063 million as at 31 December 2016 to KZT 945,128 million as at 31 December 2017. In 2017, allowances for expected credit losses increased by 11.4 per cent. compared to 31 December 2016, mainly as a result of additional provisions created against impaired loans in the Bank's and KKB's respective portfolios.

Loans to the Bank's ten largest borrowers represented 18 per cent. of total gross loans to customers, before allowance for expected credit losses, as at 30 June 2019, as compared to 19 per cent. as at 31 December 2018, 17 per cent. as at 31 December 2017 and 19 per cent. as at 31 December 2016. As at 30 June 2019, the Bank's exposure to its single largest borrower was KZT 124,104 million and constituted 3.2 per cent. of the Bank's total loans to customers before allowance for expected credit losses, compared to 4.7 per cent. as at 31 December 2018, 4.3 per cent. as at 31 December 2017 and 3.9 per cent. as at 31 December 2016.

For a discussion of the average interest rates on the Bank's loan portfolio, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Loans by Sector

The following table sets out an analysis of the Bank's gross loan portfolio, by economic sector, as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	KZT millions)	*(%)*	*KZT millions)*	*(%)*	*KZT millions)*	*(%)*	*KZT millions)*	*(%)*
Retail loans								
Consumer loans	742,081	19.0	715,362	18.4	679,674	19.0	433,291	16.6
Mortgage loans	265,100	6.8	273,469	7.0	265,454	7.4	187,772	7.2
Services	707,710	18.1	650,353	16.7	527,618	14.8	413,150	15.9
Wholesale trade(1)	451,715	11.6	406,567	10.5	376,064	10.5	383,261	14.7
Real estate	256,838	6.6	321,306	8.3	174,221	4.9	150,662	5.8
Retail trade	229,204	5.9	218,503	5.6	185,733	5.2	157,146	6.0
Construction	205,753	5.3	221,797	5.7	282,412	7.9	191,171	7.3
Oil and gas	172,235	4.4	153,837	4.0	73,620	2.1	33,815	1.3
Transportation	144,553	3.7	151,569	3.9	131,843	3.7	101,965	3.9
Agriculture	131,443	3.4	129,864	3.3	150,186	4.2	121,368	4.7
Communication	106,843	2.7	40,080	1.0	49,731	1.4	61,461	2.4
Mining	86,115	2.2	73,017	1.9	63,555	1.8	78,528	3.0
Financial services	66,894	1.7	62,124	1.6	83,193	2.3	44,645	1.7
Metallurgy	64,528	1.7	188,411	4.8	153,761	4.3	23,290	0.9
Energy	62,470	1.6	70,483	1.8	95,838	2.7	69,690	2.7

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	KZT millions)	*(%)*	*KZT millions)*	*(%)*	*KZT millions)*	*(%)*	*KZT millions)*	*(%)*
Food industry	50,731	1.3	47,053	1.2	78,417	2.2	34,797	1.3
Hotel industry	38,886	1.0	32,845	0.8	63,241	1.8	34,706	1.3
Machinery	35,415	0.9	33,990	0.9	33,377	0.9	22,559	0.9
Chemical industry	31,503	0.8	30,603	0.8	38,036	1.1	28,051	1.1
Light industry	15,783	0.4	12,994	0.3	17,255	0.5	8,911	0.3
Other	43,456	1.1	56,645	1.5	45,034	1.3	24,096	0.9
Loans to customers before allowance for expected credit loss	3,909,256	100.0	3,890,872	100.0	3,568,263	100.0	2,604,335	100.0

Note:

(1) "Wholesale trade" includes trade with fast moving consumer goods (various household chemical goods), food and beverages, wheat and corn, gasoline and other fuel, pharmaceutical products, automobile spare parts, clothes and other items.

Consumer loans accounted for 19.0 per cent. of the total gross loan portfolio as at 30 June 2019, compared to 18.4 per cent., 19.0 per cent. and 16.6 per cent. as at 31 December 2018, 2017 and 2016, respectively. Total retail loans accounted for 25.8 per cent. of the total gross loan portfolio as at 30 June 2019, compared to 25.4 per cent., 26.4 per cent. and 23.8 per cent. as at 31 December 2018, 2017 and 2016, respectively, and represented the largest sector in the Bank's total gross loan portfolio as at each of these dates.

Loans to customers in the services sector accounted for 18.1 per cent. of the total gross loan portfolio as at 30 June 2019, compared to 16.7 per cent., 14.8 per cent. and 15.9 per cent. as at 31 December 2018, 2017 and 2016, respectively. This category accounted for the largest portion of non-retail loans to customers as at 30 June 2019. Loans to customers in the wholesale trade sector accounted for 11.6 per cent. of the total gross loan portfolio as at 30 June 2019, compared to 10.5 per cent., 10.5 per cent. and 14.7 per cent. as at 31 December 2018, 2017 and 2016, respectively.

As at 30 June 2019, other economic sectors comprising significant components of the loan portfolio include, retail consumer loans (19.0 per cent. of the gross loan portfolio), retail mortgage loans (6.8 per cent.), real estate (6.6 per cent.), retail trade (5.9 per cent.) and construction (5.3 per cent.).

Collateralisation of loan portfolio

The table below sets out the amount of loans secured by the type of collateral, rather than the fair value of the collateral itself as at the dates indicated:

	As at 30 June	As at 31 December					
	2019	2018		2017		2016	
	(unaudited)			*(audited)*			
	(KZT millions)	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Loans collateralised by pledge of real estate or rights thereon	1,546,424	1,603,065	41.2	819,512	23.0	895,955	34.4
Loans collateralised by guarantees	780,065	702,445	18.1	1,246,368	34.9	646,702	24.8
Consumer loans issued within the framework of payroll projects	574,630	506,163	13.0	446,823	12.5	405,196	15.6
Loans collateralised by cash	305,596	360,071	9.3	302,871	8.5	223,675	8.6
Loans collateralised by pledge of corporate shares	194,558	167,676	4.3	108,995	3.1	133,988	5.1
Loans collateralised by pledge of vehicles	90,572	63,259	1.6	63,607	1.8	39,617	1.5
Loans collateralised by mixed types of collateral	30,976	43,701	1.1	29,956	0.8	42,997	1.7
Loans collateralised by pledge of inventories	39,480	33,662	0.9	92,997	2.6	48,790	1.9

	As at 30 June	As at 31 December					
	2019	2018		2017		2016	
	(unaudited)			*(audited)*			
	(KZT millions)	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Loans collateralised by pledge of equipment	12,076	15,598	0.4	36,643	1.0	8,849	0.3
Loans collateralised by pledge of agricultural products	9,167	7,359	0.2	7,413	0.2	6,311	0.2
Unsecured loans	322,252	387,873	10.0	413,078	11.6	152,255	5.8
Loans collateralised by pledge of securities	3,460	—	—	—	—	—	—
	3,909,256	3,890,872	100.0	3,568,263	100.0	2,604,335	100.0
Less—Allowance for expected credit losses	(416,681)	(409,793)		(317,161)		(284,752)	
Total loans to customers	3,492,575	3,481,079		3,251,102		2,319,583	

Loans collateralised by pledge of real estate or rights thereon increased by KZT 783,553 million, or 95.6 per cent., to KZT 1,603,065 million as at 31 December 2018 from KZT 819,512 million as at 31 December 2017 as a result of issuance of new loans and change of collateral type.

Loans collateralised by guarantees decreased by KZT 543,923 million, or 43.6 per cent., to KZT 702,445 million as at 31 December 2018 from KZT 1,246,368 million as at 31 December 2017, primarily due to repayment of certain loans and change of collateral type. Loans collateralised by guarantees increased by KZT 599,666 million, or 92.7 per cent., to KZT 1,246,368 million at 31 December 2017 from KZT 646,702 million as at 31 December 2016, primarily due to consolidation with KKB in the third quarter of 2017.

Unsecured loans increased by KZT 260,823 million, or 171.3 per cent., to KZT 413,078 million as at 31 December 2018 from KZT 152,255 million as at 31 December 2016, primarily due to consolidation with KKB in the third quarter of 2017.

Loans by Borrower

The Bank serves a large number of SMEs and large corporations, as well as individuals, mainly in Kazakhstan.

The following table sets out an analysis of the Bank's gross loan portfolio by type of borrower, as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Large corporations(1)	2,337,122	59.8	2,315,473	59.5	2,098,920	58.8	1,640,482	63.0
Small-and medium-sized businesses(2)	564,952	14.5	586,569	15.1	524,215	14.7	342,791	13.2
Individuals	1,007,181	25.8	988,830	25.4	945,128	26.5	621,062	23.8
Loans to customers before allowance for expected credit loss	3,909,256	100.0	3,890,872	100.0	3,568,263	100.0	2,604,335	100.0

Notes:

(1) See "*Business of the Bank—Principal Business Activities—Corporate banking—Customer segmentation*".

(2) See "*Business of the Bank—Principal Business Activities—SME banking—Customer segmentation*".

The increases as at 30 June 2019 in the Bank's loan portfolio by the type of borrower were mainly attributable to an increase in loans to large corporations and loans to individuals, partially offset by a decrease in loans to small and medium-sized business.

Loans to large corporations have historically accounted for the largest portion of total loans to customers, representing 59.8 per cent. of the total loan portfolio as at 30 June 2019, compared to 59.5 per cent. as at

31 December 2018, 58.8 per cent. as at 31 December 2017 and 63.0 per cent. as at 31 December 2016. Loans to large corporations increased by KZT 21,649 million, or 0.9 per cent., to KZT 2,337,122 million as at 30 June 2019 from KZT 2,315,473 million as at 31 December 2018, after having increased by KZT 216,553 million, or 10.3 per cent., in 2018 from KZT 2,098,920 million as at 31 December 2017 and by KZT 458,438 million, or 27.9 per cent., in 2017 from KZT 1,640,482 million as at 31 December 2016.

Loans to small and medium-sized businesses decreased by KZT 21,617 million, or 3.7 per cent., to KZT 564,952 million as at 30 June 2019 from KZT 586,569 million as at 31 December 2018, after having increased by KZT 62,354 million, or 11.9 per cent., in 2018 from KZT 524,215 million as at 31 December 2017. In 2017, loans to small- and medium-sized businesses increased by KZT 181,424 million, or 52.9 per cent., from KZT 342,791 million as at 31 December 2016.

Loans to individuals increased by KZT 18,351 million, or 1.9 per cent., to KZT 1,007,181 million as at 30 June 2019 from KZT 988,830 million as at 31 December 2018, after having increased by KZT 43,702 million, or 4.6 per cent., in 2017 from KZT 945,128 million as at 31 December 2017 and by KZT 324,066 million, or 52.2 per cent., in 2017 from KZT 621,062 million as at 31 December 2016.

Loans by Geographic Location

As at 30 June 2019, 92.2 per cent. of total loans to customers before allowance for expected credit losses were to residents of Kazakhstan, compared to 91.6 per cent. as at 31 December 2018, 89.7 per cent. as at 31 December 2017 and 94.2 per cent. as at 31 December 2016.

Loans by Maturity

The following table sets out an analysis of the Bank's net loan portfolio on the basis of the remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date:

	As at 30 June		**As at 31 December**					
	2019		**2018**		**2017**		**2016**	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Less than one month	241,425	6.9	243,746	7.0	297,204	9.1	146,771	6.3
Between one and three months	353,694	10.1	355,008	10.2	276,167	8.5	236,233	10.2
Between three months and one year	2,049,060	58.7	2,026,943	58.2	1,911,598	58.8	1,526,644	65.8
Between one and five years	705,774	20.2	677,369	19.5	598,089	18.4	286,133	12.3
Over five years	142,622	4.1	178,013	5.1	168,044	5.2	123,802	5.3
Loans to customers	3,492,575	100.0	3,481,079	100.0	3,251,102	100.0	2,319,583	100.0

The Bank has a right to unilaterally call back part of long-term loans provided to customers within a ten-month period after a notification is issued by the Bank. The high percentage of short-term loans was as a result of the Bank's customers focusing more on working capital and less on longer-term investment projects in the context of the risky economic conditions. See "*Asset, Liability and Risk Management—Maturity Analysis*".

Loans by Currency

The following table sets out an analysis of the Bank's net loan portfolio, by currency, as at the dates indicated:

	As at 30 June		**As at 31 December**					
	2019		**2018**		**2017**		**2016**	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Tenge	2,499,326	71.6	2,340,381	67.2	2,285,568	70.3	1,572,541	67.8
Foreign currencies[1]	993,249	28.4	1,140,698	32.8	965,534	29.7	747,042	32.2
Loans to customers	3,492,575	100.0	3,481,079	100.0	3,251,102	100.0	2,319,583	100.0

Note:

(1) The U.S. Dollar accounted for 94.4 per cent. of "foreign currencies" as at 30 June 2019, 95.0 per cent. as at 31 December 2018, 92.0 per cent. as at 31 December 2017 and 95.1 per cent. as at 31 December 2016.

The composition of the Bank's loan portfolio by currency has slightly fluctuated in recent periods. As at 30 June 2019, Tenge-denominated loans comprised 71.6 per cent. of the Bank's loan portfolio, compared to 67.2 per cent. as at 31 December 2018, 70.3 per cent. as at 31 December 2017 and 67.8 per cent. as at 31 December 2016. Foreign currency denominated loans are principally comprised of loans denominated in U.S. Dollars. Fluctuations in the Bank's loan portfolio by currency generally reflect the Bank's policy to match the currencies of its assets and liabilities. Tenge-denominated loans to customers have historically represented a major portion of the Bank's loan portfolio as the Bank's corporate and SME borrowers shifted to shorter term working capital funding, which is typically denominated in Tenge as this is the operational currency of most of the Bank's borrowers.

Cash and Cash Equivalents

Cash and cash equivalents represent a significant percentage of the Bank's total assets (23.3 per cent. as at 30 June 2019, 19.6 per cent. as at 31 December 2018, 20.1 per cent. as at 31 December 2017 and 33.2 per cent. as at 31 December 2016), as the Bank generally tries to maintain a strong liquid position on its balance sheet. See "—*Capital and Capital Adequacy*".

The following table sets out a breakdown of the Bank's cash and cash equivalents as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		*(audited)*	
		(KZT millions)		
Cash on hand	158,520	196,266	190,396	149,124
Correspondent accounts with OECD-based banks	228,627	120,096	214,596	181,144
Short-term deposits with OECD-based banks	500,587	248,038	150,656	428,526
Overnight deposits with OECD-based banks	69,582	2,396	36,584	79,992
Correspondent accounts with the NBRK	349,317	935,757	699,256	915,675
Short-term deposit with the NBRK	703,567	153,975	61,378	4,002
Short-term deposits with Kazakhstan banks (including loans under reverse repurchase agreements)	83,176	65,036	373,956	2,592
Overnight deposits with Kazakhstan banks	3,002	—	—	—
Correspondent accounts with non-OECD-based banks	7,916	10,745	20,439	11,459
Short-term deposits with non-OECD-based banks	5,959	22,657	33,233	2,005
Overnight deposits with non-OECD-based banks	931	172	54	—
Cash and cash equivalents of JSC Altyn Bank	—	—	142,736	—
Cash and cash equivalents	2,111,184	1,755,138	1,923,284	1,774,519

Cash and cash equivalents increased by KZT 356,046 million, or 20.3 per cent., to KZT 2,111,184 million as at 30 June 2019 from KZT 1,755,138 million as at 31 December 2018, primarily due to an increase in short-term deposit with the NBRK, short-term deposits with OECD-based banks, correspondent accounts with OECD-based banks, overnight deposits with OECD-based banks, short-term deposits with Kazakhstan banks. This increase was partially offset by a decrease in correspondent accounts with the NBRK, short-term deposits with non-OECD-based banks and correspondent accounts with non-OECD-based banks. Cash and cash equivalents decreased by KZT 168,146 million, or 8.7 per cent., in 2018, from KZT 1,923,284 million as at 31 December 2017, primarily due to decreases in balances of the Bank's short-term deposits with Kazakhstan banks (including loans under reverse repurchase agreements), correspondent accounts with OECD-based banks and overnight deposits with OECD-based banks, partially offset by increases in balances of the Bank's correspondent accounts with the NBRK, short-term deposits with OECD-based banks and short-term deposits with NBRK. Cash and cash equivalents increased by KZT 148,765 million, or 8.4 per cent., in 2017 from KZT 1,774,519 million as at 31 December 2016, mainly due to increases in balances of the Bank's short-term deposits with Kazakhstan banks (including loans under reverse repurchase agreements) and in cash and cash equivalents of JSC Altyn Bank, partially offset by decreases in balances of the Bank's short-term deposits with OECD-based banks and correspondent accounts with the NBRK.

Amounts due from Credit Institutions

Amounts due from credit institutions generally represent a small percentage of the Bank's total assets (0.6 per cent. as at 30 June 2019, 0.6 per cent. as at 31 December 2018, 1.0 per cent. as at 31 December 2017 and 0.7 per cent. as at 31 December 2016), as deposits with other financial institutions are typically made for liquidity management purposes. In particular, term deposits with other credit institutions reflect the Bank's use of the interbank market to place excess liquidity for short periods.

The following table sets out a breakdown of amounts due from credit institutions at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		(audited)	
		(KZT millions)		
Term deposits	39,445	37,365	59,711	11,256
Deposits pledged as collateral for derivative instruments and other transactions	11,632	9,512	9,306	5,608
Loans to credit institutions	461	8,390	18,719	18,678
	51,538	55,267	87,736	35,542
Less allowance for expected credit losses	(181)	(232)	—	—
Amounts due from credit institutions	51,357	55,035	87,736	35,542

Amounts due from credit institutions decreased by KZT 3,678 million, or 6.7 per cent., to KZT 51,357 million as at 30 June 2019 from KZT 55,035 million as at 31 December 2018. This decrease was mainly attributable to a decrease in loans to credit institutions, partially offset by an increase in term deposits and deposit pledged as collateral for derivative financial instruments.

Securities Portfolio

The Bank's securities portfolio consists of financial assets at fair value through profit or loss, including the fair value of derivatives, financial assets at fair value through other comprehensive income (available-for-sale investment securities) and debt securities at amortised cost, net of allowance for expected credit losses. Certain financial assets that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, due to that the Bank holds them for the long-term investment purposes. The Bank classifies its investment securities depending upon the intent of the Bank at the time of purchase in line with its internal investment strategy and policy.

As at 30 June 2019, the Bank had investments that classify as debt securities at amortised cost, net of allowance for expected credit losses totalling KZT 1,089,944 million and had an intent and ability to hold them to maturity. See "*—Debt Securities at Amortised Cost, Net of Allowance for Expected Credit Losses*".

The following table sets out a breakdown of the Bank's securities portfolio, including the fair value of derivatives held as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		(audited)	
		(KZT millions)		
Financial assets at fair value through profit or loss	191,856	186,836	144,976	328,737
Available-for-sale investment securities	—	—	2,565,425	599,624
Financial assets at fair value through other comprehensive income	1,435,565	1,765,933	—	—
Debt securities at amortised cost, net of allowance for expected credit losses	1,089,944	1,055,907	—	—
Total	2,717,365	3,008,676	2,710,401	928,361

As at 30 June 2019, the Bank's securities portfolio decreased by KZT 291,311 million, or 9.7 per cent., to KZT 2,717,365 million from KZT 3,008,676 million as at 31 December 2018, after having increased, in 2018, by KZT 298,275 million, or 11.0 per cent., from KZT 2,710,401 million as at 31 December 2017 and, in 2017, by KZT 1,782,040 million, or 192.0 per cent., from KZT 928,361 million as at 31 December 2016. The decrease in the six months of 2019 was primarily due to a decrease in investment securities (financial assets at fair value through other comprehensive income) on the back of accumulation of funds for repayment of a one-year cross-currency swap with NBRK on the 3 July 2019. The increase in 2018 was mainly attributable to an increase in financial assets at fair value through other comprehensive income (available-for-sale investment securities). The significant increase in 2017 was mainly attributable to the acquisition of KKB, including its investment securities portfolio.

Financial Assets at Fair Value through Profit or Loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or designated on initial recognition as those to be measured at fair value through profit or loss. After initial recognition, those assets are measured at fair value with gains or losses on re-measurement recognised at fair value in net profit or loss. Changes in fair value are recorded in "Net gain from financial assets and liabilities at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract, while dividend income is recorded in "Other income" when the right to receive the payment has been established. In determining fair value, financial assets at fair value through profit or loss are valued at the last trade price, if quoted on an exchange, or the last bid price, if traded over the counter. When market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or objective and reliable management estimates of the amounts that can be realised. See Note 9 to the Audited Financial Statements.

The following table sets out a breakdown of the Bank's portfolio of financial assets at fair value through profit or loss as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		*(audited)*	
		(KZT millions)		
Financial assets held for trading:				
Derivative financial instruments	84,054	97,853	39,723	77,776
Corporate bonds	49,101	29,987	21,212	743
Bonds of Kazakhstan banks	13,720	11,453	5,547	137
Bonds of foreign organisations	10,557	6,293	5,126	102
Treasury Bills of the Ministry of Finance of Kazakhstan	9,539	11,759	44,171	—
Equity securities of Kazakhstan corporations	9,397	14,800	14,478	88
Equity securities of foreign organisations	7,802	3,738	675	102
Bonds of JSC Development Bank of Kazakhstan	6,549	6,491	5,252	215
Treasury Bills of the USA	1,137	—	—	—
Notes of the NBRK	—	4,462	8,310	249,574
Equity securities of Kazakhstan banks	—	—	482	—
Financial assets at fair value through profit or loss	191,856	186,836	144,976	328,737

As at 30 June 2019, the Bank's financial assets at fair value through profit or loss increased by KZT 5,020 million, or 2.7 per cent., to KZT 191,856 million from KZT 186,836 million as at 31 December 2018, after having increased, in 2018, by KZT 41,860 million, or 28.9 per cent., from KZT 144,976 million as at 31 December 2017, after having decreased in 2017, by KZT 183,761 million, or 55.9 per cent., from KZT 328,737 million as at 31 December 2016. The increase in the first six months of 2019 was primarily due to an increase in corporate bonds, equity securities of foreign organisations and bonds of Kazakhstan banks, partially offset by a decrease in Treasury Bills of the USA and notes of the NBRK. The increase in 2018 was mainly attributable to the increases in the Bank's position in derivative financial instruments, which, in turn, was mainly a result of the Bank's foreign currency swap and non-deliverable forward operations entered with the NBRK with a view to increasing the Bank's Tenge liquidity. The significant decrease in 2017 was mainly due to the disposals of the NBRK notes by KZT 241,264 million, or 96.7 per cent., from KZT 249,574 million as at 31 December 2016.

The Bank entered into a one-year KZT/U.S.$ swap with NBRK for U.S.$2 billion on 3 July 2018. On 3 July 2019, the Bank repaid this swap and entered into a new one-year KZT/U.S.$ swap with NBRK for U.S.$912 million.

Financial Assets at Fair Value through Other Comprehensive Income and Debt Securities at Amortised Cost (IAS 39—Available-for-Sale Investment Securities)

For an asset to be classified and measured at amortised cost or at fair value through other comprehensive income, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. Such principal amount may change over the life of the financial asset (e.g. where there are repayments of principal). Interest consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time and other basic lending risks and costs, as well as the profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

An assessment of business models for managing financial assets is performed as at the date of initial application of IFRS 9 to determine the classification of a financial asset. The business model is applied retrospectively to all financial assets existing as at the date of the initial application of IFRS 9. The Bank determines business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments that reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both. See Note 9 to the Audited Financial Statements incorporated by reference into this Offering Memorandum. Certain financial assets that were classified as available-for-sale investment securities as at 31 December 2017 were reclassified to debt securities at amortised cost under IFRS 9, because the Bank holds them for the long-term investment purposes, the "hold to collect" business model.

The Bank considers all relevant information available when making the business model assessment. However, this assessment is not performed based on scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all the relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models in each reporting period to determine whether such business models have changed since the preceding period. For the current reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at fair value through other comprehensive income ("FVTOCI") is derecognised, the cumulative gain/loss previously recognised in other comprehensive income ("OCI") is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity. Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

The following table sets out a breakdown of the Bank's portfolio of financial assets at fair value through other comprehensive income (IAS 39—Available-for-sale investment securities), by type of security, as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)	*(audited)*		
	(KZT millions)			
Treasury Bills of the Ministry of Finance of Kazakhstan	429,080	408,508	1,366,494	138,018
Treasury Bills of the USA	322,178	249,142	264,821	91,534
Notes of the NBRK	299,155	756,652	459,895	199,390
Corporate bonds	196,100	202,923	280,106	103,464
Bonds of foreign organisations	82,444	44,283	82,935	3,138
Bonds of JSC Development Bank of Kazakhstan	77,521	75,190	66,792	37,640
Bonds of Kazakhstan banks	17,593	18,023	25,017	10,223
Treasury Bills of Hungary	9,051	8,757	7,987	7,762
Equity securities of Kazakhstan corporations	2,443	2,455	3,407	4,719
Equity securities of foreign corporations	—	—	1,756	95
Treasury Bills of the Russian Federation	—	—	909	820
Treasury Bills of Georgia	—	—	2,156	2,116
Notes of National Bank of Kyrgyz Republic	—	—	1,400	—
Treasury Bills of Kyrgyz Republic	—	—	1,710	705
Equity securities of Kazakhstan banks	—	—	40	—
Financial assets at fair value through other comprehensive income (IAS 39—Available-for-Sale Investment Securities)	1,435,565	1,765,933	2,565,425	599,624

The Bank's financial assets at fair value through other comprehensive income (IAS 39—available-for-sale investment) securities decreased by KZT 330,368 million, or 18.7 per cent., to KZT 1,435,565 million as at 30 June 2019, from KZT 1,765,933 million as at 31 December 2018, after having decreased in 2018 by KZT 799,492 million, or 31.2 per cent., from KZT 2,565,425 million as at 31 December 2017. In 2017, the Bank's financial assets at fair value through other comprehensive income (IAS 39—available-for-sale investment securities) increased by KZT 1,965,801 million, or 327.8 per cent., from KZT 599,624 million as at 31 December 2016. The decrease as at 30 June 2019, compared to 31 December 2018 was mainly due to a decrease in notes of the NBRK, partially offset by an increase in bonds of foreign organisations. The decrease in 2018 was mainly due to reclassification of the Bills of the Ministry of Finance of Kazakhstan were reclassified as debt securities at amortised cost under IFRS 9. Following the reclassification, the Bank holds these instruments for long-term investment purposes. The decrease in 2018 was also partially offset by purchases of the NBRK notes and bonds of JSC Development Bank of Kazakhstan. The increase in 2017 was mainly driven by an increase of KZT 1,228,476 million, or 890.1 per cent., in the portfolio of treasury bills of the Ministry of Finance of Kazakhstan following the acquisition of KKB.

As at 30 June 2019, the Bank's portfolio of financial assets at fair value through other comprehensive income consisted primarily of Treasury Bills of the Ministry of Finance of Kazakhstan, Treasury Bills of the USA, notes of the NBRK and corporate bonds, which accounted for 29.9 per cent., 22.4 per cent., 20.8 per cent. and 13.7 per cent.

The following table sets out the weighted average yields on the Bank's portfolio of financial assets at fair value through other comprehensive income:

Financial asset	As at 30 June 2019
	(%)
Treasury Bills of the Ministry of Finance of Kazakhstan	5.0
Notes of NBRK	8.8
Treasury Bills of the USA	2.3
Bonds of foreign organisations	6.5
Bonds of JSC Development Bank of Kazakhstan	5.7
Bonds of Kazakhstan banks	10.0
Corporate bonds	8.2

Debt Securities at Amortised Cost, Net of Allowance for Expected Credit Losses

For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

For the purpose of the SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form. Debt instruments that are subsequently measured at amortised cost are subject to impairment. See Note 10 to the Audited Financial Statements incorporated by reference into this Offering Memorandum.

Funding Sources

Amounts due to customers represent the largest part of the Bank's funding sources and historically the Bank has had a stable customer base, with a large number of corporate clients, including many of the country's leading industrial and natural resource sector companies and trading corporations, as well as small and medium-sized businesses and individual customers. As at 30 June 2019, the Bank's amounts due to customers on an unaudited unconsolidated basis totalled KZT 6,173,234 million that according to statistics published by the NBRK, excluding term deposits of JSC Unified Accumulative Pension Fund on an unconsolidated basis represented 37.7 per cent. of total amounts due to customers in the Kazakhstan banking sector.

The availability of amounts due to customers is influenced by factors such as prevailing interest rates, market conditions and levels of competition, although the Bank believes that its customer base is relatively insensitive to short-term fluctuations in interest rates and more dependent on the Bank's ability to provide a high level of customer service and a range of banking products and services. Other sources of funding include debt securities placed domestically and in the international markets as well as foreign and local interbank borrowings.

The following table sets out information relating to the Bank's liabilities at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Amounts due to customers	6,220,463	78.4	6,526,930	82.7	6,131,750	77.4	3,820,662	81.6
Term deposits	4,225,761	53.3	4,292,662	54.4	4,397,857	55.5	2,738,125	58.5
Current accounts	1,994,702	25.1	2,234,268	28.3	1,733,893	21.9	1,082,537	23.1
Amounts due to credit institutions	476,703	6.0	168,379	2.1	255,151	3.2	162,134	3.5
Debt securities issued	903,536	11.4	900,791	11.4	962,396	12.1	584,933	12.5
Other[1]	330,852	4.2	297,152	3.8	236,680	3.0	111,850	2.4
Total liabilities	7,931,554	100.0	7,893,378	100.0	7,923,324	100.0	4,682,890	100.0

Note:

(1) Comprising financial liabilities at fair value through profit or loss, provisions, deferred tax liability, insurance liabilities and other liabilities.

Customer Accounts

Customer current accounts and term deposits represented 78.4 per cent. of the Bank's total liabilities as at 30 June 2019, as compared to 82.7 per cent. as at 31 December 2018, 77.4 per cent. as at 31 December 2017 and 81.6 per cent. as at 31 December 2016. Customer current accounts generally bear no interest and can be withdrawn on demand. Term deposits have maturities ranging from one day to in excess of five years and bear interest at different rates depending on the type of deposit. See "*Business of the Bank—Principal Business Activities—Retail banking—Products and services—Retail current accounts and term deposits*". As at 30 June 2019, according to the statistics published by the NBRK, the Bank had the largest market shares, representing 36.4 per cent., 39.1 per cent. and 37.7 per cent., in the Kazakhstan retail deposit, corporate deposit and total deposit markets, respectively.

Deposits by Account and Customer Type

The following table sets out a breakdown of the Bank's current and term deposits as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Term deposits								
Legal entities	1,455,387	23.4	1,374,592	21.1	1,705,971	27.8	1,267,589	33.2
Individuals	2,770,374	44.5	2,918,070	44.7	2,691,886	43.9	1,470,536	38.5
	4,225,761	67.9	4,292,662	65.8	4,397,857	71.7	2,738,125	71.7
Current accounts								
Legal entities	1,523,995	24.5	1,756,748	26.9	1,321,530	21.6	837,625	21.9
Individuals	470,707	7.6	477,520	7.3	412,363	6.7	244,912	6.4
	1,994,702	32.1	2,234,268	34.2	1,733,893	28.3	1,082,537	28.3
Amounts due to customers	6,220,463	100.0	6,526,930	100.0	6,131,750	100.0	3,820,662	100.0

As at 30 June 2019, amounts due to customers decreased by KZT 306,467 million, or 4.7 per cent., to KZT 6,220,463 million from KZT 6,526,930 million as at 31 December 2018, after having increased, in 2018, by KZT 395,180 million, or 6.4 per cent., from KZT 6,131,750 million as at 31 December 2017 and, in 2017, by KZT 2,311,088 million, or 60.5 per cent., from KZT 3,820,662 million as at 31 December 2016.

The decrease in amounts due to customers as at 30 June 2019, compared to 31 December 2018 was mainly attributable to a decrease in individuals term deposits and all balances of current accounts. The increase in 2018 was primarily due to increases in balances of current accounts of legal entities and individuals, and term deposits of individuals. The increase in 2017 was mainly attributable to an increase in all balances of the amounts due to customers following the acquisition of KKB.

As at 30 June 2019, the Bank's term deposits from legal entities included two separate deposits from JSC Kazakhstan Sustainability Fund. The first deposit was placed for 20 years until 2035 at an interest rate of 2.99 per cent. per annum. Under the terms of the deposit agreement, the Bank is responsible for using the deposit funds for refinancing its borrowers' residential mortgage loans at an interest rate of 2.99 per cent. per annum within the framework of the Government Mortgage and Residential Mortgage Refinancing Program. As at 30 June 2019 and 31 December 2018, this deposit amounted to KZT 53.8 billion and KZT 52.6 billion, respectively.

The second deposit from JSC Kazakhstan Sustainability Fund was placed for 20 years until 2038 at an interest rate of 0.01 per cent. per annum. Under the terms of the deposit agreement, the Bank will refinance foreign currency-denominated mortgage loans to Tenge-denominated mortgage loans at a preferential exchange rate of KZT 188.35 for U.S.$ 1.00. The difference between rates will be covered through a higher margin gained by the Bank on this particular deposit. As at 30 June 2019 and 31 December 2018, this deposit amounted to KZT 10.5 billion and KZT 2.5 billion, respectively.

FPL, a wholly owned subsidiary of the Government, placed a deposit on the amount of KZT 250 billion within KKB. The deposit was transferred to the Bank after consolidation with KKB. The deposit was discounted on the market rates. As at 30 June 2019 and 31 December 2018, amortised cost was equal to KZT 37 billion and KZT 35.2 billion, respectively.

__Deposits by Currency__

The following table sets out certain information relating to amounts due to customers in Tenge and foreign currencies as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Amounts due to customers in Tenge	3,017,197	48.5	2,907,509	44.5	2,729,000	44.5	1,323,296	34.6
Amounts due to customers in foreign currencies	3,203,266	51.5	3,619,421	55.5	3,402,750	55.5	2,497,366	65.4
Amounts due to customers	6,220,463	100.0	6,526,930	100.0	6,131,750	100.0	3,820,662	100.0

U.S. Dollar-denominated accounts represented 93.8 per cent. of amounts due to customers in foreign currencies as at 30 June 2019, as compared to 93.6 per cent. as at 31 December 2018, 93.8 per cent. as at 31 December 2017 and 97.4 per cent. as at 31 December 2016.

As at 30 June 2019 Tenge-denominated amounts due to customers increased both in absolute terms to KZT 3,017,197 million from 2,907,509 million as at 31 December 2018 and as a percentage of total amounts due to customers (to 48.5 per cent. from 44.5 per cent. as at 31 December 2018). In 2018, Tenge-denominated amounts due to customers increased in absolute terms (from KZT 2,729,000 million as at 31 December 2017) but remained at the same level as a percentage of total amounts due to customers (44.5 per cent. as at 31 December 2017). In 2017, Tenge-denominated amounts due to customers increased both in absolute terms (from KZT 1,323,296 million as at 31 December 2016) and as a percentage of total amounts due to customers (from 34.6 per cent. as at 31 December 2016). The overall upward trend for Tenge-denominated amounts due to customers as a percentage of total amounts due to customers was attributable to the new NBRK's strategy aimed at stimulating the demand for Tenge following two devaluations of Tenge in 2014 and 2015. To achieve this aim, in January 2015, the NBRK increased the guaranteed amount of Tenge deposits from KZT 5 million to KZT 10 million and reduced the maximum interest rate on foreign currency deposits from 4 per cent. per annum to 3 per cent. per annum (and then to 2 per cent. per annum from 1 February). From 1 January 2017, the maximum interest rates recommended by the KDIF apply to annual effective rates rather than to nominal rates. From July 2017, the maximum interest rate on newly attracted deposits of individuals in foreign currency recommended by the KDIF decreased further to 1.5 per cent. per annum and then to 1 per cent. per annum from December 2017. In 2016 and 2017, the recommended maximum interest rate for Tenge deposits remained at 14 per cent. From July 2018, the maximum interest rate on newly attracted deposits of individuals recommended by the KDIF in Tenge decreased to 12 per cent. per annum. From October 2018, the KDIF introduced a new classification for Tenge-denominated deposits of individuals, according to which such deposits are divided into non-term (on-demand) deposits, term deposits and savings deposits. Accordingly, maximum interest rates for each of these classes vary depending on the maturity of the deposits. From June 2019, the same classification will apply to foreign currency-denominated deposits of individuals. As announced by the KDIF in May 2019, the maximum interest rate on newly attracted savings and term deposits of individuals in foreign currency with maturities of 12 months and over increased to 2 per cent. per annum in June 2019 and will remain at 1 per cent. per annum for on-demand deposits as well as for savings and term deposits in foreign currency with maturities of less than 12 months. In July 2019, the KDIF stated that starting from September 2019 it will announce maximum interest rates on new deposits from individuals on a monthly basis. In addition, the KDIF stated that the maximum interest rates will be a sum of either a weighted average market interest rate or the NBRK base rate, depending on the type and maturity of the deposit, and a spread over that rate which will be set by the KDIF's board of directors.

Deposits by Maturity

The following table sets out information on the maturity profile of the Bank's amounts due to customers at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Less than one month	2,798,989	45.0	3,889,116	59.6	2,856,379	46.6	2,046,317	53.6
One to three months	300,195	4.8	376,688	5.8	415,118	6.8	226,071	5.9
Three months to one year	2,124,822	34.2	1,419,536	21.7	1,449,676	23.6	784,955	20.5
One to five years	505,139	8.1	589,345	9.0	1,065,364	17.4	694,228	18.2
Over five years	491,318	7.9	252,245	3.9	345,213	5.6	69,091	1.8
Amounts due to customers	6,220,463	100.0	6,526,930	100.0	6,131,750	100.0	3,820,662	100.0

Amounts due to customers with maturities of less than one month, which include both interest-paying deposits and non-interest-bearing current accounts, decreased by KZT 1,090,127 million, or 28.0 per cent., to KZT 2,798,989 million as at 30 June 2019 from KZT 3,889,116 million as at 31 December 2018, mainly due to partial withdrawal of funds by the Bank's customers (both legal entities and individuals) to finance their ongoing needs.

Deposits by Sector

The following table sets out the composition of the Bank's customer accounts, by reference to the economic sector of the customer, as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Individuals and entrepreneurs	3,241,081	52.1	3,395,590	52.0	3,104,249	50.6	1,715,448	44.9
Oil and gas	612,914	9.9	669,608	10.3	712,840	11.6	743,744	19.5
Financial sector	390,449	6.3	425,352	6.5	90,204	1.5	215,936	5.7
Transportation	160,304	2.6	179,522	2.8	125,828	2.1	185,039	4.8
Wholesale trade	281,164	4.5	254,518	3.9	199,766	3.3	166,918	4.4
Other consumer services	221,454	3.6	322,783	4.9	208,610	3.4	171,245	4.5
Metallurgy	60,180	1.0	67,572	1.0	358,939	5.9	77,103	2.0
Healthcare and social services	251,699	4.0	211,571	3.2	129,962	2.1	61,184	1.6
Construction	240,782	3.9	275,939	4.2	138,326	2.3	81,113	2.1
Communication	23,868	0.4	55,201	0.8	81,260	1.3	52,550	1.4
Government	257,349	4.1	101,789	1.6	489,422	8.0	86,162	2.3
Energy	48,509	0.8	64,731	1.0	44,568	0.7	33,729	0.9
Education	51,357	0.8	47,449	0.7	86,508	1.4	35,723	0.9
Insurance and pension funds activity	83,166	1.3	88,377	1.4	17,779	0.3	13,281	0.3
Other	296,187	4.8	366,928	5.6	343,489	5.6	181,487	4.8
Total	6,220,463	100.0	6,526,930	100.0	6,131,750	100.0	3,820,662	100.0

The Bank's two largest sources of customer deposits are individuals and entrepreneurs, which accounted for 52.1 per cent. of total customer deposits as at 30 June 2019, as compared to 52.0 per cent., as at 31 December 2018, and the oil and gas sector, which accounted for 9.9 per cent. of total customer deposits as at 30 June 2019, as compared to 10.3 per cent. as at 31 December 2018. As at 30 June 2019, other significant sources of customer deposits included the financial sector and other consumer services sector which accounted for 6.3 per cent. and 3.6 per cent. respectively.

As at 30 June 2019, the ten largest groups of related customers accounted for 26 per cent. of the Bank's total amounts due to customers compared to 27 per cent., 32 per cent. and 32 per cent. as at 31 December 2018, 31 December 2017 and 31 December 2016, respectively, where each group of related customers represents customers related to each other within that group. The Bank believes that it would be given sufficient notice of withdrawal of funds so as to arrange for the necessary funds required for repayment.

Other Sources of Funding

The Bank's debt capital market financing is aimed at further diversifying and extending the maturity of the Bank's funding base and supporting the existing average funding rate. The Bank has two outstanding international debt financing issuances:

- Notes issued by the Bank in January 2011 in the amount of U.S.$500 million at 7.25 per cent. due 2021; and
- Notes issued by BTA Bank in December 2012 in the amount of U.S.$750 million at 5.5 per cent. due 2022, which were transferred to the Bank following the merger of KKB into the Bank in July 2018.

Since then, access to the international capital markets has been limited and relatively expensive, so the Bank's focus in the period under review has been set on domestic borrowings and private placements, including as part of the Government Support Programmes, to enable it to diversify and lengthen the maturity of its funding base. Under the terms of the Bank's Notes due 2021, the Bank is restricted from paying any dividends, in cash or otherwise: (i) when an event of default has occurred (as defined in the Notes due 2021); (ii) more than once during any calendar year; and (iii) in an aggregate amount exceeding 50 per cent. of the Bank's net income for the period in respect of which the dividends are being paid. Under the terms of the Bank's Eurobond due 2022, the Bank is restricted from paying any dividends, in cash or otherwise: (i) when an event of default has occurred (as defined in the Eurobond due 2022); (ii) more than once during any calendar year; or (iii) in an aggregate amount exceeding 50 per cent. of the Bank's net income for the period in respect of which the dividends are being paid. Under the terms of the Bank's Eurobond due 2022 and the ISDA 2002 Agreement, dated 24 February 2012, a change of control is triggered if the Selling Shareholder does not maintain a controlling share of 51 per cent. or more following the GDR Offering.

Amounts due to Credit Institutions by Type of Account

The following table sets out certain information relating to amounts due to credit institutions, by type of account, as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		*(audited)*	
		(KZT millions)		
Recorded at amortised cost:				
Loans and deposits from Kazakhstan banks	312,366	10,964	105,166	21,924
Loans from JSC Entrepreneurship Development Fund DAMU	88,805	86,390	79,971	36,552
Loans from JSC Development Bank of Kazakhstan	39,234	38,491	37,434	21,372
Correspondent accounts	18,056	23,990	23,953	27,882
Loans from other financial institutions	11,928	2,813	2,148	2,903
Loans and deposits from non-OECD based banks	3,336	2,329	2,227	7,109
Loans from JSC National Managing Holding KazAgro	2,759	3,107	3,869	38,534
Loans and deposits from OECD-based banks	219	295	383	5,858
Amounts due to credit institutions	476,703	168,379	255,151	162,134

Amounts due to credit institutions represented 6.0 per cent. of the Bank's total liabilities as at 30 June 2019, compared to 2.1 per cent. as at 31 December 2018, 3.2 per cent. as at 31 December 2017 and 3.5 per cent. as at 31 December 2016. In absolute terms, the amounts due to credit institutions increased by KZT 308,324 million, or 183.1 per cent., to KZT 476,703 million as at 30 June 2019 from KZT 168,379 million as at 31 December 2018, after having decreased, in 2018, by KZT 86,772 million, or 34.0 per cent., from KZT 255,151 million as at 31 December 2017. In 2017, the amounts due to credit institutions increased by KZT 93,017 million, or 57.4 per cent., from KZT 162,134 million as at 31 December 2016. The increase as at 30 June 2019, compared to 31 December 2018, was primarily due to a significant increase in loans and deposits from Kazakhstan banks (including loans under repurchase agreements). The decrease in the amounts due to credit institutions as at 31 December 2018, compared to 31 December 2017, primarily reflected a decrease in loans and deposits from Kazakhstan banks under repurchase agreements. The increase as at 31 December 2017, compared to 31 December 2016, was mainly attributable to increases in loans and deposits from Kazakhstan banks under repurchase agreements, as well as new borrowings from the Damu Fund and JSC Development Bank of Kazakhstan, partially offset by a decrease in loans from JSC National Managing Holding KazAgro.

Syndicated and Bilateral Loans. Amounts due to credit institutions include, from time to time, syndicated and bilateral loans. During the period under discussion, the Bank had the following loans:

- As at 30 June 2019, loans from JSC National Managing Holding KazAgro included long-term loans of KZT 2,755 million (KZT 3,103 million as at 31 December 2018, KZT 3,865 million as at 31 December 2017, KZT 38,483 million as at 31 December 2016) at a 3.0 per cent. interest rate maturing in 2022. The loan was received for restructuring/refinancing of loans/leasing debts of the Bank's borrowers operating in the agricultural sector, originated before 1 January 2014 in connection with working capital loans, loans for the purchase of fixed assets, for construction-and-assembling works and loans for leasing of agricultural and technological equipment. Restructuring/refinancing of loan/leasing obligations is provided at an interest rate of 6.0 per cent. – 7.0 per cent. for the period ending not later than 31 December 2022.
- As at 30 June 2019, loans from the Damu Fund included long-term loans of KZT 88,363 million (KZT 85,956 million as at 31 December 2018, KZT 79,566 million as at 31 December 2017, KZT 36,367 million as at 31 December 2016) at between 1.0 per cent. – 4.5 per cent. maturing in 2021-2035 with an early recall option. These loans were received in accordance with the Government programme (the "Programme") for SMEs operating in certain industries. According to the loan agreements between DAMU and the Bank, the Bank is responsible for extending loans to SME borrowers, eligible to participate in the Programme, for up to 10 years at a 6.0 per cent. interest rate.
- As at 30 June 2019, loans from JSC Development Bank of Kazakhstan included long-term loans of KZT 30,921 million (KZT 31,171 million as at 31 December 2018) at 2.0 per cent.

See "*Business of the Bank—Government Support Programmes*".

Amounts due to Credit Institutions by Currency

The following table sets out the composition of the Bank's amounts due to credit institutions, by currency, as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(unaudited)				*(audited)*			
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Tenge	387,901	81.4	138,203	82.1	227,539	89.2	124,865	77.0
Foreign currencies	88,802	18.6	30,176	17.9	27,612	10.8	37,269	23.0
Amounts due to credit institutions	476,703	100.0	168,379	100.0	255,151	100.0	162,134	100.0

Loans and deposits from credit institutions denominated in Tenge represent the largest part of the Bank's amounts due to credit institutions and comprised 81.4 per cent., 82.1 per cent., 89.2 per cent. and 77.0 per cent. as at 30 June 2019, 31 December 2018, 31 December 2017 and 31 December 2016, respectively. This is mainly attributable to the fact that the Bank actively participates in various governmental programmes aimed at supporting certain industries of the domestic economies.

U.S. Dollar-denominated accounts accounted for 93.2 per cent. of amounts due to credit institutions in foreign currencies as at 30 June 2019, compared to 89.1 per cent. as at 31 December 2018, 93.1 per cent. as at 31 December 2017 and 95.9 per cent. as at 31 December 2016.

Unsubordinated Debt Securities

The following table sets out a breakdown of the Bank's unsubordinated debt securities, by currency, as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		*(audited)*	
		(KZT millions)		
U.S. Dollar-denominated bonds	457,628	428,549	464,435	359,355
Tenge-denominated bonds	360,807	389,509	388,526	225,578
RUB-denominated bonds	—	—	353	—
Total unsubordinated debt securities outstanding	818,435	818,058	853,314	584,933

Unsubordinated debt securities represented 10.3 per cent. of the Bank's total liabilities as at 30 June 2019, compared to 10.4 per cent. as at 31 December 2018, 10.8 per cent. as at 31 December 2017 and 12.5 per cent. as at 31 December 2016. In absolute terms, unsubordinated debt securities issued by the Bank slightly increased by KZT 377 million, or 0.05 per cent., to KZT 818,435 million as at 30 June 2019 from KZT 818,058 million as at 31 December 2018, mainly due to an increase in U.S. Dollar-denominated bonds. Unsubordinated debt securities decreased in 2018 by KZT 35,256 million, or 4.1 per cent., from KZT 853,314 million as at 31 December 2017. This decrease was mainly attributable to scheduled repayments and partial redemptions made by the Bank with respect to the then outstanding bonds issued. Unsubordinated debt securities increased in 2017, by KZT 268,381 million, or 45.9 per cent., from KZT 584,933 million as at 31 December 2016, due to the acquisition of KKB.

On 1 March 2019, the Bank made a prepayment on its U.S.$750 million Eurobond issue bearing 5.5 per cent. coupon rate due 2022. The prepayment was made for the amount of U.S.$200 million together with the interest accrued but unpaid. KKB's perpetual bonds for U.S.$100 million were fully redeemed on 9 February 2018 out of KKB's own funds. KKB's unsubordinated Eurobond for U.S.$300 million was fully redeemed at maturity on 11 May 2018 out of KKB's own funds. On 3 May 2017, the Bank repaid in full its 10-year 7.25 per cent. Eurobond issued in May 2007, for which the outstanding principal amount at the maturity date was U.S.$638,029,000.

In April 2019, the Bank placed senior unsecured coupon bonds on the territory of the AIFC with a nominal value of U.S.$180.5 million for a period of 36 months and at a rate of 3 per cent. per annum.

As at 30 June 2019 the Bank had the following unsubordinated debt securities outstanding:

- a 5.5 per cent. fixed rate senior Eurobond issued in December 2012 by BTA Bank in aggregate principal amount of U.S.$750 million and maturing in December 2022. These Eurobonds are traded on the Luxembourg Stock Exchange and the KASE. As at 30 June 2019 the total outstanding amount of these Eurobonds are U.S.$548 million;
- a 7.5 per cent. fixed rate unsubordinated coupon domestic bond listed on the KASE and registered under the Bank's third bond programme in October 2014 in an aggregate amount of KZT 100 billion, maturing in November 2024, which, is mostly placed with JSC Unified Accumulative Pension Fund;
- a 7.5 per cent. fixed rate unsubordinated coupon bond listed on the KASE and registered under the Bank's fourth domestic bond programme in December 2014 in an aggregate amount of KZT 170 billion and maturing in February 2025. As at 30 June 2019 the total outstanding amount of this bond is KZT 13.2 billion, which is fully placed with JSC Unified Accumulative Pension Fund. The Bank has the right to place the remaining balance of the registered issue if management determines that the resulting liquidity is desirable;
- a 7.25 per cent. fixed rate senior Eurobonds issued in January 2011 in an aggregate principal amount of U.S.$500 million. These Eurobonds are traded on the London Stock Exchange and the KASE and are redeemable in January 2021. As at 30 June 2019 the total outstanding amount of these Eurobonds are U.S.$500;
- an 8.75 per cent. fixed rate unsubordinated coupon bond registered under KKB's second bond programme in December 2014 in an aggregate amount of KZT 100 billion and maturing in January 2022. As at 30 June 2019 the total outstanding amount of this bond is KZT 93.6 billion, which is fully placed with JSC Unified Accumulative Pension Fund;

- an 8.4 per cent. fixed rate unsubordinated coupon bond registered under KKB's second bond programme in November 2014 in an aggregate amount of KZT 60 billion and maturing in November 2019. As at 30 June 2019 the total outstanding amount of this bond is KZT 59.9 billion, which is fully placed with JSC Unified Accumulative Pension Fund; and
- a 3.0 per cent. fixed rate unsubordinated coupon bond listed on the AIX in April 2019 in an aggregate amount of U.S.$180.5 million and maturing in April 2022. As at 30 June 2019, the total outstanding amount of these Eurobonds amounts to U.S.$180.5 million.

Subordinated Debt Securities

Subordinated bonds are unsecured obligations of the Bank, subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Bank.

The following table sets out a breakdown of the Bank's subordinated debt securities, by type, as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)	*(audited)*		
		(KZT millions)		
Fixed-rate Tenge-denominated bonds[1]	85,101	79,241	77,330	—
Inflation-indexed Tenge-denominated bonds[2]	—	3,492	12,976	—
Floating rate U.S. Dollar-denominated bonds	—	—	18,776	—
Total subordinated debt securities outstanding	85,101	82,733	109,082	—

Notes:

(1) Fixed rate bonds bear interest at a rate of 9.5 per cent.

(2) "Inflation-indexed" bonds bear interest at 1.0 per cent. plus the rate of inflation in Kazakhstan.

Subordinated debt securities represented 1.1 per cent. of the Bank's total liabilities as at 30 June 2019, compared to 1.0 per cent. as at 31 December 2018 and 1.4 per cent. as at 31 December 2017. In absolute terms, subordinated debt securities issued by the Bank increased by KZT 2,368 million, or 2.9 per cent., to KZT 85,101 million as at 30 June 2019 from KZT 82,733 million as at 31 December 2018, after having decreased, in 2018, by KZT 26,349 million, or 24.2 per cent., from KZT 109,082 million as at 31 December 2017, and after increasing in 2017 by KZT 109,082 million, or 100.0 per cent. due to acquisition of KKB. The Bank did not issue any subordinated debt securities between 1 January 2016 and 30 June 2019.

As at 30 June 2019 the Bank's subordinated debt securities outstanding were comprised of the first issue registered under KKB's third bond programme in an aggregate principal amount of KZT 200,000 million maturing in October 2025 and listed on the KASE. As at date of this Offering Memorandum the total outstanding amount of this bond is KZT 101.1 billion, which is placed with JSC Unified Accumulative Pension Fund.

In the period between 1 January 2016 and 30 June 2019 the Bank made payments according to the schedule of repayment of the following subordinated debt securities:

- In April 2019, the Bank redeemed subordinated bonds issued in April 2009, with an initial placement amount of KZT 3,530 million. The repayment was made from the Bank's own funds;
- In November 2018, the Bank repaid subordinated bonds issued in November 2008 with an initial placement amount of KZT 10,000 million; and
- In November 2016, the Bank made a voluntary prepayment of KZT 5,000 million subordinated bonds issued in accordance with the legislation of the Republic of Kazakhstan with initial maturity in 2018, bearing a coupon of 13 per cent.

Contingent Liabilities and Other Off-Balance Sheet Arrangements

The Bank enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the business needs of its customers. These instruments, which include guarantees and letters of credit, expose the Bank to credit risk and are not reflected in the Bank's consolidated balance sheet. The Bank's maximum exposure to credit losses for guarantees and letters of credit is represented by the contractual amount of such transactions.

The table below provides details of the Bank's consolidated credit commitments, guarantees and commercial letters of credit as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		*(audited)*	
		(KZT millions)		
Guarantees issued	448,323	415,531	300,565	173,226
Commercial letters of credit	71,608	66,502	70,454	27,026
Commitments to extend credit	45,830	49,022	59,056	15,445
Financial commitments and contingencies	565,761	531,055	430,075	215,697
Less: cash collateral against letters of credit	(35,970)	(31,015)	(50,144)	(10,034)
Less: provisions	(4,695)	(2,546)	(16,098)	(987)
Financial commitments and contingencies, net	525,096	497,494	363,833	204,676

Net financial commitments and contingencies increased by KZT 27,602 million, or 5.5 per cent., to KZT 525,096 million as at 30 June 2019 from KZT 497,494 million as at 31 December 2018, primarily due to increase in the issued guarantees and commercial letters of credit, partially offset by an increase in cash collateral against letter of credit and provisions. In 2018, net financial commitments and contingencies increased by KZT 133,661 million, or 36.7 per cent., from KZT 363,833 million as at 31 December 2017, primarily due to the increases in guarantees issued and decreases in cash collateral against letters of credit, and in provisions, partially offset by the decrease in commitments to extend credit and, to a lesser extent, the decrease in commercial letters of credit. In 2017, net financial commitments and contingencies increased by KZT 159,157 million, or 77.8 per cent., from KZT 204,676 million as at 31 December 2016, primarily due to the increase in all balances of the structure of financial commitments and contingencies, partially offset by increases in cash collateral against letters of credit and provisions.

As at 30 June 2019, the top ten largest guarantees amounted to 62 per cent. of the Bank's total guarantees issued and represented 25 per cent. of the Bank's total equity, compared to 67 per cent. and 26 per cent., respectively, as at 31 December 2018, 46 per cent. and 15 per cent., respectively, as at 31 December 2017 and 70 per cent. and 18 per cent., respectively, as at 31 December 2016.

As at 30 June 2019, the top ten largest uncovered letters of credit represented 50 per cent. of the Bank's total commercial letters of credit and 3 per cent. of the Bank's total equity, compared to 55 per cent. and 3 per cent., respectively, as at 31 December 2018, 44 per cent. and 3 per cent., respectively, as at 31 December 2017 and 61 per cent. and 2 per cent., respectively, as at 31 December 2016.

The Bank's commitments to extend credit decreased by KZT 3,192 million, or 6.5 per cent., to KZT 45,830 million as at 30 June 2019 from KZT 49,022 million as at 31 December 2018 mainly due to a decrease in the Bank's commitments to extend credit on credit cards, partially offset by an increase in Moskom's commitments to extend credit (see "*Business of the Bank—Other Business Activities conducted through Subsidiaries—Foreign Banking Subsidiaries—Moskommertsbank*"). The Bank's commitments to extend credit decreased by KZT 10,034 million, or 17.0 per cent., in 2018 from KZT 59,056 million as at 31 December 2017 mainly due to the sale of 60 per cent. of the share capital of JSC Altyn Bank. (see "*Business of the Bank—Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—JSC Altyn Bank*"). The Bank's commitments to extend credit increased by KZT 43,611 million, or 282.4 per cent. in 2017 from KZT 15,445 million as at 31 December 2016 mainly as a result of the acquisition of KKB.

The following table sets out the residual maturity of the Bank's consolidated guarantees, commercial letters of credit and commitments to extend credit as at the dates indicated:

	As at 30 June 2019						
	Residual maturity of contingent liabilities						
	Total balance	Up to 30 days	One to three months	Three to six months	Six months to one year	Over one year	Overdue contingent liabilities
				(unaudited) *(KZT millions)*			
Guarantees issued	448,323	10,531	26,589	60,740	145,181	205,282	—
Commercial letters of credit	71,608	4,331	6,319	39,160	18,793	3,006	—
Commitments to extend credit	45,830	37,059	239	181	998	7,351	—
Total guarantees issued, commercial letters of credit and commitments to extend credit	565,761	51,921	33,147	100,081	164,972	215,639	—

Provisions for Contingent Liabilities

The Bank uses the same credit control and management policies in respect of off-balance sheet commitments as it does for its on-balance sheet operations.

The following table sets out the Bank's provisions for issued guarantees and letters of credit as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)		*(audited)* *(KZT millions)*	
Provision for commitments to extend credit	(56)	(161)	(74)	(92)
Provision for issued guarantees	(2,660)	(1,600)	(80)	(403)
Provision for letter of credits	(1,196)	(3)	(15,162)	(46)
Provisions	(782)	(782)	(782)	(445)
Total	(4,695)	(2,546)	(16,098)	(987)

Provisions for contingent liabilities increased by KZT 2,149 million, or 84.4 per cent., to KZT 4,695 million as at 30 June 2019 from KZT 2,546 million as at 31 December 2018, primarily due to an increase in provision for issued guarantees. In contrast, provisions for contingent liabilities decreased, in 2018, by KZT 13,552 million, or 84.2 per cent., from KZT 16,098 million as at 31 December 2017, after having increased by KZT 15,111 million, or 1,531.0 per cent., in 2017 from KZT 987 million as at 31 December 2016. The decrease in 2018 resulted primarily from improvement of the financial position of certain clients, while the increase in 2017 largely reflected the impairment of one of the clients.

Capital and Capital Adequacy

The Bank's total equity increased by KZT 61,949 million, or 5.8 per cent., to KZT 1,127,595 million (comprising 12.4 per cent. of total assets) as at 30 June 2019, from KZT 1,065,646 million (11.9 per cent. of total assets) as at 31 December 2018. This increase was largely a result of an increase in net income and other reserves as at 30 June 2019, compared to 31 December 2018 increase, which was, in turn, mainly attributable to an increase in net income.

In April 2019, the Bank announced the payment of dividends on its common shares in the amount of KZT 126.7 billion or KZT 10.78 per common share, as approved at the Annual General Shareholders' Meeting for the year ended 31 December 2018.

In 2018, the Bank's total equity increased by KZT 131,189 million, or 14.0 per cent., from KZT 934,457 million (10.5 per cent. of total assets) as at 31 December 2017, primarily as a result of increase in net income and other reserves as at 31 December 2018, compared to 31 December 2017, which was, in turn, mainly attributable to the net income earned for the year ended 31 December 2018. In April 2018, the Bank announced the payment of dividends on its common shares in the amount of KZT 6.31 per common share, as approved at the Annual General Shareholders' Meeting for the year ended 31 December 2017.

In 2017, the Bank's total equity increased by KZT 268,864 million, or 40.4 per cent., from KZT 665,593 million (12.4 per cent. of total assets) as at 31 December 2016. This increase was largely a result of increase in retain earnings and other reserves as at 31 December 2017, compared to 31 December 2016, which was, in turn, mainly attributable to the net income earned for the year ended 31 December 2017. In April 2017, the Annual General Shareholders' Meeting approved the proposal of the Bank's Board of Directors not to pay dividends on the Bank's common shares for the year ended 31 December 2016.

In April 2016, the Annual General Shareholders' Meeting approved the proposal of the Bank's Board of Directors to exchange the Bank's preferred shares (including preferred convertible shares) into common shares of the Bank. The Bank completed the exchange in June 2016 following payment of dividends to its preferred shareholders. As a result, as at 30 June 2016 the Bank's share capital was represented by 12,688,857,059 common shares, including 9,153,501,949 common shares in circulation on the KASE and 1,839,978,240 common shares belonging to GDR holders (1,693,258,947 shares were held as treasury shares by the Bank and 2,117,923 common shares were held by its consolidated subsidiaries).

In order to strengthen the requirements for bank capital, bank liquidity and bank leverage, the NBRK has since 1 January 2015 begun implementing the standards of the Basel Committee on Banking Supervision with respect to bank capital adequacy, stress testing and market liquidity risk (Basel III) in Kazakhstan. The process of transition to the new standards for the Kazakhstan banking sector is incremental and may take several years.

In this regard, the NBRK adopted new regulations regarding capital adequacy ratio and capital buffer requirements, most of which came into effect on 1 January 2015. As a result of these new requirements, all banks, except for systemically important banks (such as the Bank), must maintain k1, k1-2 and k2 ratios (comprising both capital adequacy and capital buffer requirements) of 6.0 per cent., 7.0 per cent. and 8.5 per cent., respectively, while the systemically important banks' requirements are 7.5 per cent., 8.5 per cent., and 10.0 per cent., respectively. In each case the requirements had been applicable until 31 December 2016. From 1 January 2017, new capital adequacy ratios, subject to the respective capital buffer requirements, have been increased to k1 of 7.5 per cent., k1-2 of 8.5 per cent. and k2 of 10 per cent. for regular commercial banks and up to k1 of 9.5 per cent., the k1-2 of 10.5 per cent. and k2 of 12.0 per cent. for systemically important banks (such as the Bank).

The following table sets out the Bank's capital adequacy and liquidity ratios calculated in accordance with the requirements of the NBRK as at the dates indicated:

	The NBRK's minimum requirements	**As at 30 June**	**As at 31 December**		
		2019	**2018**	**2017**	**2016**
	(unaudited, except share capital) *(%, except share capital, which is shown in KZT billions otherwise indicated)*				
Share capital	Not less than 10 billion	1,171.2	1,113.1	767.1	599.3
kl – Capital adequacy ratio	7.5 per cent.	19.7	19.7	21.5	19.2
k1-2 – Capital adequacy ratio	8.5 per cent.	19.7	19.7	21.5	19.2
k2 – Capital adequacy ratio	10 per cent.	21.5	21.6	21.4	19.2
k4 – Current liquidity ratio	Greater than 0.3	1.693	1.564	1.439	1.687
k4-1 – Term liquidity ratio	Greater than 1	4.978	5.661	3.193	3.210
k4-2 – Term liquidity ratio	Greater than 0.9	4.356	3.314	2.243	1.972
k4-3 – Term liquidity ratio	Greater than 0.8	3.624	2.433	2.023	1.819
k4-4 – Term foreign currency liquidity ratio	Greater than 1	9.391	8.219	11.593	4.714
k4-5 – Term foreign currency liquidity ratio	Greater than 0.9	6.888	2.840	5.120	2.403
k4-6 – Term foreign currency liquidity ratio	Greater than 0.8	4.733	1.997	4.192	2.481
k6 – Investments into fixed assets and non-financial assets to equity	Not more than 0.5 of bank's regulatory capital	n/a	n/a	n/a	n/a
k7 – short-term liabilities to non-residents	Not more than 1 of bank's regulatory capital	0.092	0.040	0.022	0.036
k8 – Liabilities to non-residents excluding (*inter alia*) debt securities	Not more than 2 of bank's regulatory capital	n/a	n/a	0.044	0.050
k9 – Liabilities to non-residents excluding (*inter alia*) debt securities	Not more than 3 of bank's regulatory capital	n/a	n/a	0.260	0.654

	The NBRK's minimum requirements	As at 30 June	As at 31 December		
		2019	2018	2017	2016
	(unaudited, except share capital) *(%, except share capital, which is shown in KZT billions otherwise indicated)*				
Maximum aggregate net long/(short) open foreign currency position	25 per cent. of bank's regulatory capital	-0.67	0.34	0.02	0.33
Maximum net long/(short) open position in U.S. Dollars	12.5 per cent. of bank's regulatory capital	-0.18	0.59	-0.04	0.39
Maximum net long/(short) open position in Russian Roubles	5 per cent. of bank's regulatory capital	-0.13	0.03	0.01	-0.02
Maximum aggregate on-balance sheet and off-balance sheet exposure to related parties	Must not exceed regulatory capital	2.4	2.2	0.70	8.8
Maximum exposure to any single:					
– unrelated party	Not more than 25 per cent. of bank's regulatory capital	10.6	16.4	20.2	16.9
– related party	Not more than 10 per cent. of bank's regulatory capital	2.3	2.2	0.5	0.9
– on unsecured loans	Not more than 10 per cent. of bank's regulatory capital	0.9	2.0	4.5	7.0
Funds placement into internal assets ratio	Not less than 1	1.028	1.030	1.071	1.042
Liquidity coverage ratio (from 1 September 2018)	Not less than 0.6	1.883	1.946	n/a	n/a
Net stable funding ratio (from 1 January 2019)	Not less than 1	1.435	n/a	n/a	n/a

The following table sets out certain information regarding the Bank's Tier I and Tier II capital and its risk-weighted capital adequacy ratio as at the dates indicated based on BIS Guidelines and the consolidated financial statements of the Bank:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)	*(audited)* *(KZT millions)*		
Common Equity Tier I capital (CET1) Capital	1,092,817	1,028,625	909,981	641,266
Tier I capital	1,092,817	1,028,625	909,981	641,266
Tier II capital	85,101	82,733	109,082	—
Total risk-weighted assets	5,976,138	5,549,906	5,395,725	3,303,428
Common Equity Tier I capital adequacy ratio (per cent.)	18.3	18.5	16.9	19.4
Tier I capital adequacy ratio (per cent.)	18.3	18.5	16.9	19.4
Total capital adequacy ratio	19.6	19.9	18.9	19.4
Total risk-weighted capital adequacy ratio(1)	19.7	20.0	18.9	19.4

Note:

(1) Total risk-weighted capital adequacy ratio is (a) Tier I and Tier II capital, divided by (b) total risk-weighted assets.

Starting from 1 January 2016, prudential norms of the NBRK, which apply certain principles and methods prescribed by Basel III committee, set minimum CET1 capital, Additional Tier I capital and total capital adequacy ratios at 7.5 per cent., 8.5 per cent. and 10.0 per cent., respectively, including buffers, which since 1 January 2017 have been raised to the level of 9.5 per cent., 10.5 per cent. and 12.0 per cent., respectively. Prior to 1 January 2016, Basel II standards set the minimum capital adequacy and the Tier I capital ratios at 8 per cent. and 4 per cent., respectively.

Return on Assets and Equity

The following table sets out certain selected financial ratios of the Bank for the periods indicated:

	For the six months ended 30 June		For the years ended 31 December		
	2019[5]	2018[5]	2018	2017	2016
	(unaudited)		*(KZT millions)*	*(audited)*	
Net profit	164,229	85,205	253,431	173,463	131,412
Average total assets[1]	8,959,121	8,361,154	8,495,679	6,771,414	4,656,092
Average common shareholders' equity[1][2]	1,100,711	843,794	911,993	764,882	589,812
Average common shareholders' equity/average total assets[1][2] (per cent.)	12.3	10.1	10.7	11.3	12.7
Return on average total assets[3] (per cent.)	3.7	2.1	3.0	2.6	2.8
Return on average common shareholders' equity[1][2][4] (per cent.)	29.8	20.4	27.9	22.7	22.3
Net profit attributable to common shareholders	164,229	86,174	254,238	173,362	131,412

Notes:

(1) Average amounts and ratios are based on monthly averages for the six months ended 30 June 2019 and 2018 and for the years ended 31 December 2018, 2017 and 2016. See "*—Average Balances and Rates*".

(2) Common shareholders' equity is total equity less non-controlling interest and preferred shares in share capital and share premium reserves.

(3) *Return on average total assets*: Performance measure. Return on average total assets comprises (x) net profit attributable to common shareholders for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(4) *Return on average common shareholders' equity*: Performance measure. Return on average total assets comprises (x) net profit attributable to common shareholders for the period divided by (y) average total assets for the period. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

(5) Annualised. The calculation reflects over six months multiplied by two. See "*—Average Balances and Rates*".

Average total assets increased by KZT 597,968 million, or 7.2 per cent., to KZT 8,959,121 million for the six months ended 30 June 2019 from KZT 8,361,153 million for the corresponding period in 2018, mainly due to an increased investment in securities, loans to customers and cash and cash equivalents. Average total assets increased by KZT 1,724,265 million, or 25.5 per cent., to KZT 8,495,679 million for 2018 from KZT 6,771,414 million for 2017, after having increased, in 2017, by KZT 2,115,323 million, or 45.4 per cent. from KZT 4,656,092 million for 2016. These year-on-year increases were, in each case, primarily due to an increase in average total investment securities (available-for-sale investment securities and debt securities at amortised cost, net of allowance for expected credit losses) and increase in average loans to customers.

Return on average total assets increased to 3.7 per cent. for the six months ended 30 June 2019 from 2.1 per cent. for the corresponding period in 2018, due to an increase in net income in the first six months of 2019. Return on average total assets increased to 3.0 per cent. for 2018 from 2.6 per cent. in 2017, and was 2.8 per cent. in 2016. The increase in 2018, compared 2017, was primarily due to an increase in net income earned in 2018, compared to 2017.

The Bank's average common shareholders' equity increased by KZT 256,917 million, or 30.4 per cent., to KZT 1,100,711 million from KZT 843,794 million for the corresponding period in 2018, and by KZT 147,276 million, or 19.3 per cent., to KZT 911,993 million for 2018 from KZT 764,717 million for 2017, after having increased by KZT 174,905 million, or 29.7 per cent., in 2017, from KZT 589,812 million for 2016, primarily due to an increase in retained earnings and other reserves, which, in turn, was attributable to an increase in the net income earned for the corresponding periods. The return on average common shareholders' equity increased to 29.8 per cent. for the six months ended 30 June 2019 from 20.4 per cent. for the corresponding period in 2018, largely due to an increase in average common shareholder's equity. The Bank's return on average common shareholders' equity increased in 2018, compared to 2017 and 2016, as result of the higher level of growth in net profit, which was attributable to an increase in the amount common shareholders earned in the corresponding periods (46.7 per cent. and 31.9 per cent. year-on-year, respectively), compared to an increase in average common shareholders' equity (19.3 per cent. and 29.7 per cent. year-on-year, respectively).

ASSETS, LIABILITIES AND RISK MANAGEMENT

General

The principal risks inherent in the Bank's business are liquidity risk, interest rate risk, foreign currency exchange rate risk, credit risk and operational risk. The Bank monitors and manages the mismatch of its maturities, the size and degree of its interest rate and foreign currency exchange rate exposure and its credit quality in order to minimise the effect of these risks on profitability, while seeking to ensure sufficient liquidity and capital adequacy. Through its asset and liability management, the Bank aims to structure its balance sheet to account for the principal risks it faces, as well as existing asset and liability positions and general market conditions.

The Bank's asset, liability and risk management functions are divided among the Management Board, the Assets and Liabilities Management Committee (the "ALCO"), credit committees located in branches and in the Head Office, the Credit Risks Department, the Financial Risks and Portfolio Analysis Department, and the Treasury Department. The Bank's asset and liability management policy is formulated by the Management Board and approved by the Board of Directors. The ALCO establishes major balance sheet guidelines for asset and liability management and, with the assistance of the Financial Risks and Portfolio Analysis Department and the Treasury Department, monitors compliance with such guidelines. The Financial Risks and Portfolio Analysis Department is also responsible for coordinating the establishment and development of the Bank's risk management systems in various departments, assessing and analysing associated risks, supervising the Bank's compliance with the prudential standards established by the NBRK and analysing the activities of other market participants.

The Bank's risk management department consists of two departments, the Credit Risks Department and the Financial Risks and Portfolio Analysis Department, both of which report directly to the Chief Risk Officer—Chief Compliance Controller and to the Chairman of the Management Board in order to promote independence from the business units. Units of these departments supervise different activities:

- the Financial Risks Unit is involved in the management of market, interest rate, liquidity and counterparty credit risks (e.g. country and financial institutions);
- the Operational Risks Unit develops the framework for operational risk management in the Bank;
- the Credit Risk Portfolio Analysis Unit is responsible for detailed credit portfolio analysis and reporting, as well as establishing and monitoring certain portfolio limits and provisioning procedures;
- the Credit Risks of Corporate Business Unit, the Credit Risks of Medium Business Unit, the Small Business credit decision Centre, the Credit Risks of Retail Business and Retail Business credit decision Centre are engaged in the credit risk management process in their terms of relevant business areas: large corporates, clients of the SME and retail sector. Apart from reviewing credit applications made to the Head Office and applications that exceed the approval limit of branch credit committees, units above are also closely involved in portfolio monitoring, policy-making activities and advising on product development.

The Branch and Head Office credit committees are responsible for managing credit risk. The Bank has the following authorised bodies:

- the Head Office Credit Committee for corporate clients;
- the Credit Committee for SME customers which is held in the Head Office;
- the Branch Network Credit Committee for small and medium businesses, based in the Branches;
- the Decision-Making Centre for loan applications in the retail business segment;
- the Decision-Making Centre for loan applications in the small business segment; and
- the Retail Credit Committee of the Head Office.

These authorised bodies of the Bank make decisions on loan applications based on their respective authorities and limits. See "*—Lending Policies and Procedures*".

The Bank's Head Office and branch credit committees also monitor the loan portfolios, which they initially approve, and they have the authority to designate problem loans when credit quality has deteriorated. All issues regarding problem loans are considered by the Problem Loans Committee of the Head Office and the branches, as applicable. The Problem Loans Committees of the branches operate within the limits and authorities established by the Problem Loans Committee of the Head Office. The Problem Loans Committees and Problem Loans Departments are responsible for the recovery of problem loans, including through restructuring of problem loans, collateral recovery, sales and other transfers of problem loans to third parties and debt write-offs.

As part of the integration of the Bank and KKB, their subsidiaries with similar business profiles have been reorganised. Subsidiary banks in Kyrgyzstan, Georgia, Tajikistan, Uzbekistan and Russia have credit procedures and committee structure similar to those of the Bank with various authority levels delegated to each committee.

The respective Board of Directors (or supervisory board, as the case may be) of each subsidiary bank sets its own lending limits, including country limits, currency limits, maturity limits and industry and economic sector limits, based on guidelines established by the Bank's Management Board for each subsidiary. The guidelines for lending limits of each subsidiary bank are reviewed and revised by the Bank's Management Board at least once a year.

Asset and Liability Management Committee (ALCO)

The ALCO has six members and is chaired by the Chairman of the Management Board. The ALCO reports directly to the Board of Directors. The ALCO is responsible for formulating and overseeing the implementation of the asset and liability management strategy of the Bank. The functions of the ALCO include regular monitoring of the Bank's balance sheet structure, capital adequacy, interest-sensitive assets and liabilities, maturity gaps, liquidity positions and certain characteristics of the loan portfolio, including loan interest rates, maturities, currencies and fee and commission structure relating to interest income, as well as interest income and expense on various assets and liabilities and the prevailing conditions in foreign currency and financial markets. The ALCO is also responsible for determining base interest rates on consumer and corporate loans and, together with the Head Office Credit Committee, sets overall interest rate levels and terms for both interest-earning assets and interest-bearing liabilities and takes decisions regarding maturities and pricing of assets and liabilities.

Funding and Liquidity

The Bank's funding and liquidity management policy is approved by the Management Board based on information provided by the various divisions of the Bank, including as to their projected funding and liquidity needs. In addition, the ALCO considers and approves various issues concerning funding and liquidity presented to it by the Treasury Department and other operating divisions, including the Bank's lending and deposit rates. The Bank's funding and liquidity policies are designed to deal with both ordinary course of business activities and contingency scenarios. In the ordinary course of its business, the Bank seeks to ensure that funding sources are well diversified and within internal funding targets. Under contingency scenarios, the Bank's policy seeks to ensure that the Bank has sufficient resources of liquidity (both existing liquid assets and access to sources of liquidity) to withstand a range of potential liquidity crises, without impairing its solvency and while maintaining normal levels of business, acceptable funding costs and sufficient access to customer and professional market funding, all in compliance with NBRK regulations. Customer accounts and deposits are the key sources of the Bank's funding. See "*Selected Statistical and Other Information—Funding Sources*".

The following table sets out certain information as to the Bank's liquidity as at the dates indicated:

	As at 30 June	**As at 31 December**		
	2019	**2018**	**2017**	**2016**
	(unaudited)	*(%)*		
Loans to customers before allowance for expected credit losses (excluding accrued income on loans)/total assets	41.0	41.2	38.6	46.0
Loans to customers before allowance for expected credit losses (excluding accrued income on loans)/amounts due to customers	59.8	56.5	55.8	64.4
Loans to customers before allowance for expected credit losses (excluding accrued income on loans)/total equity	329.6	346.3	366.3	369.9
Liquid assets[(1)]/total assets[(2)]	48.0	48.3	45.3	46.8
Liquid assets[(1)]/total amounts due to customers	69.9	66.3	65.4	65.5

Notes:

(1) Liquid assets consist of cash and cash equivalents, the NBRK notes, Treasury Bills of the Ministry of Finance of Kazakhstan, Treasury Bills of the governments of other countries, notes of national banks of other countries and bonds of quasi-sovereign banks.

(2) *Liquid assets/total assets*: Liquidity measure. Liquid assets consist of cash and cash equivalents, the NBRK notes, Treasury Bills of the Ministry of Finance of Kazakhstan, Treasury Bills of the governments of other countries, notes of national banks of other countries and bonds of quasi-sovereign banks. Liquid assets/total assets comprises (x) liquid assets divided by (y) total assets. See "*Selected Statistical and Other Information—Average Balances and Rates*" for explanation how average balances and rates were calculated.

Maturity Analysis

The following tables set out the Bank's financial assets and financial liabilities, by remaining period from the reporting date to the earliest of the contractual maturity date or available maturity date, as at the dates indicated, and contain certain information regarding the liquidity risk facing the Bank:

	As at 30 June 2019					
	Less than one month	One to three months	Three months to one year	One to five years	Over five years	Total
			(unaudited) (KZT millions)			
Financial assets:						
Cash and cash equivalents	2,110,149	1,035	—	—	—	2,111,184
Obligatory reserves	73,924	5,219	23,873	8,965	977	112,958
Financial assets at fair value through profit or loss	187,832	—	—	4,024	—	191,856
Amounts due from credit institutions	17,996	465	30,038	2,584	274	51,357
Financial assets at fair value through other comprehensive income	171,262	293,382	314,253	245,147	411,521	1,435,565
Debt securities at amortised cost, net of allowance for expected credit losses	79,576	337	4,515	504,749	500,767	1,089,944
Loans to customers	241,425	353,694	2,049,060	705,774	142,622	3,492,575
Other financial assets	28,379	3,782	2,009	45,197	14,637	94,004
Total financial assets	2,910,543	657,914	2,423,748	1,516,440	1,070,798	8,579,443
Financial liabilities:						
Amounts due to customers	2,798,989	300,195	2,124,822	505,139	491,318	6,220,463
Amounts due to credit institutions	334,352	238	11,889	17,616	112,608	476,703
Financial liabilities at fair value through profit or loss	9,962	—	—	1,895	—	11,857
Debt securities issued	5,576	3,785	74,781	517,409	301,985	903,536
Lease liabilities	3,280	—	—	222	—	3,502
Other financial liabilities	34,650	3,462	3,658	1,112	9	42,891
Total financial liabilities	3,186,809	307,680	2,215,150	1,043,393	905,920	7,658,952
Net position	(276,266)	350,234	208,598	473,047	164,878	
Accumulated gap	(276,266)	73,968	282,566	755,613	920,491	

	As at 31 December 2018					
	Less than one month	One to three months	Three months to one year	One to five years	Over five years	Total
			(KZT millions)			
Financial assets:						
Cash and cash equivalents	1,755,138	—	—	—	—	1,755,138
Obligatory reserves	72,066	7,396	21,505	11,296	3,478	115,741
Financial assets at fair value through profit or loss	89,418	—	91,252	6,166	—	186,836
Amounts due from credit institutions	21,195	4,187	26,766	2,398	489	55,035
Financial assets at fair value through other comprehensive income	678,181	270,338	173,678	313,840	329,896	1,765,933
Debt securities at amortised cost, net of allowance for expected credit losses	11,814	1,298	36,170	504,704	501,921	1,055,907
Loans to customers	243,746	355,008	2,026,943	677,369	178,013	3,481,079
Other financial assets	40,610	4,244	1,324	15,250	14,290	75,718
Total financial assets	2,912,168	642,471	2,377,638	1,531,023	1,028,087	8,491,387

	As at 31 December 2018					
	Less than one month	One to three months	Three months to one year	One to five years	Over five years	Total
	(KZT millions)					
Financial liabilities:						
Amounts due to customers	3,889,116	376,688	1,419,536	589,345	252,245	6,526,930
Amounts due to credit institutions	35,645	372	3,913	15,196	113,253	168,379
Financial liabilities at fair value through profit or loss	2,473	16	4,330	203	—	7,022
Debt securities issued	13,751	3,785	66,768	493,465	323,022	900,791
Other financial liabilities	21,005	2,475	2,654	864	14	27,012
Total financial liabilities	3,961,990	383,336	1,497,201	1,099,073	688,534	7,630,134
Net position	(1,049,822)	259,135	880,437	431,950	339,553	
Accumulated gap	(1,049,822)	(790,687)	89,750	521,700	861,253	

	As at 31 December 2017					
	Less than one month	One to three months	Three months to one year	One to five years	Over five years	Total
	(KZT millions)					
Financial assets:						
Cash and cash equivalents	1,746,100	34,448	—	—	—	1,780,548
Obligatory reserves	67,863	7,264	25,913	4,372	5,627	111,039
Financial assets at fair value through profit or loss	88,026	165	37,695	9,040	10,050	144,976
Amounts due from credit institutions	41,090	26,417	14,838	3,056	2,335	87,736
Available-for-sale investment securities	370,578	166,677	347,918	639,530	1,040,722	2,565,425
Loans to customers	297,204	276,167	1,911,598	598,089	168,044	3,251,102
Other financial assets	22,224	1,245	3,868	18,121	—	45,458
Total financial assets	2,633,085	512,383	2,341,830	1,272,208	1,226,778	7,986,284
Financial liabilities:						
Amounts due to customers	2,856,379	415,118	1,449,676	1,065,364	345,213	6,131,750
Amounts due to credit institutions	162,072	189	2,340	8,723	81,827	255,151
Financial liabilities at fair value through profit or loss	244	—	492	5,095	—	5,831
Debt securities issued	13,030	4,046	114,024	578,030	253,266	962,396
Other financial liabilities	31,529	3,034	3,370	260	12,180	50,373
Total financial liabilities	3,063,254	422,387	1,569,902	1,657,472	692,486	7,405,501
Net position	(430,169)	89,996	771,928	(385,264)	534,292	
Accumulated gap	(430,169)	(340,173)	431,755	46,491	580,783	

	As at 31 December 2016					
	Less than one month	One to three months	Three months to one year	One to five years	Over five years	Total
	(KZT millions)					
Financial assets:						
Cash and cash equivalents	1,774,519	—	—	—	—	1,774,519
Obligatory reserves	49,593	3,972	18,368	3,650	539	76,122
Financial assets at fair value through profit or loss	251,544	—	77,193	—	—	328,737
Amounts due from credit institutions	9,685	11,281	10,930	2,183	1,463	35,542
Available-for-sale investment securities	13,290	79,328	269,298	78,463	159,245	599,624
Loans to customers	146,771	236,233	1,526,644	286,133	123,802	2,319,583
Other financial assets	3,782	2,554	364	5	52	6,757
Total financial assets	2,249,184	333,368	1,902,797	370,434	285,101	5,140,884
Financial liabilities:						
Amounts due to customers	2,046,317	226,071	784,955	694,228	69,091	3,820,662
Amounts due to credit institutions	52,961	1,532	7,028	30,333	70,280	162,134
Financial liabilities at fair value through profit or loss	73	99	—	2,669	—	2,841
Debt securities issued	4,915	3,812	197,516	157,792	220,898	584,933
Other financial liabilities	11,527	354	1,887	189	25	13,982
Total financial liabilities	2,115,793	231,868	991,386	885,211	360,294	4,584,552
Net position	133,391	101,500	911,411	(514,777)	(75,193)	
Accumulated gap	133,391	234,891	1,146,302	631,525	556,332	

Assets and liabilities are recorded on the basis of their contractual maturity and payment schedules. The Bank has a right to unilaterally call back part of the long-term loans provided to customers subject to giving a ten-months' notice.

A significant portion of the Bank's liabilities is represented by customer term deposits, current accounts of corporate and retail customers and bonds.

Management believes that, despite the fact that a substantial portion of current accounts and customer deposits are on demand and mature in less than one month, diversification of such deposits by number and type of depositors, relying on the Bank's past experience, makes such deposits a long-term and stable source of funding for the Bank. Therefore, a substantial portion of current accounts is considered as stable resource for the purposes of liquidity analysis and management assessments.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments and financial results of the Bank. Interest rate sensitivity is the relationship between market interest rates and net interest income resulting from the repricing characteristics of assets and liabilities. The principal objective of the Bank's interest rate risk management activities is to enhance profitability by limiting the effect of adverse interest rate movements and increasing interest income by managing interest rate exposure. The Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities and off-balance sheet financial instruments, including any trading and investment securities, as well as commercial banking assets and liabilities.

Management believes that the structure of its statement of financial position, including the short-term structure of its principal assets and liabilities, reduces the Bank's exposure to interest rate risk. Although the relative maturities of the Bank's assets and liabilities give some indication as to the Bank's sensitivity to interest rate movements, it is an imprecise measure as it does not take account of the ability of the Bank to reprice its assets and liabilities. While the majority of its loans are at fixed interest rates, the Bank believes that its sensitivity to interest rate changes is largely reduced by the relatively short-term maturity (up to one year, with a right of the Bank to request early repayment) loans to customers, which comprise 75.7 per cent. of its total loans to customers as at 30 June 2019 (75.4 per cent. as at 31 December 2018) and its ability under the majority of its loan agreements to change the applicable rate of interest under certain circumstances. Furthermore, the Bank's standard form of loan agreement contains a condition allowing the Bank to call for early loan repayment in certain circumstances, subject to advance notice. Accordingly, although Kazakhstan laws and regulations governing fixed-rate retail loans do not permit banks, including the Bank, to adjust the interest rate during the first three years of the term of the loan, a substantial portion of the Bank's assets is re-priceable prior to maturity, which mitigates interest rate risk. In addition, the Bank has an interest rate gap limit, which is monitored by the risk management function and reported to the ALCO at least monthly and more frequently if there is cause for concern. As at the date of this Offering Memorandum, the Bank does not use derivative instruments to reduce its interest rate risk exposure.

Foreign Currency Risk Management

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows as its operations are conducted in both Tenge and foreign currencies, mainly U.S. Dollars and Euros. The foreign currency risk arises from the open currency positions, which are created due to the mismatch of foreign currency assets and liabilities.

The NBRK regulates and closely monitors the net open foreign currency position of banks. According to NBRK requirements, effective 1 September 2006, a bank's aggregate net open foreign currency position may not exceed 25 per cent. of its regulatory capital, while the open foreign currency position for any single currency of a country with a sovereign rating of "A" or better assigned by S&P may not exceed 12.5 per cent. of a bank's regulatory capital and the open short and long positions for any currency of a country with a sovereign rating lower than "A" by S&P may not exceed 5 per cent. of a bank's regulatory capital.

The NBRK defines an open currency position as an excess of a bank's liabilities over its assets in the same currency. When liabilities in one currency are larger than assets, the Bank runs a short position and vice versa. While a bank's position in each currency is calculated and monitored separately, the bank's net position is taken as the difference between the sum of all long positions and the sum of all short positions. In accordance with NBRK requirements, the Bank furnishes a weekly report on the maintenance of positions in each currency and net currency positions to the NBRK.

The ALCO controls the Bank's currency risk by setting guidelines for the Bank's open currency positions on the basis of estimated changes in the value of the Tenge against relevant foreign currencies and other macroeconomic indicators. To manage currency risks, the ALCO sets stop loss and expected short-fall limits, by currency, for the Bank's open currency positions. The Banking Operations Accounting Department performs daily monitoring of these limits; if the limits are violated, the Banking Operations Accounting Department immediately notifies both the risk management department and the Treasury Department. The risk management department uses the value-at-risk ("VaR") and expected shortfall ("ES") methodologies to calculate and manage its foreign currency exposure and open currency position and provides daily reports of VaR, ES and open currency position estimates to the Chief Risk Officer and, if the limits are violated, to the ALCO.

Foreign Currency Position

The following table sets out the Tenge-equivalent amount of financial assets and liabilities denominated in different currencies as at the dates indicated:

	As at 30 June 2019			As at 31 December 2018			As at 31 December 2017			As at 31 December 2016		
	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total	KZT	Foreign currencies	Total
		(unaudited)										
Financial assets:												
Cash and cash equivalents	872,856	1,238,328	2,111,184	335,699	1,419,439	1,755,138	517,915	1,262,633	1,780,548	83,688	1,690,831	1,774,519
Obligatory reserves	50,073	62,885	112,958	48,635	67,106	115,741	67,378	43,661	111,039	25,555	50,567	76,122
Financial assets at fair value through profit or loss	171,153	20,703	191,856	167,225	19,611	186,836	131,391	13,585	144,976	327,823	914	328,737
Amounts due from credit institutions	35,616	15,741	51,357	32,500	22,535	55,035	48,730	39,006	87,736	24,532	11,010	35,542
Financial assets at fair value through other comprehensive income	654,116	781,449	1,435,565	1,136,900	629,033	1,765,933	—	—	—	—	—	—
Debt securities at amortised cost, net of allowance for expected credit losses	1,079,308	10,636	1,089,944	1,044,939	10,968	1,055,907	—	—	—	—	—	—
Available for sale investment securities	—	—	—	—	—	—	1,967,977	597,448	2,565,425	338,850	260,774	599,624
Loans to customers	2,499,326	993,249	3,492,575	2,340,381	1,140,698	3,481,079	2,285,568	965,534	3,251,102	1,572,541	747,042	2,319,583
Other financial assets	86,104	7,900	94,004	66,277	9,441	75,718	38,873	6,585	45,458	5,839	918	6,757
Total Financial assets	5,448,552	3,130,891	8,579,443	5,172,556	3,318,831	8,491,387	5,057,832	2,928,452	7,986,284	2,378,828	2,762,056	5,140,884
Financial liabilities:												
Amounts due to customer	3,017,197	3,203,266	6,220,463	2,907,509	3,619,421	6,526,930	2,729,000	3,402,750	6,131,750	1,323,296	2,497,366	3,820,662
Amounts due to credit institutions	387,901	88,802	476,703	138,203	30,176	168,379	227,539	27,612	255,151	124,865	37,269	162,134
Financial liabilities at fair value through profit or loss	11,634	223	11,857	6,813	209	7,022	5,618	213	5,831	2,642	199	2,841
Debt securities issued	495,272	408,264	903,536	494,902	405,889	900,791	478,830	483,566	962,396	225,412	359,521	584,933
Other financial liabilities	40,776	5,617	46,393	23,862	3,150	27,012	34,413	15,960	50,373	12,267	1,715	13,982
Total Financial liabilities	3,952,780	3,706,172	7,658,952	3,571,289	4,058,845	7,630,134	3,475,400	3,930,101	7,405,501	1,688,482	2,896,070	4,584,552
Net position – on balance	1,495,772	(575,281)	920,491	1,601,267	(740,014)	861,253	1,582,432	(1,001,649)	580,783	690,346	(134,014)	556,332
Net position – off balance	(560,489)	642,932		(700,861)	798,278		(995,954)	1,039,976		(78,808)	154,785	
Net position	935,283	67,651		900,406	58,264		586,478	38,327		611,538	20,771	

Foreign currency denominated assets and liabilities are mainly in U.S. Dollars, but also include currencies from other OECD countries. The Bank's principal cash flows (revenues and operating expenses) are largely generated in Tenge and U.S. Dollars. As a result, future movements in the exchange rate between the Tenge and the U.S. Dollar, will affect the carrying value of the Bank's U.S. Dollar-denominated financial assets and liabilities.

The following table sets out certain information with respect to the total net open foreign currency position of the Bank as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	2018	2017	2016
	(unaudited)			
Net financial position in foreign currencies(1) U.S.$ millions)	177.78	151.65	115.33	62.32
Net financial position in foreign currencies(1) (KZT millions)	67,651.00	58,264.00	38,327.00	20,771.00
As a percentage of total capital(2)	5.82%	5.24%	3.76%	3.24%
As a percentage of total liabilities	0.85%	0.74%	0.48%	0.44%
As a percentage of total financial liabilities denominated in foreign currencies	1.83%	1.44%	0.98%	0.72%

Notes:

(1) Represents the Bank's exposure in foreign currencies to foreign currency exchange rate risk as shown in the Unaudited Interim Condensed Consolidated Financial Information and the Audited Financial Statements (as the case may be) incorporated by reference into this Offering Memorandum.

(2) Consolidated total capital (Tier I and Tier II, less investments as at 30 June 2019 and 31 December 2018, 2017 and 2016) is calculated in accordance with Bank for International Settlements ("BIS") Guidelines. See "*Management Discussion and Analysis of Financial Condition and Results of Operation—Capital and Capital Adequacy*".

As at the date of this Offering Memorandum, the Bank's open currency positions comply with the limits set by the NBRK.

During 2018, the Bank entered into certain swap arrangements with the NBRK to hedge its foreign currency exposure (see "*Selected Statistical and Other Information—Securities Portfolio—Financial Assets at Fair Value through Profit or Loss*").

Treasury Operations

To control the risks related to treasury operations, the risk management department has developed and documented internal policies, procedures and limits approved by either the ALCO or the Management Board.

The ALCO has delegated to the Treasury Department daily management of the Bank's liquidity, interest rate and foreign currency risks. There are three units within the Treasury Department: the Trading Desk, which is responsible for the investment and trading securities portfolios of the Bank, daily management of liquidity in all currencies, monitoring of open currency positions and sales of cash in foreign currencies; the Sales Desk, which advises the Bank's corporate clients on foreign exchange and interest rate hedging issues; and the Banknote Desk which is responsible for cash currency dealing.

In order to manage the Bank's positions and portfolios and help the Bank's clients with their risk management requirements, the Treasury Department deals with various types of money market instruments, ranging from plain-vanilla instruments to complex derivatives.

Credit Risk Management

The Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank limits the levels of credit risk it undertakes by imposing the following limits:

- credit limits on a single borrower (or a group of related borrowers), which are established for particular borrowers according to the regulatory requirements of the NBRK and following expert estimates of the relevant borrower's financial condition and creditworthiness, collateral, legal capacity, industry and market position, reputation, reason for borrowing and management experience;
- credit limits on a single borrower for the Head Office Credit Committees and the Branch Credit Committees;
- credit limits on certain types of lending programmes, which are based on market analysis by reference to the target segment of borrowers, the programme's requirements as to the creditworthiness of borrowers and the asset quality criteria of the lending programme;
- industry credit limits, which are based on market analysis and the quality of the Bank's loan portfolio; and
- country credit limits, which are based on the credit rating of a certain country and analysis of its macroeconomic indicators.

The exposure to a single borrower is restricted by sub-limits covering on and off-balance sheet exposures, which are recommended by the risk management department and set by the relevant credit committee depending on the type of borrower.

To minimise the Bank's credit risks, regular analysis of loan portfolio concentration by types and groups of borrowers, lending industries and lending programmes is performed. The Bank has developed and introduced a lending programme analysis which helps to determine their quality and effectiveness. The Bank has a credit risk monitoring system, which it applies to individual borrowers, as well as on an overall loan portfolio level. On the individual borrower (or group of borrowers) level, monitoring is carried out by the regular analysis of a borrower's financial condition, timely debt repayments, collateral sufficiency and target use of funds. At the loan portfolio level, monitoring is carried out by the analysis of various portfolio stress scenarios, as well as quality and structure of the loan portfolio. See "*—Lending Policies and Procedures*", "*—Loan Classification and Provisioning Policy*" and "*—Portfolio Supervision*".

Operational Risk Management

The Bank is exposed to operational risk, which is the risk of loss resulting from inadequacy or failure of internal processes, systems or human factors or from external events. Operational risk is attributed to all banking products, types of activity, processes and systems. Effective operational risk management is one of the key elements in the Bank's risk management system.

In particular, information technology and the impact of potential systems failures have become increasingly significant with the growth in the volume of transactions involving computers, servers and telecommunications networks. The Bank relies heavily on information systems to conduct its business and, accordingly, devotes substantial resources to ensure the development and reliability of its computer and related systems. The Bank is currently upgrading its information technology systems, with the aim of achieving greater automation of reporting systems and database integration and centralisation.

The Bank maintains a system of controls designed to monitor and control operational risk. The Bank's information technology-related activity is regulated by internal rules and procedures approved by the Management Board of the Bank. The Bank's information technology systems administration is controlled by the security division, which is independent from information technology management. Moreover, the Bank has back-up systems in place, including two fully-equipped disaster recovery centres in Almaty, as well as a third centre in Nur-Sultan. The Bank's management believes that its existing systems allow the Bank to adequately measure and monitor its exposure to liquidity, interest rate, foreign exchange and other market risks. See "*Business of the Bank—Information Systems*".

The Bank's operational risk management unit, part of the Bank's risk-management department, has developed and applies in its activity various operational risk-management tools including the following:

- The Bank estimates operational risks for new or significant changes to existing, products, services, systems and business processes, as well as significant changes to the Bank's corporate structure.
- The Bank regularly collects and analyses operational risk events.
- The Bank has key risk indicators and conducts self-assessments of risk. It is also introducing scenario and comparison studies.
- The operational risk management unit is a regular member of the Bank's working groups for various projects and issues related to minimising fraudulent actions, investigating losses incurred, establishing committees to analyse existing problems and setting up "risk zones" in order to minimise risks and develop risk-mitigating measures.
- In order to take timely and effective measures in case of an emergency the Bank has a business continuity system which includes statutory documents, infrastructure, competent personnel and other components designed to ensure continuous business activity. The Bank's business continuity infrastructure includes a disaster recovery site in Nur-Sultan and two alternative sites in Almaty. The Bank makes regular scheduled transfers of critical information to back-up servers.

Money Laundering Risk Management

One of the critical aspects of the fight against money laundering of illegal income and financing of terrorism are the development of mechanisms to prevent, at both the international and national levels. Combating the laundering of proceeds of crime is regarded now as a priority in the fight against organised crime in many countries and the global community as a whole. For Kazakhstan, occupying a special geopolitical place in the world with a dynamic market economy, being in a direct closeness from area with an intensive drug traffic and active terrorist activity, issues of counteraction to legalisation (laundering) of ill-gotten proceeds and terrorism financing sources is very actual.

The matters related to the fight against the money laundering of illegal income and financing of terrorism are regulated by the Law of the Republic of Kazakhstan "On the Prevention of Legalisation (Laundering) of Illegal Income and Terrorism Financing" dated 28 August 2009, as amended (the "AML Law"). See "*The Banking Sector in Kazakhstan*".

To comply with the requirements of the AML Law, the Bank developed internal control rules for anti-money laundering and countering financing of terrorism (the "AML/CFT Rules") approved by the Bank's Board of Directors on 30 March 2017 (amended on 28 March 2018), which apply across all of the Bank's branches and operations.

The AML/CFT Rules are intended to prevent the use of the Bank's financial or other resources for money laundering or financing of terrorism. The AML/CFT Rules include programmes for customer due diligence, AML/CFT risk management (using a risk-oriented approach), detection and reporting of suspicious transactions, data protection and AML/CFT staff training.

More particularly, the AML/CFT Rules prohibit the Bank from:

- establishing correspondent or other business relations with financial institutions that have not themselves implemented measures on AML/CFT;
- establishing correspondent or other business relations with shell banks or non-resident banks which, to the Bank's knowledge, provide services to shell banks;
- opening anonymous bank accounts (deposits) for customers.

The Bank in its activity, along with the requirements of AML Law shall be guided by international principles of combating legalisation (laundering) of criminal proceeds and countering the financing of terrorism, including the principles and recommendations of the Financial Action Task Force and the Basel Committee on Banking Supervision.

Lending Policies and Procedures

General

The Bank performs its activities in accordance with its lending policy and the strict regulatory requirements set by the NBRK. NBRK regulations limit a bank's exposure to any single borrower or group of borrowers to 10 per cent. of the bank's own capital for related parties, to 25 per cent. of the bank's own capital for non-related parties and to 10 per cent. of a bank's own capital for unsecured loans irrespective of whether the borrower is a related or non-related party. The Bank's lending policy, including rules and procedures governing the credit approval process, the credit process (which includes, among other things, checks on whether a borrower complies with NBRK prudential ratios or is included in any terrorist database) and methods and requirements for the ongoing appraisal of a borrower's credit-worthiness, are based on NBRK regulations, as well as internal rules and procedures established by the Management Board and approved by the Board of Directors.

Corporate and SME Loans

Decisions to grant loans to borrowers in regional branches are made by the Branch Credit Committee, the Small Business Project Decision Centre and the Branch Network Credit Committee of the Head Office, within the authority and credit limits determined by the Bank's Management Board. As at the date of this Offering Memorandum, the maximum insured limits are KZT 550 million for the Branch Credit Committee, KZT 75 million Small Business Project Decision Centre and KZT 5,000 million for the Branch Network Credit Committee is KZT 5,000 million.

As part of the procedures for reviewing financing applications from medium-sized businesses, project limits have been approved at the level of expert services of the Head Office:

- Department of credit analysis for projects from KZT 1,500 million
- Department of the credit risk for projects exceeding the branch limit
- Department for work with collateral on projects from KZT 750 million
- Department of security for projects that exceed branch limits and standards

The table below sets forth the respective authorities and credit limits for each of the Bank's credit committees:

Type of credit committee	Established limits	Comments
Head Office Credit Committee	Up to 5 per cent. of the Bank's total share capital	Loan applications exceeding the established limit are considered by the Bank's Board of Directors
Branch Network Credit Committee within the Head Office	Up to KZT 5,000 million (different limits established for different branches by the Management Board)	If any loan application exceeds the established limit, special approval for such loan is required from the Management Board
Branch credit committee	Up to KZT 550 million (different limits established for different branches by the Management Board)	Loan applications exceeding the established limit are considered by the Branch Network Credit Committee within the Head Office
Decision Making Centre for small business segment	Up to KZT 75 million	Loan applications exceeding the established limit are considered by the Branch credit committee or by the Branch Network Credit Committee within the Head Office

The risk management division, with staff located in both the Head Office and each branch, undertakes an analysis of each credit application, including carrying out feasibility studies, financial analysis and an assessment of the financial standing and reputation and experience of the potential borrower, and prepares its recommendations on each application in terms of overall risks related to the project, the borrower, and the related industry sector in which the borrower operates. The credit analysis takes a number of factors into consideration, including (i) the ability to repay, (ii) the financial statements, cash flows and financial condition of the borrower, (iii) the value of any collateral (including the appraisal made by an independent appraisal company), (iv) the management of the borrower, (v) the purpose of the loan, (vi) the loan documents (from a legal perspective), (vii) the borrower's business reputation and (viii) the current state of the industry in which the borrower operates. Information on the borrower is obtained from various external sources, as well as the Bank's own database. The Legal Department makes a legal assessment of the collateral being offered, including the valuation, legality and enforceability. The Bank also employs independent legal advisers and appraisers, from time to time, to review the loan agreements and other legal documentation involved in the lending process and to make an independent assessment of the value of any collateral.

The risk analyst rating model was introduced in 2007 to calculate credit rating and associated probability of default, primarily for Corporate and Large SME borrowers. For further details on these borrowers, see "*Business of the Bank—Principal Business Activities—Corporate banking*" and "*Business of the Bank—Principal Business Activities—SME banking*". Approved ratings are generally used for credit decision-making purposes, as one of the expected credit losses criteria, for overall monitoring and for stress testing the credit portfolio. The rating process was initially implemented in the Corporate segment, and since 2016 it has been used for Large SME clients in all branches of the Bank. It has also been introduced at all Bank's subsidiaries. According to the general standards, the rating model should be periodically validated, and the last validation was successfully performed in August 2019. In August 2018, a new lending process was launched at all branches of the Bank using SPM software called the Small Business Loan Application Decision Centre. This entity is comprised of employees of the Small Business Credit Risk Department and is a permanent authorised body of the Bank whose main task is to implement the Bank's internal credit policy to provide and maintain small business financial instruments (excluding blank tender guarantees) using a standardised decision-making system within the established limits (since 2018, the Centre's limit is up to KZT 75 million) and authority.

Retail Loans

Collateral-based lending: Loan applications from individuals for collateralised loans (including mortgages, auto loans and consumer loans secured by real estate), where information is required on income, collateral, purpose and terms of the lending, as well as information on co-borrowers and guarantors (if applicable), are primarily initiated by retail managers. Prior to sending an application to the next level, retail managers perform automatic checks via internal data bases (to identify negative information about a borrower, its current accounts and affiliated parties) and external data bases including the credit bureau and state pension payment centre). Having performed all checks and collected all the necessary documents and expert opinions from the security, evaluation and legal services, the retail manager will then fill in a loan application via the special software of the Decision-making Centre ("DMC"). The DMC performs underwriting and analyses risks related to loan applications and the credit track-record of the client via internal data bases and credit bureau reports. At this stage, the DMC specialist may request additional information or documents.

The DMC is an authorised body of the Bank making decisions on retail loan applications within its authorities and credit limits**.** If the terms and conditions in a particular loan application exceed limits and/or authorities the decision on whether to grant the loan is made by the Retail Credit Committee of the Head Office, which is entitled to make decisions on consumer loans up to KZT 15 million and on mortgage loans up to KZT 200 million.

Payroll-based lending: Payroll-based lending is the main type of lending in the retail business. Loan amounts, tenors and interest rate are determined based on income level, debt to income ratio, credit track-record, as well as a number of other parameters, with maximum loan amounts of up to KZT 6 million and a maximum tenor of 60 months. The terms of these loans provide that the Bank has the right to deduct amounts due from the borrower's salary credited to its account.

All payroll lending applications are processed in an automated software module. The application undergoes automatic checks via an internal data base (to identify, *inter alia,* negative information about a borrower, current accounts and affiliated parties) and external data bases (credit bureau, state pension payment centre). All non-standard applications and some standard applications are subject to random verification in accordance with the established Bank's criteria. If approved, the electronic application is further checked by the Retail Loans Administration Service and the Accounting of Loans to Individuals Service, and the funds are credited to the borrower's account.

If a particular loan application is missing certain information about a borrower or does not contain standard terms and conditions, it is transferred to the DMC. If the credit limits and powers of the DMC are exceeded or if the conditions of the loan are particularly unusual, the decision to grant the loan is taken by the Retail Credit Committee of Head Office.

Unsecured lending to non-payroll-based customers: The Bank provides unsecured products for individuals who are not employees of companies that are not parties to the salary project. The terms of the programme provide that a loan applicant must confirm his or her income. The loan amount, tenor and interest rate are determined based on the client's scoring and his or her estimated risk of default. The maximum loan amount under the programme is KZT 5 million and the maximum tenor is 60 months.

Within the framework of the programme, the Bank uses a scoring model which assesses the credit capacity of retail borrowers. The model involves risk ranking based on the statistical probability of a borrower's default and applies risk-based pricing, as well as taking into account changes in the economic environment. Upon receipt of the necessary documents, retail lending managers initiate the loan application via a special software module. All applications of non-payroll customers undergo a customer verification procedure in accordance with the established Bank's criteria. If approved, the electronic application is further checked by the Retail Loans Administration Service and the Accounting of Loans to Individuals Service and the funds are credited to the borrower's account.

If a particular loan application is missing certain information about a borrower or does not contain standard terms and conditions, it is transferred to the DMC. If the credit limits and powers of the DMC are exceeded or if the conditions of the loan are particularly unusual, the decision to grant the loan is taken by the Retail Credit Committee of the Head Office.

Collateral Policies

The Bank seeks to reduce its credit risk by requiring collateral from most of its borrowers. In particular, most corporate loans and all retail loans, excluding consumer loans made under the salary programme, are collateralised. Collateral on loans extended by the Bank includes, but is not limited to, real estate, machinery and motor vehicles, ships, industrial equipment, industrial goods, food stock and other commercial goods, receivables and individual property rights, as well as cash deposits, securities and individual third party and corporate guarantees. The Bank estimates the fair value of the collateral provided and regularly monitors the quality and safekeeping of the collateral taken as security. In certain cases, additional collateral may be sought from the borrower. The value of collateral accepted against a loan depends on the type of collateral, as set forth in the following table, which sets out the maximum acceptable value levels as a percentage of the fair value of collateral:

Collateral categories	Loan/collateral value
Cash	up to 100%
Government debt securities	up to 90%
Equity securities	up to 80%
Real estate	up to 70%
Fixed assets	up to 70%
Commodities	up to 50%
Guarantees from financial institutions, third party and corporate guarantees	on a case-by-case basis

The Bank believes that it has a satisfactory record in realising collateral against defaulted loans. The Bank generally attempts to enforce its rights to security through out-of-court procedures where possible. In particular, the Bank takes immediate steps to issue notices of default and to carry out the subsequent sale of any pledged collateral either in reliance on its legal rights or with the co-operation of the borrower. If necessary, the Bank will seek to obtain repayment by sequestration of a debtor's property or funds held in accounts with other banks in a court of law.

Loan Classification and Provisioning Policy

General

The Head Office Credit Committee is responsible for monitoring the Bank's loan portfolio and establishing allowances and provisions in relation thereto based on reports provided by the risk management department. In order to establish adequate allowances, loans are classified by their perceived risk profile in accordance with the Bank's policy and the requirements of IFRS. The risk management department also conducts evaluations of other assets and off-balance sheet contingent liabilities.

Classification and Provisioning Guidelines

From 1 January 2018, the Group started applying IFRS 9 Financial Instruments, which replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement. The Bank forms expected credit losses provisions in accordance with IFRS 9 and Resolution of the Management Board of the NBRK No 269 dated 22 December 2017 "On Approval of Rules for Creating Provisions (Reserves) in accordance with International Financial Reporting Standards and the legislative requirements of the Republic of Kazakhstan on accounting and financial reporting".

Impairment

Calculation of financial assets impairment is carried out taking into account the following factors:

- In order to calculate the ECL, the Bank performs loan assessment on an individual basis and on a group-basis depending on general credit risk features.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.
- Calculations are based on justified and verified information, which may be received without any significant costs or efforts. Calculation of the present value of the expected future cash flows of the secured financial asset reflects the cash flow that may result from foreclosure, less the cost of obtaining and selling collateral, regardless of whether the recovery is probable or not. The allowance is based on the Group's own experience in assessing losses and management assumptions about the level of losses likely to be recognised on assets in each category of a credit risk, based on debt servicing capabilities and borrower's credit track record.

- Impairment for treasury operations (investments in debt securities, reverse repurchase transactions, interbank loans and deposits, correspondent account transactions, accounts receivable under treasury transactions) is calculated taking into account the counterparty's rating, probability of default, duration of a transaction and the extent of loss in case of a default.
- The estimated credit losses for treasury operations are estimated on an individual basis (except for individual claims in the form of receivables).

Financial assets are segmented by stages in accordance with the following approach:

- Stage 1: There is no significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the next 12 months;
- Stage 2: Significant increase in credit risk since recognition of an asset, impairment is recognised as expected losses over the life of a financial asset;
- Stage 3: Financial asset is in default or has signs of impairment.

Allowances for expected credit losses

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e., lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e., lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Credit-Impaired Financial Assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event; instead the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more. The decision to use cross-default is based on a case-by-case assessment of the client's facility conditions such as collateral and materiality of exposure.

The amount of expected credit losses is estimated as the sum of the estimated provision equal to the credit losses expected within 12 months (for Stage 1 assets) or during the whole loan period (for Stage 2 and Stage 3 assets). The asset moves to Stage 2 when there is a significant increase in credit risk from the moment of initial recognition. Under IFRS 9, there is no definition for significant increase in credit risk. When assessing the significance of the increase in credit risk for an individual asset, the Group takes into account both qualitative and quantitative forecasts that are reasonable and can be confirmed.

Determining the number and relative weight of forecast scenarios for each type of product/market and determining forecast information related to each scenario.

For treasury operations, the Bank calculates ECL on a financial asset based not only on the current estimates of the credit quality of the counterparty/issuer at the reporting date, but also taking into account possible deterioration of the financial condition due to the adverse macroeconomic factors of the counterparty's/issuer's environment in the future. In particular, the level of ECL for treasury operations is affected by the rating outlook (positive, stable, negative) assigned by international rating agencies, which affects the probability of default ("PD").

For bank loans, the calculation of ECL takes into account the possible estimated effects of changes in macroeconomic parameters on forecasted cash flows, migration of collective loans and collateral coverage.

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The key inputs used for measuring ECL are:

- Probability of default ("PD");
- Loss given default ("LGD"); and
- Exposure at default ("EAD").

Probability of Default

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

PD for treasury operations is determined according to the default study from international rating agencies (S&P, Fitch, Moody's), which publish tabular data with the values of the probabilities of default. The probabilities of default are maintained up to date and are updated on a periodic basis as the default statistics are updated.

PD for individually assessed loans of corporate, small and medium businesses is estimated using an internal rating model based on the quantitative and qualitative characteristics of the borrower. The calculation of PD on loans assessed on a collective basis is carried out on the basis of historical data using the migration matrices and roll-rates.

Loss Given Default

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

LGD for treasury operations is determined according to the default study data from international rating agencies (S&P, Fitch, Moody's) and depends on the type of debt on the financial asset: senior secured/unsecured, subordinated, sovereign. In addition, LGD may be adjusted if collateral is provided for the asset, as well as if there are indications of impairment for the financial asset (Stage 2 or Stage 3).

LGD for collectively assessed loans is calculated based on an estimate of the recoverability of debt in case of the pledged collateral sale with a discount period that corresponds to the pledged collateral implementation terms.

Exposure at Default

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

Establishing Groups of Assets with Similar Credit Risk Characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Purchased or Originated Credit-Impaired ("POCI") Financial Assets.

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain (recovery of credit loss expense).

The table below sets out a reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018:

		As at 31 December 2017			As at 1 January 2018	
	IAS 39 Measurement Category	IAS 39 Carrying Amount	Re-Classification	Re-Measurement (ECL and Other)	IAS 39 Carrying Amount	IFRS 9 Measurement Category
Cash and cash equivalents	Loans and receivables	1,780,548	—	(10)	1,780,538	Amortised cost
Amounts due from credit institutions	Loans and receivables	87,736	—	(334)	87,402	Amortised cost
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	AFS[(1)]	2,565,425	(1,006,110)	(15,503)	1,543,812	FVTOCI[(2)]
Debt securities at amortised cost, net of allowance for expected credit losses (2017: available-for-sale investment securities)	AFS[(1)]	—	1,005,817	(8)	1,005,809	Amortised cost
Loans to customers	Loans and receivables	3,251,102	—	(38,008)	3,213,094	Amortised cost
Other assets	Loans and receivables	68,129	293	(1,825)	66,597	Amortised cost
Provisions on commitments and contingencies	—	(16,098)	—	(2,353)	(18,451)	—
Current income tax asset related to IFRS 9 adoption				3,178		
Total after-tax impact of IFRS 9 adoption				(54,863)		

Notes:

(1) Available-for-sale investment securities

(2) Fair value through other comprehensive income

Key differences in moving from IAS 39 to IFRS 9 on allowance for impairment losses:

	As at 31 December 2017		As at 1 January 2018
	IAS 39, Allowance for impairment losses	**Increase in expected credit losses**	**IFRS 9, Allowance for expected credit losses**
Cash and cash equivalents	—	(10)	(10)
Amounts due from credit institutions	—	(334)	(334)
Financial assets at fair value through other comprehensive income (2017: available-for-sale investment securities)	(2,453)	(246)	(2,699)
Debt securities at amortised cost, net of allowance for expected credit losses (2017: available-for-sale investment securities)	—	(8)	(8)
Loans to customers	(317,161)	(38,008)	(355,169)
Other assets	(5,921)	(1,825)	(7,746)
Provisions on commitments and contingencies	(16,098)	(2,353)	(18,451)

The main increase in allowance for expected credit losses on 1 January 2018 is due to the recognition of expected credit losses on Stage 1 and Stage 2 loans to customers.

The table below includes data about the different categories of impaired loans at the dates indicated:

Loans to customers comprise:

	31 December 2018	31 December 2017	31 December 2016
Originated loans to customers	3,869,005	3,547,621	2,602,381
Overdrafts	21,867	20,642	1,954
	3,890,872	3,568,263	2,604,335
Stage 1	2,984,812	n/a	n/a
Stage 2	142,664	n/a	n/a
Stage 3	671,406	n/a	n/a
POCI	91,990	n/a	n/a
Total	3,890,872	n/a	n/a
Less – Allowance for expected credit losses (Note 24)/(2017-2016: Allowance for impairment losses)	(409,793)	(317,161)	(284,752)
Loans to customers	3,481,079	3,251,102	2,319,583

Analysis of Loan Portfolio

In 2009, the Bank introduced a new internal model to classify loans into different risk categories. This model was enhanced and improved in 2015.

Following an impairment event, the model assists the Bank in estimating the allowance for loan loss based on the borrower's financial performance, credit history, quality of accounts receivable, liquidity, market risks, industry and other factors. Information inputted into the system and the estimate of the allowance for loan loss is verified by the Risk Management division of the Bank.

The following classifications are used by the rating model:

- Rating score 1 – superior loan rating, minimal credit risk;
- Rating score 2 – very high quality of loan, very low credit risk;
- Rating score 3 – high quality of loan, low credit risk;
- Rating score 4 – satisfactory quality of loan, insignificant risk;
- Rating score 5 – credit risk can increase at economic variation;

- Rating score 6 – high risk at economic variation;
- Rating score 7 – high risk of default, paying capacity of the borrower depends on favourable economic circumstances; and
- Rating score 8-10 – very high risk of default/default.

Pools of homogeneous loans—loans to customers are included in groups of loans with similar credit risk characteristics (i.e., the characteristics include sector of the economy, borrower activities, type of loan program, level of defaults, internal ratings and other factors). Pools of homogeneous loans include assets that have been assessed collectively.

The following tables set out information on the credit quality of the Bank's gross loan portfolio according to the Bank's internal ratings, with loans assessed on a collective basis shown separately, and related allowances for impairment, as at the dates indicated:

	31 December 2018				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
1-3	—	—	—	—	—
4	185,482	—	—	—	185,482
5	793,568	8,898	469	—	802,935
6	550,901	22,726	7,171	14,391	595,189
7	231,398	70,653	156,687	6,633	465,371
8-10	—	—	132,233	55,339	187,572
Loans to corporate customers that are individually assessed for impairment	1,761,349	102,277	296,560	76,363	2,236,549
Loans to SME customers and retail business that are individually assessed for impairment	409,942	13,741	141,645	15,627	580,955
Loans to customers that are collectively assessed for impairment	813,521	26,646	233,201	—	1,073,368
	2,984,812	142,664	671,406	91,990	3,890,872
Less – allowance for expected credit losses (Note 24)	(43,516)	(28,716)	(322,917)	(14,644)	(409,793)
Loans to customers	2,941,296	113,948	348,489	77,346	3,481,079

The allowance for expected credit losses increased by KZT 6,888 million, or 1.7 per cent., to KZT 416,681 million as at 30 June 2019, from KZT 409,793 million as at 31 December 2018 mainly due to recognition of allowances within normalized cost of risk. The ratio of allowance for expected credit losses to total gross loans increased to 10.7 per cent. of total loans as at 30 June 2019 compared to 10.5 per cent. as at 31 December 2018.

Portfolio Supervision

The risk management department provides monthly reports to the Management Board detailing all aspects of the Bank's lending activities. These reports contain details on the volume of non-performing loans, including loans on which certain payment amounts are overdue and loans on which the full loan amount is overdue.

Non-Performing Loans

The following table sets out information as to the Bank's non-performing loans, including as a percentage of the Bank's total unconsolidated gross loan portfolio, as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Non-performing loans 90+[(1)]	324,449	8.7	317,138	8.5	430,434	12.1	256,056	10.2

Note:

(1) (Total principal amount of loans and accrued interest with principal and/or interest overdue by more than 90 days)/gross loan portfolio, unconsolidated (Bank only). Non-performing loans that had been transferred to LLC Halyk Project at the relevant date are not included in this table. See "—*Management of Distressed Assets Through Transfer to SPVs*".

As at 30 June 2019 loans overdue by more than 90 days increased to 8.7 per cent. compared to 8.5 per cent. as at 31 December 2018. This increase was primarily due to some indebtedness of previously impaired corporate borrowers becoming overdue.

Based on the Bank's data, as at 30 June 2019, the Bank's total non-performing loans were attributable to corporate loans, SME loans and retail loans:

- *Corporate loans*: corporate non-performing loans comprised 42.3 per cent. of the total non-performing loans. The non-performing loan ratio for the corporate loans category increased to 5.8 per cent. as at 30 June 2019 from 5.2 per cent. as at 31 December 2018. The non-performing loan provision coverage for corporate loans increased to 157 per cent. as at 30 June 2019 from 132 per cent. as at 31 December 2018.
- *SME loans*: SME non-performing loans comprised 22.5 per cent. of the total non-performing loans. The non-performing loan ratio for the SME loans category decreased to 14.2 per cent. as at 30 June 2019 from 14.9 per cent., as at 31 December 2018. The non-performing loan provision coverage for SME loans increased to 66 per cent. as at 30 June 2019 from 64 per cent. as at 31 December 2018.
- *Retail loans*: Retail non-performing loans comprised 35.2 per cent. of the total non-performing loans. The non-performing loan ratio for the retail loans category increased to 12.2 per cent. as at 30 June 2019 from 13.3 per cent., as at 31 December 2018. The non-performing loan provision coverage for retail loans increased to 90 per cent. as at 30 June 2019 from 89 per cent. as at 31 December 2018.

Allowance for Expected Credit Losses by Type of Borrower

The following table sets out the allocation of the allowance for expected credit losses between the legal entities and individuals, both in nominal terms and as a percentage of the Bank's allowance for expected credit losses to customers, as at the dates indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	(KZT millions)	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*	*(KZT millions)*	*(%)*
Legal entities	317,310	76.15	316,951	77.34	243,369	76.73	211,077	74.13
Individuals	99,371	23.85	92,842	22.66	73,791	23.27	73,675	25.87
Allowance for expected credit losses	416,681	100.0	409,793	100.0	317,161	100.0	284,752	100.0

Restructured Loans

The Bank attempts to restructure loans when customers are experiencing financial difficulties and when the loan would become overdue if not restructured. For such customers, the Bank may extend the initial maturity of a loan, amend the repayment schedule, or apply to state support programmes in order to reduce the debt burden and to match the debt servicing capacity of the customer with its cash flows.

Restructured loans are not included in non-performing loans. Restructured loans are considered to be performing, unless a customer fails to perform according to the restructured terms and the loan becomes overdue. Upon such an event, the restructured loan would become overdue and would be classified as a non-performing loan and no longer be classified as a restructured loan.

As at 30 June 2019 and 31 December 2018, 2017 and 2016, loans to customers included loans of KZT 320,872 million and KZT 417,619 million, KZT 340,445 million and KZT 149,024 million, respectively, whose terms had been renegotiated, representing 8.2 per cent. of total gross loans to customers as at 30 June 2019 compared to 10.7 per cent. as at 31 December 2018, 9.5 per cent. as at 31 December 2017 and 5.7 per cent. as at 31 December 2016.

Write-Off Policy

During the six months ended 30 June 2019 and the years ended 31 December 2018, 2017 and 2016, the Bank wrote off loans of KZT 17,095 million, KZT 111,758 million, KZT 37,215 million and KZT 44,793 million, respectively, without considering them as a forgiveness of the loan. The increase in 2018 was primarily attributable to a write-off of KKB's previously impaired loans. Following changes introduced from 1 January 2014, the Tax Code allows the writing-off of bad debts without considering them as forgiveness of the loan and therefore not subjecting them, for tax purposes, to corporate income tax.

Management of Distressed Assets Through Transfer to SPVs

The transfer of a distressed asset to LLC Halyk Project, LLC KUSA KKB – 1, LLC Halyk Aktiv and LLC Halyk Aktiv-1 (collectively, "**SVPs**") generally results in the Bank reclassifying that asset as property, equipment and assets held for sale. Once the distressed asset has been transferred, it is expected that LLC Halyk Project will turn the asset into its own property within a short period of time such that provisions will cease to accrue on the related loan. These property, equipment and assets held for sale may then be sold or kept with a view to deriving income from it, such as rental revenues in the case of commercial property. The cash flows from the sale or income go towards repaying the loan and restoring provisions. If, however, the SVPs fail to become the owner of the transferred asset, which occurs in a small minority of cases, then provisions will continue to accrue. And because the loan has not been turned into property, it will consequently continue to be reflected as a loan on the SVPs's books and those of the Bank and will not be reclassified

During the years ended 31 December 2018, 2017 and 2016 the Group received financial and non-financial assets by taking possession of collateral it held as security. As at 31 December 2018, 2017 and 2016 such assets in the amount of KZT 46,355 million, KZT 142,833 million, and KZT 2,726 million, respectively, were included in assets held for sale.

THE BANKING SECTOR IN KAZAKHSTAN

Regulation

The Bank is subject to numerous laws and regulations governing banking activities in Kazakhstan as well as a number of laws and regulations in Kazakhstan that regulate, among other matters, payment services, anti-money laundering, data protection and information security. There Bank is also subject to regulation on insurance, brokerage and dealer activities that applies to certain of its subsidiaries. In addition, the Bank is subject to laws and regulations in other jurisdictions where it operates.

Regulation of Banking Activities

Kazakhstan has a two-tier banking system, with the NBRK comprising the first tier and all other commercial banks comprising the second tier (with the exception of the Development Bank of Kazakhstan, which as a state development bank has a special status and belongs to neither tier). Generally, all financial institutions in Kazakhstan are required to be licenced and regulated by the NBRK. From 2004 to April 2011, licensing and regulation functions were carried out by the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organisations (including its respective successors). The respective functions are carried out by the NBRK from April 2011 until the end of 2019. Starting from 1 January 2020, these functions will be carried out by the Agency of the Republic of Kazakhstan on Regulation and Development of Financial Markets (see "*New Agency*" below)

The NBRK

The NBRK is the central bank of Kazakhstan and the state authority performing state regulation, control and supervision of the financial market and financial organisations. Although the NBRK is an independent institution, it reports directly to the President of Kazakhstan. The NBRK is empowered to develop and conduct monetary policy, ensure the functioning of payment systems, conduct currency regulation and control and assist in ensuring the stability of the financial system and price stability in Kazakhstan.

The NBRK is responsible for most of the supervisory and regulatory functions in the financial sector. The NBRK is empowered, among other things, to licence financial institutions, to approve prudential standards for them, to approve the financial reporting requirements for financial institutions and to monitor the activities thereof, to apply sanctions where necessary, and to participate in the liquidation of financial institutions.

Furthermore, under the Kazakhstan Law "On Provision of Pensions" dated 21 June 2013 (as amended) (the "Pension Law"), the NBRK was appointed as the custodian bank and trust manager of shares and assets of the JSC Unified Accumulative Pension Fund, to which all pension assets and liabilities of Kazakhstan's pension funds were transferred in 2014 under the Pension Law.

Responsibility for the supervision of compliance with anti-monopoly legislation within the banking sector in Kazakhstan lies primarily with the country's competition agency, with the exception of certain issues of anti-monopoly regulation that fall under the joint purview of the competition agency and the NBRK, including transactions above certain asset value thresholds that require prior consent of the competition agency. Such thresholds for the purposes of regulated financial organisations are established jointly by the competition agency and the NBRK.

The Law of the Republic of Kazakhstan No. 2155 "On the National Bank of the Republic of Kazakhstan", dated 30 March 1995 (as amended), sets forth the legal framework relating to the NBRK's status, organisational structure and competence.

Starting from 1 January 2019, the NBRK is entitled to use "motivated" judgment in the course of its controlling and supervising activities and apply appropriate supervisory response measures.

New Agency

According to the new legislation adopted on 3 July 2019, from 1 January 2020, the NBRK's regulatory and supervisory powers over the financial markets and financial organisations will be transferred to a new governmental agency called the Agency of the Republic of Kazakhstan on Regulation and Development of Financial Markets ("AFM"), which is currently being established. As such, the AFM will be responsible for regulation and supervision of the financial markets and financial organisations. As a central bank, the NBRK will retain its role in developing monetary credit policy, currency regulation and control and payment systems. The AFM will be responsible for exercising control and supervision over the banks' compliance with applicable payments and payment system regulation.

The Banking Law

The Law of the Republic of Kazakhstan No. 2444 "On Banks and Banking Activity in the Republic of Kazakhstan", dated 31 August 1995 (as amended) (the "Banking Law"), is the main law regulating the banking sector in Kazakhstan. It establishes a framework for banking activities, registration and licensing of banks and regulation of banking activities by the NBRK.

The Banking Law provides for a list of banking operations that cannot be conducted without an appropriate licence from the NBRK and sets forth a list of activities permitted for banks and Bank Holdings (as defined below).

The Bank holds Licence No. 1.2.47/230/38/1 dated 8 November 2016 for performing banking and other operations and conducting activity in the securities market (the "Banking Licence").

Capital Adequacy and Liquidity Ratios

Beginning in 2005, new regulations regarding regulatory capital and risk management have entered into effect in Kazakhstan. These regulations represent a substantial step towards the implementation of the Basel III. The NBRK sets limits and rules for calculating capital adequacy, maximum credit exposures to single borrowers, liquidity ratios and open currency positions limits.

According to the Decree of the Management Board of the NBRK No. 170 dated 13 September 2017 (as amended), the main capital and Tier I capital are defined through an exhaustive list of different categories of debt and equity that qualify for treatment as capital and certain ratios, as applicable.

Starting from 1 January 2017, the NBRK requires banks to maintain a k1 capital adequacy ratio (base capital to total assets weighted for risk) of 5.5 per cent. (prior to 1 January 2017, the minimum level of the k1 ratio stood at 5 per cent.), and a k1-2 capital adequacy ratio (Tier I capital to total assets weighted for risk) of 6.5 per cent. (prior to 1 January 2017, the minimum level of the k1-2 ratio stood at 6 per cent.). The k2 capital adequacy ratio (own capital to total assets weighted for risk) requirement is 8 per cent. (prior to 1 January 2017, the minimum level of the k-2 ratio stood at 7.5 per cent.).

Furthermore, all banks, except for systemically important banks, must have levels of k1, k1-2 and k2 ratios, accounting for the conservation buffer and system buffer, of 7.5 per cent., 8.5 per cent. and 10 per cent., respectively, while the systemically important banks' requirements are 9.5 per cent., 10.5 per cent., and 12.0 per cent., respectively. As at the date of the Offering Memorandum, the Bank has the status of a systemically important bank. Where k1, k1-2 and k2 ratios of a bank comply with capital adequacy requirements but at least one of them is below the capital adequacy ratios, calculated together with capital buffer requirements, the NBRK regulations provide for certain limitations for any such bank to pay dividends or buy back shares except as provided by the JSC Law.

According to its regulations, the NBRK must reconsider the capital adequacy ratios and equity buffer requirements at least once every three years.

Shareholders of the Bank who have the status of the Bank Holding or Major Participant of the Bank (as described below) are obliged to take measures provided for by the NBRK regulations to maintain the capital adequacy ratios of the Bank.

As at the date of this Offering Memorandum, the minimum charter capital for a newly-established bank was set at the level of KZT 10 billion, and the minimum capital base for a bank currently amounts to KZT 10 billion.

Base Rate

The base rate is the interest rate at which the NBRK provides short-term loans to commercial banks and accepts cash on deposits from commercial banks. The base rate plays a key role as the commercial banks use the base rate in setting interest rates on loans for citizens. The base rate also affects the rate of inflation in the country and is set by the NBRK on the basis of economic indicators and can be either increased or decreased.

As at the date of this Offering Memorandum, the base rate is set at 9.25 per cent., while maintaining the percentage corridor at +/- 1 percentage point. The previous base rate level was at 9.0 per cent

Deposit Insurance

In December 1999, a self-funded domestic deposit insurance scheme was established and, as at 1 April 2019, 26 banks, including the Bank, were covered by this scheme. The insurance coverage is presently limited to personal deposits in any currency and current accounts up to a maximum amount per customer of KZT 15 million for a saving deposit in KZT, KZT 10 million for other deposits in KZT and KZT 5 million for deposits in foreign currency at any given bank. Only banks participating in the deposit insurance scheme are authorised to open accounts and take deposits from private individuals. If a customer holds several deposits of different kinds and in different currencies with a bank, such customer should be paid the aggregate guaranteed compensation in respect of such deposits in an amount not exceeding KZT 15 million.

Acquisition of Interests in Kazakhstan Banks

Shareholders of a Kazakhstan bank

Under the Banking Law, any individual or legal entity can be a shareholder of a Kazakhstan bank except as follows:

- a legal entity registered in a blacklisted jurisdiction (see "*—Acquisition of Interests in Kazakhstan Banks—Blacklisted Jurisdiction Prohibition*") ("Blacklisted Jurisdictions") cannot be a shareholder in the Kazakhstan bank, unless such Kazakhstan bank is a subsidiary of a non-resident bank and such non-resident bank has the minimum required rating of one of the rating agencies determined by the NBRK, subject to certain exceptions; or
- an individual or a legal entity cannot own shares in a Kazakhstan bank exceeding a certain threshold established by the Banking Law without the prior written consent of the NBRK (as described below).

General ownership restriction

Direct or indirect acquisition of shares in a Kazakhstan bank may require a prior written consent of the NBRK if certain thresholds set out under the Banking Law are met or exceeded.

In particular, no person (whether independently or jointly with another person) can directly or indirectly:

- own, use and (or) manage 10 more per cent. of the Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by the respective Kazakhstan bank), and also
- have control or the ability to influence the decisions made by the respective Kazakhstan bank in the amount of 10 or more per cent. of the Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by the respective Kazakhstan bank),

without obtaining the prior written consent of the NBRK. This requirement *inter alia* does not apply to the State or the national managing holding, an organisation specialising in improving the quality of loan portfolios of second-tier banks, subsidiaries of the NBRK, and a single accumulative pension fund if it owns 10 per cent. or more per cent. of a Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by a Kazakhstan bank) at the expense of pension assets.

The Banking Law also provides for such terms as "Major Participant" and "Bank Holding" (as defined below) in relation to shareholders of a Kazakhstan bank.

Major Participant status

Under the Banking Law, an individual or a legal entity (except for, *inter alia*, the State, the national managing holding, an organisation specializing in improving the quality of credit portfolios of second-tier banks and subsidiaries of the NBRK), which, directly or indirectly (whether independently or jointly with another person):

- may own 10 or more per cent. of placed shares of a Kazakhstan bank (excluding preferred shares and shares redeemed by a Kazakhstan bank); or
- will be able to vote with 10 or more per cent. of the Kazakhstan bank's voting shares; or
- will have the ability to influence the decisions taken by the Kazakhstan bank by virtue of an agreement or otherwise,

will be deemed to be a major participant of a Kazakhstan bank (the "Major Participant") and will need to obtain a prior written consent of the NBRK before acquiring such status.

Bank Holding status

Under the Banking Law, a legal entity (except for, *inter alia*, the State, the national managing holding, an organisation specialising in improving the quality of credit portfolios of second-tier banks and subsidiaries of the NBRK), which, directly or indirectly (whether independently or jointly with another person):

- may own 25 per cent. or more of the Kazakhstan bank's placed shares (excluding preferred shares and shares redeemed by a Kazakhstan bank); or
- will be able to vote with 25 per cent. or more per cent. of the Kazakhstan bank's voting shares; or
- will determine the decisions taken by the Kazakhstan bank, by virtue of a contract or otherwise, or have control,

will be deemed to be a bank holding of a Kazakhstan bank (the "Bank Holding") and will need to obtain a prior written consent of the NBRK before acquiring such status.

The Banking Law sets forth a list of activities permitted for the Bank Holding. Where a foreign legal entity directly holds 25 per cent. or more of the placed shares (excluding preferred shares and shares redeemed by a Kazakhstan bank) of a Kazakhstan bank, or has the ability to vote directly with 25 per cent. or more per cent. of the Kazakhstan bank's voting shares, such foreign legal entity must be a financial organisation having a minimum required rating and subject to consolidated supervision in its country of residence.

NBRK consent

Under the Banking Law, the NBRK consent for a Major Participant or a Bank Holding status is issued by the NBRK within three months after the relevant application is submitted to the NBRK subject to the provision of required documents and absence of grounds for NBRK's refusal to issue the consent established by the Banking Law, which include *inter alia*:

- unstable financial condition of the applicant;
- inefficiency of the provided recapitalisation plan for the case of deterioration of a bank's financial condition;
- lack of impeccable business reputation of an applicant who is an individual or of a business executive of an applicant which is a legal entity;
- for large participants (legal entities and bank holdings that are financial organisations that are not residents of Kazakhstan), the lack of an agreement between the NBRK and the financial supervision authorities of the state where the applicant is a resident providing for information sharing;
- cases where the applicant (a financial institution) is not subject to supervision on a consolidated basis in the country of its location; and
- the impossibility of conducting a consolidated supervision of the banking conglomerate due to the fact that the legislation of the countries of location of the participants of the banking conglomerate which are non-residents of Kazakhstan, makes it impossible for them and the banking conglomerate to comply with the requirements provided by the laws of Kazakhstan.

Minimum rating requirement

Non-resident legal entities may obtain the consent of the NBRK to acquire the status of a Bank Holding or a Major Participant if such non-resident legal entities meet a minimum required rating determined by the NBRK.

Blacklisted Jurisdictions prohibition

In accordance with Article 17(5) of the Banking Law, legal entities registered in any of the Blacklisted Jurisdictions (as listed below) cannot directly or indirectly own and (or) use, and (or) dispose of voting shares of a Kazakhstan resident bank, unless such Kazakhstan resident bank is a subsidiary of a non-resident bank and such non-resident bank has the minimum required rating of one of the rating agencies determined by the NBRK.

The exact list of Blacklisted Jurisdictions is determined by the NBRK. As at the date of this Offering Memorandum, the following jurisdictions are included in the NBRK's list of Blacklisted Jurisdictions:

- Principality of Andorra; State of Antigua and Barbuda; Commonwealth of the Bahamas; Barbados State; State of Belize; The state of Brunei Darussalam; Republic of Vanuatu; Republic of Guatemala; State of Grenada; Republic of Djibouti; Dominican Republic; Republic of Indonesia; Spain (only in part of the Canary Islands); Republic of Cyprus; People's Republic of China (only in part of the territories of the special administrative regions of Aomin (Macau) and Xianggang (Hong Kong); Federal Islamic Republic of Comoros; Republic of Costa Rica; Malaysia (only in part of the territory of the Labuan enclave); Republic of Liberia; Principality of Liechtenstein; Republic of Mauritius; Portugal (only in part of the territory of the Madeira Islands); Republic of Maldives; Republic of Malta; Republic of Marshall Islands; Principality of Monaco; Union of Myanmar; Republic of Nauru; Netherlands (only in part of the territory of the island of Aruba and the dependent territories of the Antilles); Federal Republic of Nigeria; New Zealand (only in part of the territory of the Cook Islands and Niue); Republic of Palau; Republic of Panama; Independent State of Samoa; Republic of Seychelles; State of Saint Vincent and the Grenadines; Federation of Saint Kitts and Nevis; State of Saint Lucia; United Kingdom of Great Britain and Northern Ireland (only in part of the following territories): Anguilla Islands, Bermuda, British Virgin Islands, Gibraltar, Cayman islands, Montserrat Island, Turks and Caicos Islands, Isle of Man, The Channel Islands (Guernsey, Jersey, Sark, Alderney); United States of America (only in part of the territories of the U.S. Virgin Islands, Guam Island and the Commonwealth of Puerto Rico); Kingdom of Tonga; Republic of the Philippines.; and Democratic Republic of Sri Lanka.

Financial Stability

Under the Banking Law, in the event of (i) a breach by a bank of capital adequacy or liquidity ratios; or (ii) two or more breaches by a bank in any 12-month period of any other prudential or other mandatory requirements, the Government based on the NBRK's proposal may acquire, either directly or through a national management holding company, the authorised shares of any bank in Kazakhstan to the extent necessary (but not less than 10 per cent. of the total amount of placed shares of such bank, including those to be acquired by the Government or the national management holding company) to improve such bank's financial condition and ensure compliance with prudential or other mandatory requirements. The Banking Law provides that the management and shareholders of an affected bank are not granted any right to approve any such acquisition, and any shares issued as part of any such acquisition may be issued without granting pre-emptive rights to existing shareholders. Following such an acquisition, the state body authorised to manage state property or the national management holding company is authorised to appoint no more than 30 per cent. of the members of the board of directors and the management board of the affected bank.

In the event that a bank has negative capital, the NBRK may buy out shares of such bank subject to consequent sale of the shares to an investor guaranteeing improvement of the bank's financial condition.

The main objectives of the above regulations are to improve early detection mechanisms for risks in the financial system, to provide powers to the Government and the NBRK to acquire shares in commercial banks that face financial problems and to improve the overall condition of financial institutions in Kazakhstan.

The Government or the national management holding company must sell the acquired shares by way of direct sale or through the stock exchange in case of improvement of financial condition of the bank.

The NBRK's Powers under the Banking Law

Under the Banking Law, the NBRK may apply a number of supervisory response measures, *inter alia*, with respect to banks (second-tier banks in Kazakhstan such as the Bank), Bank Holdings, the top management of the respective bank and Bank Holding, their respective Major Participants, a bank conglomerate and (or) organisations included in a bank conglomerate in order to (i) protect the interests of depositors, creditors, clients and correspondents of banks, (ii) ensure the financial stability of banks and (iii) prevent deterioration of financial condition and increasing risks related to bank's banking activities.

Supervisory response measures

The Banking Law allows the NBRK to apply the following supervisory response measures:

- recommended supervisory response measures;

- measures for improvement of financial condition and minimisation of risks; and
- compulsory measures of supervisory response.

Recommended supervisory response measures

"Recommended supervisory response measures" include notification on revealed instances of non-compliance to a bank's bodies, Major Participants, Bank Holding and/or bank conglomerate member entity; recommendation on mitigation of revealed instances of non-compliance; and warning on implementation of other supervisory response measures.

Measures on improvement of financial condition and minimisation of risks

The Banking Law allows the NBRK to apply a number of compulsory measures aimed at the improvement of financial condition and minimisation of risks of the banks, organisations engaged in certain types of banking operations, the Major Participants, the Bank Holdings, the bank conglomerate and (or) organisations included in the bank conglomerate. In particular, Article 46 of the Banking Law allows the NBRK to apply, *inter alia*, the following compulsory measures aimed at the improvement of financial condition and minimisation of risks:

- requiring that the bank maintains the capital adequacy ratios and (or) liquidity ratios above the minimum levels established by the NBRK;
- removing the top management of a bank;
- suspending and (or) restriction of carrying out certain types of banking and other operations, carrying out certain types of transactions or establishing a special procedure for their implementation;
- restructuring of assets and (or) bank liabilities, including changes in their structure;
- reduction of expenses, including through the termination or limitation of additional hiring of employees, closure of branches and representative offices, subsidiaries, restriction of remuneration and other types of material incentives for top management;
- suspending and (or) restriction of investments in certain types of assets or the establishment of their special order of implementation;
- forming provisions (reserves) according to international financial reporting standards;
- restricting operations with persons connected with a bank by special relations; and
- suspending accrual and (or) payment of dividends on shares and (or) unlimited financial instruments.

The NBRK can apply the above compulsory measures by way of:

- issuing mandatory written instructions to a bank setting out compulsory measures to be taken by the bank and (or) requiring that the bank develops an action plan to restore such bank's financial condition;
- entering into an agreement with a bank setting out measures to be taken by the bank to remedy any identified breaches.

Compulsory measures of supervisory response

The NBRK applies compulsory measures of supervisory response to Major Participants and Bank Holding, as well as organisations that are part of a banking conglomerate in the following cases, *inter alia*, if (i) the use of other supervisory response measures cannot ensure the protection of the interests of depositors and creditors, the financial stability of a bank, and the minimisation of risks associated with the activities of a bank; (ii) if the actions (inaction) of a Bank Holding and (or) a Major Participant can lead to a further deterioration in the financial position of the bank or Bank Holding.

Where a bank's shareholders include a Major Participant or a Bank Holding, the NBRK may require such shareholders to decrease their direct or indirect ownership of the relevant bank to less than 10 per cent. of the bank's voting shares in the case of a Major Participant and less than 25 per cent. of the bank's voting shares in the case of a Bank Holding. Such measures can be applied to a bank's shareholder when, for example, the bank's shareholders which are Major Participants or Bank Holding are in an unstable financial condition, which may negatively affect the bank concerned.

Measures on improvement of financial condition and minimisation of risks and compulsory measures of supervisory response shall be applied using "motivated" judgment.

Bank with an unstable financial situation

The NBRK can classify a bank as a bank with an unstable financial situation threatening the interests of its depositors and creditors and (or) threatening the stability of the financial system if certain criteria are met by the bank. Such criteria, *inter alia*, includes situations when the bank's capital adequacy ratios become below the minimum levels; or the bank fails to fulfil monetary obligations and other claims of its creditors due to the absence or insufficiency of money in the bank. The NBRK may apply any supervisory response measures to the bank with unstable financial situation. In case the bank's unstable financial situation is not remedied within the period established by the NBRK, the NBRK shall qualify this bank as an insolvent bank and may apply to the respective bank certain measures, such as, for example, (i) requiring the bank to carry out compulsory restructuring of its liabilities, (ii) requiring the bank to transfer all or part of its assets and liabilities to another bank(s), (iii) creating a stabilisation bank, and requiring the bank to transfer all or part of its assets and liabilities to such stabilisation bank, and (iv) deprivation of a licence to conduct banking and other operations with the subsequent forced liquidation of the insolvent bank.

Sanctions

The NBRK has the right to apply to the bank, the Major Participant, the Bank Holding, organisations that are part of a banking conglomerate, as well as organisations carrying out certain types of banking operations, the following sanctions, *inter alia* (regardless of the supervisory response measures applied to them earlier, if any):

- suspension or deprivation of a bank's licence and (or) annexes to a bank's licence for all or certain banking operations on the grounds provided for in Article 48 of the Banking Law; and
- revocation of a permission to open a bank on the grounds provided for in Article 49 of the Banking Law.

Astana International Financial Centre

On 7 December 2015, Kazakhstan adopted the Constitutional Law "On the Astana International Financial Centre" (the "AIFC Law") that provides for the creation of, among other things, an international arbitration centre in Nur-Sultan to administer and resolve disputes by means of arbitration. The AIFC Law provides for mechanisms to regulate the relations between the participants of the AIFC based on the standards of the world's leading financial centres and on the principles and rules of English law.

The Astana International Financial Centre (the "AIFC") is proposed to become a financial hub for CIS countries and the region. The goal of the AIFC is the establishment of a competitive international financial centre with the active involvement of international investors and companies. Following the example of the Dubai International Financial Centre, the AIFC has a special status featuring a financial court hosting international judges, a legal framework based on the principles of English law, and the English language as the language used in official documentation and court proceedings.

Commercial Banks

According to the NBRK, as at 30 June 2019, there were 28 commercial banks in Kazakhstan, compared to 184 in mid-1994. This decrease is largely a result of the NBRK's stringent policy towards increased capitalisation and liquidity of the banking system. The general reduction in the number of banks has largely been at the expense of small and medium-sized banks.

Foreign capital in the banking sector

The liberalisation of the economy in Kazakhstan in recent years has resulted in a number of foreign companies, including banks, establishing operations in Kazakhstan through direct investment and by otherwise participating in the banking and financial services sector. As at the date of this Offering Memorandum, foreign banks are prohibited from opening branches in Kazakhstan for the cases provided by law. Accordingly, foreign banks must establish a Kazakhstan subsidiary or joint venture in order to provide banking services in Kazakhstan.

On 27 July 2015, Kazakhstan signed the protocol on accession to the WTO. By depositing the "Instrument of Acceptance" of its membership terms on 31 October 2015, Kazakhstan activated the 30-day countdown to its

WTO membership, which became effective on 30 November 2015. As at the date of this Offering Memorandum, Kazakhstan is a member of the WTO, and in connection with its membership, it is expected that foreign banks (including foreign insurance companies) will be allowed to establish their branches in Kazakhstan with the permission of the NBRK starting from December 2020.

As at 30 June 2019, there were 14 banks with foreign participation operating in Kazakhstan, including JSC Citibank Kazakhstan, JSC SB Sberbank, JSC SB Bank of China in Kazakhstan and JSC VTB Bank (Kazakhstan). Under relevant legislation, a bank with foreign participation is defined as a bank whose share capital is more than one-third foreign owned. Banks whose share capital is less than one-third directly or indirectly foreign owned are considered domestic banks. A number of foreign banks have opened representative offices in Kazakhstan, including JP Morgan Chase Bank N.A., Deutsche Bank AG, Commerzbank AG, ING Bank N.V. and Société Générale.

Effects of the Global Financial Crisis and the State Support to the Banking Sector of Kazakhstan

Kazakhstan's banking sector has been adversely affected by the global financial crisis. Between 2000 and 2007, while the Kazakhstan economy was experiencing rapid growth, banks in Kazakhstan incurred high levels of foreign debt in order to fund a rapid expansion of credit, largely concentrated in the construction and real estate sectors. Following the onset of the global financial crisis which began in 2008, credit growth stopped due to the lack of availability of wholesale debt financing, deposits were volatile and property and oil prices significantly decreased, all of which had an adverse impact on the Kazakhstan economy. These factors caused significant losses for Kazakhstan banks and a general destabilisation of Kazakhstan's banking sector.

In the past years, the Government and the NBRK have taken a number of steps to support Kazakhstan's banking sector, including significant capital injections and facilitating consolidations.

Alliance Bank and Temirbank

In March 2009, Samruk-Kazyna purchased newly issued common shares of JSC Alliance Bank ("Alliance Bank") in the amount of KZT 24.0 billion to support its financial stabilisation and to provide additional capital. In April 2009, Alliance Bank defaulted on its debt. On 31 December 2009, Samruk-Kazyna purchased 100 per cent. of the outstanding common and preferred shares of Alliance Bank. The first restructuring of Alliance Bank was completed in April 2010, resulting in the restructuring and/or cancelling over U.S.$2.7 billion of Alliance Bank's financial indebtedness. After this restructuring, Samruk-Kazyna held 67 per cent. of the outstanding common shares and 67 per cent. of the outstanding preferred shares of Alliance Bank.

In November 2009, JSC Temirbank ("Temirbank") defaulted, and announced a moratorium on the repayment of, its debt. Following the instructions of the then-President of Kazakhstan (Mr. Nursultan Nazarbayev) to withdraw the state's participation in the commercial banking sector in Kazakhstan, in May 2014, Samruk-Kazyna sold all of its shares (a 79.88 per cent. stake) in Temirbank and part of its shares (a 16 per cent. stake) in Alliance Bank to Mr. Bulat Utemuratov.

In March 2014, Alliance Bank initiated its second restructuring involving approximately U.S.$1.3 billion of its indebtedness, which was completed in January 2015. Under one of the terms of the second restructuring, Alliance Bank underwent a reorganisation by means of a consolidation of Temirbank and ForteBank. As part of this consolidation, Alliance Bank changed its name to JSC ForteBank in February 2015. As a result of this reorganisation, Mr. Bulat Utemuratov became an owner of 90.1 per cent. (as at 30 June 2019) of common shares of ForteBank.

BTA Bank

In February 2009, the NBRK entered into an agreement with the Government relating to the acquisition of approximately 75.1 per cent. of BTA Bank's shares, which were subsequently acquired by Samruk-Kazyna pursuant to the financial stability legislation. BTA Bank defaulted on its debt in April 2009. The restructuring of BTA Bank was completed on 31 August 2010, cancelling approximately U.S.$8.6 billion of BTA Bank's financial indebtedness.

In 2012, BTA Bank underwent a second restructuring, in which its financial indebtedness was reduced from U.S.$11.1 billion to U.S.$3.3 billion. Following this restructuring, Samruk-Kazyna owned a 97 per cent. equity holding in BTA Bank. In June and July 2014, Samruk-Kazyna sold a 97.33 per cent. stake in BTA Bank to KKB (46.5 per cent.) and Mr. Kenges Rakishev (46.5 per cent.) and placed its remaining shares into a trust under the control of KKB.

In December 2014, the shareholders of KKB and BTA Bank approved an integration plan of KKB and BTA Bank. The plan provided for mutual transfer of assets and liabilities between KKB (as the parent bank) and BTA Bank (as the subsidiary bank). The plan ultimately envisaged a withdrawal of BTA Bank from the banking system of Kazakhstan by way of BTA Bank surrendering its banking licence, and a deconsolidation of KKB and BTA Bank by way of KKB handing control of BTA Bank over to third parties.

In April 2015, KKB and BTA Bank entered into an agreement on transfer of assets and liabilities on 15 June 2015. Under this agreement, certain assets and liabilities of BTA Bank were transferred from BTA Bank to KKB and certain distressed assets of KKB were transferred from KKB to BTA Bank.

On 23 June 2015, BTA Bank was excluded from the banking system as a result of the surrendering by BTA Bank of its banking licence to the NBRK. BTA Bank was eventually deconsolidated from KKB's financial statements as a result of the transfer of KKB's shareholding in BTA Bank to KKB's shareholders.

KKB

In 2016, the NBRK provided a short-term loan to KKB in the amount of KZT 400 billion. The loan was provided to help KKB improve its liquidity. At the time of the loan, along with the Bank, KKB was one of the two systemically important banks in Kazakhstan. In 2017, the NBRK provided KKB with a further KZT 200 billion credit facility.

In February 2017, Mr. Kenges Rakishev approached the Bank to consider an acquisition of a 71.31 per cent. stake in KKB.

In March 2017, the Bank, Mr. Kenges Rakishev, the NBRK, the Government and certain other parties entered into a memorandum of understanding (the "KKB MoU") setting out the preliminary steps to be taken in connection with a potential acquisition of KKB by the Bank. In June 2017, the Bank, Mr. Kenges Rakishev, the NBRK, the Government and certain other parties entered into a Framework Agreement (the "Framework Agreement") setting out the conditions to be satisfied by, among others, the NBRK and the Government necessary to facilitate an acquisition of KKB by the Bank. In June 2017, the Bank and Mr. Kenges Rakishev entered into a sale and purchase agreement (the "KKB SPA") in respect of Mr. Kenges Rakishev's shareholding in KKB.

FPL, a wholly-owned subsidiary of the Government, acquired certain assets of BTA Bank. Following receipt of such consideration, BTA Bank repaid to KKB its indebtedness in the amount of KZT 2.4 trillion under a facility agreement between KKB and BTA Bank ("BTA Bank Facility Agreement"), which was entered into at the time when KKB was the parent bank of BTA Bank.

In July 2017, following the repayment by BTA Bank of its indebtedness under the BTA Bank Facility Agreement, the satisfaction of conditions under the Framework Agreement and the KKB SPA, the Bank acquired a combined 96.81 per cent. of KKB from its shareholders, Mr. Kenges Rakishev and Samruk-Kazyna. In July 2017, the Bank completed a KZT 185 billion recapitalisation of KKB by way of acquisition of common shares issued by KKB.

In 2018, a merger of KKB into the Bank by way of "accession" (the "KKB Merger") was approved at the respective joint general shareholder meetings of KKB and the Bank. On 28 July 2018, the Bank and KKB effectively completed the KKB Merger.

Midsized banks

In 2017, the NBRK announced a U.S.$2 billion troubled asset facility, but abruptly closed it in February 2018, having limited participation to five mid-sized banks. In the past several years the NBRK terminated licences of a number of mid-sized banks, including those of JSC Delta Bank, JSC KazInvest Bank, JSC Qazaq Bank, JSC Bank Astana and JSC ExIm Bank.

JSC First Heartland Jusan Bank

In August 2018, the NBRK provided a short-term loan of KZT 150 billion to TsesnaBank. At the time of the loan, TsesnaBank was one of the largest banks in Kazakhstan with a focus of financing agricultural business. The loan was provided in order to help TsesnaBank improve its liquidity.

In September 2018, the Government and the NBRK announced their intent to buy out the agriculture sector loans portfolio of TsesnaBank in order to improve TsesnaBank's liquidity and the quality of its credit portfolio. In this connection, in January 2019, FPL agreed to buy out TsesnaBank's portfolio of agricultural loans for KZT 604 billion. In February 2019, 99.5 per cent. of the shares in TsesnaBank were sold to FHS. FHS is the investment division of the financial holding company of the group of autonomous educational organisations "Nazarbayev University", "Nazarbayev Intellectual Schools" and "Nazarbayev Fund". The acquisition of TsesnaBank by FHS was carried out in accordance with the relevant sale and purchase agreement and the framework agreement approved by the Government and the NBRK, which provided for the obligation of FHS, after satisfaction of all conditions, to recapitalise TsesnaBank in the amount of KZT 70 billion. Following the acquisition TsesnaBank was renamed as JSC First Heartland Jusan Bank. On 27 June 2019, at the joint shareholders' meeting, it was resolved that FHB will acquire JSC First Heartland Jusan Bank.

For a discussion of the various risks associated with the banking sector and banking regulation in Kazakhstan, see "*Risk Factors—Risks Factors Relating to the Kazakhstan Banking Sector*".

Payment Services by the Bank

The Law of the Republic of Kazakhstan No. 11-VI ZRK "On Payments and Payment Systems", dated 26 July 2016 (as amended) (the "Payment Systems Law"), is the main law establishing the legal framework for payment services in Kazakhstan. It sets forth the list of payment instruments, payments processing procedures and requirements with respect to payment services providers. Under the Payment Systems Law, it is prohibited to provide payment services in Kazakhstan in the absence of a corresponding licence from the NBRK or without record registration with the NBRK. A bank may provide payment services under the Payment Systems Law provided that it holds a licence from the NBRK in respect of opening and maintaining clients' bank accounts and performing transfer operations.

The Bank holds the Banking Licence which covers, *inter alia*, opening and maintaining clients' bank accounts and performing transfer operations. The Banking Licence allows the Bank to perform payment services under the Payment Systems Law.

The Bank is included into the Register of Significant Payment Services Providers as at 1 May 2018 and remains included therein as at the date of this Offering Memorandum.

Anti-Money Laundering Regulation Applicable to the Bank

The Law of the Republic of Kazakhstan No. 191-IV ZRK "On Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism", dated 28 August 2009 (as amended) (the "Anti-Money Laundering Law"), covers a broad scope of persons (including certain types of companies, notaries, etc.) which can be designated as financial monitoring subjects and imposes a number of requirements that these persons have to comply with, including, among other things, the development of appropriate internal standards and procedures, client identification, control over client operations and reporting of suspicious operations. In particular, payment organisations, insurance companies and banks are to be recognised as financial monitoring subjects.

Under the Anti-Money Laundering Law, one of the main obligations of the financial monitoring subjects is appropriate identification of the clients and verification of certain operations, including, *inter alia*:

- cash transactions;
- certain transactions where one of the counterparties is a legal entity or an individual registered in an off-shore jurisdiction or has a bank account in such jurisdiction;
- certain operations in relation to a bank account or deposit where such bank account or deposit has been opened for an anonymous person;
- transaction conducted by a legal entity existing for less than three months; or
- certain other transactions with property subject to mandatory state registration,

exceeding KZT 3 million or higher amounts depending on type of the transaction.

Pursuant to the Anti-Money Laundering Law, suspicious transactions are to be reported to the Committee of financial monitoring of the Ministry of Finance of Kazakhstan, such transactions must be suspended upon resolution of the Committee. The Anti-Money Laundering Law requires any suspicious transaction to be reported to the Committee immediately and in any case before the suspicious transaction has been processed. If a suspicious transaction cannot be postponed, it must be reported within three hours after it has been processed or within 24 hours following its identification.

Other Regulations

The Banking Law establishes an exhaustive list of activities allowed for a bank holding and lists the types of legal entities shares of which may be acquired by a bank or a bank holding.

Approval of the top management by the NBRK

Pursuant to the Banking Law, it is required to obtain the NBRK consent for election (appointment) of the top management at the level of a bank and at the level of a bank holding. For consent purposes, top management of a bank includes members of the board of directors, members of the management board, chief accountant and other managers of a bank coordinating and (or) monitoring the activities of more than one structural unit of the bank and authorised to sign documents on the basis of which banking operations are conducted.

Top management of a bank holding includes members of the board of directors, members of the management board, chief accountant, and other managers of a bank holding coordinating and (or) monitoring the activities of subsidiaries and (or) organisations where a bank holding holds (directly or indirectly) significant participation in the capital of such organisation (i.e., holds 20 per cent. and more of voting shares (participatory interests in the charter capital) (whether independently or jointly with another legal entity)).

Management of distressed assets

The Banking Law allows a bank, upon receipt of the NBRK's consent, to establish or acquire a subsidiary organisation acquiring distressed assets of the parent bank.

The procedure for a subsidiary acquiring distressed assets of the parent bank, the period during which the subsidiary manages the acquired distressed assets, as well as the requirements for such assets are established by the NBRK. Such subsidiary organisation may conduct only those activities which are related to management of distressed assets and are in line with the NBRK regulations.

A subsidiary organisation acquiring distressed assets is obliged to transfer the money received from its activities to the parent bank, except for amounts of expenses related to the implementation of the activities related to acquisition and disposal of distressed assets under the Banking Law.

The Bank has the following subsidiary organisations established for the purposes of managing the Bank's distressed assets:

- Halyk Project LLC which was established on 12 October 2012 with NBRK consent No. 1 dated from 4 October 2012;
- KUSA KKB-1 LLC which was established on 28 January 2013 with NBRK consent No. 4 dated from 29 December 2012;
- Halyk Aktiv LLC which was established on 28 January 2013 with NBRK consent No. 5 dated from 29 December 2012; and
- Halyk Aktiv-1 LLC which was established on 9 July 2014 with NBRK consent No. 9 dated from 3 June 2014.

The total asset portfolio of the above legal entities amounted to KZT 184 billion as at 30 June 2019 (KZT 193 billion as at 31 December 2018), with assets being transferred to these entities by the Bank amounted to KZT 3.6 billion during the six months ended 30 June 2019 (KZT 152 billion during the year ended 31 December 2018).

Regulation of Insurance Activities

Insurance Law

Similar to the Kazakhstan banking sector, the Kazakhstan insurance sector is highly regulated. The Law of the Republic of Kazakhstan No. 126-II "On Insurance Activity", dated 18 December 2000 (as amended) (the

"Insurance Law"), along with the Civil Code of the Republic of Kazakhstan (special part), dated 1 July 1999 (as amended) (the "Civil Code") and relevant NBRK regulations, is the main law regulating the insurance sector in Kazakhstan. It establishes a framework for insurance activities, registration and licensing of insurance companies, and regulation of insurance activities by the NBRK.

The Insurance Law provides for a list of branches, classes and types of insurance. Insurance operations may be conducted only in accordance with an appropriate licence from the NBRK for certain types of insurance within life insurance or general insurance branches. An insurance company may not simultaneously operate in the sphere of life insurance and general insurance.

The Bank has the following two subsidiaries that provide insurance services:

- Joint Stock Company "Halyk" Insurance Company", a subsidiary of Halyk Bank of Kazakhstan, which holds a licence to carry out life insurance activities (Licence No. 2.2.41 dated 4 November 2016 issued by the NBRK); and
- Joint Stock Company "Halyk-Life" life insurance, a subsidiary of Halyk Bank of Kazakhstan, holds a licence for the right to carry out insurance (reinsurance) activities in the class of "general insurance" (Licence No. 2.1.11 dated 7 February 2019 issued by the NBRK).

Capital Adequacy and Liquidity Ratios

The Insurance Law provides for the following prudential standards for insurance (reinsurance) organisations: (i) minimum charter capital; (ii) margin of solvency margin adequacy; (iii) the ratio of sufficiency of highly liquid assets; and (iv) asset diversification standards.

According to the Decree of the Management Board of the NBRK No. 304, dated 26 December 2016 (as amended), the minimum charter capital for a newly-established insurance company varies from 1,500,000 up to 10,500,000 MCI depending on the contemplated types of insurance activities.

The NBRK sets forth standards, formulas and ratios for calculation of liquidity adequacy.

Acquisition of Shares of a Kazakhstan Insurance Company

Shareholders of a Kazakhstan insurance company

Under the Insurance Law, any individual or legal entity can be a shareholder of a Kazakhstan insurance company except that:

- a legal entity registered in the Blacklisted Jurisdiction cannot be a shareholder in the Kazakhstan insurance company, unless such Kazakhstan insurance company is a subsidiary of a non-resident insurance company and such non-resident insurance company has the minimum required rating of one of the rating agencies determined by the NBRK; or
- an individual or a legal entity cannot own shares in a Kazakhstan insurance company exceeding a certain threshold established by the Insurance Law without the prior written consent of the NBRK (as described below, see "*—Major participant of the Kazakhstan insurance company*" and "*—Insurance Holding status*").

Major participant of the Kazakhstan insurance company

Under the Insurance Law, an individual or a legal entity (except for *inter alia* the State or the national managing holding), which, directly or indirectly (whether independently or jointly with another person):

- may own 10 or more per cent. of placed shares of a Kazakhstan insurance company (excluding preferred shares and shares redeemed by a Kazakhstan insurance company); or
- will be able to vote with 10 or more per cent. of the Kazakhstan insurance company's voting shares; or
- will have the ability to influence the decisions taken by the Kazakhstan insurance company by virtue of an agreement or otherwise,

will be deemed to be a major participant of a Kazakhstan insurance company (the "Major Participant of the Kazakhstan Insurance Company") and will need to obtain a prior written consent of the NBRK before acquiring such status.

Insurance Holding status

Under the Insurance Law, a legal entity (except for *inter alia* the State or the national managing holding), which, directly or indirectly (whether independently or jointly with another person):

- may own 25 per cent. or more of a Kazakhstan insurance company's placed shares (excluding preferred shares and shares redeemed by a Kazakhstan insurance company); or
- will be able to vote with 25 per cent. or more per cent. of a Kazakhstan insurance company's voting shares; or
- will determine the decisions taken by a Kazakhstan insurance company, by virtue of a contract or otherwise, or have control,

will be deemed to be an insurance holding of a Kazakhstan insurance company (the "Insurance Holding") and will need to obtain a prior written consent of the NBRK.

Where a foreign legal entity directly holds 25 per cent. or more of the placed shares (excluding preferred shares and shares redeemed by a Kazakhstan insurance company) of a Kazakhstan insurance company, or has the ability to vote directly with 25 per cent. or more per cent. of the Kazakhstan insurance company's voting shares, such foreign legal entity must be a financial organisation having a minimum required rating and being subject to consolidated supervision in its home country.

NBRK consent

Under the Insurance Law, the NBRK consent for a Major Participant of the Kazakhstan Insurance Company or an Insurance Holding status is issued by the NBRK within three months after the relevant application is submitted to the NBRK, subject to provision of required documents and absence of grounds for the NBRK's refusal to issue the consent established by the Banking Law, which include, *inter alia*:

- unstable financial condition of the applicant;
- inefficiency of the provided recapitalisation plan for the case of deterioration of a bank's financial condition; and
- lack of impeccable business reputation of an applicant who is an individual or of a business executive of an applicant which is a legal entity.

Minimum rating requirement

Non-resident legal entities may obtain the consent of the NBRK to acquire the status of a Major Participant of the Kazakhstan Insurance Company or an Insurance Holding if such non-resident legal entities meet a minimum required rating determined by the NBRK.

Blacklisted Jurisdictions prohibition

In accordance with Article 21(4) of the Insurance Law, legal entities registered in any of the Blacklisted Jurisdictions cannot directly or indirectly own and (or) use, and (or) dispose of voting shares of a Kazakhstan insurance company, unless such Kazakhstan insurance company is a subsidiary of a non-resident insurance (re-insurance) company and such non-resident insurance (re-insurance) company has the minimum required rating of one of the rating agencies determined by the NBRK. For the list of Blacklisted Jurisdictions, see "*—Regulation of Banking Activities—Blacklisted Jurisdictions prohibition*".

Compulsory insurance categories

Various compulsory insurance categories are subject to separate specific laws. In particular, activities of the transport vehicles owners are subject to the Law of the Republic of Kazakhstan No. 446-II "On Compulsory Insurance of Civil Liability of Vehicle Owners", dated 1 July 2003 (as amended). The law sets forth, *inter alia*, the scope of insurance coverage, insurance agreement framework, amounts of insurance premiums and payments. Under the law, the insurance premium is to be calculated on the basis of the basic premium equal to 1.9 MCI and applying appropriate ratios and coefficients (depending on vehicle type, age and driving experience of the insured person, etc.). It is prohibited to increase or decrease the insurance premium amount except based on grounds stipulated in the law.

Guarantee Fund

For the purposes of engaging in certain types of insurance activities, an insurance company shall enter into a participation agreement with the Insurance Payment Guarantee Fund (the "Fund"). The Law of the Republic of Kazakhstan No. 423-II "On the Insurance Payment Guarantee Fund" (the "Law on Fund"), dated 3 June 2003 (as amended), sets forth the general framework for ensuring insurance payments to beneficiaries (insurers, insured parties, as applicable) in the event of liquidation of an insurance company. The Law on Fund imposes obligations on insurance companies to make compulsory contributions to the Fund. The amount of contributions is calculated by the Fund in accordance with the methodology established by the NBRK and is approved annually with consent of the NBRK. The Law on Fund, among other things, also establishes sanctions to be applied by the NBRK in case of non-compliance with set requirements.

Other Regulations

The Insurance Law establishes an exhaustive list of permitted activities for an insurance company and its major shareholder (holding 10 per cent. and more of voting shares) and types of legal entities the shares of which may be acquired by an insurance company or its major shareholder.

Pursuant to the Insurance Law, it is required to obtain the NBRK approval of top management at the level of an insurance company and at the level of insurance holding (a legal entity which owns directly or indirectly 25 per cent. and more of voting shares of the insurance company or may directly or indirectly vote with 25 per cent. and more of voting shares or otherwise affect the insurance company's decisions or control the insurance company). For these purposes, top management of an insurance company includes the head and members of the Board of Directors, the head and members of the executive body, the chief accountant and other managers of the insurance company, who coordinate and (or) control the activities of the business units of the insurance company and authorised to sign documents on the basis of which insurance activities are conducted. Top management of an insurance holding includes the head and members of the board of directors, the executive body, the chief accountant, other managers of the insurance holding who coordinate and (or) control the activities of the subsidiary organisation and (or) organisation where an insurance holding holds (directly or indirectly) significant participation in the capital of such organisation (i.e., holds 20 per cent. and more of the voting shares (participatory interests in the charter capital) (whether held independently or jointly with another legal entity)).

Regulation of Broker and Dealer Activity

Similar to the Kazakhstan banking and insurance sector, the Kazakhstan sector on broker and dealer activity is highly regulated. The Law of the Republic of Kazakhstan No. 461-II "On the Securities Market", dated 2 July 2003 (as amended) (the "Securities Market Law"), along with the Civil Code and relevant NBRK regulations, is the main law regulating the broker and dealer activities in Kazakhstan. It establishes a framework for the broker and dealer activities, registration and licensing requirements, and regulation of such activities by the NBRK.

Under the Securities Market Law, brokerage and dealer activities in the securities market are carried out on the basis of a licence to carry out broker and dealer activities issued by the NBRK. A licence for broker and dealer activities can be with the right to maintain customer accounts as a nominal holder or without the right to keep customer accounts.

The Bank has the following two subsidiaries that provide brokerage and dealer activities:

- Halyk Finance, which holds a licence for the right to carry out the broker and dealer activity and the right to carry out activities related to management over the investment portfolio (Licence No. 3.2.229/7 dated 4 November 2016 issued by the NBRK); and
- JSC Kazkommerts Securities (a subsidiary organisation of KKB) ("Kazkommerts Securities"), which holds a licence for the right to carry out the broker and dealer activity and the right to carry out activities related to management over the investment portfolio (Licence No. 3.2.236/13 dated 17 July 2018 issued by the NBRK).

Capital Adequacy and Liquidity Ratios

Under the Securities Market Law (and the relevant NBRK regulation), the following prudential standards are applied for broker and dealer companies, among others:

- the capital adequacy ratio, which daily indicator shall be at least 1; and

- the liquidity ratio, which daily indicator shall be:
  - from 1 January 2019 – not less than 1.3;
  - from 1 January 2020 – at least 1.4; and
  - from 1 January 2021 – not less than 1.5.

Under the Securities Market Law (and the relevant NBRK regulation), the following indicators characterise compliance with the prudential standards: (i) liquid assets; (ii) balance sheet liabilities; (iii) minimum amount of equity capital, taken into account in the ratio of the capital adequacy ratio; (iv) minimum authorised capital; and (v) minimum amount of equity.

According to the Decree of the Management Board of the NBRK No. 168, dated 28 April 2012 (as amended), the minimum charter capital for a newly-established company conducting broker and dealer activity is 400,000 MCI.

The NBRK sets forth standards, formulas and ratios for calculation of prudential norms.

Personal Data Protection

The Law of the Republic of Kazakhstan "On Personal Data and the Protection Thereof" No. 94-V ZRK, dated 21 May 2013 (as amended) (the "Personal Data Law"), applies to the Bank. Among other things, the Personal Data Law requires that an individual must consent to the processing (i.e., any action on the accumulation, storage, modification, addition, use, distribution, depersonalisation, blocking and destruction) and transfer (including cross-border transfer) of his/her personal data and must provide such consent prior to the personal data being processed/transferred. Consent shall be provided in writing or in the form of an electronic document or in any other way with the use of elements of protective actions that do not contradict the legislation of the Republic of Kazakhstan.

Under the Personal Data Law, the storage of personal data shall be carried out by the owners and (or) operators of personal data bases, as well as by any third party which has contractual relationships with such owners and (or) operators, in the database which is physically located and stored within the territory of the Republic of Kazakhstan.

Under the Personal Data Law, owners and operators of personal data databases shall ensure security of personal data through legal, technical and organisational measures and in accordance with requirements set forth by the Law of the Republic of Kazakhstan No. 418-V ZRK "On Informatisation", dated 24 November 2015 (as amended).

BUSINESS OF THE BANK

Overview

The Bank is Kazakhstan's leading financial services group, which (based on information published by the NBRK) had the largest customer base (in terms of share of total deposits) and the largest distribution network (in terms of numbers of branches) among Kazakhstan banks as at 30 June 2019.

The Bank's core business is focused on retail, corporate and SME banking. The Bank is also the largest paying agent for the Government for pension and other social security payments (in terms of the volume of payments processed and number of recipients of social payments), servicing more than 2.5 million customers. As at 30 June 2019, the Bank had the most extensive retail distribution network in Kazakhstan, comprising 24 regional branches and 617 points of sale including 120 sub-regional branches, three "VIP" centres, 110 personal service centres, 54 banking service centres, 34 business centres (servicing legal entities) and 296 cash settlement units. Other distribution channels used by the Bank included, as at 30 June 2019, 4,383 operating ATMs, 1,046 payment terminals and 74,119 point of sale ("POS") terminals located within the Bank's branches and at shopping centres and supermarkets throughout Kazakhstan, as well as the Bank's internet and mobile phone banking operations. For the six months 30 June 2019, the Bank processed approximately 40 per cent. of all card payments and 54 per cent. of e-pay payments made through POS terminals in Kazakhstan. See "*—Principal Business Activities—Distribution Network*". Through subsidiary companies, the Bank's services also include operations with insurance, securities brokerage, investment banking, asset management services and leasing.

The Bank offers a wide range of retail banking products and services, including current accounts, term deposits, consumer loans, mortgages, credit and debit cards, currency exchange, internet banking and mobile phone banking and ATM services. The Bank also provides a range of wholesale banking products and services to corporate clients and SME business customers, financial institutions and Government entities. As at 30 June 2019, the Bank had approximately 11.0 million retail customers, which comprised the largest retail customer base among all banks in Kazakhstan, 297,210 total SME customers (including 7,574 borrowers) and 2,967 large corporate clients (including 428 large corporate borrowers).

As at 30 June 2019, according to statistics published by the NBRK, the Bank had the leading market position in total assets with a market share of 34.4 per cent., in total deposits with a market share of 37.7 per cent., in net income (excluding banks with negative income) with a market share of 42.0 per cent., in net loans with a market share of 30.3 per cent., risk-adjusted net interest income (after credit loss expense, excluding negative net interest income) with a market share of 52.0 per cent., in insurance premiums with a market share of 27.9 per cent. and in equity with a market share of 34.6 per cent. As at 30 June 2019, the Bank had total consolidated assets of KZT 9,059,149 million (compared to KZT 8,959,024 million as at 31 December 2018) and total equity of KZT 1,127,595 million (compared to KZT 1,065,646 million as at 31 December 2018). For the six months ended 30 June 2019, the Bank's net profit after income tax expense was KZT 164,229 million (compared to KZT 85,205 million for the corresponding period in 2018), and its operating income (net interest income before impairment charges plus net fees and commissions, other non-interest income, less insurance claims incurred net of reinsurance and excluding expenses for insurance reserves) was KZT 273,474 million (compared to KZT 258,930 million for the corresponding period in 2018).

The Bank is also one of the leading participants in the fixed income securities market and the foreign currency market in Kazakhstan. The Bank is a primary dealer in both Treasury Bills of the Ministry of Finance of Kazakhstan and short-term notes of the NBRK. According to statistics published by the KASE, the Bank ranks first in operations with government debt securities.

Shares of the Bank were first listed on the KASE in 1998 and common shares in the form of GDRs were listed on the London Stock Exchange in December 2006. Immediately prior to the GDR Offering, Almex owned 74.7 per cent. (on a consolidated basis) of the Bank's common shares. See "*Principal Shareholders*". The Bank's principal office is located at 40 Al Farabi Avenue, Almaty A26 M3K5, Kazakhstan.

History

The Bank's history dates back to the opening of a limited service branch of Sberbank (the savings bank of the former Soviet Union) in Aktubinsk (now Aktobe) in 1923, followed by the establishment of a full-service branch of Sberbank in Alma-Ata (now Almaty) in 1936. The Bank became a separate legal entity wholly-owned by the Republic of Kazakhstan in 1993 and, in 1998, was reorganised into an open joint stock company with an unlimited duration. In 2003, the Bank completed its re-registration as a joint stock company in accordance with the Law on Joint Stock Companies adopted on 13 May 2003.

Since the early 1990s, the Bank has been moving towards becoming a more commercially focused bank, aiming at improving the scope, volume and quality of services to its customers and providing value to its shareholders.

The Bank expanded the scope of its operations, to include pension fund operations in 1998 (now discontinued), telecommunications in 1999, lease financing and other leasing services in 2000, insurance products and services, including non-life insurance products and services in 2003, securities brokerage, investment banking services and asset management operations in 2004 and cash collection and life insurance products and services in 2005.

In 1999, the Bank opened a representative office in Beijing and in 2000 the Bank opened a representative office in London, which currently operates as a virtual office. In 2004, the Bank acquired subsidiary banks in Russia and Kyrgyzstan, as well as an investment company in Russia, and, in 2007, the Bank opened its subsidiary bank in Georgia.

The Bank was privatised in a series of transactions between 1998 and 2001. Following the introduction of the privatisation programme in 1998, the Bank's shares were listed on the KASE.

Almex, the Selling Shareholder, first acquired shares in the Bank in December 2001, increasing its shareholding in 2003 and 2004 through a series of transactions on the secondary market and by participating in several capital increases effected by the Bank. As a result, Almex had acquired a controlling stake of 77.6 per cent. of the Bank's total common shares in August 2004.

In December 2006 and March 2007, the Bank and the Selling Shareholder completed an initial public offering of the Bank's common shares (the "IPO") in two stages. In the first stage, completed in December 2006, Almex sold 187 million common shares of the Bank in the form of global depositary receipts, each representing four common shares (the "GDRs"), which were listed on the London Stock Exchange. In the second stage of the IPO, completed in March 2007, the Bank offered 55,000,000 new common shares on the domestic market pursuant to a rights issue made to its pre-IPO shareholders (the "Rights Issue"), including Almex, which applied the proceeds received by it from the first stage of the IPO to subscribe for the common shares allocated to it in the Rights Issue. The Bank raised KZT 28,156 million in new capital in the Rights Issue.

Between January and June 2009, as part of an agreement for the participation in the equity of the Bank, the Bank sold 259,064,909 additional new common shares (comprising 20.9 per cent. of the Bank's common shares on a post-transaction basis) and 196,232,499 non-convertible preferred shares to Samruk-Kazyna acting on behalf of the Government. All these common shares and the non-convertible preferred shares held by Samruk-Kazyna were bought back by the Bank and Almex in several transactions between 2011 and 2014.

Between March and June 2014, in accordance with the NBRK decree, all pension assets under the management of the Bank's pension fund were transferred to JSC Unified Accumulative Pension Fund which, as a result, became a 7.8 per cent. shareholder in the Bank on behalf of its clients (6.1 per cent. of common shares at the date of this Offering Memorandum).

In November 2014, the Bank acquired sole ownership of HSBC Bank Kazakhstan, a subsidiary of HSBC Bank plc and renamed it JSC Altyn Bank (see "*Business of the Bank—Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—JSC Altyn Bank*").

In November 2016, the Bank signed a memorandum of understanding with China CITIC Bank Corporation Limited on the sale of a 60 per cent. stake in JSC Altyn Bank.

In March 2017, the Bank entered into the KKB MoU in connection with a potential acquisition of KKB with the Government, the NBRK, KKB, BTA Bank and Mr. Kenges Rakishev, the majority shareholder of KKB.

On 2 June 2017, the Government (represented by the Ministry of Finance of Kazakhstan), the NBRK, Samruk-Kazyna, JSC Problem Loans Fund, JSC "Halyk Bank", JSC BTA Bank, KKB and Mr. Kenges Rakishev, its majority shareholder, signed a framework agreement regarding the acquisition of a controlling interest in KKB. In June 2017, the Bank entered into sale and purchase agreements with Mr. Kenges Rakishev to acquire 86.09 per cent. of ordinary shares of KKB for a consideration of 1 KZT, and separately with JSC Samruk-Kazyna to acquire 10.72 per cent. of common shares of KKB, also for a consideration of 1 KZT. On 4 July 2017, the Bank completed the acquisition of 96.81 per cent. of the common shares of KKB.

In June 2017, the Bank entered into an agreement with China CITIC Bank Corporation Limited and China Shuangwei Investment Co., Ltd. in relation to the sale of 60 per cent. of the share capital in JSC Altyn Bank, a wholly-owned subsidiary of the Bank.

On 12 February 2018, the joint general meeting of shareholders of JSC SK Kazkommerts-Policy and JSC Kazakhinstrakh made a decision on voluntary reorganisation in the form of merging JSC SK Kazkommerts-Policy into JSC Kazakhinstrakh.

On 24 April 2018, the Bank completed the sale of 60 per cent. of the share capital in JSC Altyn Bank. The Bank remained a 40 per cent. shareholder of Altyn Bank and has certain rights under a shareholders' agreement signed between the parties.

On 15 May 2018, the reorganisation of Moskom was completed through the merger of JSC NBRK-Bank into Moskom.

On 28 July 2018, a transfer act was signed (as at 27 July 2018) between the Bank and KKB. The execution of the transfer act completed the assumption by the Bank of all property, rights and obligations of KKB as a result of voluntary reorganisation of the Bank and KKB in the form of KKB's merger into the Bank.

In August 2018, the sole shareholder of JSC Halyk Life and the sole shareholder of JSC Kazkommerts-Life agreed to a voluntary reorganisation in the form of merger of JSC Kazkommerts-Life into JSC Halyk Life.

On 29 August 2018, JSC Kazakhinstrakh and JSC Kazkommerts-Policy in the framework of a voluntary reorganisation in the form of a merger of JSC IC Kazkommerts-Policy into JSC Kazakhinstrakh, signed an agreement on merger and an act of transfer of rights and obligation, as a result of which JSC Kazakhinstrakh became the full successor of all rights and obligations of JSK Kazkommerts-Policy. An extraordinary general meeting of shareholders decided to rebrand JSC Kazakhinstrakh. The new name of the company is Subsidiary of JSC Halyk Bank Insurance Company Halyk (abbreviated as IC Halyk).

In September 2018, a decision was made to establish a subsidiary bank in the Republic of Uzbekistan and in May 2019, the Bank obtained a license from the Central Bank of the Republic of Uzbekistan to commence banking operations in Uzbekistan. In July 2019, the Bank started servicing its clients in Uzbekistan.

In November 2018, in the framework of a voluntary reorganisation in the form of a merger of JSC Kazkommerts-Life into JSC Halyk Life, a transfer act was signed between JSC Halyk Life and JSC Kazkommerts-Life, which resulted in JSC Halyk Life becoming a full successor of all rights and obligations of JSC Kazkommerts-Life.

Competitive Strengths

The Bank's core competitive strengths are: well-positioned to benefit from increasing banking penetration and macroeconomic growth in Kazakhstan; a market leading scale and position in its domestic market; the largest domestic customer base supported by widest distribution network in Kazakhstan and rapidly advancing digital proposition; an attractive mix of profitability underpinned by efficient operations and track record of growth; a solid risk and liquidity profile; a strong balance sheet supporting capital distributions; and strong corporate governance based on international standards and experienced and stable management team with proven track record.

Operating in a large, fast growing economy with an underpenetrated banking sector

The Bank's business is focused on the Kazakhstan market and as of 30 June 2019 approximately 90 per cent. of the Bank's total assets were located in Kazakhstan.

Kazakhstan is the third largest country by territory in Eurasia and ninth largest in the world, with a growing population of over 18 million people, 9.2 million of which were economically active as of 1 July 2019. Kazakhstan's population is expected to exceed 20 million people by 2024, according to the International Monetary Fund ("IMF"). The Kazakhstan economy is the second largest economy by size among CIS countries with GDP reaching U.S.$ 173 billion in 2018 according to the Statistics Agency of the Republic of Kazakhstan. The Kazakhstan economy, which is supported by ample private consumption growth as well as increasing inflows of foreign direct investment reaching U.S.$ 24.3 billion in 2018, has demonstrated strong real GDP growth trends, reaching 4.1 per cent. in 2018 according to the Ministry of National Economy of Republic of Kazakhstan, in excess of economic growth in the same period in most other CIS countries. The economy of Kazakhstan is also supported by increasing trading activity with imports and exports reaching U.S.$ 33.3 billion and U.S.$ 59.6 billion in 2018, respectively. Furthermore, Kazakhstan's mortgage and lending market demonstrates significant potential as mortgage and other retail loans only represent 5.6 per cent. and 2.2 per cent.

of Kazakhstan's GDP. The Bank also aims to capitalise on the growing usage of card payments reaching U.S.$ 1.2 thousand per capita. Kazakhstan currently benefits from low and stable unemployment (4.9 per cent. as of 2018 according to the Statistics Agency of the Republic of Kazakhstan) and decreasing inflation rates (5.3 per cent. as of 2018 according to the Statistics Agency of the Republic of Kazakhstan), and as a result the NBRK has set its lowest inflation target range (2019: 4-6 per cent.) since it adopted an inflation targeting regime in 2015. In addition, Kazakhstan is expected to benefit from strong average annual real wage growth, reaching 9 per cent. for the period from 2016 to 2023.

The Bank expects the Kazakhstan banking sector to benefit from an increase in loan penetration, as the sector's loans as a percentage of GDP in 2018 reached only 23 per cent., whereas many Eurozone countries have a loan-to-GDP ratio of more than 80 per cent., with many Central and Eastern Europe countries having a loan-to-GDP ratio of over 40 per cent. according to the European Central Bank and IMF.

The Bank believes that, as the Kazakhstan economy and banking sector develop, Kazakhstan loan-to-GDP ratio will gradually converge to the higher levels seen in more developed countries, and that the Bank is well positioned to take advantage of this convergence and the wider economic growth given its leading positions within all main banking products and its already extensive customer base.

Domestic market champion with leading market shares across all key segments with regional leadership position

The Bank is the market leader in Kazakhstan and the largest bank in the country, as measured by total equity, total assets, net income, loans and deposits, size of the customer base and breadth of geographic coverage. According to the NBRK, as at 30 June 2019, the Bank's market share in total assets and retail deposits exceeded 34.4 per cent. and 36.4 per cent., respectively. As at the same date, Kazakhstan banks holding the second through fifth largest market positions held a combined 29.1 per cent. share of the total assets and 37.8 per cent. share of the retail deposits market. Apart from the Bank, the Kazakhstan banking sector is relatively fragmented. Accordingly, the Bank believes it is well-positioned to maintain its role as a market leader. The following table sets out the market shares of the Bank across certain key metrics:

Metric	As at 30 June 2019 Market share
	(%)
Total assets	34.4
Retail deposits	36.4
Corporate deposits	39.1
Corporate current accounts	42.9
Retail current accounts	41.5
Gross loans	29.3

The Bank also has a regional leadership position among CIS countries. As at 30 June 2019, the Bank had the third largest customer deposit base among CIS countries, when considering private commercial banks (seventh largest deposit base among CIS countries among all state-owned banks,). As at 30 June 2019, the Bank was the largest bank by total assets, deposits and net profit among CIS countries (excluding Russia). As at 30 June 2019, the Bank was the largest bank among private commercial banks in CIS in terms of net income and the third largest in terms of total assets, respectively.

The Bank's size and financial strength enable it to realise substantial economies of scale in terms of operations, expenses, investments and funding, as well as ensure its access to the market segments where smaller Kazakhstan banks are less competitive. The Bank believes that these qualities have allowed it to withstand economic and financial instability.

The Bank believes that it has greater financial strength than many of its local and foreign competitors operating in Kazakhstan, and was additionally strengthened through the acquisition of KKB. The Bank also believes that its market leadership position in an attractive market across all key universal banking segments, together with a comprehensive range of products and services, unmatched by its peers, provides the Bank with a strong platform for sustained and profitable growth.

The largest client base in the country serviced by the broadest distribution network and rapidly advancing digital offering

As at 30 June 2019, the Bank serviced approximately 11.0 million retail customers and approximately 300 thousand corporate and SME clients. The Bank has an extensive distribution network that offers significant opportunities to attract additional customers and offer its wide range of products and services to existing customers. As at 30 June 2019, the Bank had 641 branches and outlets, 4,383 ATMs and 74,119 POS terminals, more than any other bank in Kazakhstan. The Bank's branch network is almost three times larger compared to its closest domestic competitor in terms of number of branches, as well larger than that of its four nearest competitors combined. This enables the Bank to provide clients with convenient access to services throughout the country and obtain access to a large number of prospective customers throughout Kazakhstan.

Furthermore, the Bank is increasingly focusing on utilising new technology and its digital banking channels including internet banking and mobile banking solutions in attracting and servicing its customers. As a result, an increasingly larger proportion of customers is using these digital access solutions for their interactions with the Bank and, as at 30 June 2019, the Bank had approximately 3.8 million internet banking clients using its retail internet banking platform Homebank, making it the leading internet banking platform in Kazakhstan by number of users.

The Bank's wide and diverse distribution network and omni-channel approach provide it with multiple touchpoint opportunities with existing and potential customers, through physical, digital and mobile channels, representing a significant potential source of growth for deposits and loan portfolios, as well as potential for further growth of non-lending-related revenue streams.

As at 30 June 2019, the Bank held a 36.4 per cent. share in the retail deposits market (based on the NBRK data) and a 41.5 per cent. market share in retail current accounts (based on the NBRK data). The management believes it has significant potential to increase its retail customer base by pursuing opportunities among affluent customers and young people at the beginning of their careers. Furthermore, the Bank is pursuing various strategic initiatives on further activating its retail client base and increasing product penetration rates for retail customer.

The management believes that, as the largest bank in Kazakhstan with the highest level of equity amongst its peers, the Bank has a sufficient capacity to lend to and comprehensively serve corporate and SME clients. The Bank's fee-generating corporate products drive non-interest income from corporate and SME clients.

The Bank is well positioned to benefit from sector digitalisation by dedicating significant investments in IT and digital solution development. The Bank continues to improve its digital proposition by launching new innovative digital products to its customers. The Bank currently has two internet banking platforms—Homebank serving 3.8 million retail customers as of 30 June 2019 and Onlinebank serving 169 thousand corporate customers (approximately 85 thousand of which were acquired following the acquisition of KKB). Both platforms offer online communication with the Bank via online chat function. Furthermore, at the date of this memorandum, Onlinebank is the only internet banking platform in Kazakhstan that offers 24/7 payments functionality to its customers. In November 2018, the Bank enabled customers to utilise the Apple Pay mobile platform, becoming one of 35 countries adopting this technology, ahead of Germany and Belgium. As at 30 June 2019, over 80 thousand of the Bank's retail clients have adopted this technology, with approximately U.S.$18.7 million worth of payments being processed in the six months ended 30 June 2019. In September 2018, the Bank was the first Bank in Kazakhstan to launch a contactless QR code payments system. As of 30 June 2019, approximately 200 thousand payments per month are processed using this technology. The Bank also intends to launch its online lending solutions which will become available to customers later in 2019. The Bank is committed to further developing its offering of digital services as well as other products.

As part of its strategy aimed at enhancing the digital offering of its services, the Bank has entered into agreements with Booking.com, under which 7 per cent. cash back is offered. The Bank has also been providing multicurrency payment services under agreements with Agoda.com and Rentalcars.com, both of which offer 7 per cent. cash back, and with OneTwoTrip, which offers 8 per cent. cash back.

Attractive mix of profitability underpinned by efficient operations and track record of growth

The Bank exhibits high levels of operating efficiency leading to superior profitability levels, by comparison to CIS and European peers and competitors. The Bank's return on average equity reached 27.9 per cent. in 2018 while its CET1 ratio reaching 18.5 per cent. Furthermore, the Bank's cost-to-income ratio amounted to

31.7 per cent., 29.5 per cent. and 28.1 per cent. for the years ended 31 December 2018, 2017 and 2016, respectively. Compared to a sample of banks from Europe and CIS (largest banks in country by total assets operating with a universal banking model), this positions the Bank as the most profitable listed bank among its peers with superior operating efficiency as demonstrated by the lowest cost-to-income ratio as well as the highest capitalisation level, as shown in the table below:

		Year ended 31 December 2018		
	Country	**Cost-to-income**	**RoAE**	**CET1 ratio**
			(%)	
Halyk Bank	Kazakhstan	31.7	27.9	18.5
Forte Bank	Kazakhstan	51.4	14.8	16.2
Sberbank Kazakhstan	Kazakhstan	37.2	25.1	11.6
CenterCredit	Kazakhstan	33.3	7.8	8.7
Bank of Georgia	Georgia	36.5	23.5	12.2
Sberbank	Russia	34.8	23.1	11.8
TBC Bank	Georgia	37.8	21.9	12.4
OTP Group	Hungary	57.9	18.7	16.5
SEB Bank	Sweden	47.8	16.4	17.6
SwedBank	Sweden	38.7	16.3	16.3
KBC Group	Belgium	55.9	13.5	16.0
Svenska Bank	Sweden	49.2	12.6	16.8
VTB	Russia	43.4	12.2	10.7
Erste Group	Austria	62.4	11.9	13.5
BBVA	Spain	49.2	11.8	11.6
Raiffeisen Bank	Austria	59.1	11.6	13.4
DNB Bank	Norway	41.5	11.2	17.2
PKO BP	Poland	51.4	10.1	17.5
Nordea Bank	Finland	54.4	9.6	15.5
ING Group	Netherlands	54.3	9.5	14.5
Danske Bank	Denmark	55.9	9.1	17.0
Lloyds	UK	63.3	9.0	14.6
Banco Santander	Spain	51.5	8.8	11.5
UBS Group	Switzerland	81.2	8.6	12.9
AIB	Ireland	56.2	8.0	21.1
Credit Agricole	France	63.5	7.8	11.5
HSBC	UK	58.6	7.7	14.0
BNP Paribas	France	70.9	7.6	11.8
Intesa Sanpaolo	Italy	58.2	7.6	13.5
UniCredit	Italy	68.6	7.2	12.1
Société Générale	France	70.2	7.1	11.0
BCP	Portugal	49.7	6.0	12.1
Credit Suisse	Switzerland	78.1	4.7	12.6
Barclays	UK	69.9	3.7	13.2
Deutsche Bank	Germany	92.5	0.5	13.6

Source: SNL Financials

In addition to high-level returns, the Bank has also grown its bottom line in absolute terms with net income reaching KZT 253 billion in 2018, which represents an increase of seven times in net income since 2010. The Bank has achieved this through a mix of organic growth and a select number of carefully considered acquisitions over the years while remaining cost efficient. Further, in 2018, the Bank had a leading risk-adjusted net income margin (defined as net interest income before credit loss expense divided by average total assets) of 3.6 per cent., compared to ForteBank, Sberbank, Kaspi and CenterCredit, which had risk-adjusted net income margins of 2.8 per cent., 2.5 per cent., 2.5 per cent. and 1.1 per cent., respectively, in 2018.

Solid asset quality with ample liquidity

An integral part of the Bank's organisation and culture is its prudent approach to risk management. The Bank's consistent focus on this has resulted in relatively low levels of loan losses and robust asset quality. The management believes that the Bank's prudent risk assessment and underwriting policies have allowed it to successfully emerge from the financial crisis and economic slowdown and strengthen its position in the market as a stable bank. As at 30 June 2019, the Bank's non-performing loan ratio, defined as 90 days past due exposures over gross loans, was 8.7 per cent. representing a significant improvement compared to 12.3 per cent. a year earlier. As at 30 June 2019, all non-performing loans were fully covered by cash provisions with non-performing loan coverage ratio reaching 128.4 per cent. In comparison, the non-performing loans coverage ratio amounted to 129.2 per cent., 73.7 per cent. and 111.3 per cent. as at 31 December 2018, 2017 and 2016, respectively.

The Bank has maintained its focus on core corporate and retail banking products, thereby avoiding material losses resulting from investments in structured credit instruments. Additionally, the integration of KKB enabled the Bank to create the largest proprietary database of risk profiles in Kazakhstan. The Bank regularly monitors the effectiveness of its risk management processes to identify, monitor and mitigate material risks, including loan approval processes, proactive handling of problematic customers, changes in credit processes and an early warning system for detecting increased credit risk.

The Bank maintains an ample liquidity position with a loan to deposit ratio of 56.1 per cent. as at 30 June 2019. The Bank's deposit-led funding base supports the overall stability of the Bank, with 78.4 per cent. of total liabilities in deposits and 32.1 per cent. of the Bank's deposit base are low-cost current accounts (the highest level in the Kazakhstan market) as at 30 June 2019. This demonstrates the widespread perception of the Bank as a sound financial institution and "safe haven" in Kazakhstan for both corporate and retail clients.

The Bank maintains an ample liquidity position with a large part of its assets invested in liquid assets including, among other bonds, treasury notes and cash. As at 30 June 2019, the Bank's liquid assets reached 48.0 per cent. of total assets. As at 30 June 2019, the Bank's LCR changed to 188.3 per cent., compared to 194.6 per cent. as at 31 December 2018. It is important to note that the majority of the Bank's liquid assets are represented by Treasury Bills of Ministry Finance of Kazakhstan and NBRK notes. These instruments provide attractive yields, have zero risk weight for the purposes of calculating risk-weighted assets and interest income on these assets is not subject to income tax. As at 30 June 2019, total liquid assets of the Bank amounted to KZT 4.4 trillion.

Robust capital position supporting shareholder returns

The Bank is a strongly capitalised business with a Tier I capital adequacy ratio of 18.3 per cent. as at 30 June 2019, providing a significant buffer above the minimum regulatory capital requirements of 9.5 per cent. on a consolidated basis. Between 2011 and 2018, the Bank has consistently returned capital to shareholders by increasing its dividend pay-out ratio, with the exception of 2015 and 2016. In 2015, economic slowdown led to the Bank choosing to retain its net income, even though capital buffers would have allowed for capital distribution it was deemed more prudent to further strengthen the capital position at this time; and in 2016 net income was retained within the Bank as the possible takeover of KKB was being considered. From 2017 onwards, the Bank has resumed capital distribution and its strong capitalisation levels allowed the Bank to approve a dividend of 50 per cent. of its consolidated net profit of 2018 and to pay out 40 per cent. of its consolidated net profit of 2017. Given its strong profitability and continued ample organic capital generation, the Bank is uniquely positioned to offer attractive capital distributions to its shareholders in line with its dividend policy, while maintaining prudent capitalisation levels and retaining optionality for investments in future growth opportunities.

Corporate governance modelled on international standards and experienced and stable management team with proven track record

The Bank has applied strong corporate governance standards using UK Corporate Governance Code as guidance for its internal regulation documents and having adopted certain best corporate governance practices observed in the Organisation for Economic Co-operation and Development ("OECD") and G20 countries. Five out of seven directors in the Board of Directors are independent directors including the Chairman, demonstrating the Bank's aim to have high corporate governance standards.

The Bank's senior management team is highly experienced with a proven track record of leading the Bank through a number of transformational changes. These include a change in business focus, leading the Bank following the financial crisis and subsequent economic and financial difficulties in Kazakhstan (and especially in Kazakhstan's banking sector), and, most recently, the successful acquisition and integration of KKB. Through these changes and transformation of the Bank in terms of size and strategic focus, the management team has maintained stability within the Bank, evidenced by the consistent generation of net profit in each year since 2008 even at times when Kazakhstan's banking sector as a whole was reporting losses. The Bank has been led by stable management team—the majority of management have more than 15 years of banking experience. Furthermore, Alexander Pavlov, the Chairman of the Board of Directors, has been the Chairman of the Bank since 2004. For more information on the background and qualifications of each of the individual members of the Board of Directors, see "*Management and Employees*".

Strategy

In 2018, the Bank formulated a new strategic plan for 2019-2021 including key drivers for the future business development which reflects strategic initiatives established as part of the KKB's integration and in response to the increase in the Bank's size and customer reach. In order to implement its strategic plan, the Bank has formulated the following strategic initiatives for 2019-2021:

Undisputed leader at the forefront of our client needs

The Bank is focused on positioning itself as a key partner to its customers across all market segments. The large scale of the Bank following the integration of KKB (25 per cent. to 50 per cent. market share in most submarkets) gives it direct access to a sizeable customer base and their data which allows the Bank to tailor its strategic initiatives and increase product penetration per client. The Bank also seeks to grow through further diversification of its customer base by penetrating new client groups where the Bank is not the primary banking relationship. This can be accomplished by further exploring cross-selling opportunities with existing clients, increasing product penetrating levels, penetrating new client groups where the Bank is not the key banking relationship and attempting to gain market share.

Client-orientation and focus on quality of the service

The Bank is focused on further strengthening its competitive advantages and market-leading position by focusing on addressing customer needs and improving customer experience in the long term. The Bank is focused on developing services, product offering and other solutions in line with the best market practices to be able to engage with its customers even more and set a benchmark for the quality of service in the market. To achieve this goal, the Bank is concentrating on improving further its internal procedures, having an agile business and operational model that would allow reacting to rapidly changing customer needs in a timelier manner, as well as encouraging culture of innovation, improving approaches to decision-making and feedback gathering as well as further developing incentive schemes.

Focus on further development of digital offering

Digitalisation of the Bank's services is one of its core initiatives, which will allow it to enhance the customer experience and to meet the expectations of clients, which is of high importance given the increasing competition in the market. The KKB acquisition in July 2018 created an enhanced opportunity to improve, identify and develop the digital proposition of the Bank. The digitalisation agenda of the Bank is focused on development of digital services and solutions in accordance with the best market practices with a focus on high quality of service. The Bank plans to leverage its sizable customer base to market its increasingly digitised banking services.

Main transactional bank of the country

The Bank focuses on utilising its wide client outreach in order to develop its transactional services, aspiring to be the leading provider of transactional services for payment flows in Kazakhstan, including cash and non-cash transactions, benefiting from the increasing scale of the growing Kazakhstan economy. The Bank plans to apply its strong existing infrastructure and implement a number of specialized digital services and payment solutions to ensure the availability of its banking services for all segments of the population. In particular, the Bank intends to significantly increase the number of active payment cards in circulation; enhance its network of fixed and remote sales channels; significantly increase the number of transactions (cashless payments and cash withdrawal) using cards and POS terminals; and significantly increase the number of internet banking users.

Selective international expansion

The Bank is considering a number of expansion opportunities which would allow it to further diversify as well as to increase the size of its business. The Bank aims to apply a first mover advantage to become one of the leading banks in the Republic of Uzbekistan. In line with the agreement between the NBRK and Central Bank of Uzbekistan, the Bank has received consent from the Central Bank of Uzbekistan to launch a subsidiary in the country. In July 2019, the Bank started servicing its clients in Uzbekistan through its subsidiary, Tenge Bank. The Bank is also increasing its focus on Kazakhstan clients and government projects in other international markets.

This strategy was approved by the Board of Directors on 14 September 2018. In accordance with the requirements of the NBRK Regulation No. 29, management reports will be prepared (on a semi-annual basis) and submitted to the Board of Directors and the Strategic Planning Committee on the progress of its implementation.

Mission and values

The Bank's strategic mission is to provide services in all segments of the financial market in Kazakhstan and a number of other countries, in accordance with sound international banking practice, having regard to the best interests of its customers and shareholders.

This mission is underpinned by the following key values of the Bank:

Client orientation: The Bank understands the needs of its customers and uses its resources for offering clients efficient solutions.

Reliability: The Bank complies with legislation and regulations in Kazakhstan, and legislation of other countries where the Bank carries out its business, internal provisions and regulations. The Bank is also committed to high standards of corporate governance, following the policy of openness and transparency for its shareholders, customers, business partners, state authorities and employees. Reliability is the key factor for maintaining the business reputation of the Bank.

Leadership: The Bank is committed to reinforce its leading positions in servicing customers in all relevant Kazakhstan market segments. In particular, the Bank's dedicated management team is focused on encouraging innovation and operating a leading regional financial institution with regard to asset and earnings quality and consistency.

Social responsibility: The Bank is focused on the needs and interests of all parts of the population to meet the demand of all customers. The Bank also pays specific attention to its social responsibility, striving to actively contribute to the development of society and resolution of social issues.

Integrity: The Bank seeks to maintain transparency in all spheres of its business. The Bank continues to bolster transparency in internal processes, build mutually respectful and trustworthy relationships with customers and maintain an honest attitude towards business from employees, and compliance with the corporate ethics.

Professionalism: The Bank adheres to high professional standards and strongly encourages innovation and new ideas. The Bank aspires to render customer service in an honest, timely and professional manner, which the Bank believes will ensure firm and long-lasting relationships with customers.

Principal Business Activities

Retail banking

Overview

The Bank's retail banking operations include deposit taking activities (current and term deposits in KZT and foreign currencies), salary accounts, money transfers (including utility payments), credit and debit card services, consumer lending, mortgages and personal banking services. The Bank also provides paying agency services for state pension payments and other social security payments. As at 30 June 2019, the Bank had approximately 11.0 million retail customers. For the six months ended 30 June 2019, on a consolidated basis, 24.5 per cent. (25.1 per cent. for the corresponding period in 2018) of total interest income and 68.6 per cent. (69.6 per cent. for the corresponding period in 2018) of total fee and commissions income (excluding income from foreign exchange operations) was derived from retail banking. As at 30 June 2019, the total book size of retail loans amounted KZT 1,007 billion on a consolidated basis. The number of retail loans reached 843 thousand, 785 thousand of which were unsecured consumer loans on an unconsolidated basis. For the same period, the total deposit book size reached KZT 3.2 trillion and there were 6.7 million active retail bank accounts with the Bank.

Customer segmentation

As at 30 June 2019, the Bank's customer base comprises 11.0 million customers who use at least one product of the Bank, out of which 66 per cent., or 7.2 million, are active customers (i.e., customers who make more than one transaction per month within three months).

Since 1996, the Bank has been the main agent for the payment of pensions and benefits and serves more than 2.5 million pensioners and recipients of social payments. As at 30 June 2019, the Bank's market share in the total volume of social payments was 70.5 per cent., and 68.1 per cent. in terms of the number of transactions.

As at 30 June 2019, the total number of payment cards was 9.1 million, representing a 34.0 per cent. share of the market, of which the number of active payment cards was 5 million. As at 30 June 2019, the total number of payment card holders amounted to approximately 8.1 million. The Bank continues to lead the market with a 35.0 per cent. market share in terms of active payment cards.

In order to better serve the individual needs of its retail customers and to enable the Bank to provide more tailored services to different types of customers, the Bank divides its retail customers into four segments, "Super VIP", "VIP", "Premium/Premier", and "Mass market", based on annual income levels and amounts of deposits. "Mass-market" customers are those who do not qualify for "VIP" and "Premium/Premier" categories and whose personal monthly income is less than KZT 200 thousand. "Premium/Premier" customers comprise mostly top managers of public administrative agencies or medium-sized businesses, top managers and their deputies of companies that fall into the biggest categories of payroll clients of the Bank. "VIP" customers comprise mostly top managers and deputies of large private businesses and state-owned companies and top managers and deputies of public administrative agencies and heads of diplomatic missions. Customers are divided between the "Premium" and "VIP" segments based on the level of deposits that they hold with the Bank. "Super VIP" customers comprise customers meeting the requirements of "VIP" status with a level of deposits of at least U.S.$1 million. As at 30 June 2019, 96 per cent. of the Bank's retail customers were classified as "Mass-market". The Bank uses this customer segmentation to offer its customers services and products tailored to their individual needs. "Super VIP" customers have access to "VIP" centres with personal managers appointed to assist them. The "VIP" and "Premium" segment benefits from specially assigned "Premium" zones offering special service packages. Mass-market customers are served through the Bank's extensive branch network.

As at 30 June 2019, the Bank's network amounted to 641 branches and outlets, (24 regional branches and 617 points of sale (120 regional offices, 3 "VIP" service centres, 110 personal service centres, 54 banking service centres, 296 cash settlement units and 34 business centres for servicing legal entities)), 4,383 ATMs, 1,046 payment terminals, 63 multi kiosks (converted to PT) and 74,119 POS terminals). As at 31 December 2018, 2017 and 2016, the number of the Bank's branches and outlets reached 647, 699 and 509, respectively. The increase in 2017 was primarily attributable to the acquisition of KKB, which led to an increase in the number of branches to 727, as at 30 June 2017.

Products and services

Retail Current Accounts and Term Deposits: As at 30 June 2019, on a consolidated basis, the Bank had amounts due to retail customers (individuals) of KZT 3,241,081 million, of which KZT 2,770,374 million were term deposits, which bear interest and have terms generally ranging from overnight to 15 years, and KZT 470,707 million were current accounts, which do not bear interest and are repayable on demand. As at 30 June 2019, the Bank had approximately 747.4 thousand term deposits. Amounts due to retail customers represented 52.1 per cent. of the Bank's total amounts due to customers on a consolidated basis as at 30 June 2019, compared to 52.0 per cent. as at 31 December 2018. KZT-denominated and foreign currency denominated deposits represented 41.8 per cent. and 58.2 per cent. of total retail deposits, respectively, as at 30 June 2019. According to statistics published by the NBRK, the Bank's total market share of total amounts due to retail customers across the banking sector was 36.4 per cent. as at 30 June 2019.

The Bank launched an updated line of deposits on 5 February 2019, in accordance with the conditions of terms established by the KDIF. The Bank offers savings deposits with the conditions of payment of no interest upon early termination, no deposit replenishment and partial withdrawal and offers higher interest rates compared to deposits where deposit replenishment and partial withdrawal are available.

Retail Lending: The Bank is active in both the retail mortgage and consumer lending markets. On a consolidated basis, retail lending (loans to individuals) represented 25.8 per cent. of the Bank's total loans to customers before allowance for expected credit losses as at 30 June 2019, compared to 25.4 per cent. as at 31 December 2018. Retail mortgages represented 6.8 per cent., while consumer loans represented 19.0 per cent., of the Bank's total loans to customers before allowance for expected credit losses as at 30 June 2019, again on a consolidated basis (7.0 per cent. and 18.4 per cent., respectively, as at 31 December 2018). According to statistics published by the NBRK, the Bank's market share of total retail loans across the banking sector was 18.8 per cent. as at 30 June 2019, compared to 19.9 per cent. as at 31 December 2018. Retail loans are available in Tenge, Euro or U.S. Dollars with the majority of loans being denominated in Tenge (96.0 per cent. of total retail loans). Foreign currency loans are granted only if the lending is secured by a Euro or U.S. Dollar (as applicable) deposit placed by the borrower with the Bank. As at 30 June 2019, the Bank has approximately provided 785,165 unsecured loans worth 665.8 billion and approximately 13,647 retail loans, which are secured by real estate assets, worth KZT 50.1 billion.

The Bank actively provides residential mortgages both under its own programs, as well as participates in Government programs such as the "7-20-25" programme (a programme which offers preferential terms, of 7 per cent. interest rate and 20 per cent. down payment for 25 years, to first-time home buyers), the "Market mortgage product (Baspana-hit)", and the program of refinancing of mortgages using funds provided by JSC Kazakhstan Sustainability Fund. While the stated maturities of the Bank's mortgage products range from six to 25 years, as at 30 June 2019, the Bank's mortgage loan portfolio had a remaining average life of eight years. All mortgages are offered at a fixed rate of interest ranging between 1.7 per cent. and 21 per cent. per annum. As at 30 June 2019, 62.5 per cent. (by number) of the mortgage portfolio comprised standard mortgages, 3.2 per cent. (by number) were mortgages issued under the "Baspana-hit" programme (the programme allows for down payments of more than 20 per cent., reduced terms of up to 180 months and has different interest rates based on the NBRK's base rate), 3.1 per cent. (by number) were mortgages issued under the "7-20-25" programme (a programme which offers preferential terms, of 7 per cent. interest rate and 20 per cent. down payment for 25 years, to first-time home buyers) and 24.5 per cent. (by number) were mortgage loans refinanced using funds provided by the Kazakhstan Sustainability Fund and Distressed Asset Fund. As at 30 June 2019, the Bank had refinanced 12,398 mortgage applications for KZT 77.2 billion. According to statistics published by the NBRK, the Bank's market share of the mortgage lending market in Kazakhstan was 14.5 per cent. as at 30 June 2019, compared to 17.2 per cent. as at 31 December 2018. As at 30 June 2019, the Bank has approximately provided 38,500 mortgage loans worth KZT 218.1 billion.

Consumer loans are to a large extent represented by salary-backed loans (75.6 per cent. of aggregate consumer loans as at 30 June 2019 and 77.4 per cent. of aggregate consumer loans as at 31 December 2018 on a non-consolidated basis). Salary-based loans are covered by cash to be received from the employees within the framework of the salary project within the Bank. Loans are issued up to KZT 6 million with an average maturity of six years and with a fixed interest rate of 16 per cent. per annum. In addition, the Bank offers express loans for non-payroll customers, revolving salary loans (card overdrafts), credit cards, and instalment cards to its retail customers.

Car loans are also a key retail offering of the Bank. As at 30 June 2019, the Bank has two lending programmes under the state programme "Preferential car loans using funds provided by JSC Development Bank of Kazakhstan", as well as the Bank's own programme.

Payroll Services: Payroll programmes are one of the Bank's main strategic services. In total, approximately 40,000 businesses rely on the Bank's payroll services. In 2018, the volume of payroll transfers rose by 50 per cent. year-on-year to KZT 4.2 trillion. As at 30 June 2019, the Bank provided 5 million payroll cards. As a way of showing its loyalty to payroll customers, the Bank also offers them favourable terms on secured and unsecured loans.

Retail Card Services: The Bank was the first bank in Kazakhstan to issue plastic cards and to develop a POS terminal system and has subsequently played a key role in developing the retail card market in Kazakhstan. The Bank distributes both debit and credit cards, including VISA (Visa Instant, Visa Gold (Rewards), Visa Platinum, VISA Signature, Visa Infinite and Virtuon), MasterCard (MasterCard Gold (World), MasterCard Platinum, MasterCard Black Edition, MasterCard World Elite), and Union Pay International (Altyn UPI Gold, UPI Platinum, UPI Diamond, Asia Prestige Diamond), American Express (Rewards, Gold, Blue, Platinum) and provides card processing services for a number of Kazakhstan banks. On 1 December 2018, the Bank launched a new updated line of debit cards with package offers, which, depending on the package status, include the opportunity for free issuance of additional cards, SMS banking, insurance of card holders, access to a lounge key and concierge services. As at 30 June 2019, the Bank was servicing approximately 134,717 credit cards and has KZT 24.1 billion worth of loans outstanding.

The following table sets out the breakdown of the Bank's services in its retail banking operations based on the amount of loans on an unconsolidated unaudited basis:

	As at 30 June 2019
	(%)
Unsecured loans	69
Mortgage	22
Retail secured loans	5
Credit cards	2
Car loans	1

ATMs and other sales, service and distribution channels

The Bank operates the largest ATM network in Kazakhstan, which consisted of 4,383 operating ATMs as at 30 June 2019.

Since August 2018, the Bank has been an operator of the new "Faster" payment system, which is among the three leading systems in Kazakhstan's money transfer market in terms of the number of transfers.

The "Faster" system supports integration with other transfer systems, such as "Golden Crown" and "Intel Express", which allows it to serve customers at approximately 57,000 money transfer locations. The "Faster" system also has 15 partner banks, including Bank's entire branch network.

The system makes it possible to send and receive money transfers online at any service location in Kazakhstan, as well as service locations of partner systems overseas, in four currencies (KZT, USD, EUR and RUB). The system works on an internet platform and transfers take approximately one minute.

In 2018, the total number of transactions conducted via the Bank's payment terminal network rose by 30 per cent. year-on-year to 15.5 million transactions, compared with 11.9 million transactions in 2017.

In addition to its branch network, ATMs, payment terminals, multi-service kiosks and POS terminals and its internet banking and mobile phone banking platforms (see "*—Distribution Network*"), the Bank performs operations such as cash settlement services for legal entities, money transfers, utility payments, cash operations and foreign currency exchange across all of its distribution channels.

In December 2018, in order to develop remote sales channel, a new service of Western Union transfers was connected to the Homebank online banking platform.

In order to encourage customers to utilise remote sales channels and increase customer loyalty, the Bank has introduced various campaigns eliminated numerous fees for certain types of payments and services. The most popular services among customers are now offered free of charge by the Bank, including, among others, payment of utility bills, traffic fines and taxes, as well as adding funds to public transport cards.

Corporate banking

Overview

Corporate banking remains a core business for the Bank. In Kazakhstan's current banking environment, the Bank enjoys significant advantages, including strong capitalisation. It also has a stable funding base and high liquidity in Tenge and foreign currencies, which help it to increase its presence in corporate lending by offering customers new opportunities to expand their business. At the same time, the Bank maintains a high-quality loan portfolio. The primary indicator of its effective customer policies is the continuous growth in the number of customers served. The continued trust in the Bank is confirmed by the growth of funds in customer accounts, as well as the rising number of banking products used by the customers.

For its internal segmentation, the Bank generally considers companies with annual revenue of more than KZT 10 billion as corporate clients and companies with lower revenue as SME clients. The Bank works with 75 out of the top 100 companies, as measured by revenue, in Kazakhstan and with more than 75 per cent. of largest Kazakhstan taxpayers (based on the Bank's estimates). Its corporate customers include quasi-sovereign companies, market-leading private businesses, as well as mid-market clients in various sectors of Kazakhstan's economy. Focusing on building long-term partnerships with its customers, the Bank successfully invests in its relationships with both existing and new customers. The Bank's team strives to perfect its services and processes for its corporate clients, developing new products and improving the quality of its banking services. In 2018, the Bank continued to actively develop its corporate business, remaining a significant player and key investor in Kazakhstan's market.

The main products provided to corporate customers include lending, trade finance and documentary operations, cash settlement services, payroll projects and merchant acquiring services. The Bank has acquired 31,000 merchant acquiring clients resulting in 49 per cent. of the market share for POS terminals. The Bank also offers the full range of group services, including all types of insurance, brokerage, cash collection and other services.

As at 30 June 2019, not including SMEs, the Bank had 3.0 thousand large corporate clients, including approximately 428 large corporate borrowers, and loans to top ten large corporate clients represented 18.0 per cent. of total gross loans to customers before allowance for expected credit losses on a consolidated basis. For the six months ended 30 June 2019, on a consolidated basis, 35.9 per cent. (35.1 per cent. for the corresponding period in 2018) of total interest income and 11.8 per cent. (8.8 per cent. for the corresponding period in 2018) of total fee and commission income (excluding income from foreign exchange operations) was derived from banking services provided to large corporate clients (not including SMEs). According to statistics published by the NBRK (which include lending to medium-sized businesses but not small businesses), as at 30 June 2019, the Bank had a 55.9 per cent. share of the Kazakhstan corporate lending market (compared to 48.9 per cent. as at 31 December 2018). The Bank generated KZT 10.6 billion in fee income from corporate banking for the year ended 31 December 2018.

Customer segmentation

The Bank classifies each corporate client into large corporate or SME based on revenue for the last reporting year available, whether it is part of a larger group of companies/parent company serviced by the Bank, and which unit of the Bank is servicing the client. Kazakhstan private and national companies, foreign companies, and companies affiliated with a group of companies whose annual revenues are over KZT 10 billion are classified into the large corporate business segment. For SME classifications, see "*—SME banking—Customer segmentation*".

The following table sets out the industry breakdown of the Bank's gross loans in its corporate and SME banking operations:

	As at 30 June 2019
	(%)
Services	24
Wholesale trade	16
Real estate	9
Construction	8
Retail trade	7
Transportation	5
Agriculture	5
Mining	3
Other	24

As at 30 June 2019, KZT-denominated loans comprised 69.0 per cent. of gross loans in the Bank's corporate and SME banking operations. As at 30 June 2019, interest income attributable to the Bank's corporate and SME banking operations reached KZT 157,620 million, with a gross yield, non-performing loan ratio and provision coverage reaching 10.1 per cent., 7.2 per cent. and 125.0 per cent., respectively.

The following table sets out the sector breakdown of the Bank's deposits in its corporate and SME banking operations:

	As at 30 June 2019
	(%)
Oil and gas	21
Financial sector	13
Healthcare and social services	8
Construction	8
Other consumer services	7
Other	42

As at 30 June 2019, KZT-denominated deposits comprised 55.8 per cent. of gross deposits in the Bank's corporate and SME banking operations. As at 30 June 2019, interest expense attributable to the Bank's corporate and SME banking operations reached KZT 51,131 million, with a cost of current accounts and cost of term deposits, reaching 0.9 per cent. and 5.0 per cent., respectively.

Products and services

Corporate Current Accounts and Deposit Accounts: As at 30 June 2019, the Bank had KZT 1,523,995 million in its corporate current accounts and KZT 1,455,387 million of corporate term deposits, having terms generally ranging from overnight to 15 years. This compares to KZT 1,756,748 million and KZT 1,374,592 million as at 31 December 2018. According to statistics published by the NBRK, the Bank's corporate deposits and current accounts (including those of SMEs) of KZT 3,009,626 million represented 39.1 per cent. and 1,459,973 million represented 42.9 per cent. of the total market share for Kazakhstan banks as at 30 June 2019. Amounts due to corporate clients represented 47.9 per cent. of the Bank's total amounts due to customers as at 30 June 2019, compared with 48.0 per cent. as at 31 December 2018.

Corporate Lending: Loans to corporate clients consist principally of secured loans with maturities ranging from 10 days to 22.5 years. Lending to corporate clients (excluding SME customers) amounted to KZT 2,337,122 million as at 30 June 2019. The major sectors of corporate lending are: construction, the mining industry, the oil and gas sector, real estate, agriculture, wholesale and retail trade. See "*Selected Statistical and Other Information—Loan Portfolio—Loans by Sector*". The loans to customer portfolio is regularly monitored by the Bank's risk management department to facilitate the taking of adequate provisions. See "*Asset, Liability and Risk Management*". As at 30 June 2019, the Bank's largest single exposure to a single borrower had an outstanding aggregate amount (including principal and accrued interest) of KZT 124,104 million and represented 3.2 per cent. of the Bank's gross loan portfolio, while the Bank's loan concentration to the ten largest borrowers had an outstanding aggregate amount of principal and interest of KZT 694,276 million and represented 18.0 per cent. of gross corporate loans. The Bank also issues loans to corporates under Government Support Programmes (see "*Business of the Bank—Government Support Programmes*").

Trade Finance: The Bank's trade finance business is focused on documentary operations, such as the issuance of letters of credit and guarantees. As part of its trade finance operations, the Bank has well established business relationships with a number of international banks which provide credit lines to the Bank within the framework of these business relationships. As at 30 June 2019, the aggregate amount of guarantees issued by the Bank was KZT 448,323 million (compared to KZT 415,531 million as at 31 December 2018). In its portfolio the Bank has counter-guarantees backed up by its partner banks and guarantees issued by the Bank upon request of its partner banks. According to data produced by competitor banks and published on the KASE, as at 30 June 2019, the Bank held the leading market position in terms of the number of guarantees and letters of credit issued, with market shares of 46 per cent. and 75 per cent., respectively compared to 43 per cent. and 72 per cent. as at 31 December 2018. The Bank generated KZT 7,035 million in fee income from guarantees and letters of credit issued for the year ended 31 December 2018.

Corporate Card Services: Corporate cards are issued to corporate clients for payment of general and administrative expenses and generally include nominal overdraft protection. At the client's option, various limits and restrictions on the use of the corporate card account can be set for security purposes. As at 30 June 2019, the Bank had issued approximately 661 active cards (i.e., cards used at least once in every six months) to corporate clients compared to approximately 400 cards as at 31 December 2018. Customs payment cards are also available to corporate clients, as well as self-withdrawal cards for replenishing their accounts through ATMs. Salary cards are issued to employees of large corporates having corporate payroll schemes with the Bank. See "*—Retail banking—Products and services—Payroll services*".

Transactional Banking Products and Services for Corporate Customers: In line with the Bank's strategy for offering new digitalised products to corporate customers, one of the Bank's main growth areas in the corporate sector is sophisticated cash management services (material cash pooling, payment factory, solutions for corporate treasury including foreign exchange operations and hedging activities, integration with accounting and enterprise resource planning client systems). The Bank is actively involved in the development of remote service channels, such as Onlinebank. This system for remote servicing of legal entities is the target system following the reorganisation of the Bank through the merger of KKB into the Bank, and it contains optimal functionality for corporate clients, based on the collective experience of the two largest banks in Kazakhstan. Specifically, this system provides services, including, among others, KZT payments, foreign exchange conversions and transfers, account activity monitoring, deposits, issuance of guarantees, online consultants, currency control services and the ability for corporate customers to make payments through the Bank at all times. As of 30 June 2019, Onlinebank has approximately 168.9 thousand users.

In addition, the Bank provides asset management and investment banking services through its subsidiaries, Halyk Finance and Kazkommerts Securities. See "*Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—Securities Brokerage and Asset Management—Halyk Finance*" and *Other Business Activities conducted through Subsidiaries—Subsidiaries based in Kazakhstan—Securities Brokerage and Asset Management—Halyk Finance and Kazkommerts Securities*". The Bank's corporate relationship managers are also responsible for cross-selling pension, insurance and leasing services. See "*Other Business Activities conducted through Subsidiaries*".

Sales, Service and Distribution Channels

The Bank has three corporate lending departments located at its head office in Almaty, through which companies are able to obtain a broad range of corporate banking services from a relationship management team. In addition, the Bank has a government relations department located in Nur-Sultan.

SME banking

Overview

The Bank's SME banking operations include lending, payroll services, transactional banking services, leasing, insurance, pensions, cards and trade finance. As at 30 June 2019, the Bank had 297,210 SME customers, including 7.6 thousand borrowers, and, on an unconsolidated basis, loans to SME customers represented 13.6 per cent. of total loans to customers before allowance for expected credit losses (compared to 14.3 per cent. as at 31 December 2018). Since statistics are not published by the NBRK for SME banking on a stand-alone basis separately from large corporate banking, there is no official market share information available in respect of the Bank's SME businesses.

Customer segmentation

The Bank divides its SME customers into small businesses and medium-sized businesses. Generally, small business customers are those customers with an annual turnover of up to KZT 500 million or clients with total credit exposure to the Bank of up to KZT 300 million, while medium-sized businesses are those customers that have a total credit exposure of up to KZT 5 billion or an annual turnover of between KZT 500 million and KZT 10 billion. These parameters are indicative only and may vary from region to region and depending on the nature of the relationship between the relevant customer and the Bank.

Products and Services

SME Current Accounts and Deposit Accounts: As at 30 June 2019, the Bank had KZT 537,584 million in its SME current accounts and KZT 231,522 million of SME term deposits. This compares to KZT 560,825 million and KZT 330,547 million respectively as at 31 December 2018. Amounts due to SME customers represented 12.8 per cent. of the Bank's total amounts due to customers on a non-consolidated basis as at 30 June 2019, compared with 14.0 per cent. as at 31 December 2018.

SME Lending: The Bank offers its SME customers loans secured by real estate and/or tangible property, ranging from one month to seven years. Moreover, in order to take advantage of the growth opportunities in this business, the Bank has established standardised loan programmes for SME customers, which are designed to meet different business requirements and provide terms varying by reference to the available collateral, purpose and the tenor of the loan. Lending to SME customers amounted to KZT 548,490 million as at 30 June 2019 compared to KZT 576,522 million at 31 December 2018. The Bank's dedicated programme for small businesses initially evolved from the micro-lending programmes developed by the European Bank for Reconstruction and Development for the top banks in Kazakhstan in 1998. Based on this platform the Bank has developed its own small business programmes, including, among others, programmes aimed at lending to start-up companies. The Bank also issues loans to SMEs under Government support programmes (see "*Business of the Bank—Government Support Programmes*").

Sales, services and distribution channels

The Bank has a dedicated SME department located in the head office in Almaty. SME Banking is represented in 24 regional branches, including 23 sales centres for small business, 18 sales centres for medium-sized businesses and one sales centre for small and medium-sized businesses.

In line with its strategy for improving efficiency in its existing sales channels (see "*Business Strategy*"), the Bank also uses its SME network for cross-selling insurance, payroll, card and leasing services of the Bank.

Government Support Programmes

Since 2009, the Bank has been actively participating in government support programmes aimed at providing support to private businesses in order to promote the stability and balanced growth of regional businesses in the primary sectors of the economy, as well as to maintain and create new jobs in these sectors. These sectors include agriculture, real estate, local car production and other sectors of the economy in Kazakhstan. The Bank's strategy is to continue to be actively involved in these programmes (see "*Business Strategy*"). As at 30 June 2019, the Bank's participation in these programmes represented 5.6 per cent. of the Bank's total corporate (including SME) lending portfolio, compared to 5.2 per cent. as at 31 December 2018, 5.2 per cent. as at 31 December 2017 and 5.3 per cent. as at 31 December 2016, and 8.6 per cent. of the Bank's total corporate (including SME) deposit base, compared to 7.9 per cent. as at 31 December 2018, 4.5 per cent. as at 31 December 2017 and 6.9 per cent. as at 31 December 2016. The programmes operate by making financing available on favourable terms through lending from development funds or through the Government subsidising interest rates. Under these arrangements, the Bank borrows from programme operator (see table below) and on-lends the money to various SMEs and large corporates. The Bank services the loans and retains a margin on the interest earned. Alternatively, the Bank makes a loan from its own funds at a lower than usual interest rate payable by the borrower, with the Government subsidising and making up the difference in, the interest rates by way of direct payments to the Bank. Companies in certain specified sectors of production in Kazakhstan, such as agriculture, are priority recipients of these loans. The Bank's normal credit risk assessment procedures are applied to these borrowers (since it is the Bank, and not the Government, which bears the default risk).

The table below sets out key aspects of the Bank's participation in Government Support Programmes related to large corporate and SME banking at the date of this Offering Memorandum.

Programme Operator	Programme	Type of Government support	Funds allocated to the Bank	Tenor	Interest rate for the Bank	Interest rate for the client
			(KZT millions)	*(years)*	*(per cent. per annum)*	*(per cent. per annum)*
Damu Fund	Programme in support of SMEs in the manufacturing industry and services related to the maintenance of the manufacturing industry	Placement of funds for further on-lending	20,000	20	2.0	Not more than 6
Damu Fund	Programme in support of SMEs in the manufacturing industry and services related to the maintenance of the manufacturing industry	Placement of funds for further on-lending	6,000	20	2.0	Not more than 6

Programme Operator	Programme	Type of Government support	Funds allocated to the Bank	Tenor	Interest rate for the Bank	Interest rate for the client
			(KZT millions)	*(years)*	*(per cent. per annum)*	*(per cent. per annum)*
Damu Fund	Programme in support of SMEs in the manufacturing industry and services related to the maintenance of the manufacturing industry	Placement of funds for further on-lending	6,000	20	2.0	Not more than 6
Damu Fund	Programme in support of SMEs in the manufacturing industry and services related to the maintenance of the manufacturing industry	Placement of funds for further on-lending	20,000	20	2.0	Not more than 6
Damu Fund	Programme in support of SMEs in the manufacturing industry and services related to the maintenance of the manufacturing industry	Placement of funds for further on-lending	6,000	20	2.0	Not more than 6
Damu Fund	Programme in support of SMEs in the manufacturing industry and services related to the maintenance of the manufacturing industry	Placement of funds for further on-lending	6,000	20	2.0	Not more than 6
Damu Fund	The State Program for the Development of Productive Employment and Mass Entrepreneurship for 2017 – 2021 "Enbek"	Placement of funds for further on-lending	9,684	According to agreements and loan agreement (not more than 7)	1	Not more than 6
Damu Fund	Regional financing of SMEs	Interest rate subsidy	20,900	3 – 7, depending on the region	3.0 – 4.5, depending on the region	6.5 – 8.5 depending on the region
Damu Fund	Unified Accumulative Pension Fund program	Placement of funds for further on-lending	20,900	3.5	16.5	Not more than 19
JSC Agrarian Credit Corporation . . .	The financing program of subjects of agrarian and industrial complex, for spring—field and harvesting work "Ken Dala VPiYR"	Placement of funds for further on-lending	9,093	Until December 1,2019	2	Not more than 6
JSC Agrarian Credit Corporation . . .	The financing program of subjects of agrarian and industrial complex (Agro Export)	Placement of funds for further on-lending	3,132	According to the terms of the program	10 and 4	8 and 14

Programme Operator	Programme	Type of Government support	Funds allocated to the Bank	Tenor	Interest rate for the Bank	Interest rate for the client
			(KZT millions)	*(years)*	*(per cent. per annum)*	*(per cent. per annum)*
JSC Kazagromarketing	JSC National Managing Holding KazAgro (Holding). Second-tier banks funding program for on-lending to companies in the agrarian and industrial complex Development of the agro-industrial complex in the Republic of Kazakhstan for 2013-2020 "Agrobusines—2020"	Funding	51,538	8.7	Up to 3 for funds in KZT and up to 1 for funds in foreign currency	Not more than 7 for KZT, 5 for foreign currencies
Development Bank of Kazakhstan	Development Bank of Kazakhstan programme for lending to companies in the processing industry	Placement of funds for further on-lending	15,683	20	2	6
Development Bank of Kazakhstan	Development Bank of Kazakhstan programme for lending to companies in the processing industry	Placement of funds for further on-lending	15,237	20	2	6

Distribution Network

As at 30 June 2019, the Bank's branch network consisted of 24 regional branches, which report to the Head Office in Almaty; 120 sub-regional branches and 296 cash settlement units distributed across all regions in Kazakhstan, each of which reports to its respective regional branch; 54 banking service centres; 3 "VIP" centres, 110 personal service centres and 34 business centres for servicing legal entities. In addition, as at 30 June 2019, the Bank operated a network of 4,383 operating ATMs, 1,046 payment terminals, 63 multi kiosks (converted to PT) and 74,119 POS terminals (for non-cash payments for goods and services, including information and transaction terminals) located within the Bank's branches and at shopping centres and supermarkets throughout Kazakhstan. The Bank's branch network development strategy is to further integrate and digitalise sales and service operations, using new technologies to transfer customers to remote banking services, improve the quality and speed of customer service, along with improving corporate culture, motivating and developing employees and increasing their efficiency.

Internet banking and mobile phone banking are playing an increasing role in the distribution of the Bank's products and services. Internet banking is carried out through the Homebank online banking platform for retail customers, which was integrated by the Bank following the merger of KKB into the Bank, and Onlinebank online banking platform for corporate customers. Homebank facilitates the provision of retail banking services by allowing the customers to make payments to suppliers and money transfers, arrange debit and virtual card issuance, open current and deposit accounts, make loan and credit card applications and use other related services. In 2018, a new version of the Homebank online banking platform was launched. Customers can now pay for services and make transfers without entering their account with a card issued by any bank in Kazakhstan. The primary differentiator of the new version was an updated user interface that simplified access to all online banking functions. In the first half of 2019, the number of internet banking users increased by approximately 10 per cent. reaching approximately 3.8 million as at 30 June 2019 and achieving 9.5 million average monthly visits. In the first six months of 2019 the Bank's internet banking users effected over 15 million payments and transfers. As at 30 June 2019, the total number of Homebank application downloads in Google Play store and App Store had exceeded 4.4 million and the total number of downloads of the Bank's mobile apps has surpassed 4.5 million. As a result, Homebank application is ranked top 5 by number of downloads among free applications in the "Finance" category on both of the platforms. Overall, the Bank's mobile banking customer growth rate was 69 per cent. and 52 per cent. quarter-on-quarter growth as at 30 June 2019 and 31 December 2018, respectively.

The Bank capitalises on the growth of person-to-person transfer service processed 6 million money transfers, worth U.S.$ 667 million, during the six months ended 30 June 2019. Through Card2Card service, the Bank is able to seamlessly process money transfers between Kazakhstan banks and Visa Direct and MasterCard MoneySend services, allowing the Bank's clients to procure money transfers to any bank in the world.

International Banking

The Bank also provides services for customers engaged in international trading. In addition, the Bank conducts banking operations in Russia, Kyrgyzstan, Georgia and Tajikistan through its banking subsidiaries in these jurisdictions. See "*Other Business Activities conducted through Subsidiaries—Foreign Banking Subsidiaries*".

The Bank has also launched the operations of Tenge Bank, a subsidiary bank in Uzbekistan. In May 2019, the Bank obtained a license from the Central Bank of the Republic of Uzbekistan to commence banking operations and Tenge Bank began servicing clients in Uzbekistan in July 2019. The Bank believes Uzbekistan is a growing and attractive market for banking services.

Subsidiaries and Associated Companies

The following table sets out the Bank's subsidiaries as at 30 June 2019:

	Country	Industry	Ownership Interest of the Bank as at 30 June 2019
			(%)
JSC Kazteleport	Kazakhstan	Telecommunications	100
JSC Halyk Finance	Kazakhstan	Broker and dealer activities	100
JSC Kazkommerts Securities	Kazakhstan	Broker and dealer activities	100
LLC Halyk-Inkassatsiya	Kazakhstan	Cash collection services	100
JSC Halyk Life	Kazakhstan	Life insurance	100
JSC Halyk Insurance Company	Kazakhstan	Insurance	99.9
JSC Altyn Bank	Kazakhstan	Banking	40
OJSC Halyk Bank Kyrgyzstan	Kyrgyzstan	Banking	100
JSC CB Moskommertsbank	Russia	Banking	100
JSC Halyk Bank Georgia	Georgia	Banking	100
CJSC Halyk Bank Tajikistan	Tajikistan	Banking	100
JSC Tenge Bank	Uzbekistan	Banking	100
LLC Halyk Project	Kazakhstan	Distressed assets management company	100
LLC KUSA KKB-1	Kazakhstan	Distressed assets management company	100
LLC Halyk Aktiv	Kazakhstan	Distressed assets management company	100
LLC Halyk Aktiv-1	Kazakhstan	Distressed assets management company	100
JSC QPayments	Kazakhstan	Processing services	100
JSC Halyk-Leasing	Kazakhstan	Leasing	100

As at 30 June 2019, the Bank had invested KZT 143,951 million in the capital of its subsidiaries and associated companies.

Other Business Activities conducted through Subsidiaries

Subsidiaries based in Kazakhstan

Insurance—Halyk Insurance and Halyk Life

The Bank's subsidiary, Halyk Insurance, is a non-life insurance company providing a full package of general insurance services to all types of legal entities and individuals across a broad range of industry sectors. On 30 August 2018, Kazakhinstrakh (the former name of Halyk Insurance) and Kazkommerts-Policy signed an agreement transferring the rights and obligations of Kazkommerts-Policy in full to Kazakhinstrakh. The Bank holds 99.99 per cent. of the total share capital of Halyk Insurance. Halyk Insurance was the second largest general insurance company in Kazakhstan as at 30 June 2019 in terms of net premiums written (with a 13 per cent. market share according to the NBRK statistics) and the fourth largest in terms of capitalisation (with a 10 per cent. market share according to the NBRK statistics). Halyk Insurance has the largest branch and agency network among insurance companies in Kazakhstan with 18 branches and 207 points of sale throughout the country as at 30 June 2019. As at 30 June 2019, Halyk Insurance had total assets of KZT 113,623 million, total liabilities of KZT 67,081 million and total equity of KZT 46,542 million. For the six months ended 30 June 2019, Halyk Insurance generated a net income of KZT 1,706 million, based on net premiums written of KZT 16,365 million. As at 30 June 2019, Halyk Insurance had a solvency ratio of 1.89 (4.47 as at 31 December 2018). According to statistics published by the NBRK, as at 30 June 2019, Halyk Insurance was the second biggest insurance company in Kazakhstan in terms of gross premiums written, with a 21 per cent. market share. As at the date of this Offering Memorandum, Halyk Insurance had credit ratings of B++ (financial strength) and BBB (issuer rating) confirmed by AM Best.

Halyk Life offers various types of personal insurance products, including life, annuity, health and casualty insurance. On 1 November 2018, Halyk Life and Kazkommerts-Life signed an agreement transferring all of Kazkommerts-Life's rights and obligations in full to Halyk Life. Halyk Life has the largest branch and agency network among life insurance companies in Kazakhstan with 18 branches and 7 representative offices of sale throughout the country as at 30 June 2019. As at 30 June 2019, Halyk Life had total assets of KZT 153,951 million. For the six months ended 30 June 2019, Halyk Life generated a net income of KZT 3,361 million. According to statistics published by the NBRK, as at 30 June 2019, Halyk Life was the leader among life insurance companies in Kazakhstan in terms of gross premiums written, with a 41 per cent. market share. The Bank holds 100 per cent. of the total share capital of Halyk Life. As at 30 June 2019, Halyk Life had a solvency ratio of 1.82 (3.46 as at 31 December 2018). As at the date of this Offering Memorandum, Halyk Life had credit ratings of B+ (financial strength) and BBB- (issuer rating) confirmed by AM Best.

The gross written premiums amounts have been steadily increasing. As at 30 June 2019, it reached KZT 69 billion comparing to KZT 58 billion for the same period in 2018. As at 31 December 2018, gross written premiums amounted to KZT 109 billion, compared to KZT 76 billion and KZT 59 billion for same period in 2017 and 2016, respectively. The underwriting result have also been following an upward trend. As at 30 June 2019, it reached KZT 44 billion comparing to KZT 32 billion for the same period in 2018. As at 31 December 2018, the underwriting result amounted to KZT 67 billion, compared to KZT 55 billion and KZT 28 billion for the same period in 2017 and 2016, respectively.

Leasing Services—Halyk Leasing

JSC Halyk-Leasing ("Halyk Leasing") provides leasing services in Kazakhstan, and also, through its branches, in Chelyabinsk, Russia and Tashkent, Uzbekistan. As at 30 June 2019, Halyk Leasing had assets of KZT 6,817 million. For the six months ended 30 June 2019 Halyk Leasing had a net loss of KZT 1.4 million. As at the date of this Offering Memorandum, the Bank does not actively engage in leasing activity.

Securities Brokerage and Asset Management—Halyk Finance and Kazkommerts Securities

Halyk Finance provides a full range of investment banking and asset management services, including sales and trading (with market-making on the KASE), investment portfolio management, consulting and underwriting, M&A advisory and research. As at 30 June 2019, Halyk Finance had total assets of KZT 29,922 million and equity of KZT 19,929 million. For the six months ended 30 June 2019, Halyk Finance had net income of KZT 1,548 million. As at the same date, Halyk Finance's own investment portfolio was KZT 28,789 million while its client investment portfolio was KZT 193,185 million, assets under management were KZT 201,594 million. According to the NBRK, Halyk Finance is the second largest investment company by assets among asset management organisations as at 30 June 2019. As at the date of this Offering Memorandum, Halyk Finance had credit ratings of BB by Fitch with a positive outlook.

Kazkommerts Securities ("Kazkommerts Securities") provides a full range of investment banking and asset management services, including sales and trading (with market-making on the KASE), investment portfolio management, consulting and underwriting, M&A advisory and research. As at 30 June 2019, Kazkommerts Securities had total assets of KZT 18,856 million and equity of KZT 17,173 million. For the six months ended 30 June 2019, Kazkommerts Securities had net income of KZT 954 million. As at the same date, the own investment portfolio of Kazkommerts Securities was KZT 18,696 million, while its client investment portfolio was KZT 131,417 million. According to the NBRK, Kazkommerts Securities is the fourth largest investment company in Kazakhstan by assets among asset management organisations as at 30 June 2019.

JSC Kazteleport

JSC Kazteleport ("Kazteleport") provides a wide range of telecommunication services mainly for financial sector including IP-telephony, data processing centres, structured cable network installation services, video surveillance, processing and telecommunications equipment supply. These automated services support the activity of the Bank and its subsidiaries, as well as its commercial clients. Kazteleport is planning to expand into new areas including the further development of data processing services for commercial clients and a self-service cloud portal for clients. As at 30 June 2019, Kazteleport had assets of KZT 5,056 million. Its net income for the six months ended 30 June 2019 was KZT 439 million.

JSC QPayments

JSC QPayments ("QPayments") provides processing services. QPayments is planning the further development of processing services for commercial clients. As at 30 June 2019, QPayments had assets of KZT 327 million.

LLC Halyk-Inkassatsiya

LLC Halyk-Inkassatsiya ("Halyk-Inkassatsiya") provides collection services for banknotes, coins and valuables. Though it is an independent subsidiary of the Bank, its activity is closely related to the core business of the Bank and it provides cash for the Bank's sales channels. Halyk-Inkassatsiya is one of the leading providers of cash and valuables collection services in Kazakhstan.

As at 30 June 2019, Halyk-Inkassatsiya had total assets of KZT 2,958 million. For the six months ended 30 June 2019 its net income was KZT 784 million. The branch network of LLC Halyk-Inkassatsiya consists of city cash collection division in Almaty, 18 branches and 37 outlets offering collection services in regions, cities, towns and smaller settlements throughout Kazakhstan.

LLC Halyk Project, LLC KUSA KKB-1, LLC Halyk Aktiv, LLC Halyk Aktiv-1

The main objective of subsidiaries for doubtful and bad asset management is to deal with the distressed assets in the Bank's loan portfolio. It does this by acquiring them from the Bank using funds borrowed from the Bank and seeking to turn them around before selling them and repaying the loan to Bank.

LLC Halyk Project was established in October 2012. LLC Halyk Project deals with the recovery of mainly commercial projects. As at 30 June 2019, assets received from the Bank consisted of 45 projects for a total of KZT 54.0 billion.

LLC KUSA KKB-1, LLC Halyk Aktiv (previously KUSA KKB-2), LLC Halyk Aktiv-1 (previously KUSA KKB-3) were established by KKB in 2012-2014 in the terms of the concept of improving asset's quality of second tier banks. As part of KKB's reorganisation, the subsidiaries became subsidiaries of the Bank.

The main activity of LLC KUSA KKB-1 is deal with the sales of land plots. As at 30 June 2019, the company's portfolio of assets consisted of 698 projects for a total of KZT 50.9 billion.

LLC Halyk Aktiv and LLC Halyk Aktiv-1 deal with the management of residential real estate projects. As at 30 June 2019 LLC Halyk Aktiv's portfolio of assets consisted of 7 projects for a total of KZT 42.7 billion. LLC Halyk Aktiv-1's portfolio of assets consisted of 3 projects for a total of KZT 32.0 billion.

Foreign banking subsidiaries

The Bank has five foreign subsidiaries, Halyk Bank Kyrgyzstan, Moskom, Halyk Bank Georgia, Halyk Bank Tajikistan and Tenge Bank. The Bank believes that these five subsidiaries are an important part of its strategy of building a regional financial service group and of leveraging its experience gained in Kazakhstan. In addition, the Bank has representative offices in Beijing and London (which operates as a virtual office).

Halyk Bank Kyrgyzstan

Halyk Bank Kyrgyzstan is a universal commercial bank incorporated in Kyrgyzstan. As at 30 June 2019, Halyk Bank Kyrgyzstan had total assets of SOM 7,669 million (KZT 42,027 million or U.S.$ 110 million), total equity of SOM 1,668 million (KZT 9,141 million) and a gross loan portfolio of SOM 5,417 million (KZT 29,684 million). For the six months ended 30 June 2019, Halyk Bank Kyrgyzstan had net income of SOM 35 million (KZT 190 million). As at 30 June 2019, Halyk Bank Kyrgyzstan had 10 branches and 8 cash settlement offices in Kyrgyzstan. As at 30 June 2019, Halyk Bank Kyrgyzstan had capital adequacy ratio (CET1) of 22.5 per cent. According to the National Bank of Kyrgyz Republic, Halyk Bank Kyrgyzstan is 12th bank by assets among 25 banks in Kyrgyzstan, as at 30 June 2019.

Moskommertsbank

Moskom is a universal commercial bank with a focus on SMEs. It is a Russian regional bank with its head office located in Moscow and has two branches and five regional credit and cash settlement offices. As at 30 June 2019, Moskom had total assets of RUB 16,898 million (KZT 102,067 million or U.S.$ 268 million), total equity of RUB 1,144 million (KZT 6,909 million) and a gross loan portfolio of RUB 12,381 million (KZT 74,780 million). For the six months ended 30 June 2019, Moskom made a net loss of RUB 134 million (KZT 781 million). In December 2018, the Bank had to increase the provisions of Moskom and inject extra capital in Moskom as a result. As at 30 June 2019, Moskom had a capital adequacy ratio (CET1) of 39 per cent. According to the Central Bank of Russia, Moskom is the 140th bank by assets among approximately 500 banks in Russia, as at 30 June 2019. As at the date of this Offering Memorandum, Moskommertsbank had credit rating of ruB confirmed by RAEX Rating Agency.

Halyk Bank Georgia

JSC Bank Georgia is a commercial bank incorporated in Georgia with a focus on corporate, SME and retail banking. As at 30 June 2019, Halyk Bank Georgia had total assets of GEL 511 million (KZT 68,699 million or U.S.$ 181 million), a gross loan portfolio of GEL 401 million (KZT 53,857 million) and total equity of GEL 117 million (KZT 15,731 million). For the six months ended 30 June 2019 Halyk Bank Georgia had a net income of GEL 5 million (KZT 713 million). As at 30 June 2019, Halyk Bank Georgia had 8 branches, all in Georgia. As at the date of this Offering Memorandum, JSC Bank Georgia had credit ratings of BB- by Fitch with a positive outlook and a viability rating of B+ confirmed by Fitch. In June 2019, the Bank increased investments in capital of Halyk Bank Georgia by U.S.$ 5 million to expand its operations. As at 30 June 2019, Halyk Bank Georgia had capital adequacy ratio (CET1) of 19 per cent. According to the National Bank of Georgia, Halyk Bank Georgia is the 10th bank by assets among 15 banks in Georgia, as at 30 June 2019.

Halyk Bank Tajikistan

Halyk Bank Tajikistan is a universal commercial bank in Tajikistan. As at 30 June 2019, Halyk Bank Tajikistan had total assets of TJS 493 million (KZT 19,898 million or U.S.$ 52 million), total equity of TJS 115,559 million (KZT 4,663 million), a gross loan portfolio of TJS 71 million (KZT 2,866 million). For the six months ended 30 June 2019, Halyk Bank Tajikistan had a net income of TJS 8,792 million (KZT 354 million). As at 30 June 2019, Halyk Bank Tajikistan had 1 branch and 8 outlets in Tajikistan. Halyk Bank Tajikistan has a significant share in the market of POS terminals (about 18 per cent). As at 30 June 2019, Halyk Bank Tajikistan had capital adequacy ratio (CET1) of 19 per cent. According to the National Bank of Tajikistan, Halyk Bank Tajikistan is the sixth largest bank by assets among banks in Tajikistan, as at 31 March 2019.

Associated companies

JSC Altyn Bank

In April 2018, the Bank sold 60 per cent. of its stake in JSC Altyn Bank to foreign investors: China CITIC Bank Corporation Limited ("CITIC Bank") acquired 50.1 per cent. of the shares and China Shuangwei Investment Co., Ltd. ("Shuangwei") acquired 9.9 per cent. The Bank will continue to own 40 per cent. of JSC Altyn Bank's shares and has reserved certain rights under a shareholder agreement among the Bank, CITIC Bank and Shuangwei. The transaction closed after a number of conditions were satisfied, including obtaining the necessary approvals from Chinese and Kazakhstan regulatory authorities. The transaction represents a strategic alliance between the largest banks in Kazakhstan and China, which the Bank believes will create growth in a number of JSC Altyn Bank's business lines, and enable Kazakhstan to participate in the "One Belt. One Road" initiative. As at the date of this Offering Memorandum, JSC Altyn Bank had credit ratings of BBB- by Fitch with a stable outlook.

As at 30 June 2019, JSC Altyn Bank's had total assets of KZT 421,019 million, a gross loan portfolio of KZT 155,748 million and equity of KZT 49,418 million. For the six months ended 30 June 2019, the net profit of JSC Altyn Bank was KZT 6,853 million.

Properties

As at 30 June 2019, the total net book value of the Bank's fixed assets (which were mostly represented by the Bank's branch network and comprise (among other things) land, buildings and computer hardware) owned by the Bank and its consolidated subsidiaries was KZT 131,365 million. There are no liens or encumbrances on any of the Bank's properties securing indebtedness of the Bank.

Information Systems

The Bank considers information technology to be an integral component of its daily operations. The Bank is constantly investing in information technology with the aim of improving customer service, increasing its operating efficiencies, ameliorating risk control systems and enhancing the Bank's overall competitive position. The Bank is committed to continued investment in information technology to support the efficient growth of its operations, to improve its risk management, asset and liability management and liquidity management functions and its ability to monitor lending activities and to enhance overall management and business efficiency.

The Bank services and continuously upgrades its banking information systems, with the aim of improving the reliability and quality of payments and customer service. For example, in 2018, the Bank launched a new version of Homebank, its online banking platform. The new version of Homebank was reengineered to include a new user interface that simplified access to all online banking functions. The launch of the new platform and its integration have led to an increase in the number of system users to approximately 3.8 million customers as at 30 June 2019. In addition, the Bank's e-commerce system, ePay, continuously upgrades and brings new services to the Bank's customers such as Apple Pay and mVisa QR payments. As at the date of this Offering Memorandum, a new reengineered e-commerce system (ePay 2.0) is in the process of being launched and introduced to customers. This new e-commerce platform, which provides stable and scalable performance, will bring new features and UI/UX (User Interface/User Experience) to the Bank's customers.

The Bank's software developers and development and information technology operations (DevOps) teams are working hard on changing the ways how the Bank builds and deploys systems and applications. New platforms are built on principles of dividing back-end and front-end with providing one single point of API (Application Programming Interface) to any front-end application developed by the Bank or its partners. As at the date of this Offering Memorandum, the Bank is using the modern CI/CD (Continuous Integration/Continuous Delivery) tools and practices in SDLC (System Development Life-Cycle), such as Jenkins CI (Continuous Integration), Docker and Kubernetes. Such new technologies will allow the Bank to update its systems without any downtime or disruption to production. New platforms are implemented with High Availability principles using clusters in at least two datacentres with automated switching, replications and horizontal scaling.

The core banking and card processing systems are fully centralised with a single point of date processing, consolidation and reporting to the Bank's head office. In addition, the Bank has dedicated software applications permitting enhanced business process automation and improved card payment processing.

The Bank has developed back-up systems, including two fully-equipped disaster recovery centres in Almaty at a distance of four kilometres from the main servers as well as a further centre in Nur-Sultan opened in 2014. These centres comprise continuously operating back-up servers designed to ensure minimum data loss in the event of any systems failure or other emergency incidents. In the case of a failure of any of the main servers or destruction of the building where these are located, the reserve servers will be put into operation (i.e., a disaster recovery scenario). All information on the database is backed up on a magnetic carrier daily.

In December 2018, as part of the Halyk Group strategy for 2019-2021, the Bank approved a roadmap for 2019 relating to certain projects in IT, including IT architecture (development and optimisation of the Bank's integration architecture); reliability and cloud infrastructure (improvement of the Bank's availability and reliability programs and transfer of several pilot services to the cloud); cyber-security (extension of fraud monitoring system to all service channels, implementation of a data loss protection system and information security incidents prevention system); client analytics (development of real-time client analytics and data governance systems to increase understanding of customer needs and to provide excellent customer service); ecosystem (building an API platform, integrating service and partner providers, to retain and attract new customers).

Security and Anti-Money Laundering

The Bank has implemented security procedures and policies for all its branches and offices. Each new branch and representative office premises is initially reviewed by the Security Department to ensure compliance with the Bank's policies. Credit procedures at the branch level and information technology systems are monitored by the Bank's Economic Security Division and Information Security Division, the Legal Department and the internal Audit Department. All of the Bank's branches contain video surveillance systems and most of its ATMs and multi-service kiosks are monitored by cameras.

The Bank has implemented measures aimed at preventing it from being used as a vehicle for money laundering and has adopted anti-money laundering ("AML/CFT") and compliance procedures in all of its branches and subsidiaries. As part of its AML/CFT policy the Bank conducts "Know Your Customer" checks, applying a risk-based approach to its clients and their activities. For high risk customers, such as politically exposed persons, more extensive checks are conducted. After identifying suspicious operations, the Bank reports these to the financial monitoring committee of the Ministry of Finance of Kazakhstan. Over the past three years, the Bank has received fines for technical violations of the AML Law of less than U.S.$60,000 in total. The Bank trains its personnel in AML/CFT policy and conducts external and internal audits to ensure procedural efficiency. The last internal audit was carried out in 2016, and an external audit of the Bank's procedures is conducted every quarter. The last NBRK audit was carried out in 2018 and did not detect any material deficiencies.

To identify suspicious operations and operations with persons included in the United Nations, European Union and the Office of Foreign Assets Control ("OFAC") sanctions' lists, the Bank uses automated systems and is in full compliance with such regulations. The Bank has been engaged in dealings and transactions with certain entities undertaken in accordance with OFAC general licences issued by the U.S. Treasury. The Bank also complies with restrictions on opening anonymous accounts, cooperation with shell banks and cooperation with off-shore registered banks. See "*Asset, Liability and Risk Management—Money Laundering Risk Management*".

Insurance Cover

The Bank has a number of insurance policies provided by Halyk Insurance and Halyk Life, including voluntary property insurance (coverage of more than KZT 40.5 billion), sickness benefit insurance (coverage KZT 180.4 million), insurance for employees covering their official (occupational) duties (coverage of more than KZT 34 billion), voluntary directors and officers liability insurance (coverage of approximately KZT 1.9 billion), compulsory vehicle owners insurance (coverage varies), voluntary group life insurance for employees (coverage of more than KZT 31 billion), group insurance for the Bank's cardholders (coverage varies), group collateral insurance for the Bank's retail and SME customers (coverage varies), group life insurance for the Bank's retail and SME customers (coverage varies) and a bankers blanket bond (protecting the Bank against losses arising from criminal acts of employees) (coverage of more than KZT 1.1 billion). These policies are generally renewable annually.

Legal Proceedings

From time to time and in the normal course of business, the Bank is subject to legal actions and complaints.

The Bank is not and has not been involved in any governmental, legal, administrative or arbitration proceedings or investigations (including any proceedings or investigations which are pending or threatened of which the Bank is aware) that may have or have had in the 12 months preceding the date of this Offering Memorandum a significant effect on the financial position or profitability of the Bank.

Competition

As at 30 June 2019, according to the NBRK statistics, there were 28 commercial banks in Kazakhstan (excluding the Development Bank of Kazakhstan, which is not a typical commercial bank), of which 14 were banks with foreign shareholders.

Foreign banks, which include JSC Citibank Kazakhstan, JSC SB Sberbank, JSC SB Alfa-Bank and JSC VTB Bank (Kazakhstan), have established relatively strong positions and compete in the retail and particularly in the corporate segments of the banking sector in Kazakhstan. Foreign banks also bring international experience in customer service and target the best domestic and foreign companies operating in Kazakhstan (see "*Risk Factors—Risks Factors relating to the Bank—The Bank faces significant competition, which may increase in the future particularly after Kazakhstan allows foreign bank branch opening in the future*").

The following table sets out the top ten banks (by assets) in Kazakhstan (on the basis of publicly available data from the NBRK) and their market share as at 30 June 2019:

	Assets	**Market Share**
	(million KZT)	*(%)*
JSC Halyk Bank	8,729,518	34.4
JSC ForteBank	1,985,957	7.8
JSC SB Sberbank of Russia	1,983,840	7.8
JSC Kaspi Bank	1,907,391	7.5
JSC Bank CenterCredit	1,495,600	5.9
JSC ATFBank	1,314,406	5.2
JSC First Heartland Jusan Bank	1,217,617	4.8
JSC Housing Construction Savings Bank of Kazakhstan	1,148,974	4.5
JSC Eurasian Bank	1,040,821	4.1
JSC Citibank Kazakhstan	758,117	3.0
Total	21,582,241	85.1

MANAGEMENT AND EMPLOYEES

General

The laws of Kazakhstan and the Bank's Charter adopted by the General Shareholders' Meeting on 20 December 2006 and approved by the Agency of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations on 26 January 2007 (as amended) (the "Charter") provide for the following governance bodies of the Bank: the general meeting of shareholders, the Board of Directors and the Management Board. The shareholders have the exclusive authority to adopt decisions on certain material issues, including the election of the members of the Board of Directors. The shareholders participate in the control and management of the Bank by adopting decisions at general meetings of shareholders. The Board of Directors supervises the Management Board. The Management Board is headed by a Chairman who is responsible for the day-to-day management of the Bank. In addition, the Bank has various collegial decision-making bodies, including a number of credit committees in the Head Office and branches, a Problem Loan Recovery Committee and the ALCO.

The Bank's registered office is located at 40 Al Farabi Avenue, Almaty A26 M3K5, Kazakhstan, and its telephone number is +7 727 259 07 77. The Bank is registered with the Ministry of Justice of Kazakhstan and its registration number is 3898-1900-AO. The Bank's business identification number is 940 140 000 385.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors of the Bank's, the members of the Management Board of the Bank or the members of any of the principal committees of the Bank, on the one hand, and the private interests or other duties of such members, on the other hand.

No member of the Board of Directors, the Management Board or any of the principal committees of the Bank has:

(a) been convicted in relation to fraudulent offences;

(b) been associated with any bankruptcy, receivership or liquidation in the capacity of a member of any administrative, management or supervisory body; or

(c) been subject to public incrimination or sanctions by statutory or regulatory authorities (including designated professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of affairs of any company,

in each case in the five years preceding the date of this Offering Memorandum.

Board of Directors

In accordance with the Charter and the laws of Kazakhstan, the members of the Bank's Board of Directors are elected at the general meeting of shareholders and such election must be approved by the NBRK**.** Members of the Board of Directors may not be members of the Management Board, except for the Chairman of the Management Board.

The Board of Directors is responsible for approving the development strategy, electing the members of the Management Board, determining the remuneration of the members of the Management Board and adopting a decision to convoke the annual and extraordinary general meetings of shareholders. The Directors are elected by the general shareholders' meeting and the powers of the directors are terminated by a resolution of the general shareholders' meeting. As at the date of this Offering Memorandum, the Board of Directors consists of the following members:

Name	Position(s)	Year of Birth	Year of last Appointment
Alexander Pavlov	Chairman of the Board, Independent Director	1953	2017
Arman Dunayev	Member of the Board of Directors, Independent Director	1966	2017
Franciscus Cornelis Wilhelmus Kuijlaars	Member of the Board of Directors, Independent Director	1958	2017
Anton Musin	Member of the Board of Directors, Independent Director	1978	2019

Name	Position(s)	Year of Birth	Year of last Appointment
Christof Ruehl	Member of the Board of Directors, Independent Director	1958	2017
Umut Shayakhmetova	Member of the Board of Directors, Chairperson of the Management Board of the Bank	1969	2017
Mazhit Yessenbayev	Member of the Board of Directors, JSC "Holding Group "ALMEX" Representative	1949	2017

Alexander Pavlov, Chairman of the Board of Directors, Independent Director. Mr. Pavlov was elected Chairman of the Board of Directors in March 2004 and was re-elected in April 2017. Mr. Pavlov is a graduate of the Belarus State Institute of People's Economy. Between 1994 and 2000, he was Minister of Finance, then Deputy Prime Minister, and finally First Deputy Prime Minister of the Republic of Kazakhstan. From 2000 to 2002, he was Vice Chairman of the Management Board and Vice Chairman of the Board of Directors of copper mining company Kazakhmys. Between 2002 and 2004, he was First Deputy Prime Minister of the Republic of Kazakhstan. From 2006 to 2008, he was a member of the Board of Directors of Kazakhstan Holding for Management of State Assets "Samruk". From October 2012 to April 2016, Mr. Pavlov was the Chairman of the Guardian Council of the Zhana Alatau social fund. From April 2016, he is the Chairman of the Board of Trustees of the "Halyk" Charity Fund.

Anton Musin, Member of the Board of Directors, Independent Director. Mr. Musin was elected to the Board of Directors in April 2019. Mr. Musin graduated from Moscow State University of Technology "Stankin" in 1999 as a Mechanical Engineer. In 2002, he graduated from Budapest University of Technology and Economics with a Master's degree in Robotics and Mechanical Engineering. From March 2003 to April 2007, he was employed as a systems analyst and project manager at Xerox LTD in Moscow, Russia. Between April 2007 to October 2009, he served as a consultant and manager of Accenture LTD in Moscow, Russia. From October 2009 to August 2010, Mr. Musin held a senior manager role at KPMG in Moscow, Russia and since August 2010, he has served as Senior Manager/Managing Director at Accenture LTD in Moscow. Between January 2014 and October 2016, he was the Managing Director of Accenture LTD. From November 2016 to February 2019, he served as a Managing Director (Partner) of Accenture LTD in Dubai, United Arab Emirates. From March 2019, Mr. Musin is a Managing Director of the System Integration and Technology Consulting Department of Accenture LLC. During the integration of the Bank with KKB, Mr. Musin took part in the project as a head of a team of consultants at Accenture LTD.

Arman Dunayev, Independent Director. Mr. Dunayev was elected to the Board of Directors in September 2013 and was re-elected in April 2017. In 1992 received the degree of "Candidate of Economic Sciences" at Moscow State University (named after Lomonosov). Mr. Dunayev is a graduate of Kazakh State University. From June 2003 to March 2004, he was the Chairman of the Management Board of the National Innovation Fund. From April 2004 to January 2006, he was Minister of Finance of the Republic of Kazakhstan. From January 2006 to January 2008, he was the Chairman of the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organisations. From January 2008 to October 2008, Mr. Dunayev was the Chairman of the Board of the Sustainable Development Fund Kazyna. From November 2008 to May 2011, he was the Deputy CEO of the Sovereign Wealth Fund "Samruk-Kazyna". From December 2008 to October 2016 he was the Chairman of the Board of Stress Assets Fund JSC (Baiterek Development JSC). From November 2014 to June 2018, he was the Chairman of the Board of JSC Altyn Bank and since June 2018, he is a member of the Board of JSC Altyn Bank (SB China Citic Bank Corporation Limited). In February 2016, Mr. Dunayev was elected as a member of the Board of Directors, Independent Director and was re-elected in May 2019 as the Chairman of the Board of Directors of JSC Halyk Finance. From June 2017 to July 2018, Mr. Dunayev was the Chairman of Board of Directors and Independent Director in KKB. In August 2018, he was elected as Independent Director to the Board of JSC Halyk Bank Georgia. Since December 2012, he has been a member of the Committee of Advisers to the Board of Directors of LLP Tele2.

Franciscus Cornelis Wilhelmus (Frank) Kuijlaars, Independent Director. Mr. Kuijlaars was elected to the Board of Directors on the Annual General Shareholders Meeting in April 2009 and took office in June 2009, re-elected in April 2017. Mr. Kuijlaars received a Master's degree in Law from Erasmus University, the Netherlands. From 1990 to 2007, he served at ABN AMRO Bank and later at RBS in various roles. He is an adviser to several international organisations, and was a member of the Foreign Investor Council of the President of the Republic of Kazakhstan. From September 2006 to March 2014, he has been an Independent Director of JSC KazMunayGas. From March 2014 until August 2017, he was the Chairman of the Board of Directors of JSC

KazMunayGas. From August 2017 to the year-end of 2018, Mr. Kuijlaars was an Advisor to the Chairman of JSC KazMunayGas. He is the owner and the Managing Director of Eureka (Energy) Ventures B.V., as well as an Independent Non-Executive Director and independent member of the Supervisory Council of Amsterdam Trade Bank N.V.

Christof Ruehl, Independent Director. Mr. Ruehl was appointed to the Board of Directors in June 2007 and was re-elected in April 2017. Mr. Ruehl holds an MA in Economics from the University of Bremen, Germany. He worked for the World Bank Group from 1998 to 2005, as Senior Economist in Washington from 1998 to 2001, Chief Economist in Moscow from 2001 to 2004, and Lead Economist and Sector Leader in Brazil from 2004 to 2005. In 2005, he became Deputy Chief Economist of British Petroleum and in 2007 he became Group Chief Economist and Vice President of British Petroleum. In 2008, he became Chairman of the British Institute of Energy Economics. In July 2014, Mr. Ruehl was appointed First Global Head of Research by Abu Dhabi Investment Authority, but in January 2019 he stepped down from this post. From May 2019 Mr. Ruehl is working as global advisor at Verno Capital.

Mazhit Yessenbayev, Member of the Board of Directors. Mr. Yessenbayev was elected to the Board of Directors in April 2014 and was re-elected in April 2017. Mr. Yessenbayev graduated from the Kazakh Polytechnic Institute. From October 1999 to January 2002, he was Minister of Finance of the Republic of Kazakhstan. From November 1999 to September 2002, he was a Director for Kazakhstan at the Islamic Development Bank. From November 1999 to September 2002, he was a member of the Board of the NBRK. From January to August 2002, he served as Minister of Economy and Trade of the Republic of Kazakhstan; and from August 2002 to March 2004, as Minister of Industry and Trade of the Republic of Kazakhstan. From June 2003 to March 2004, Mr. Yessenbayev was an Adviser to the President of the Republic of Kazakhstan. From January 2008 to February 2012, he was Chairman of the Agency of the Republic of Kazakhstan for Competition Protection. From February 2012 to September 2013, he served as Chairman of the Customs Control Committee of the Ministry of Finance of the Republic of Kazakhstan. From November 2013 to February 2014, he was Adviser to the Chairman of the Board of Directors and General Representative of the Bank. In February 2014, he became Chairman of the Management Board and a member of the Board of Directors of Almex.

Umut Shayakhmetova, Member of the Board of Directors, Chairperson of the Management Board. Ms. Shayakhmetova was elected a member of the Board of Directors in April 2009 and was re-elected to in April 2017. Ms. Shayakhmetova is a graduate of the People’s Friendship University, Moscow, and holds an MBA from Rutgers University, USA. In 1998, she became Chairperson of the Management Board of ABN AMRO Asset Management and, in 2000, Deputy Chairperson of the Management Board of ABN AMRO Bank Kazakhstan. She became Deputy Chairperson of Halyk Bank in November 2004. Ms. Shayakhmetova was appointed as the CEO of the Bank on 22 January 2009. From August 2000 to November 2000 she was the Managing Director and between 2004 and 2009 she was the Deputy Chairperson of the Board and was in charge of Corporate Business. From March 2009 to December 2014, Ms. Shayakhmetova was the Chairperson of the Board of Directors of JSC Accumulating Pension Fund of Halyk Bank of Kazakhstan. From February 2015 to July 2015, she was the Chairperson of the Board of Directors of the Bank’s insurance subsidiary JSC Kazakhinstrah (currently named JSC Halyk Insurance Company). Since June 2018, she is a member of the Board of Directors of JSC Altyn Bank (SB China Citic Bank Corporation Limited). Ms. Shayakhmetova has different positions outside the Halyk Group as President of Public Association “Kazakhstan Gymnastics Federation”, member of Regional Council of Business Women at the Chamber of Entrepreneurs of Almaty, Chairperson of Union Pay International Regional Council for Eastern Europe and Central Asia, member of the Bureau of National Chamber of Entrepreneurs of the Republic of Kazakhstan “Atameken” and member of the European Advisory Council MasterCard. Also, she was the Chairperson of Regional Council of Business Women at the Chamber of Entrepreneurs of Almaty from June 2015 to October 2018.

The business address of each of the members of the Board of Directors in respect of business conducted for the Bank is the registered office of the Bank.

Management Board

The Management Board, which meets weekly, is responsible for the day-to-day management of the Bank and implements the decisions of the general meetings of shareholders and the Board of Directors. The Management Board consists of nine members who are elected and whose powers are terminated by resolution of the Board of Directors.

Between 2018 and 2019 there were several changes to the Bank’s Management Board. On 26 March 2018, Aivar Bodanov re-elected to the Management Board and on 2 June 2018, Marat Almenov stepped down from the

Management Board after transferring to another position. In addition, on 29 July 2018, following the completion of the merger of KKB into the Bank, the following individuals were elected to the Management Board: Nurlan Zhagiparov, Dauren Sartayev and Zhannat Satubaldina. On 4 March 2019, Mikhail Kablashev was appointed to the post of deputy chairman of the Management Board and Kuat Kussainbekov stepped down from the Management Board after transferring to another position. On 2 May 2019, the number of members of the Management Board was reduced from 10 to 9, and Nurlan Zhagiparov and Aslan Talpakov stepped down from the Management Board following their appointment to other positions at the Bank, while Askar Smagulov was appointed as a member and Deputy Chairman of the Management Board.

At the date of this Offering Memorandum, the Management Board consists of the following members:

Name	Position(s)	Year of Birth	Year of last Appointment
Umut Shayakhmetova	Chairperson of the Management Board	1969	2009
Aivar Bodanov	Deputy Chairman, Security and Problem Loans	1962	2018
Mikhail Kablashev	Deputy Chairman, Information Technologies	1978	2019
Aliya Karpykova	Deputy Chairperson, Finance, Accounting and Subsidiaries	1970	2011
Murat Koshenov	Deputy Chairman, Corporate Banking	1973	2014
Yertay Salimov	Deputy Chairman, Retail Banking and Contact Centre	1974	2015
Dauren Sartayev	Deputy Chairman, SME Banking and Public Relations	1982	2018
Zhannat Satubaldina	Deputy Chairperson, Operations, Resources and Administration	1961	2018
Askar Smagulov	Deputy Chairman, Digital banking and Transactional business	1975	2019

Umut Shayakhmetova, Chairperson of the Management Board. For summary biographical information, see "*—Board of Directors*".

Aivar Bodanov, Deputy Chairman, Security and Problem Loans. Mr. Bodanov graduated from the Dzhambul Irrigation and Construction Institute. In 1996, he graduated from the Karaganda Higher School of the State Committee of Investigation of the Republic of Kazakhstan as a lawyer. Between 1986 and 1988, he was a chief engineer at the Kultbytstroy construction enterprise of the Dzhambulstroy construction group. Between 1990 and 2014, Mr. Bodanov held numerous positions in the Department of Internal Affairs, the State Investigative Committee and the Tax and Financial Police. He holds the rank of Major General in the Financial Police and has received the Aibyn II Order of Valour and other medals. Between 2012 and March 2018, Mr. Bodanov held various positions in the Financial Police, the Attorney General's Office and the Supreme Court. From September 2014 to January 2015 he was Director of the Security Department of the Bank. Mr. Bodanov was re-appointed as Deputy Chairman of the Bank in March 2018, after having previously served at the Bank from September 2014 to May 2017 in the various roles. Since August 2018 he is the Chairman of the Supervisory Board of LLC Halyk Aktiv, LLC Halyk Aktiv-1, LLC KUSA Halyk and LLC Halyk Project.

Aliya Karpykova, Deputy Chairperson, Finance, Accounting and Subsidiaries. Ms. Karpykova is a graduate of the Al-Farabi Kazakh National University in 1992. From 1992 to 1996 she held various positions at the National State Bank of the Republic of Kazakhstan. From 1996 to 1997, Ms. Karpykova worked in Barents Group as an adviser on a USAID project on accounting reform in the Kazakhstan banking system. From 1998 to 2001, she was the Director of the Financial Control and Administration department, Chief Accountant and a member of the Management Board at Citibank Kazakhstan. From 2001 to 2004, she was Managing Director and then First Deputy Chairman of the Management Board of Nauryz Bank Kazakhstan. In 2004, she became Managing Director responsible for risk management at the Bank, before becoming Director of Risk Management, Head of Risk Management and then Finance Director of the Bank. From December 2009 to April 2012, she was a member of Board Directors of JSC Halyk Capital. Ms. Karpykova has served as a Deputy Chairperson of the Bank since October 2011. She serves as a board member of JSC Halyk Insurance Company since 2016. Also, she was the board member of KKB from 2017 to July 2018. Since May 2019, she has been a member of the Supervisory Board of Halyk Bank Georgia. Since September 2018, she has been a member of the Board of Directors of JSCB Tenge Bank, Uzbekistan, and was reappointed in August 2019.

Murat Koshenov, CFA, Deputy Chairman, Corporate Banking. Mr. Koshenov graduated from the Al-Farabi Kazakh National University in 1996 and obtained an MBA from the Kazakhstan Institute of Economics, Management and Strategic Research in 1998. Mr. Koshenov joined the Bank in January 2010 as Compliance Controller and then became Chief Risk Officer. On 8 September 2014, he was appointed Deputy Chairman in charge of Corporate Banking. Between 2000 and 2002, he was Head of Broker-Dealer Operations at ABN AMRO Asset Management. From 2002 to 2010, he worked at SB ABN AMRO Bank Kazakhstan (later SB RBS (Kazakhstan)), first as Risk Manager, and then as Head of the Risk Management Division. From November 2014 to May 2018 Mr. Koshenov served as Chairman of the Board of Directors of NBK-Bank (Moscow) and, after the merger with Moskommertsbank in June 2018, he serves as Chairman of the Board of Directors of Moskom. Since September 2018 he has been the Chairman of the Board of Directors of JSCB Tenge Bank, Uzbekistan, and was reappointed in August 2019.

Yertay Salimov, Deputy Chairman, Retail Banking and Contact Centre. Mr. Salimov graduated from the Kazakh State Academy of Management in 1995. He joined the Bank in 1995 and has extensive experience of operations having worked at various management positions, including Director in the Treasury and Chief Operating Officer. On 2 February 2015, he was appointed the Deputy Chairman of the Management Board of the Bank. From February 2016 to May 2018, he was a member of the Board of Directors—Independent Director of JSC Kazakhstan Stock Exchange. From February 2016 to August 2018, he was the Chairman of the Board of Directors of JSC Halyk Finance. Mr. Salimov has served as the Chairman of the Supervisory Board of Halyk Bank Tajikistan since August 2018.

Dauren Sartayev, Deputy Chairman, SME Banking and Public Relations. Mr. Sartayev graduated from the Kazakh Humanitarian and Law University in 2003, and obtained an MBA from Moscow International Higher Business School in 2012. He also holds an MBA in strategic management from Kazakh Economics University (named after T. Ryskulov) in 2013. On 29 July 2018, he was appointed as a Deputy Chairman of the Management Board of the Bank and elected as a member of the Management Board. He began his career at KKB, holding various positions between 2004 and 2009, including Small Business loan manager of first category, Head of Front Office SME Desk of the Pavlodar branch, and Head of Front Office Small Business Loan Department of Almaty branch. Between 2009 and 2010 he served as Financial analyst, Head of Analytical Office of Oil-Star LLP. Between 2010 and 2012, he held positions including Head of Credit Risk Division, Head Office, Director of Ust-Kamenogorsk Branch and Director of Problem Loans Department at JSC Temirbank. Between November 2012 and December 2013, he served as Head of Department of Business Development and since December 2013 to October 2014 as Head of Department of Regional Management of Shymkent Branch at JSC KCell and between 2014-2015 he was the Manager of Business Consulting Department in the Business Efficiency Office of Ernst & Young Consulting Services LLP. Between 2015-2016 he served as the manager of the Sales and Service Department of JSC KCell in Almaty. He returned to KKB in 2016 where he held various position until 2018, including Managing Director—member of the Management Board, Deputy Chairman of the Management Board, member of the Management Board of KKB. Since May 2019, Mr. Sartayev is the Chairman of Board of Directors of JSC Halyk Leasing. From June 2018 he is a member of Board of Directors of Moskom. Since August 2018 he is a Member of the Supervisory Board of LLC Halyk Project, LLC KUSA Halyk, LLC Halyk Aktiv and LLC Halyk Aktiv-1.

Zhannat Satubaldina, Deputy Chairperson, Operations, Resources and Administration. Ms. Satubaldina graduated from Alma-Ata Institute of National Economy in 1982 with a major in Industry Planning, and received; a Candidate of Economic Sciences postgraduate degree from Moscow State University (named after Lomonosov) in 1986. On 29 July 2018, she was appointed a Deputy Chairperson of the Management Board of the Bank and elected as member of the Management Board. Ms. Satubaldina has worked in the banking sector since 1993 when she served as Head of Depository Desk, Head of Planning Division of Kazmetallbank until 1994. Between 1994 and 1999 she held the role of First Deputy Director, Director of Investment Privatisation Fund at Metallinvest. Between 1999 and 2002 held various positions including Head of the Licensing and Supervision Division, Executive Director of the National Securities Commission of the Republic of Kazakhstan—a member of the Commission and Deputy Director of the Securities Market Regulation Department of the NBRK. Between 2002 and 2006, Ms. Satubaldina served as Chief Accountant, Vice-President and Managing Finance Director at JSC NC Kazakhstan Temir Zholy. Between 2006 and 2007 she was the Deputy General Director of Economics and Finance at JSC KazTransOil. Between 2007 and 2009, Ms. Satubaldina was the Managing Director at JSC NC KazMunayGas. In 2009, she served as Deputy Director, and from July 2010 as Deputy Financial Director of a Branch of KMG-Kashagan B.V. until 2014. Between 2014 and 2016, she was a member of the Management Board, Deputy Chairperson of the Management Board at the Bank. In 2016, Ms. Satubaldina served as the Deputy General Director in charge of Economics and Finance at Kipros LLP, a position she held until 2017. Between 2017 and 2018, Ms. Satubaldina served as a member of the Management

Board, Deputy Chairperson of the Management Board at KKB. Since August 2018 she has been the Chairperson of Board of Directors of Halyk Bank Kyrgyzstan. Since August 2019, she has been a member of Board of Directors of JSCB Tenge Bank, Uzbekistan.

Mikhail Kablashev, Deputy Chairman, Information Technologies. On 28 July 2018, he was appointed to the position of Chief IT Director of the Bank, and on 4 March 2019 he was appointed to the position of Deputy Chairman. Mr. Kablashev began his banking career in 2001, when he held various positions in the Information Technology Department at JSC Nauryz Bank of Kazakhstan until 2005. In 2007 and 2012, he worked in JSC ATF Bank as Deputy Director, Director of System Support and Telecommunications Department, Director of Department of Information and Communication Technology Management. From 2012 to 2017, he returned to the Bank as Director of System Support and Telecommunications Department, Director of IT Infrastructure Department. He has also worked as Director of the Digital Bank Project Office in JSC Altyn Bank. Between 2017 and 2018, he served as Chief IT Director in KKB. From June 2018, Mr. Kablashev is a member of the Board of Directors JSC Qpayments. In April 2019, he became a member of the Board of Directors of JSC Kazteleport and from May 2019 he is the Chairman of the Board of Directors JSC Kazteleport.

Askar Smagulov, Deputy Chairman, Digital banking and Transactional business. Mr. Smagulov has a degree in economics with honours from the Al-Farabi Kazakh National University in 1996 and an MBA from the William Simon School of Business, University of Rochester (United States) in 1998. Mr. Smagulov started his career at ABN AMRO Bank Kazakhstan in 1998 and served as a Treasury Dealer, Chief Dealer, Head of the Trade Division of Treasury and Head of Treasury. From February 2005 to June 2018, he held various positions in the Bank, including Deputy Chairman of the Management Board, member of the Bank's Management Board, Advisor to the Office of the Board of Directors and the Management Board of the Bank, Head of Treasury. From November 2014 to June 2018, Mr. Smagulov was the Chairman of the Management Board, member of the Board of Directors of JSC Altyn Bank. From February 2010 to May 2015, he was the Chairman of the Board of Directors of JSC Kazteleport, and from July 2017 to June 2018 he served as the Chairman of the Board of Directors of Moskom.

The business address of each of the members of the Management Board is the registered office of the Bank.

Principal Committees

Asset and Liability Management Committee (ALCO)

As at the date of this Offering Memorandum, the ALCO members were as follows:

Name	Position
Umut Shayakhmetova	Chairperson of the Management Board
Aliya Karpykova	Deputy Chairperson
Murat Koshenov	Deputy Chairman
Almas Makhanov	Chief Risk Officer and Compliance Controller
Yertay Salimov	Deputy Chairman
Azamat Utenov	Head of the Treasury

For a description of the duties of the ALCO, see "*Asset, Liability and Risk Management—Asset and Liability Management Committee (ALCO)*". For summary biographical information for each member of the ALCO that is also a member of the Board of Directors or Management Board of the Bank, see "*—Board of Directors*" or "*—Management Board*", as the case may be. All other members of the ALCO are full-time employees of the Bank in the respective capacities indicated.

Credit Committees

The following committees, located at the Head Office of the Bank, are responsible for administering the Bank's internal credit policy:

- Head Office Credit Committee—responsible for credit decisions with respect to risk exposure to corporate clients.
- Branch Network Credit Committee—responsible for credit decisions with respect to risk exposure to SME customers in excess of the established limits of each branch.
- Retail Credit Committee—responsible for credit decisions with respect to risk exposure to retail customers.

In addition, each district and regional branch has its own retail lending credit committees. Such committees are permanent committees of the Bank, which are responsible for the implementation of the internal credit policy of the Bank on retail lending through branches. These regional credit committees report to the Branch Network Credit Committee. See also "*Asset, Liability and Risk Management—Lending Policies and Procedures—Corporate and SME Loans*".

Service Contracts

All members of the Management Board have entered into service agreements with the Bank, which, among other things, provide standard employment terms. Under the service agreements, employment can typically be terminated upon a two months' notice period.

Management Compensation

In accordance with the Charter, the amount of remuneration to be paid to members of the Board of Directors is subject to approval by the general shareholders' meeting, and the amount of remuneration to be paid to members of the Management Board and its Chairman is subject to determination and approval by the Board of Directors. In 2018, the Bank paid remuneration to the members of its Management Board in the amount of KZT 2.5 billion.

The Management Board remuneration is based on the following criteria:

- Each member's job position, his or her importance for the Bank, and his or her contribution to the Bank's operating results;
- Remuneration of similar positions on the job market region-wide; and
- An evaluation of working results, according to which annual bonuses are paid.

Management Loans

The following table sets out the principal amounts of outstanding loans extended to members of the Management Board, the Board of Directors and employees of the Selling Shareholder as at 30 June 2019.

	As at 30 June 2019
	(unaudited) *(KZT millions)*
Payable on demand	—
One to three years	—
Over three years	3
Total	3

As at 30 June 2019, the total amount of outstanding loans extended to members of the Management Board, the Board of Directors and employees of the Selling Shareholder comprised 0.0003 per cent. of the Bank's total equity. There are no outstanding loans, guarantees (or other contingent liabilities) granted by the Bank to any member of the Management Board, the Board of Directors and employees of the Selling Shareholder other than those discussed above.

Share Ownership by Management

As at 30 June 2019 (being the latest practicable date before the date of this Offering Memorandum), none of the members of the Board of Directors or of the Management Board owned shares of the Bank's nor have any options to acquire the shares of the Bank been granted to any such person.

Corporate Governance

The management believes that, as at the date of this Offering Memorandum, the Bank uses reasonable efforts to comply with the corporate governance requirements of Kazakhstan law. The Bank also complies in all material respects with the Corporate Governance Code approved by the Council of Issuers and the Council of Financial Institutions Association of Kazakhstan (the "Kazakhstan Corporate Governance Code"), which is based on the international corporate governance practice and recommendations of the Securities Market Expert Council of the NBRK. As an overseas company with GDRs admitted to the Official List, Standard segment of the London Stock Exchange, the Bank is not required to comply with the provisions of the UK Corporate Governance Code.

The Bank is required to include a corporate governance statement in its annual report, which must contain a description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process, the description of the composition and operation of the Bank's administrative, management and supervisory bodies and their committees and a reference to the Corporate Governance Code to which the Bank is subject.

The Corporate Governance Code of the Bank was initially approved at the extraordinary general meeting of shareholders held on 20 December 2006 and thereafter amended, as further approved by the extraordinary meeting, on 23 April 2007, 21 February 2008, 19 December 2008, 21 April 2011, 19 April 2012, 6 December 2012, 5 December 2014, 23 April 2015, 22 April 2016, 21 April 2017 and 18 April 2019. The Corporate Governance Code, which was developed on the basis of Kazakhstan law and the Kazakhstan Corporate Governance Code, also implements certain provisions of the UK Corporate Governance Code, such as those related to remuneration, performance evaluation, information and professional development of the directors, dialogue with shareholders, and the audit, nomination and remuneration committees of the Board of Directors. The Bank believes that these additional provisions have strengthened its corporate governance regime.

Pursuant to the JSC Law and the Bank's Charter, the Board of Directors carries out general supervision of the Bank's operations, except for the matters which are in the competence of the general meeting of shareholders. Day-to-day management of the Bank is performed by the Management Board (executive body). Under the JSC Law, members of the Management Board, other than its chairperson, cannot be elected to the Board of Directors. Not less than thirty per cent. of the Board of Directors must be the independent directors.

According to the JSC Law, the Board of Directors should establish committees of the Board of Directors, which consider the following issues: (a) strategic planning, (b) personnel and rewards, (c) internal audit, (d) social issues, and (e) other issues provided for by the internal documents of a company. The Bank has the following committees of the Board of Directors: 1) audit committee, 2) nomination and remuneration committee, 3) strategic planning committee, and 4) social responsibility committee.

Audit Committee

The Audit Committee regulates the Bank's and its subsidiaries' internal control systems and risk management. The Audit Committee considers and implements projects relating to internal regulatory acts, which, in turn, define the Bank's and its subsidiaries' policies relating to internal control and risk management. The Audit Committee defines and aims to minimise risks arising in the Bank's activity. It reports to the Board of Directors. At the date of this Offering Memorandum, the Audit Committee consists of the following members:

Name	Position
Christof Ruehl	Chairman, Independent Director
Alexander Pavlov	Member, Independent Director
Arman Dunayev	Member, Independent Director

For summary biographical information for each member of the Audit Committee, see "*—Board of Directors*".

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is an advisory body of the Board of Directors, which makes recommendations on the appointments of the members of the Board of Directors (except for the Chairman of the Board of Directors and the Chairman of the Management Board) and the maintenance of a transparent and effective remuneration system for the members of the Board of Directors and the Management Board based on their performance results, as well as determining the range of remuneration for the members of the Board of Directors and the Management Board. The Committee consists of three members of which at least two members should be independent directors. At the date of this Offering Memorandum, the Nomination and Remuneration Committee consists of the following members:

Name	Position
Franciscus Cornelis Wilhelmus Kuijlaars	Chairman, Independent Director
Alexander Pavlov	Member, Independent Director
Umut Shayakhmetova	Member, Chairperson of the Management Board

For summary biographical information for each member of the Nomination and Remuneration Committee, see "*—Board of Directors*" or "*—Management Board*", as the case may be.

Strategic Planning Committee

The Strategic Planning Committee was established in April 2012. It consists of four Directors, elected by a majority votes of the Board of Directors, and four experts, who are members of the Management Board. The Committee provides assistance to the Board of Directors on the matters related to the Bank's strategy. It also analyses strategy implementation reports and monitors the external environment and its impact on the Bank's strategic plans. As at the date of this Offering Memorandum, the Strategic Planning Committee consists of the following members:

Name	Position
Arman Dunayev	Chairman, Independent Director
Mikhail Kablashev	Member, expert (non-voting member)
Murat Koshenov	Member, expert (non-voting member)
Anton Musin	Member, Independent Director
Alexander Pavlov	Member, Independent Director
Umut Shayakhmetova	Member, Chairperson of the Management Board
Askar Smagulov	Member, expert (non-voting member)
Mazhit Yessenbayev	Member, Director

Social Responsibility Committee

The Social Responsibility Committee was established in April 2012. The Committee consists of three Directors, elected by a majority vote of the Board of Directors, two experts, a Management Board member who oversees issues of sponsorship and charity, and the head of Marketing and Public Relations. All of the members, apart from the experts, are independent non-executive directors. The Committee assists the Board of Directors on issues of the Bank's corporate social responsibility and sustainable development policy, the Bank's compliance with legislative requirements and management of potential risks associated with corporate social responsibility. The Committee also prepares and publishes a report on the Bank's corporate social responsibility and reviews the social expenses budget for the respective period. The members of the Committee are:

Name	Position
Arman Dunayev	Chairman, Independent Director
Franciscus Cornelis Wilhelmus Kuijlaars	Member, Independent Director
Christof Ruehl	Member, Independent Director
Dauren Sartayev	Member, expert (non-voting member)
Saginbek Shunkeyev	Member, expert (non-voting member)

An assessment of the adequacy and effectiveness of the Bank's system of internal controls is conducted by the Bank's Internal Audit Service, which reports directly to the Board of Directors, and by an independent auditor of the Bank.

The Bank has also established an Audit Committee and a Nomination and Remuneration Committee. See "*—Principal Committees—Audit Committee*" and "*—Principal Committees—Nomination and Remuneration Committee*"

Employees

As at 30 June 2019, the Bank on consolidated basis had 16,096 employees. The Bank had 16,131, 18,410 and 11,402 full-time equivalent employees as at 31 December 2018, 2017 and 2016, respectively. Salaries and other employee benefits decreased by KZT 3,052 million, to KZT 36,785 million for the six months ended 30 June 2019 from KZT 39,837 million for the same period in 2018.

As at 30 June 2019, the Bank on unconsolidated basis had 12,110 employees, of whom 79 per cent. were employed in the Bank's branches in Kazakhstan. As at 30 June 2019, the Bank employed 11,920 full time employees and 190 part-time employees. As at the same date, the average age of the Bank's employees was approximately 34.

The following table sets out the number of full-time employees of the Bank as at the dates indicated:

	As at 30 June	As at 31 December		
	2019	**2018**	**2017**	**2016**
Head office	2,585	2,600	1,676	1,620
Branches and retail outlets	9,525	9,633	7,064	6,911
Total	12,110	12,233	8,740	8,531

Immediately following the acquisition of KKB, the number of employees increased to approximately 20,400 employees in July 2017. However, following the optimisation of the number of employees following and during the process of the integration of KKB into the Bank, the number of full-time employees decreased approximately by 8,300 to 12,110 as at 30 June 2019.

As at the date of this Offering Memorandum, there are no labour unions in the Bank or its subsidiaries. The Bank has never experienced any industrial action or other work stoppages resulting from labour disputes.

Apart from the governmental pension plan, the Bank, in case of termination of a labour contract initiated by the Bank upon the employee reaching the retirement age established by clause 1 of Article 11 of the Law of the Republic of Kazakhstan on Pension Security in the Republic of Kazakhstan, pays compensation in the amount established by the Bank's internal documents. The Bank also provides its employees with life insurance, partial payment for medical insurance and other benefits, such as one-off retirement allowance and personal event benefits.

Training Programmes

The Bank is continuing to offer internal and external training to its employees to increase their competence in new business areas in accordance with the Bank's strategy. The Bank uses these programmes to improve the skills of its personnel and to incorporate a modern commercial approach to management and technology into its day to day operations while enabling employees to sell the full range of the Bank's and its subsidiaries' services. This in turn encourages career development among the Bank's employees and management. See "*Business of the Bank—Business Strategy*".

Priority areas in corporate training are:

- Developing the management and leadership skills of mid-level management
- Developing sales skills and efficient customer service skills
- Training in the Bank's and its subsidiaries' products
- Training in the Bank's internal rules and regulations
- AGILE and SCRUM skills training

During the six months ended 30 June 2019, 2,255 employees participated in internal and external corporate training sessions, including:

- 1,739 employees participating in internal training sessions conducted by business trainers: these consist of centralised corporate education programmes designed to promote the Bank's strategy;
- 152 employees participating in external training sessions; and
- 364 employees participating in corporate training sessions with an external provider.

In 2018, 2017 and 2016, 5,570; 2,107 and 1,420 employees of the Bank's branches, respectively, participated in internal training conducted by internal business trainers.

The Bank plans to continue training employees in order to improve their skills in new business areas in accordance with the Bank's strategy. At the same time, the Bank is actively developing and increasing its investment in its internal distance learning and testing system, which was enhanced in 2015 with the introduction of more modern software. Between 2016 and 2018, the following subsidiaries of the Bank were connected to the distance learning and testing system of the Bank: KKB, LLC Halyk Project, JSC Halyk Bank Kyrgyzstan, JSC Kazakhinstrakh, JSC Kazteleport and LLP Halyk Finance. In the six months ended 30 June 2019, employees were trained and tested on various topics using the distance learning and testing system, which was accessed 85,716 times. The distance learning and testing courses have been designed primarily to meet the demand of the business lines to increase employees' familiarity with the Bank's products and services and the competitive advantages which they offer, as well as furthering knowledge of the Bank's internal regulations.

PRINCIPAL SHAREHOLDERS

The following table sets out certain unaudited and consolidated information with respect to the ownership of the Bank's outstanding common shares and outstanding common shares immediately prior to the GDR Offering and immediately following the GDR Offering:

	Immediately prior to the GDR Offering		Immediately following the GDR Offering	
Shareholder	**Number of common shares**	**% of common shares**	**Number of common shares**	**% of common shares**
"Holding Group "ALMEX" JSC	8,756,202,348	74.7(1)	7,583,538,228	64.7
Unified Accumulative Pension Fund	718,054,740	6.1	718,054,740	6.1
GDR holders	1,896,561,040	16.2	3,069,225,160	26.2
Other	355,823,078	3.0	355,823,078	3.0
Outstanding shares, total(2)	11,726,641,206	100	11,726,641,206	100

Notes:

(1) Immediately prior to the GDR Offering, Almex owned 74.7 per cent. of the Bank on a consolidated basis, under IFRS. On an unconsolidated basis, and as reflected in the local register, Almex owned, 74.5 per cent. of the Bank as at 30 June 2019 and immediately prior to the GDR Offering.

(2) Outstanding shares on consolidated basis are calculated as fully paid and issued shares less treasury shares. Treasury shares include shares purchased by subsidiaries of the Bank in the amount of 27,408,191 and purchased by the Bank in the amount of 1,693,495,385.

Almex

Based on information available to the Bank, as at the date of this Offering Memorandum, Mr. Timur A. Kulibayev, together with his wife, beneficially owns 100 per cent. of Almex and, accordingly, Mr. and Mrs Kulibayev indirectly hold the controlling stake in the Bank. Mr. Kulibayev is the son-in-law of the former President of Kazakhstan Nursultan Nazarbayev. The controlling shareholder has the ability to significantly influence the Bank's business through its ability to control all actions that require shareholder approval, including any increase of share capital and appointment of members to the Board of Directors; however, the controlling shareholder is not entitled to interfere in the day-to-day management of the Bank and has the same voting rights per share as the other shareholders.

Mr. Kulibayev worked for JSC National Company KazMunayGas from February 2002 to October 2005. Since 2005, he has served as the Chairman of KAZENERGY (the Kazakhstan Association of Oil, Gas and Energy Complex Organisations). From April 2006 to August 2007, Mr. Kulibayev served as First Vice-President of JSC Kazakhstan Holding Company on Managing State Assets Samruk. Since 2008, Mr. Kulibayev has been the Chairman of the Kazakh National Committee at the World Petroleum Council. From October 2008 until December 2011, Mr. Kulibayev was Deputy Chairman and subsequently chairman of the management board of Samruk-Kazyna. Since 2011, he has been an Independent Director on the Board of Gazprom. From 2011 to 2014, Mr. Kulibayev was the Chairman of Atameken Union (the Presidium of the National Economic Chamber of the Republic of Kazakhstan). Since 2013, Mr. Kulibayev has been the Chairman of Atameken (the Presidium of the National Chamber of Entrepreneurs of the Republic of Kazakhstan).

Almex is a holding company, which, in addition to its controlling interest in the Bank, has a 30 per cent. interest in AON Kazakhstan LLP, a company engaged in insurance brokerage activities. Almex's interest in the Bank accounts for 96.2 per cent. of Almex's consolidated total assets.

Almex's business address is at 17 Kabanbay Batyr ave., Block E, Esil district, 010000 Nur-Sultan, Kazakhstan. In December 2006, Almex sold 187,000,000 shares of the Bank's common stock in the form of GDRs on the London Stock Exchange (the "IPO"). The GDRs were sold at a price of U.S.$16.00 per GDR, with each GDR representing four shares of common stock. The Selling Shareholder committed to use the proceeds from the IPO to subscribe for new shares of common stock offered domestically to the Bank's pre-IPO shareholders in the rights issue. In a subsequent rights issue, which comprised the second stage of the IPO, the Bank offered 55,000,000 shares of common stock to its pre-IPO shareholders (the "Rights Issue"). The Bank completed the Rights Issue in March 2007, and raised approximately KZT 28,156 million in new capital. As a result of a share split carried out in December 2012, each GDR now represents 40 shares.

JSC Unified Accumulative Pension Fund

The JSC Unified Accumulative Pension Fund is a Kazakhstan-based fund which collects obligatory pension payments, obligatory professional pension payments and voluntary pension payments and disburses pension payments and is one of the leading institutional investors in Kazakhstan. On 24 September 1997, the Government issued a Resolution "On the establishment of the closed JSC State Cumulative Fund", and on 22 August 2013, in the course of the regular pension reform in Kazakhstan, JSC Unified Accumulative Pension Fund was established. The fund's assets are held, accounted and managed by the NBRK and the sole shareholder of the JSC Unified Accumulative Pension Fund is Government of the Republic of Kazakhstan. Between March and June 2014, in accordance with an NBRK decree, all pension assets under the management of the Bank's pension fund were transferred to the JSC Unified Accumulative Pension Fund which, as a result, became a 7.8 per cent. shareholder in the Bank on behalf of its clients (6.1 per cent. at the date of this Offering Memorandum).

Other

The remaining common shares are owned by various minority shareholders in Kazakhstan and offshore. These shares, together with the GDRs, comprise the free float of the Bank.

RELATED PARTY TRANSACTIONS

Related Party Transactions

In the ordinary course of its business, the Bank may, from time to time, enter into transactions with related parties; however, under applicable laws and regulations, Kazakhstan banks, including the Bank, are prohibited from granting favourable terms to related parties.

For a description of the definition of related parties under IAS 24 "Related Party Disclosures", see Note 31 to the Unaudited Interim Condensed Consolidated Financial Information incorporated by reference into this Offering Memorandum.

The following table sets out information on the Bank's related party transactions as at the dates or for the periods indicated:

	As at 30 June		As at 31 December					
	2019		2018		2017		2016	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
	(KZT millions)							
Loans to customers before allowance for expected credit losses	653	3,909,256	1,746	3,890,872	2,350	3,568,263	2,148	2,604,335
—entities with joint control or significant influence over the entity	634		1,640		2,193		2,024	
—key management personnel of the entity or its parent	3		86		115		94	
—other related parties	16		20		42		30	
Allowance for expected credit losses	(3)	(416,681)	(18)	(409,793)	(10)	(317,161)	(21)	(284,752)
—entities with joint control or significant influence over the entity	(1)		(16)		(10)		(21)	
—key management personnel of the entity or its parent	(1)		(1)		—		—	
—other related parties	(1)		(1)		—		—	
Amounts due to customers	275,954	6,220,463	252,136	6,526,930	156,137	6,131,750	197,569	3,820,662
—the parent	157,315		69,882		29,773		99,641	—
—entities with joint control or significant influence over the entity	3,658		9,480		3,175		4,086	—
—key management personnel of the entity or its parent	9,641		11,076		9,003		9,538	—
—other related parties	105,340		161,698		114,186		84,304	—
Interest income			318	682,041	156	506,328	309	332,563
Interest income calculated using effective interest method	41	352,540	—		—		—	
—entities with joint control or significant influence over the entity	40		127		141		295	
—key management personnel of the entity or its parent	—		13		10		10	
—other related parties	1		178		5		4	
Other Interest Income	—	3,544	—		—		—	
Interest expense	(2,266)	(165,824)	(4,217)	(333,772)	(3,518)	(257,805)	(8,525)	(160,549)
—the parent	(676)		(2,479)		(2,535)		(6,848)	
—entities with joint control or significant influence over the entity	(70)		(22)		(3)		(14)	
—key management personnel of the entity or its parent	(60)		(213)		(198)		(404)	
—other related parties	(1,460)		(1,503)		(782)		(1,259)	
Key management personnel compensation	2,041	36,785	3,672	77,563	1,922	51,124	1,800	38,551
—short-term employee benefits	2,041		3,672		1,922		1,800	

“Management” transactions comprised loans to and deposits from members of the Management Board and the Board of Directors.

“Parent” transactions were mostly transactions with entities controlled by Almex’s shareholders.

DIVIDEND POLICY

In respect of its common shares, the Bank paid a dividend of KZT 125,923 million as at 30 June 2019 and KZT 69,363 million in 2018. No dividend was paid in respect of the Bank's common shares in 2017 and 2016.

The Bank does not have preferred shares in its share capital.

The Bank's dividend policy was developed in accordance with Kazakhstan legislation, the Bank's charter, its Corporate Governance Code and its internal regulations. The latest revision to the Bank's dividend policy was approved by the Board of Directors on 20 June 2019. The purpose of the dividend policy is to establish a transparent and shareholder-friendly mechanism and decision-making process for the payment of dividends, the determination of amounts, the order and the terms of payment. The Board of Directors of the Bank makes a proposition to the Annual General Meeting of Shareholders of the Bank with respect to the payment of dividends to shareholders of the Bank, taking into account the following criteria: (i) availability of the Bank's net profits to be distributed; (ii) absence of restraints upon payment of dividends stipulated by the Kazakhstan legislation as well as other restraints according to contracts between the Bank and third parties and foreign financial institutions (for example, covenants); (iii) maintaining the international credit ratings of the Bank; (iv) the audit of the Bank's financial statements for the respective period; (v) the resolution of the Annual General Meeting of Shareholders of the Bank; (vi) the fact that payment of dividends may be made no more than once during a calendar year; (vii) the prevention of default or situations when payment can cause default with respect to the Bank's liabilities; and (viii) observance of the projected CET1 capital adequacy ratio on a consolidated basis, taking into account the projected dividend payment, at a level of, not less than, 17 per cent. When determining dividend amounts to be recommended to the general meeting (per one common share), the Bank's Board of Directors considers the Bank's equity and proceeds from the precondition that the amount used for payment of dividends on common shares shall be between 50 to 100 per cent. of total net profits for the relevant reporting year as determined in accordance with the Bank's audited consolidated financial statements. At the same time, the Board of Directors of the Bank, in accordance with the strategic objectives of the Bank, has the right to offer the Annual General Meeting of Shareholders of the Bank not to direct part of its net income for the reporting year, determined by the audited consolidated financial statements of the Bank, to dividend payments on ordinary shares or to decrease the amount of dividends on common shares below 50 per cent. of total consolidated net profits for the relevant reporting year.

In accordance with Kazakhstan legislation, the Bank is prohibited from paying dividends to its shareholders if the Bank's capital is negative or where the value of its capital would become negative as a result of the dividend payment being made. The Bank is also prohibited under Kazakhstan legislation from paying dividends if it is in financial distress and close to becoming insolvent or bankrupt, or where the Bank may become close to insolvency or bankruptcy after the payment of any dividends to its shareholders.

Under the terms of the Bank's Notes due 2021, the Bank is restricted from paying any dividends, in cash or otherwise when an event of default has occurred (as defined in the Notes due 2021). In addition, when no such event of default occurs, the Bank is restricted from paying any dividends, in cash or otherwise: (a) more than once during any calendar year; and (b) in an aggregate amount exceeding 50 per cent. of the Bank's net income for the period in respect of which the dividends are being paid. Under the terms of the Bank's Eurobond due 2022, the Bank is restricted from paying any dividends, in cash or otherwise when an event of default has occurred (as defined in the Eurobond due 2022). In addition, when no such event of default occurs, the Bank is restricted from paying any dividends, in cash or otherwise: (a) more than once during any calendar year; or (b) in an aggregate amount exceeding 50 per cent. of the Bank's net income for the period in respect of which the dividends are being paid.

DESCRIPTION OF SHARE CAPITAL AND CERTAIN REQUIREMENTS OF KAZAKHSTAN LAW

Share Capital

The Bank was initially registered with the Department of Justice of the Ministry of the Republic of Kazakhstan on 20 January 1994. As at 30 June 2019, the Bank's issued and fully paid share capital consisted of 13,447,544,782 common shares. As at 30 June 2019, the Bank and its consolidated subsidiaries held 1,766,376,370 of the Bank's common shares, of which 1,693,495,385 common shares were held by the Bank as treasury shares and 72,880,985 (including GDRs) common shares were held by its consolidated subsidiaries. The Bank no longer has preferred shares in issue, having exchanged all previously existing preferred shares for common shares in June 2016. All shares of the Bank are common and in registered form in the share register of the Bank maintained by JSC Central Securities Depository (the "Central Securities Depository").

Ownership of the Selling Shareholder's shares is evidenced by an extract from the shareholders register of the Bank. The Central Securities Depository is the only entity authorised to maintain shareholder registers of private companies incorporated in Kazakhstan and is majority-owned by the NBRK.

Summary of the Charter and Applicable Provision of the JSC Law

The Charter was approved by the general meeting of shareholders of the Bank on 20 December 2006 and subsequently amended several times in 2008, 2010-2012 and 2015-2019. The Charter provides that the Bank's principal objective is to make profit. The Bank's objects are set out in full in Clause 9 of the Charter.

The Charter provides that the Bank can carry out banking operations and has the right to carry out professional activities in the securities market. The Charter also provides that the Bank has the right to carry out other activities not prohibited by the legislation of Kazakhstan.

The Charter includes provisions to the following effect:

Share rights

Subject to the provisions of the JSC Law and without prejudice to any rights attached to any existing shares or class of shares, the Bank may issue Shares and preferred shares and any other instruments convertible into Shares.

Subject to the Charter and to provisions of the JSC Law, the unissued shares of the Bank (whether forming part of the original or any increased capital) may be allotted by the Board of Directors.

Voting rights

Voting may be open or secret and every member shall have one vote for each fully paid share of which he is the holder, except in cases provided by legislation and the holders of the preferred shares shall generally not be entitled to vote. As at the date of this Offering Memorandum, the Bank has no preferred shares in issue.

No resolution of shareholders shall be effective without a quorum (which is 50 per cent. or more of the voting shares except in the case of a reconvened meeting where the initial meeting was not quorate, in which case 40 per cent. of the voting shares are required for a quorum).

Dividends and other distributions

See "*Dividend Policy*".

Variation of rights

Pursuant to the JSC Law, there are two types of shares: common and preferred. Each type has attached to it the rights set out in the JSC Law. These rights may be extended by a company's charter (although the Charter does extend such rights) but they cannot be restricted. As at the date of this Offering Memorandum, the Bank has no preferred shares in issue.

Rights attached to Shares

A holder of common shares has the right:

- to participate in the management of a joint stock company in the manner provided for under the JSC Law and/or the charter of the joint stock company;
- to receive dividends;
- to familiarise him or herself with the financial statements of the joint stock company and to receive information on its activities using the procedure established at the general meeting of shareholders or in the charter of the joint stock company;
- to receive extracts from the Central Securities Depository or, if appropriate, a nominal holder confirming the shareholder's ownership right to the securities;
- to propose to a general meeting of shareholders candidates for election to the board of directors;
- to contest in court the resolutions adopted by the bodies of the joint stock company;
- to file with the joint stock company written requests for information regarding its activities and to receive a response from the joint stock company within 30 calendar days of the date of the filing of such request;
- to receive part of the joint stock company's property in the event of the joint stock company's liquidation;
- of pre-emption in relation to the purchase of shares or other securities convertible into shares of the joint stock company in the manner established under the JSC Law;
- to participate in adoption of resolution by the general meeting of shareholders in respect of change of the amount or type of the shares in the manner established under the JSC Law; and
- if such shareholder or a group of shareholders holds 5 per cent. or more of the voting shares of the joint stock company, to:
  - in cases provided by the JSC Law, file a claim with a court seeking compensation in favour of the joint stock company for losses caused by the joint stock company's officials, as well as a return to the joint stock company, by the officials and/or their affiliates, of the profit (income) received by them as a result of adopting a resolution that proposes the conclusion of major transactions and/or interested party transactions;
  - propose to the board of directors of the joint stock company to include additional matters to the agenda of the general meeting of shareholders; and
  - receive information on the amount of remuneration as the result of the year of each member of the board of directors and/or the management board, in the manner established under the JSC Law provided that the following conditions are simultaneously met: (i) determination by the court of the fact of deliberately misleading the joint stock company's shareholders by the respective member of the board of directors and/or the executive body of the joint stock company in order to obtain profit (income) by him (them) or his affiliated persons; (ii) if it is proved that unfair actions and/or inaction of the respective member of the board of directors and/or the executive body of the joint stock company resulted in loss being incurred by the joint stock company.

In addition to the above, a major shareholder, being any shareholder or group of shareholders representing not less than 10 per cent. of the voting shares (individually or collectively, as applicable) (a "Major Shareholder"), has the right:

- to request the convening of an extraordinary general meeting of shareholders, or to file a claim with the court seeking the same where the board of directors refuse to convene a general meeting of shareholders;
- to request to call a meeting of the board of directors of the joint stock company; and
- to request that an audit of the joint stock company be performed at the expense of the relevant Major Shareholder.

Limitation of the above shareholders' rights is prohibited.

In addition to the above, the Bank's Charter provides shareholders a right to apply to the relevant Kazakhstan authorities for the protections of their rights and interests in case of breach of the laws of Kazakhstan and/or the Bank's Charter by the corporate bodies of the Bank.

Unpaid and bought-back shares

The JSC Law states that, until a share is paid in full, a company must not instruct the share to be credited to the personal account of the would-be acquirer. Instead, the share will be credited to the personal account of the company itself with the Central Securities Depository. Therefore, a share cannot be placed unless it is fully paid-up.

Shares which have been bought back by a company are credited to the same personal account of the company with the Central Securities Depository.

No dividends accrue or are payable on unplaced shares or shares bought back by a company, such shares are not counted for the purposes of determining a quorum, and such shares do not carry the right to vote.

Transfer of shares

To transfer a share, the holder (or its representative) must sign a written order and submit it to the Central Securities Depository or nominee for execution, or give suitable electronic instructions as permitted by legislation. The Central Securities Depository or nominee will execute a buy order by pairing it with a sell order, and vice versa.

All dealings with the shares of the Bank must be registered by way of making entries on the personal accounts in the registry system or the nominee's books. Legal title to a share passes at the moment when the transaction is so registered (unless each party to the transaction has a different nominee, in which case legal title passes at the moment when the transaction is registered in the personal accounts of each nominee with the Central Securities Depository). If the parties to a transaction have a common nominee, the registration of a legal title transfer is made by the nominee in its own books and is mirrored in the books of the Central Securities Depository.

An extract from the personal account of a shareholder in the registry system or a nominee's books is evidence of that holder's legal right to a share.

The Central Securities Depository or nominee can refuse to register a transaction if the documents submitted do not conform to legislative requirements.

In addition, the NBRK has the right (by notifying the relevant issuer and the Central Securities Depository) to suspend trading in securities by blocking all or certain personal accounts in the registry or nominee systems if legal requirements establishing (i) the rights and interests of investors when acquiring securities, or (ii) the terms and procedures for trading securities, have been violated.

A fee will ordinarily be payable to the Central Securities Depository or nominee for registering the transfer, under contractual terms.

Alteration of share capital

The Bank may from time to time by a three quarters majority of voting shares at a general meeting of shareholders (but by no other method) increase its share capital by way of declaring additional shares and then placing declared shares. Any decision to place shares must state the number, the price and the manner of placement of the shares.

Purchase of own shares

Subject to the JSC Law and without prejudice to any relevant special rights attached to any class of shares, the Bank may purchase any of its own shares of any class with the consent of the relevant shareholder using a valuation methodology which has been approved in advance by a general meeting of shareholders. Such shares will be credited to the Bank's personal account with the Central Securities Depository.

The Bank cannot purchase any of its shares which are being placed in a primary offering, and cannot purchase its own shares before the confirmation by the NBRK of the results of the placement of shares.

Subject to the JSC Law, a shareholder may request the Bank to buy back shares belonging to the shareholder, which the Bank must do within 30 days of receipt by it from the shareholder of a duly formalised request.

Shares being bought back by the Bank cannot exceed 25 per cent. of the total number of placed shares of the Bank, and the consideration paid for such purchase cannot exceed 10 per cent. of the size of the Bank's equity capital. There is no guarantee that the NBRK will take the position that this limit shall apply in a case of buy-back of GDRs by the Bank.

Authority to issue shares

Under the JSC Law, within the number of authorised shares, the Directors may place shares by board resolution unless otherwise prescribed by the Charter. Any decision must state the maximum amount of shares that may be allotted under it.

Pre-emption rights

Under the JSC Law, a shareholder of the Bank has a pre-emptive right to acquire newly-placed shares of the Bank.

Within 10 days from the date upon which the Bank takes a decision to place a specified number of shares, it must make an offer to each existing shareholder (either by written notification or by way of publication on the internet resource of the depositary of financial statements) to acquire the shares pro rata to its shareholding at the placement price established by the Bank in the decision. Each shareholder then has 30 days from the date of such notification or publication to submit an application to acquire shares (i.e., to exercise its pre-emptive right). Upon the expiry of this 30-day period, the right to submit an application will lapse.

General meetings

The Board of Directors must convene and the Bank must hold general and annual general meetings of shareholders in accordance with the requirements of the JSC Law. The Board of Directors may call general meetings at such times as it determines. In addition, a general meeting may be convened on the written request of any holder of Shares representing not less than 10 per cent. of the issued Shares.

Shareholders are entitled to receive not less than 30 days' notice (and in the case of voting by absentee ballot, 45 days' notice) of the holding of any general meeting.

The general meeting of shareholders has exclusive competence to determine certain matters, including, *inter alia*, the following:

(a) the introduction of amendments and supplements to, or the approval of new versions of, the Charter;

(b) the voluntary reorganisation or winding-up of the Bank;

(c) any increase in the charter capital of the Bank or any change in the type of any authorised shares of the Bank which have not been placed;

(d) the approval of the Bank's Corporate Governance Code and introduction of amendments and supplements thereto;

(e) the determination of the quantity and the expiry dates of the powers of the Board of Directors, the selection of members of the Board of Directors and early termination of their powers, as well as determination of the amount and payment terms of remuneration to members of the Board of Directors;

(f) the appointment of an auditing company to undertake the audit of the Bank; and

(g) approval of incentive programmes for the members of the Board of Directors including share ownership plans or other share-based incentive plans and any amendments thereto.

In addition to the above, according to the Bank's Charter, the general meeting of shareholders has exclusive competence to determine the following:

(h) making decisions on non-payment of dividends on ordinary and preferred shares of the Bank, upon the occurrence of cases stipulated by the legislation of the Republic of Kazakhstan;

(i) approving the method of determining the value of shares when they are repurchased by the Bank in accordance with the legislation of the Republic of Kazakhstan;

(j) approval of the agenda of the general meeting of shareholders; and

(k) other issues, decisions on which the legislation of the Republic of Kazakhstan or the Charter of the Bank can be attributed to the exclusive competence of the general meeting of shareholders.

Matters referred to in paragraphs (b) to (d) and (i) above shall require the approval by a majority of not less than three-quarters of the total number of voting shares of the Bank.

Matters referred to in paragraphs (a), (e)-(h) and (j)-(k) above shall require the approval of a simple majority of votes of the total number of voting shares of the Bank participating in the vote.

The general meeting of shareholders has a right to cancel any decision made by any other management body of the Bank on issues related to the internal organisation of the Bank.

Directors

The Charter provides that the number of Directors shall be determined by the general meeting of shareholders. Directors shall be appointed by shareholders by way of cumulative voting whereby each shareholder has the number of votes equal to the number of shares it owns multiplied by the number of directors to be elected and has the right to give all such votes completely to one candidate or to be distributed among several candidates for the Board of Directors. Candidates collecting the majority of votes are considered to be selected members of the Board of Directors. If two or more candidates gain an equal number of votes, then an additional election is carried out with regard to such candidates.

The quorum required for a duly convened meeting of the Board of Directors shall comprise at least 50 per cent. of the members of the Board of Directors, including at least one independent director, save that where any matter for determination by the Board of Directors relates to a transaction with an affiliate of the Bank, the quorum required for a duly convened meeting of the Board of Directors shall comprise not less than two members of the Board of Directors who have no interest (or are deemed to have no interest) in the relevant transaction. Each member of the Board of Directors has one vote. Decisions of the Board of Directors are made by a simple majority of votes of members of the Board of Directors present at the meeting unless otherwise stipulated by the JSC Law or the Charter (see below regarding necessary approvals by independent directors).

A director shall not be required to hold any shares in the capital of the Bank by way of qualification.

A general meeting of shareholders has a right to terminate early the powers of all or any members of the Board of Directors and to remove any member of the Board of Directors from their office.

The Board of Directors shall, subject as set out below in the paragraph headed ''Independent Directors'', have exclusive competence to determine certain matters, including the following:

- decisions regarding the placement of shares, including the price and number of the Bank's shares to be placed including the approval of any offering document in connection with the listing of the Bank's shares or depositary receipts on international stock exchanges;
- the determination of quantity and expiry dates of powers of the Management Board, the selection of the chairman of the Management Board and members of the Management Board, and early termination of their powers;
- recommendations of the amount of salary and payment terms of remuneration and bonuses to the members of the Board of Directors (including the chairman of the Management Board) and the determination of the amount of salary and payment terms of remuneration and bonuses to members of the Management Board;
- the making of decisions on the conclusion of major transactions (being a transaction or combination of inter-related transactions which result or may result in the purchase or disposal by the Bank of assets representing 25 per cent. or more of the total value of the Bank's assets) and related party transactions;
- making decisions on concluding transactions with persons related to the Bank by special relations;
- increase of the Bank's liabilities by the amount of 10 and more per cent. of the size of the Bank's equity capital;
- the approval of the strategic plan of development of the Bank;
- recommendations on the amount of dividends to be paid by the Bank on its common shares based on end of year results;

- the approval of special terms of remuneration of the Bank's employees other than the members of the Board of Directors, including the granting of options over the Bank's shares and the changes to such terms in accordance with the employee incentive plan approved by the general meeting of shareholders; and
- other issues, decisions on which the legislation of the Republic of Kazakhstan or the Charter of the Bank can be attributed to the exclusive competence of the Board of Directors.

Independent Directors

Independent directors, being members of the Board of Directors who are determined by the Board of Directors to be independent in accordance with the provisions of the JSC Law ("Independent Directors"), shall represent not less than one-third of the total members of the Board of Directors.

The Board of Directors shall only make decisions on any of the following matters, or shall only propose any of the following matters be resolved at a general meeting of the shareholders, where a majority of the members of the Board of Directors, including a majority of the Independent Directors, approves such decision at the relevant meeting of the Board of Directors:

- entering into any transaction between any shareholders of the Bank holding more than 10 per cent. of the Bank's issued Shares and the Bank, provided that the size of such transaction will equal or exceed 50 per cent. of the total size of the Bank's equity capital;
- preliminary approval of any changes and additions to the Charter;
- preliminary approval of the Corporate Governance Code of the Bank and any amendments and/or changes thereto;
- changes in the terms of reference or membership of the committees of the Board of Directors;
- the placement of the Bank's Shares in excess of 25 per cent. of the total number of the Bank's issued Shares;
- the conclusion of major transactions (being a transaction or combination of inter-related transactions which result or may result in the purchase or disposal by the Bank of assets representing 25 per cent. or more of the total amount of the Bank's assets);
- the conclusion of a transaction or combination of inter-related transactions resulting in the potential buyback by the Bank of its outstanding Shares or a sale of the Bank's Shares that were purchased by the Bank representing 25 per cent. or more of the total number of outstanding Shares to be purchased or sold;
- an increase in the Bank's liabilities for amounts equal to 50 per cent. or more of the equity capital of the Bank;
- proposal on voluntary dissolution or reorganisation of the Bank;
- termination of listing from stock exchanges in Kazakhstan or other countries; and
- recommendation of an audit company for the annual audit of the Bank.

Remuneration of Directors

The remuneration of Directors shall be determined by the shareholders following the recommendation of the Board of Directors.

Disclosure of beneficial ownership

Under the JSC Law, a list of shareholders that have the right to participate in a meeting of shareholders and vote at the meeting will be prepared by the Central Securities Depository on the basis of information recorded in the register of shareholders of the Bank. However, any shareholder holding Shares through a nominee and whose identity is not disclosed to the Central Securities Depository shall not be entitled to vote at a meeting of shareholders. Holders of GDRs will be able to exercise their voting rights in accordance with and subject to the limitations set out in Condition 12 (Voting of Shares) of *"Terms and Conditions of the Global Depositary Receipts*". These GDR holders will also be able to exchange GDRs for Shares in accordance with the Deposit Agreement.

Furthermore, in accordance with Article 17(5) of the Banking Law, legal entities registered in any of the Blacklisted Jurisdictions (as listed below) cannot directly or indirectly own and (or) use, and (or) dispose of voting shares of a Kazakhstan resident bank, unless such Kazakhstan resident bank is a subsidiary of a non-resident bank and such non-resident bank has the minimum required rating of one of the rating agencies determined by the NBRK. Accordingly, any legal entity registered in such Blacklisted Jurisdiction (the "**Restricted Party**") will not be able to convert its GDRs into Shares and will not be able to hold or dispose of Shares. Furthermore, under Kazakhstan law, any Restricted Party that holds GDRs will not be entitled to exercise any voting rights in respect of such GDRs through the Depositary (or otherwise) at shareholder meetings. Although Kazakhstan law does not explicitly prohibit Restricted Parties from holding GDRs or from exercising or benefitting from any rights (excluding voting rights) attached thereto (including rights to receive dividends and rights of pre-emption), there can be no guarantee that the NBRK or any other relevant authority (such as a Kazakhstan court) will not take an alternative view, as a result of an alternative interpretation of Kazakhstan law or otherwise, in which case Restricted Parties may be prevented from holding GDRs and/or exercising such rights (See "*Risk Factors—Risk Factors relating to the Bank's Shares and GDRs—There are restrictions and prohibitions under Kazakhstan law on the ownership and exercise of shareholders' rights (including voting rights) with respect to the GDRs and the Shares*")

The following jurisdictions are included in the NBRK's list of Blacklisted Jurisdictions as at the date of this Offering Memorandum:

- Principality of Andorra; State of Antigua and Barbuda; Commonwealth of the Bahamas; Barbados State; State of Belize; The state of Brunei Darussalam; Republic of Vanuatu; Republic of Guatemala; State of Grenada; Republic of Djibouti; Dominican Republic; Republic of Indonesia; Spain (only in part of the Canary Islands); Republic of Cyprus; People's Republic of China (only in part of the territories of the special administrative regions of Aomin (Macau) and Xianggang (Hong Kong); Federal Islamic Republic of Comoros; Republic of Costa Rica; Malaysia (only in part of the territory of the Labuan enclave); Republic of Liberia; Principality of Liechtenstein; Republic of Mauritius; Portugal (only in part of the territory of the Madeira Islands); Republic of Maldives; Republic of Malta; Republic of Marshall Islands; Principality of Monaco; Union of Myanmar; Republic of Nauru; Netherlands (only in part of the territory of the island of Aruba and the dependent territories of the Antilles); Federal Republic of Nigeria; New Zealand (only in part of the territory of the Cook Islands and Niue); Republic of Palau; Republic of Panama; Independent State of Samoa; Republic of Seychelles; State of Saint Vincent and the Grenadines; Federation of Saint Kitts and Nevis; State of Saint Lucia; United Kingdom of Great Britain and Northern Ireland (only in part of the following territories): Anguilla Islands, Bermuda, British Virgin Islands, Gibraltar, Cayman islands, Montserrat Island, Turks and Caicos Islands, Isle of Man, The Channel Islands (Guernsey, Jersey, Sark, Alderney); United States of America (only in part of the territories of the U.S. Virgin Islands, Guam Island and the Commonwealth of Puerto Rico); Kingdom of Tonga; Republic of the Philippines.; Democratic Republic of Sri Lanka.
- Accordingly, holders of GDRs registered in the above Blacklisted Jurisdictions cannot exchange GDRs into Shares and cannot own, hold or dispose of the Shares. Furthermore, in order to be eligible for voting at a general meeting of shareholders, shareholders of the Bank are required to certify that their respective shareholders (participants) are not subject to the foregoing restrictions in that they are not registered in any such Blacklisted Jurisdictions.
- Under Kazakhstan law, a share will not give a shareholder voting rights unless information on such shareholder is available to the Central Securities Depository. Although the NBRK has clarified that non-disclosure by the GDR holder of its identity to the Central Securities Depository should not prevent the latter from exercising or benefiting from other rights (including the right to receive dividends and to have the Depositary exercise pre-emptive rights on their behalf such that holders can receive additional GDRs) there is no assurance that the NBRK or any other relevant authority such as a Kazakhstan court will not take a different view thereby restricting all such GDR holders from exercising or benefiting from any such shareholder rights. Moreover, there can be no assurance that the NBRK or any other relevant authority would not interpret the foregoing legislation as restricting such entities or persons from owning GDRs.

In addition, any individual or legal entity becoming a "major shareholder" or, for legal entities, a "bank holding" company in relation to the Bank should obtain the prior written permission of the NBRK. A major shareholder and bank holding company means a person directly or indirectly owning or voting 10 or 25 per cent., respectively, of the voting shares or who can otherwise influence the decisions of the Bank on the basis of an agreement or otherwise as set out by NBRK regulations.

Related party transactions

Under the JSC Law, a related party transaction is a transaction in which (a) an affiliate of the company either (i) is a party to such transaction or (ii) participates in the transaction as a representative or an intermediary or (b) an affiliate of the company is an affiliate of the legal entity which either (i) is a party to such transaction or (ii) participates in the transaction as a representative or an intermediary. The JSC Law excludes certain types of transactions from the definition of a related party transaction (such as, for instance, an acquisition of the company's shares or other securities by its shareholder or a repurchase by the company of the placed shares of the company).

Under the JSC Law, related party transactions must be approved by the majority of disinterested members of the Board of Directors or, if all members of the Board of Directors are interested, by the decision of a meeting of shareholders made by: (a) the majority of disinterested shareholders; or (b) a simple majority of the total number of voting shares of the Bank if all shareholders are interested. The JSC Law permits the Bank to establish in its Charter a different procedure for entry into certain types of related party transactions.

Major transactions

Under the JSC Law, a major transaction is (a) a transaction or a set of inter-related transactions, as a result of which the company acquires or alienates (or will acquire or alienate) property the value of which equals twenty-five or more per cent. of the total book value of the company's assets; (b) a transaction or an aggregate of inter-related transactions, as a result of which the company may buy its placed securities or sell the securities bought by the company in the amount of twenty-five or more per cent. of the total number of placed securities of the same type; or (c) another transaction recognised by the company's charter as a major transaction.

Under the JSC Law, major transactions shall be approved by the board of directors. In the event when the company enters into a major transaction, as a result of which the company acquires or alienates (may be acquired or alienated) property whose value equals fifty or more per cent. of the total book value of the company's assets (as at the date of adoption of the decision on entering into such transaction), such transaction shall be approved by the general meeting of shareholders.

The decision on entering into a major transaction in which the company is interested shall be approved by the general meeting of shareholders by a simple majority of votes of the total number of voting shares in the company.

Mandatory offers

Under the JSC Law, a person who, acting either alone or jointly with its affiliated persons, is acquiring:

- 30 per cent. or more of the voting shares of the Bank; or
- any other number of voting shares of the Bank where such acquisition would result in such person alone or jointly with its affiliated persons holding 30 per cent. or more of the voting shares of the Bank,

is required to make an offer to the remaining shareholders to buy out their shares at the market price which shall be determined by the acquirer on the basis of the guidelines provided for in the JSC Law (the "Mandatory Offer"). Any failure by the acquirer to make such an offer would result in the acquirer being obliged to reduce its shareholding to not more than 29 per cent.

Under the Kazakhstan Entrepreneurship Code, any person, acting either alone or jointly with its affiliates, wishing to acquire more than 50 per cent. of the voting shares of the Bank, must obtain prior consent from the Competition Committee, subject to certain thresholds.

Squeeze-Out rules

Squeeze-out rules were introduced into the JSC Law in July 2018, and became effective from 1 January 2019, except for the provision in respect of unclaimed money transferred to the special account opened with the Central Securities Depository which came into force on 1 July 2019 (the "Squeeze-Out").

Under the JSC Law, a person who, acting either solely or jointly with its affiliated persons, is acquiring:

- 95 per cent. or more of the voting shares of the company; or

- other number of voting shares in aggregate constituting not less than 10 per cent. of the voting shares of the company, as a result of which this person acquired, independently or jointly with its affiliates, 95 per cent. or more of the voting shares of the company,

have the right to demand from the other shareholders of the company to sell their voting shares. The offer price shall be the market value of voting shares at the stock exchange (if such shares are traded at the stock exchange) or determined by the independent appraisal. The remaining shareholders are obliged to sell their voting shares within 60 calendar days after the date of publication of the request on the internet resource of the depository of financial statements. It is prohibited for such remaining shareholders to enter into any other transactions with the company's voting shares within such 60-day period.

The Squeeze-Out mechanism does not apply to legal entities belonging to the group of the national managing holding in accordance with the Law of the Republic of Kazakhstan "On the National Welfare Fund".

The requirements of the JSC Law regarding the Mandatory Offer will not apply to an acquirer who exercises his right to initiate a Squeeze-Out.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts ("GDRs") represented by this certificate are denominated in U.S. Dollars and are each issued in respect of forty common shares (the "Shares") in JSC "Halyk Bank" (the "Bank") pursuant to and subject to an agreement dated 20 December 2006, as amended and restated from time to time, and made between the Bank and The Bank of New York Mellon in its capacity as depositary (the "Depositary") (such agreement, as amended from time to time, being hereinafter referred to as the "Deposit Agreement"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed JSC "Halyk Bank" (in its capacity as custodian, the "Custodian") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "Deposited Shares") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "Deposited Property"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee (other than any cash comprised in the Deposited Property which is held as banker pursuant to Condition 26) in proportion to their holdings of GDRs. In these terms and conditions (the "Conditions"), references to the "Depositary" are to The Bank of New York Mellon and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to JSC "Halyk Bank" in its capacity as Custodian or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of Almaty or such other location of the head office of the Custodian in Kazakhstan as may be designated by the Custodian with the approval of the Depositary (if outside the city of Almaty) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "Register") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement and thus under English law, have no contractual rights against or obligations to, the Bank or Depositary. However the Deed Poll executed by the Bank in favour of the Holders provides that if the Bank fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1 Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(a) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Kazakhstan of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(b) the payment of such fees, taxes, duties, charges, costs and expenses (including currency conversion expenses, and cable (including SWIFT) and facsimile transmission fees and expenses) and governmental charges as may be required under these Conditions or the Deposit Agreement;

(c) the surrender of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(d) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out either (i) in Schedule 3, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Regulation S GDRs, or (ii) in Schedule 3, Part D, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(a) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(b) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; **provided however that** the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(i) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in paragraphs (a) and (b) of this Condition 1.2 (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(ii) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Kazakhstan of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3, Part A of the Deposit Agreement (*which is described in the following paragraph*) by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 3, Part C of the Deposit Agreement (*which is described in the second following paragraph*) by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule144 A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may, subject to the prior written approval of the Bank, issue GDRs against rights to receive Shares from the Bank (or any agent of the Bank recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Bank to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "Pre-Release"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release.

Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate.

The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30 per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to disregard such limit from time to time by reason of events beyond the Depositary's control due to (a) a decrease in the aggregate number of GDRs outstanding that causes existing Pre-Release transactions to exceed the limits stated above or (b) temporary market liquidity issues resulting in a Pre-Release requiring a reasonable amount of time to acquire Shares to close out such Pre-Release transaction. The Depositary may otherwise, with the prior written consent of the Bank, change such limit for purposes of general application from time to time. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part C of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this paragraph shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 Part A of the Deposit Agreement.

1.8 In order to comply with any applicable laws and regulations, the Depositary may from time to time request each Holder of GDRs to, and each Holder shall upon receipt of such request, provide to the Depositary information relating to: (a) the capacity in which such Holder and/or any owner holds GDRs; (b) the identity of any owners of GDRs or other person or persons then or previously interested in such GDRs; (c) the nature of any such interests in the GDRs; and (d) any other matter where disclosure of such matter is required to enable compliance by the Depositary with applicable laws or the constitutional documents of the Bank.

1.9 In order to comply with any applicable laws and regulations, the Depositary may from time to time request Euroclear, Clearstream and DTC to: provide the Depositary with (a) details of the accountholders within such settlement systems that hold interests in GDRs and the number of GDRs recorded in the account of each such accountholder, and each Holder or owner of GDRs, or intermediary acting on behalf of such Holder or owner, hereby authorises each of Euroclear, Clearstream and DTC to disclose such information to the Depositary as issuer of the GDRs; and (b) provide and consent to the collection and processing by the Depositary of, any authorisations, waivers, forms, documentation and other information, relating to such settlement or clearing system's status (or the status of such settlement or such clearing system's direct or indirect owners or accountholders) or otherwise required to be reported, under FATCA.

1.10 So long as the Shares are represented by GDRs, to allow the Depositary to comply with FATCA, (i) each Holder shall provide to the Depositary such information requested by the Depositary as the Depositary may reasonably require to comply with FATCA, and (ii) each Holder consents to the disclosure, transfer and reporting of such information to any relevant governmental or tax authority or as otherwise reasonably required, including to any person making payments to the Depositary, in each case, to the extent that the Depositary reasonably determines that such disclosure, transfer or reporting is required to comply with FATCA. Nothing herein shall oblige any Holder to do anything which would or might in its reasonable opinion constitute a breach of any law or regulation, any fiduciary duty, or any duty of confidentiality. For the purposes of these Conditions, "FATCA" means (i) sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended or any associated regulations or other official guidance, (ii) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the United States and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (i), or (iii) any agreement pursuant to the implementation of any treaty, law, regulation, other official guidance or intergovernmental agreement referred to in paragraphs (i) or (ii) with the U.S. Internal Revenue Service, the U.S. government or any governmental authority or tax authority in any other jurisdiction or (iv) any other treaty, law, regulation, other official guidance or agreement or facilitating the implementation of any substantially similar exchange of information regime.

2 Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Bank in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Bank is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement. The Depositary shall restrict the withdrawal of Deposited Shares where the Bank notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Bank's constitutive documents or would otherwise violate any applicable laws.

3 Transfer and Ownership

The GDRs are in registered form, each representing forty Shares. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Bank as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

Interests in Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"). Prior to expiration of the Restricted Period (such term being defined as the 40-day period beginning on the latest of the commencement of the offering of GDRs, the original issue date of the GDRs, and the latest issue date with respect to the additional GDRs, if any, issued pursuant to the over-allotment option granted to the Underwriters pursuant to the Underwriting Agreement), no owner of Regulation S GDRs may transfer Regulation S GDRs or Shares represented thereby except in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act or to, or for the account of, a qualified institutional buyer as defined in Rule 144A under the U.S. Securities Act (each a "QIB") in a transaction meeting the requirements of such Rule 144A. There shall be no transfer of Regulation S GDRs by an owner thereof to a QIB except as aforesaid and unless such owner (a) withdraws Regulation S Shares from the Regulation S Facility in accordance with Clause 3.5 of the Deposit Agreement and (b) instructs the Depositary to deliver the Shares so withdrawn to the account of the Custodian to be deposited into the Rule 144A Facility for issuance thereunder of Rule 144A GDRs to, or for the account of, such QIB. Issuance of such Rule 144A GDRs shall be subject to the terms and conditions of the Deposit Agreement, including, with respect to the deposit of Shares and the issuance of Rule 144A GDRs, delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees (including cable (including SWIFT) and facsimile transmission fees and expenses), charges and taxes provided therein.

4 Cash Distributions

Whenever the Depositary shall receive from the Bank any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Bank) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; **PROVIDED THAT**:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(d).

5 Distributions of Shares

Whenever the Depositary shall receive from the Bank any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Bank, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6 Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Bank any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; **PROVIDED THAT**, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Bank, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7 Rights Issues

If and whenever the Bank announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(a) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in Tenge or other relevant currency together with such fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(b) if and to the extent that the Depositary shall at its discretion, after prior consultation with the Bank, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(c) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (a) and (b) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Bank, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, **PROVIDED THAT** Holders have not taken up rights through the Depositary as provided in (a) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(d)

(i) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(a) (the "Primary GDR Rights Offering"), if authorised by the Bank to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(a), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("Additional GDR Rights") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering (the "Instruction Date") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("Additional GDR Rights Requests") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "Maximum Additional Subscription") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("Unsubscribed Rights"), subject to Condition 7(d)(iii) and receipt of the relevant subscription price in Tenge or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(d)(ii).

(ii) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(iii) In order to proceed in the manner contemplated in this Condition 7(d), the Depositary shall be entitled to receive such opinions from Kazakhstan counsel and U.S. counsel to the Bank as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Bank and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Bank or any Holder in respect of its actions or omissions to act under this Condition 7(d) and, in particular, the Depositary will not be regarded as being negligent, fraudulent, or in wilful default if it elects not to make the arrangements referred to in Condition 7(d)(i).

The Bank has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Bank notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Bank to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Bank procures the receipt by the Depositary of an opinion from counsel to the Bank reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Bank nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (a), (b), (c) and (d) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8 Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgment of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgment any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

The Depositary will be entitled to make currency conversions under the Deposit Agreement or under these Conditions from time to time by or through any of its affiliates, the Custodian or otherwise through customary banking channels. To the extent conversions are executed by the Depositary or its affiliates (in such cases, the "FX Counterparty"), the FX Counterparty shall act as principal for its own account, and not as agent, adviser, broker or fiduciary on behalf of any other persons, and earns revenue, including without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the Deposit Agreement or these Conditions and the rate that the FX Counterparty received when buying or selling foreign currency for its own account. The Depositary makes no representation that the exchange rate used or obtained in any currency conversion under the Deposit Agreement or these Conditions will be the most favourable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favourable to Holders, subject to the Depositary's obligations in Clause 9 of the Deposit Agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

9 Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Bank as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC (as the case may be). The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) which may become or have become payable under the Deposit Agreement or under applicable law or regulation, (including for the avoidance of doubt, any taxes imposed pursuant to FATCA) in respect of such GDR or the relative Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Bank as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Bank with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Bank when the Depositary shall retain the same) return the same to the Bank for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10 Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Bank or to which it is a party (except where the Bank is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11 Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Kazakhstan and other withholding taxes, if any (including any taxes imposed pursuant to FATCA), if any, at the applicable rates. Services that may permit Holders or owners of GDRs to obtain reduced rates of tax withholding at source, or to reclaim excess tax withheld, and the fees and costs associated with using services of that kind, are not provided under or covered by, and are outside the scope of, these Conditions and the Deposit Agreement.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Kazakhstan or pursuant to FATCA in order for the Depositary to receive from the Bank Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Conditions 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Bank has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Bank has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain any such authorisation, consent, registration or permit, or to file any such report.

12 Voting of Shares

12.1 Holders will have voting rights with respect to the Deposited Shares, subject to and in accordance with any applicable Kazakhstan law. The Bank has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Bank and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Bank has agreed with the Depositary that it will promptly provide the Depositary notice of any meeting of the shareholders of the Bank and the agenda therefor and request the Depositary in writing to prepare, in consultation with the Bank, written requests containing voting instructions by which each Holder (and through it, any ultimate beneficial owner of the relevant GDRs) may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting or abstain from voting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Bank or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. In such voting instruction, each Holder will be required to disclose the identity of ultimate beneficial owners of the relevant GDRs wishing to exercise voting rights at the relevant meeting and will be required to certify on behalf of the relevant beneficial owner in such voting instruction that (a) such owner is not a person subject to Article 17.5 of the Kazakhstan Law on Banks and Banking Activity (as such law may be amended from time to time), in that it is not (i) a legal entity registered in Andorra, Liechtenstein, Liberia, Monaco, the Marshall Islands, Nauru, the Cook Islands, Guatemala, Indonesia, Burma (Myanmar), Nigeria or the Philippines (and/or such other jurisdictions as may be specified under the said Article 17.5 from time to time) or which has an affiliate registered in any such jurisdiction (unless such entity is an international bank having a credit rating of "A" or above from one of Moody's Investor Service, Standard & Poor's Ratings Services, Fitch Ratings Ltd or Capital Intelligence Ltd.) or (ii) a physical person who is a participant or a shareholder in such legal entity; (b) such owner owns less than 10 per cent. of the outstanding Shares of the Bank (or such other percentage as shall at the relevant time require an approval from the FMSA and any other relevant regulatory authority) or in case it owns more than

10 per cent. (or such percentage, as the case may be), it has obtained the required approvals; and (c) such beneficial owner has validly appointed the Depositary as its representative to attend the meeting and to vote on its behalf and has granted the Depositary the authority to appoint a representative to attend the meeting and vote. If no such certification is provided to the Depositary by a Holder (an "Uncertified Holder"), the Depositary will not exercise any voting rights in relation to the Deposited Shares which are represented by the GDRs which are held by the Uncertified Holder and such voting rights shall lapse. The Bank has also agreed to provide to the Depositary appropriate proxy forms to enable a Holder to allow the ultimate beneficial owners of the relevant GDRs and the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of such owners.

12.2 In order for each voting instruction to be valid, the voting instructions form must be (a) completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify; and (b) accompanied by an evidence satisfactory to the Depositary and the Bank and otherwise in accordance with applicable law confirming ownership and beneficial interest of the Holder and/or ultimate beneficial owner of the relevant GDRs as of the record date established by the Depositary.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares in accordance with the voting instructions it has received.

12.4 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which valid voting instructions and certifications have been received. If no valid voting instructions or certifications are received by the Depositary in accordance with Conditions 12.1 and 12.2 or if voting instructions or certifications are deemed not to have been received (either because no voting instructions or certifications are returned to the Depositary or because the voting instructions or certifications have not been timely returned to the Depositary or they are incomplete, illegible or unclear) from a Holder and/or ultimate beneficial owner of the relevant GDRs, as the case may be, with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, the Depositary shall not exercise voting rights in relation to such Deposited Shares and such voting rights shall lapse.

12.5 If the Depositary is advised that it is not permissible under Kazakhstan law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Condition 12.3, the Depositary shall not vote or cause to be voted such Deposited Shares.

12.6 Where the Depositary is to vote in respect of each and any resolution in the manner described in Condition 12.3 the Depositary shall notify the Chairman of the Bank and designate a representative to attend such meeting or otherwise cause to be voted the Deposited Shares in the manner required by this Condition 12.

12.7 The Depositary and the Bank are entitled to amend this Condition 12 and Clause 5 of the Deposit Agreement from time to time by written notice to the GDR Holders where the Depositary or the Bank consider it necessary or advisable to do so in order to comply with applicable Kazakhstan law. By continuing to hold the GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition 12 and Clause 5 of the Deposit Agreement as such terms may be amended from time to time in order to comply with applicable Kazakhstan law and/or reflect the removal of restrictions imposed under Kazakhstan law.

12.8 The Depositary shall not, and the Depositary shall ensure the Custodian and its nominee do not, vote or attempt to exercise the right to vote that attaches to the Deposited Shares other than in accordance with instructions given, or deemed given, in accordance with this Condition 12.

13 Recovery of Taxes, Duties and Other Charges, and Fees and Expenses due to the Depositary

The Depositary shall not be liable for any taxes (including any taxes imposed pursuant to FATCA), duties, charges, costs or expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR (the "Charges") shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. The Depositary may sell (whether by way of public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) for the account of the Holder an appropriate number of Deposited Shares or amount of other Deposited Property and will discharge out of the proceeds of such sale any Charges, and any fees or expenses due to the Depositary from the Holder pursuant to Condition 16, and subsequently pay any surplus to the Holder. Any request by the Depositary for the payment of Charges shall be made by giving notice pursuant to Condition 23.

14 Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Bank, any Agent, nor any of their agents, officers, directors, employees or affiliates shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of: (A) any provision of any present or future law or regulation or other act of the government of the United States, any State of the United States or any other state or jurisdiction, or of any governmental or regulatory authority or stock exchange, or the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control; or (B) (in the case of only the Depositary, the Custodian, any Agent or any of their agents, officers, directors, employees or affiliates), by reason of any provision, present or future, of the constitutive documents of the Bank, or any provision of any securities issued or distributed by the Bank, or any offering or distribution thereof; or (C) any event or circumstance, whether natural or caused by a person or persons, that is beyond the ability of the Depositary or the Bank, as the case may be, to prevent or counteract by reasonable care or effort (including, but not limited to earthquakes, floods, severe storms, fires, explosions, war, terrorism, civil unrest, labour disputes or criminal acts; interruptions or malfunctions of utility services, internet or other communications lines or systems; unauthorised access to or attacks on computer systems or websites; or other failures or malfunctions of computer hardware or software or other systems or equipment), the Depositary, the Custodian, the Bank, any Agent, or any of their agents, officers, directors, employees or affiliates, shall be, directly or indirectly, prevented, delayed or forbidden from doing or performing, or could be subject to any civil or criminal penalty on account of doing or performing and therefore does not do or perform, any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or fraud or that of its agents, officers, directors or employees) to the Bank or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Bank or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, fees, commissions, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or fraud or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Bank of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Bank, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof, including for any tax imposed pursuant to FATCA.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its reasonable opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary and the Bank may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Bank, the Depositary or otherwise, and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof or any other person believed by it in good faith to be competent to give such information.

14.11 Any such advice, opinion, certificate or information (as is referred to in Condition 14.10) may be sent or obtained by letter, facsimile transmission, telegram or cable and the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Bank by a director of the Bank or by a person duly authorised by a director of the Bank or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or fraud.

14.14 Neither the Depositary nor the Bank nor any of their respective agents shall be liable to any owner of GDRs for any indirect, special, punitive or consequential damages.

14.15 Subject as provided in the Deposit Agreement, the Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit. No such delegation or sub-delegation shall relieve the Depositary of any of its obligations or duties under the Deposit Agreement. Subject as aforesaid, any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Bank in making such delegation and the Bank shall not in any circumstances and the Depositary shall not (**provided that** it shall have exercised reasonable care in the selection of such delegate) be bound to supervise, or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable, and if so requested by the Bank, pursue (at the Bank's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Bank. Any delegation under this Condition which includes the power to sub-delegate shall provide that the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Bank and the Depositary.

14.16 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money. No such employment of an agent shall relieve the Depositary of any of its obligations or duties under the Deposit Agreement.

14.17 The Depositary may, in performing its duties hereunder, appoint and employ brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the Depositary and that may earn or share fees, spreads or commissions.

14.18 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or fraud or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.19 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance, or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from the wilful default, negligence or fraud of the Depositary or that of its agents, officers, directors or employees.

14.20 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.21 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Kazakhstan law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Bank, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of such law.

14.22 No disclaimer of liability under the U.S. Securities Act is intended by any provision of the Deposit Agreement.

14.23 The Depositary shall be under no obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Property or in respect of any GDRs on behalf of any Holder or any other person.

15 Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses (including cable (including SWIFT) and facsimile transmission fees and expenses) and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16 Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and to receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(a) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled, including for the avoidance of doubt, but not limited to, transfers between the Regulation S Master GDR and the Master Rule 144A GDR which transfers shall be treated as cancellations of GDRs represented by one Master GDR and issuances of GDRs represented by the other Master GDR;

(b) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(c) for issuing GDR certificates in definitive registered form (other than pursuant to (b) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(d) subject to Condition 16.2, for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(e) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(f) subject to Condition 16.2, a fee of U.S.$0.02 or less per GDR (or portion thereof) per calendar year for depositary services which shall be payable as provided in paragraph (g) below; and

(g) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions),

together with all fees and expenses (including currency conversion expenses, cable, SWIFT and facsimile transmission fees and expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The combined fees of Condition 16.1 (d) and (f) shall not exceed U.S.$0.02 per GDR (or portion thereof) per calendar year.

16.3 The Depositary is entitled to receive from the Bank the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Bank and the Depositary.

16.4 From time to time, the Depositary may make payments to the Bank to reimburse and/or share revenue from the fees collected from Holders of GDRs, or waive fees and expenses for services provided, generally relating to costs and expenses arising out of establishment and maintenance of the GDR facilities established pursuant to the Deposit Agreement. Where the Bank has been appointed by the Depositary to act as Custodian in connection with the Deposit Agreement, the Bank in its capacity as the Custodian may earn fees and revenue, and such fees and revenue may be paid by the Depositary to the Bank from fees collected by the Depositary from Holders. In performing its duties under the Deposit Agreement, the Depositary may use brokers, dealers or other service providers that are affiliates of the Depositary and that may earn or share fees and commissions.

17 Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "Agents") for the purpose, *inter alia*, of making distributions to the Holders. No such appointment of an Agent shall relieve the Depositary of any of its obligations or duties under the Deposit Agreement.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18 Listing

The Bank has undertaken in the Deposit Agreement to use its best endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the official list maintained by the Financial Conduct Authority (the "Official List") and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose, the Bank will pay all fees and sign and deliver all undertakings required by the Financial Conduct Authority and the London Stock Exchange in connection with such listings. In the event that the listing on the Official List and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Bank has undertaken in the Deposit Agreement to use its best endeavours with the reasonable assistance of the Depositary (provided at the Bank's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19 The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian **PROVIDED THAT** the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary **PROVIDED THAT**, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Bank. The Custodian may resign by giving 90 days' prior notice to the Depositary, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation may take effect immediately on the appointment of such replacement Custodian. The Depositary may remove the Custodian at any time subject to the prior written consent of the Bank, provided, however that such written consent shall not be required in the event that such termination by the Depositary is due to the wilful default, negligence or bad faith of the Custodian, in which case termination may be immediate. The Depositary shall provide notice to the Bank of such termination. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (a) by the Bank, such approval not to be unreasonably withheld or delayed, and (b) by the relevant authority in Kazakhstan, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after the prior consent of the Bank, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian approved by the Bank, which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; **PROVIDED THAT**, in the case of such temporary deposit in another place, the Bank shall have consented to such deposit, and such consent of the Bank shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Bank if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20 Resignation and Termination of Appointment of the Depositary

20.1 Subject as may be otherwise agreed by the Bank and the Depositary, the Bank may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 90 days' prior notice in writing to the Bank and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and, if the GDRs are at that time admitted to the official list of the Financial Conduct Authority and admitted to trading on the London Stock Exchange, to the Financial Conduct Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; **PROVIDED THAT** no such termination of appointment or resignation shall take effect until the appointment by the Bank of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. Save as aforesaid, the Bank has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and, if the GDRs are at that time admitted to the official list of the Financial Conduct Authority and admitted to trading on the London Stock Exchange, to the Financial Conduct Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Bank under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21 Termination of Deposit Agreement

21.1 Either the Bank or the Depositary but, in the case of the Depositary, only if the Bank has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of Condition 1.1 and upon compliance with Condition 1, payment by the Holder of the charge specified in Condition 16.1(a) and Clause 10.1.1(a) of the Deposit Agreement for such delivery and surrender, and payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, pro rata to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are the Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22 Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Bank and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(a) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares **PROVIDED THAT** temporary GDRs will represent such Shares until they are so consolidated.

23 Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by facsimile transmission confirmed by letter sent by mail, air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Bank may, however, act upon any facsimile transmission received by it from the other or from any Holder, notwithstanding that facsimile transmission shall not subsequently be confirmed as aforesaid.

24 Reports and Information on the Bank

24.1 The Bank has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of:

(a) in respect of the financial year ending on 31 December 2005 and in respect of each financial year thereafter, the consolidated balance sheets as at the end of such financial year and the consolidated statements of income for such financial year in respect of the Bank, prepared in conformity with International Financial Reporting Standards and reported upon by independent public accountants selected by the Bank, as soon as practicable after the end of such year;

(b) if the Bank publishes semi-annual financial statements for holders of Shares, such semi-annual financial statements of the Bank, as soon as practicable, after the same are published; and

(c) if the Bank publishes quarterly financial statements for holders of Shares, such quarterly financial statements, as soon as practicable, after the same are published.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any of the GDRs remains outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, if at any time the Bank is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, nor exempt from such reporting requirements by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Bank has agreed in the Deposit Agreement to supply to the Depositary such information, in the English language and in such quantities as the Depositary may from time to time reasonably request, as is required to be delivered to any Holder or beneficial owner of GDRs or to any holder of Shares or a prospective purchaser designated by such Holder, beneficial owner or holder pursuant to a Deed Poll executed by the Bank in favour of such persons and the information delivery requirements of Rule 144A(d)(4) under the U.S. Securities Act, to permit compliance with Rule 144A thereunder in connection with resales of GDRs or Shares or interests therein in reliance on Rule 144A under the U.S. Securities Act and otherwise to comply with the requirements of Rule 144A(d)(4) under the U.S. Securities Act. Subject to receipt, the Depositary will deliver such information, during any period in which the Bank informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25 Copies of Bank Notices

The Bank has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Bank first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Bank (or such number of English translations of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Bank or the Custodian, the Depositary shall, at the Bank's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26 Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Bank for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Bank or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27 Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28 Governing Law

The Deposit Agreement, the GDRs, and any non-contractual obligations arising from or connected with the Deposit Agreement and the GDRs, are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Kazakhstan law.

29 Jurisdiction

29.1 The Bank has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts. The Bank has also agreed in the Deposit Agreement, and the Deed Poll to allow, respectively, the Depositary and the Holders to elect that Disputes are resolved by arbitration.

29.2 The Bank has irrevocably appointed its London representative office currently at 68 Lombard Street, London EC3V 9LJ, United Kingdom as its agent in England to receive service of process in any Proceedings in England, which may be served in any suit, legal action or proceedings arising out of or related to the Deposited Property, the GDRs, these Conditions or the Deposit Agreement ("Proceedings"). The Bank has agreed to receive service of process in any legal action or Proceedings in New York arising out of or relating to the Deposited Shares, the GDRs, these Conditions or the Deposit Agreement by pre-paid post (given, made or served in accordance with Clause 15 of the

Deposit Agreement) at its registered office in Kazakhstan. Any writ, judgment or other notice of legal process shall be sufficiently served on the Bank if delivered to such relevant agent at its address for the time being. The Bank has irrevocably undertaken not to revoke the authority of such agent and if, for any reason, the Depositary reasonably requests the Bank to do so it shall promptly appoint another such agent with an address in England and notify the Depositary and the Holders accordingly. The Bank has agreed that, if for any other reason it does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. If, following such request, the Bank fails to appoint another agent within 10 business days, the Depositary shall be entitled to appoint one on the Bank's behalf and at the Bank's expense. Nothing herein shall affect the right to serve process in any other manner permitted by law.

29.3 The courts of England shall have jurisdiction to settle any disputes (each a "Dispute") and accordingly any Proceedings may be brought in such courts. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

29.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

29.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceedings (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Bank, or which contains allegations to such effect, upon notice from the Depositary, the Bank has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceedings.

29.6 The Depositary irrevocably appoints The Bank of New York Mellon, London Branch, (Attention: The Manager), of 49th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. The Depositary irrevocably undertakes not to revoke the authority of such agent and if, for any reason, the Bank reasonably requests the Depositary to do so it shall promptly appoint another such agent with an address in England and notify the Bank and the Holders accordingly. If for any other reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders and the Bank of such appointment. If, following such request, the Depositary fails to appoint another agent within 10 business days, the Bank shall be entitled to appoint one on the Depositary's behalf and at the Depositary's expense. Nothing herein shall affect the right to serve process in any other manner permitted by law.

29.7 To the extent that the Bank may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Bank or its assets or revenues, the Bank has agreed not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

30 Arbitration and Submission

30.1 Notwithstanding any other provision of these Conditions, the Depositary agrees that each Holder may elect, by notice in writing to the Depositary issued prior to the service of a defence in any Proceedings, that the Dispute be resolved by arbitration and not litigation. In such case, the Dispute shall be referred to arbitration under the Rules of the London Court of International Arbitration (the "Rules") and finally resolved by arbitration under the Rules which Rules are deemed to be incorporated by reference into this Condition.

30.2 If any Holder elects arbitration proceedings in accordance with Condition 30.1, the Depositary and the Holders agree that:

(a) The number of arbitrators shall be three, appointed by the London Court of International Arbitration in accordance with its Rules;

(b) The place of the arbitration shall be London;

(c) The language to be used in the arbitration proceedings shall be English; and

(d) The decision and award of the arbitration shall be final.

30.3 If any Dispute raises issues which are substantially the same as or connected with issues raised in a Dispute which has already been referred to arbitration (an "Existing Dispute"), or arises out of substantially the same facts as are the subject of an Existing Dispute (in either case a "Related Dispute", provided that such Related Dispute has been or is to be submitted to arbitration), the arbitrators appointed or to be appointed in respect of any such Existing Dispute shall also be appointed as the arbitrators in respect of any Related Dispute.

30.4 The arbitrators, upon the request of one of the parties to a Dispute or a Holder or the Depositary which itself wishes to be joined in any reference to arbitration proceedings in relation to a Dispute, may join any Holder or any party to the Deposit Agreement, these Conditions or the Deed Poll to any reference to arbitration proceedings in relation to that Dispute and may make a single, final award determining all Disputes between them. Each of the Holders and the Depositary hereby consents to be joined to any reference to arbitration proceedings in relation to any dispute at the request of a party to that Dispute.

30.5 Where, pursuant to the above provisions, the same arbitrators have been appointed in relation to two or more Disputes, the arbitrators may, with the agreement of all the parties concerned or upon the application of one of the parties, being a party to each of the Disputes, order that the whole or part of the matters at issue shall be heard together upon such terms or conditions as the arbitrators think fit.

30.6 The arbitrators shall have power to make such directions and any provisional, interim or partial awards as they consider just and desirable.

30.7 The parties hereby agree to waive any right of appeal to any court of law or other judicial authority insofar as such waiver may be validly made.

SUMMARY OF PROVISIONS RELATING TO THE GLOBAL DEPOSITARY RECEIPTS WHILE IN MASTER FORM

The existing GDRs have been issued under a single Master Regulation S GDR in registered form and a single Master Rule 144A GDR in registered form and the GDRs being offered pursuant to the GDR Offering will be evidenced by the same Master Regulation S GDR in registered form and the Master Rule 144A GDR in registered form.

The Master Rule 144A GDR is registered in the name of Cede & Co. as nominee for DTC, and the Master Regulation S GDR in the name of BT Globenet Nominees Limited, as nominee for Deutsche Bank AG, London Branch as common depositary for Euroclear and Clearstream. The Shares represented by the GDRs will be held by the Custodian for the Depositary.

The Master GDRs contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the conditions of the GDRs set forth under "*Terms and Conditions of the Global Depositary Receipts*". The following is a summary of certain of those provisions.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (a), (b), (c), or (d) below in whole but not in part. The Depositary irrevocably undertakes in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the holders of the GDRs within 60 days in the event that:

(a) DTC, in the case of the Master Rule 144A GDR, or Euroclear or Clearstream, in the case of the Master Regulation S GDR, or any successor, notifies the Bank that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days;

(b) in respect of the Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(c) either DTC in the case of Master Rule 144A GDR, or Euroclear or Clearstream in the case of the Master Regulation S GDR, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(d) the Depositary has determined that, on the occasion of the next payment in respect of the relevant Master GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the Master GDR which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine;

Any exchange shall be at the Bank's expense, including printing costs.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC. Pursuant to the conditions set forth under "*Terms and Conditions of the Global Depositary Receipts*", any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR, or any distribution of GDRs or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property as defined in the Deposit Agreement shall be entered by the Depositary on the register maintained by the Depositary (which shall be maintained at all times outside the United Kingdom and Kazakhstan,) whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register provided always that if the number of GDRs represented by a Master GDR is reduced to zero such Master GDR shall continue in existence until the Bank's obligations under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefor from the Bank. A free distribution or rights issue of the Bank's Shares to the Depositary on behalf of the holders of the GDRs will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of the GDRs will have voting rights as set forth under "*Terms and Conditions of the Global Depositary Receipts*".

Surrender of GDRs

Surrender of a GDR to the Depositary shall be satisfied by the production by (in the case of GDRs represented by the Master Regulation S GDR) the common depositary for Euroclear and Clearstream, or (in the case of GDRs represented by the Master Rule 144A GDR) DTC, on behalf of a person entitled to an interest therein of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, or DTC, as appropriate. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable and to issue voting instructions in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of the common nominee of the common depositary for Euroclear and Clearstream, and the Master Rule 144A GDR is registered in the name of Cede & Co. on behalf of DTC, notices to holders of the GDRs may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, or (as appropriate) DTC, for communication to persons entitled thereto in substitution for delivery of notices in accordance with the Terms and Conditions of the GDRs.

The Master GDRs shall be governed by and construed in accordance with English law.

CERTAIN MATTERS RELATING TO THE DEPOSITORY AND RIGHTS TO THE DEPOSITED PROPERTY

Insolvency of the Depositary

Applicable insolvency law

If the Depositary becomes insolvent, the insolvency proceedings will be governed by U.S. law applicable to the insolvency of banks.

Effect of applicable insolvency law in relation to cash

The Conditions state that any cash held by the Depositary for Holders is held by the Depositary as banker. Under current U.S. law, it is expected that any cash held for Holders by the Depositary as banker under the Conditions would constitute an unsecured obligation of the Depositary. Holders would therefore only have an unsecured claim in the event of the Depositary's insolvency for such cash and such cash would be also be available to general creditors of the Depositary or the U.S. Federal Deposit Insurance Corporations ("FDIC").

Effect of applicable insolvency law in relation to non-cash assets

The Deposit Agreement states that the Deposited Shares and other non-cash assets, which are held by the Depositary for Holders, are held by the Depositary as bare trustee and, accordingly, the Holders will be tenants in common for such Deposited Shares and other non-cash assets. Under current U.S. and English law, it is expected that any Deposited Shares and other non-cash assets held for Holders by the Depositary on trust under the Conditions would not constitute assets of the Depositary and that Holders would have ownership rights relating to such Deposited Shares and other non-cash assets and be able to request the Depositary's liquidator to deliver to them such Deposited Shares and other non-cash assets, and such Deposited Shares and other non-cash assets would be unavailable to general creditors of the Depositary or the FDIC.

Default of the Depositary

If the Depositary fails to pay cash or deliver non-cash assets to Holders in the circumstances required by the Conditions or otherwise engages in a default for which it would be liable under the terms of the Conditions, the Depositary will be in breach of its contractual obligations under the Conditions. In such case, Holders will have a claim under English law against the Depositary to the extent that the Depositary is in breach of its contractual obligations under the Conditions.

The Custodian

The Custodian is JSC "Halyk Bank". The Custodian holds securities for the Depositary.

Relationship of Holders of GDRs with the Custodian

The Holders do not have any contractual relationship with, or rights enforceable against, JSC "Halyk Bank" in its capacity as the Custodian. The Custodian will hold the Deposited Shares through Central Securities Depository. The accounts maintained by KCD include an account designated "The Bank of New York Mellon DRS" and managed by the Custodian.

Default of the Custodian

Failure to deliver cash

Payments of dividends by the Bank to the Depositary will not be made through the Custodian. Payments will be made directly from the Bank to an account of the Depositary in New York, and where relevant converted into U.S. Dollars, and then paid by the Depositary to Holders subject to and in accordance with the Conditions. As a result, there can be no failure by the Custodian to deliver cash.

Failure to deliver non-cash assets

In the event that the Depositary fails to deliver Deposited Shares or other non-cash assets held for the Depositary as required by the Depositary, Holders will have a claim against the Custodian under the Conditions to the extent that an act or omission of the Custodian constitutes wilful default, negligence or fraud or that of its agents, officers, directors or employees. The Depositary can appoint a substitute or additional custodians and may exercise such rights if it deems necessary.

The Depositary's obligations

Holders will have a claim against the Depositary under the Conditions to the extent that any act or omission of the Custodian constitutes wilful default, negligence or fraud of the Depositary or that of its agents, officers, directors or employees.

Insolvency of the Custodian

On an insolvency of the Custodian, it is uncertain whether any cash held by the Custodian in its capacity as Custodian would constitute assets of the Custodian and whether the Holders would have ownership rights to such cash. The uncertainty results from the difference in the treatment of cash as between Article 45.5 of the Securities Market Law, which specifically provides that cash held by professional securities market participants (such as the Custodian) should be excluded from its bankruptcy estate, and Article 74-1.2 of the Banking Law, which does not specifically provide that cash should be excluded from the bankruptcy estate. It is unclear whether a Kazakhstan liquidation commission would apply the Securities Market Law or the Banking Law on an insolvency of the Custodian and, if it were to apply the Banking Law, whether it would interpret the applicable provisions of the Banking Law to include cash held by the Custodian for the Holders in the bankruptcy estate or to exclude such cash from the bankruptcy estate. As a result, in the event of an insolvency of the Custodian, Holders may not receive any of the cash held by the Custodian for them or may receive only a proportion of such cash if the Kazakhstan liquidation commission of the Custodian applies the Banking Law and interprets it to include cash held for Holders as part of the Custodian's bankruptcy estate. See "*Risk Factors—Risk Factors relating to the Bank's Shares and GDRs—Cash held by the Depositary and the Custodian for holders of the GDRs may not be available to such holders in the event of an insolvency of the Depositary or the Custodian*".

Relationship of Holders with the Depositary and Rights to Deposited Property

The rights of Holders against the Depositary are governed by the Conditions and the Deposit Agreement, which are governed by English law (except that the certifications to be given upon deposit or withdrawal of Shares (in Schedules 3 of the Deposit Agreement) are governed by the laws of the State of New York). The Depositary and the Bank are parties to the Deposit Agreement. Holders of GDRs have contractual rights against the Depositary under the Conditions in relation to cash held by the Depositary, and rights against the Depositary under the Conditions under a bare trust in respect of Deposited Property other than cash (including Deposited Shares, which are ordinary shares of the Bank represented by GDRs) deposited with the Depositary under the Deposit Agreement, and certain limited rights against the Bank by virtue of the Deed Poll.

TAXATION

The following statements are intended only as a general guide to the main Kazakhstan, UK and United States tax consequences which will apply to holders of the GDRs and Shares. It does not purport to be a comprehensive analysis of all the tax consequences applicable to all types of holders of GDRs and Shares and is based on current law and practice which may be subject to change. Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction, should seek professional advice immediately.

Kazakhstan Taxation

The following summary of certain Kazakhstan taxation matters is based on the laws as at the date of this Offering Memorandum and is subject to any changes in the laws, interpretation and application thereof, while such changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of Shares or GDRs, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. This summary only addresses the position of investors who do not have any connection with Kazakhstan other than through acquiring, holding or disposing of Shares or GDRs. Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of Shares or GDRs, including their eligibility for the benefits of double tax treaties, under the laws of their country of citizenship, residence, domicile or incorporation, and seek Kazakhstan tax advice as necessary.

This summary discusses the Kazakhstan tax consequences of the acquisition, ownership and disposal of Shares and GDRs. In general, Kazakhstan tax legislation with respect to the taxation of securities and financial instruments is not well developed and, in many cases, the exact scope of Kazakhstan tax compliance rules and enforcement mechanism are unclear or open to different interpretations.

The only tax that may, under certain circumstances, apply in Kazakhstan to the above transactions is withholding income tax. No other taxes or duties should be levied in Kazakhstan with respect to the above transactions. For all relevant purposes of this summary, except as noted below (e.g. in relation to tax relief), legal entities and individuals are subject to similar withholding income tax treatment.

Tax residence

Non-resident persons should not become residents in Kazakhstan for Kazakhstan tax purposes by reason only of the acquisition, ownership or disposal of Shares or GDRs. Therefore, under the Kazakhstan tax law, legal owners of Shares (the "Shareholders") and holders of GDRs (the "GDR Holders"), being non-residents for Kazakhstan tax purposes with no presence in Kazakhstan, should only be taxed on their income earned from sources in Kazakhstan, rather than on their worldwide income.

For all relevant purposes of this "*Taxation*" section, all the Shareholders, the GDR Holders and GDR Issuers are not considered as tax residents of Kazakhstan.

Exempt disposals of securities under the AIFC Law

Under the AIFC Law, capital gains derived by the holders of the GDRs and the Shares from the sale of their GDRs and Shares will be tax exempt until 1 January 2066 if the securities are included in the official list of the AIX as at the date of their sale. Accordingly, by virtue of the Shares and the GDRs being admitted to the official list of the AIX, any income derived from the sale of Shares and GDRs included in the official list of the AIX as at the date of their sale will be tax exempt.

Exempt disposals of securities under the Tax Code

Under the Tax Code, generally, capital gains derived from disposals of the Shares are subject to withholding income tax in Kazakhstan.

The Tax Code provides relief from withholding income tax in respect of capital gains derived by the Shareholders (other than individuals/natural persons) from sale of the Shares on KASE or foreign stock exchange under open trade method, if the Shares are included into the official lists of the mentioned stock exchanges at the date of their sale. As at the date of this Offering Memorandum, the Shares are included in the official list of securities of the KASE. Accordingly, the capital gains from the sale of Shares on the KASE under open trade method will be tax exempt if such Shares are included in the official list of the KASE as the date of their sale. The Tax Code provides quite similar relief from withholding income tax for the Shareholders being individuals/natural persons, except for the possibility to get the relief upon sale of the Shares on a foreign stock exchange.

If disposal of the Shares is performed in a different way (i.e., not as stated above), the transferors (both legal entities and individuals/natural persons) still might benefit from withholding income tax relief on capital gain of the Shares provided that all of the following conditions are met: (a) the seller is not a resident of a Country with a Favourable Tax Regime (as defined below); (b) the seller has held the Shares for more than three years as at the date of disposal.

The Tax Code defines a "Country with a Favourable Tax Regime" as either a foreign country or a territory, which meets one of the following criteria:

- profit tax rate in such a country or territory is less than 10 per cent.; or
- such a country or territory has laws on confidentiality of financial information or laws, which allow keeping confidential information about the actual owner of property or income or the actual owners, participants, founders or shareholders of a legal entity (except for a foreign country or a territory which has entered into an international treaty with the Republic of Kazakhstan, which provides for exchange of information on tax matters between the competent authorities, save for the cases when the foreign country or territory does not ensure exchange of information on tax matters between the competent authorities). Foreign country or territory is regarded as failed to ensure exchange of information with the competent Kazakhstan authority for tax purposes if one of the following conditions is met: (1) Kazakhstan competent authority receives official refuse of a foreign competent authority for provision of information, even though such exchange is envisaged by the relevant international agreement; (2) competent foreign authority failed to provide the requested information within the period exceeding two years after sending the request by the Kazakhstan competent authority.

The exact list of Countries with a Favourable Tax Regime is approved by the Decree No. 142 of the Minister of Finance of the Republic of Kazakhstan dated 8 February 2018. As at the date of this Offering Memorandum, the following jurisdictions are included in the list of Countries with a Favourable Tax Regime:

Principality of Andorra, Antigua and Barbuda, Commonwealth of The Bahamas, Barbados, Kingdom of Bahrain, Belize, Negara Brunei Darussalam, Republic of Vanuatu, Republic of Guyana, Republic of Guatemala, Grenada, Republic of Djibouti, Dominican Republic, Commonwealth of Dominica, Kingdom of Spain (in respect of the territories of The Canary Islands only), People's Republic of China (in respect of the territories of the special administrative regions of Macau and Hong Kong only), Republic of Colombia, Union of the Comoros, Republic of Costa Rica, Malaysia (in respect of the territory of Labuan enclave only), Republic of Liberia, Republic of Lebanon, Principality of Liechtenstein, Republic of Mauritius, Islamic Republic of Mauritania, Republic of Portugal (in respect of the territory of the islands of Madeira only), Republic of Maldives, Republic of the Marshall Islands, Principality of Monaco, Republic of Malta, Mariana Islands, Kingdom of Morocco (in respect of the territory of the city of Tangier only), Republic of the Union of Myanmar, Republic of Nauru, Kingdom of the Netherlands (in respect of the territories of the islands of Aruba and dependent territories of the Antilles islands only), Federal Republic of Nigeria, New Zealand (in respect of the territories of the Cook Islands and Niue only), Republic of Palau, Republic of Panama, Independent State of Samoa, Republic of San Marino, Republic of Seychelles, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Saint Lucia, United Kingdom of Great Britain and Northern Ireland (in respect of the following territories only: Anguilla; Bermuda; the British Virgin Islands; Gibraltar; the Cayman Islands; Montserrat; the Turks and Caicos Islands, Isle of Man, the Channel Islands (Guernsey, Jersey, Sark and Alderney), South Georgia and the South Sandwich Islands, Chagos Island), United States of America (in respect of the following territories only: The Virgin Islands of the United States, Guam, Commonwealth of Puerto Rico, State of Wyoming, State of Delaware), Republic of Suriname, United Republic of Tanzania, Kingdom of Tonga, Republic of Trinidad and Tobago, Republic of Fiji, Republic of the Philippines, Republic of France (in respect of the following territories only: Kerguelen Islands, French Polynesia, French Guiana), Montenegro, Democratic Socialist Republic of Sri Lanka, Jamaica.

Treaty protection

If the exemptions envisaged by the Tax Code (as stated above) are not available, the Shareholders who are residents in countries with which Kazakhstan has double taxation treaties, may be entitled to withholding income tax exemption, if certain conditions are met.

In case of application of double taxation treaty, the Shareholder has to provide the certificate of the tax residence to the Bank, no later than 31 March of the year, following the year when the income was paid. The Bank has a right to independently exploit the provisions of double tax treaty by applying tax at a reduced rate.

Taxable disposals of Shares

This discussion applies only to disposals that are not exempt as described above.

Treatment of acquirer

Non-resident buyers of the Shares are not subject to taxation in Kazakhstan income upon acquisition of the Shares.

However, obligations on assessment, declaration, withholding and remittance to the state budget of withholding income tax on capital gain shall be fulfilled by an acquirer acting as a tax agent, regardless of whether the acquirer is a resident or non-resident for Kazakhstan tax purposes. In order to fulfil their tax agent obligations, non-residents should register with the tax authorities of Kazakhstan.

Capital gain is a positive difference between sales price of the Shares and their initial value (tax basis). If a transferor fails to provide an acquirer with documents confirming the initial value of the Shares (tax basis of the transferor), the acquirer should apply withholding income tax on a gross basis (i.e., to the purchase price).

Treatment of transferor

As a general rule, capital gain derived from the disposal of the Shares is subject to Kazakhstan withholding income tax at the source of payment at the rate of 15 per cent. However, if the transferor is registered in a Country with a Favourable Tax Regime, capital gain derived from the disposal of the Shares is subject to withholding tax at the source of payment at the rate of 20 per cent. Disposals include almost all types of title transfers, i.e., sales, exchanges, etc.

Taxation of dividends under the AIFC Law

Under the AIFC Law, dividends paid on the securities will be exempt from corporate income tax until 1 January 2066, provided that such securities are included in the official list of securities of the AIX at the time the dividends are accrued. Accordingly, by virtue of the Shares and the GDRs being admitted to the official list of the AIX dividends paid on the Shares and the GDRs will be exempt from corporate income tax.

Taxation of dividends under the Tax Code

Under the Tax Code, dividends on the Shares should be exempt from withholding income tax provided the Shares are in the official list of the KASE at the time of dividends' accrual. Dividends on the Shares that are not in the official list of the KASE at the time of dividends' accrual should be exempt from withholding income tax provided that all of the following conditions are met: (a) the Shareholder is not a resident of a Country with a Favourable Tax Regime (as defined above); (b) the Shareholder has held the Shares for more than three years as at the date of dividends' accrual.

If dividends on the Shares are not exempt (as stated above), such dividends are subject to withholding income tax at the rate of 15 per cent. However, dividends on the Shares held by a resident of a Country with a Favourable Tax Regime are subject to withholding tax at the rate of 20 per cent. The withholding income tax is applied to the gross amount of dividends without allowance for any deductions. The Shareholders should not be subject to any other tax reporting, payment, registration or compliance requirements with respect to dividends on the Shares.

The Shareholders who are residents in countries with which Kazakhstan has double taxation treaties may be entitled to a reduced rate of withholding income tax, if certain conditions are met.

Subject to the above, depending on the country of residence and satisfaction of certain other conditions, the dividend withholding income tax rates under Kazakhstan's double tax treaties in effect as at the date of this Offering Memorandum may be between 5 per cent. and 15 per cent. Under double tax treaties effective on the date of this Offering Memorandum, reduction of the dividend withholding income tax to a rate, which is below 15 per cent., may only be available to beneficial owners of dividends that are companies (depending on a particular double tax treaty, certain other requirements should also be met for reduction of withholding income tax rate).

In order to avail themselves of this relief, eligible Shareholders have to provide the Bank with a document issued by the competent authority of their country of tax residence confirming their tax residence in a treaty jurisdiction. The document should be provided within the deadlines established by the Kazakhstan tax legislation and meet the requirements of the Tax Code. To be valid in Kazakhstan, stamp of the competent authority and signature of the authorised official in this document should be apostilled or legalised by a Shareholder's home country's competent authority. If a Shareholder provides a copy of the mentioned document, signature and stamp of a foreign notary should be apostilled or legalised as well.

Apostille or legalisation of the above signatures/stamps are not required, if (i) the above document is published on the official web-site of the competent authority or (ii) other authentication procedures are set by international agreements to which Kazakhstan is a party, mutual agreement procedure between Kazakhstan and foreign competent authorities or the decision of the Eurasian Economic Union authority.

If the above document is not made available to the Bank prior to 31 March of the year following the year when dividends are paid, then the Bank should apply withholding income tax at a standard 15 per cent. rate or 20 per cent. rate (if the recipient is a resident of a Country with a Favourable Tax Regime), as applicable, and account for the withheld amounts to the relevant authority. The Shareholders who are eligible for a lower withholding income tax rate should later be able to claim a refund of overpaid tax from the Kazakhstan state budget. In doing so, the Shareholders should file withholding income tax refund claim along with documents prescribed by the Kazakhstan lax legislation to the respective tax authority. In practice, however, this process may prove to be administratively burdensome, time-consuming with no guarantee of the successful outcome.

Taxation of the GDR Holders

Disposals

The Kazakhstan tax legislation does not provide clear and explicit treatment of certain operations performed on stock exchanges. This ambiguity, including, in particular, the uncertainty surrounding taxation of certain transactions with GDRs, creates a risk that the tax authorities may take a view different than that outlined below.

Under the Tax Code, both depositary receipts and shares are treated as securities. Should a sale of GDRs be treated as a sale of respective underlying assets (i.e., Shares of the Bank), disposal of GDRs might be subject to taxation in accordance with provisions on taxation of capital gains derived from disposal of the Shares (as mentioned above).

Accordingly, conditions for tax relief of income in the form of capital gain derived from disposal of GDRs shall be identical to the conditions for tax relief of capital gain derived from sale of the Shares (as mentioned before).

Dividends

Dividends due to the GDR Holders actually represent dividends on underlying assets, i.e., dividends on the Bank's Shares. Hence, dividends due to the GDR Holders should be subject to taxation in accordance with provisions on taxation of dividends on the Shares, as mentioned above. Accordingly, conditions for tax relief of income in the form of dividends on the Shares being the underlying assets of GDRs are identical to the conditions for tax relief of dividends on the Shares (as mentioned above), except for the procedures of applying the treaty protection, as stated below.

The GDR Holders who are residents in countries with which Kazakhstan has double taxation treaties may be entitled to a reduced rate of withholding income tax, if certain conditions are met.

Depending on the country of residence and satisfaction of certain other conditions, the dividend withholding income tax rates under Kazakhstan's double tax treaties in effect as at the date of this Offering Memorandum may be between 5 per cent. and 15 per cent. Under double tax treaties effective on the date of this Offering Memorandum, reduction of the dividend withholding income tax to a rate, which is below 15 per cent., may only be available to beneficial owners of dividends that are companies (depending on a particular double tax treaty, certain other requirements should also be met for reduction of withholding income tax rate).

In order to avail themselves of this relief, eligible GDR Holders have to provide the Bank with a document issued by the competent authority of their country of tax residence confirming their tax residence in a treaty jurisdiction. The document should be provided within the deadlines established by the Kazakhstan tax legislation and meet the requirements of the Tax Code. To be valid in Kazakhstan, stamp of the competent authority and signature of the authorised official in this document should be apostilled or legalised by a GDR Holder's home country's competent authority. If a GDR Holder provides a copy of the mentioned document, signature and stamp of a foreign notary should be apostilled or legalised as well.

Apostille or legalisation of the above signatures and stamps are not required, if (i) the above document is published on the official web-site of the competent authority or (ii) other authentication procedures are set by international agreements to which Kazakhstan is a party, mutual agreement procedure between Kazakhstan and foreign competent authorities or the decision of the Eurasian Economic Union authority.

In addition, to apply the treaty protection, the Bank will need to have available the list of the GDR Holders containing the information required by the Kazakhstan tax legislation. Depending on how a contract for keeping records and proof of ownership over GDRs is structured, the list of the GDR Holders should be provided to the Bank either by a central depository or organisation having the right to conduct depository activity on a foreign security market.

If the document confirming tax residency of a GDR Holder is not made available to the Bank prior to 31 March of the year following the year when dividends are paid and/or if the list of the GDR Holders is not provided to the Bank (as stated above), then the Bank should apply withholding income tax at a standard 15 per cent. rate or 20 per cent. rate (if the recipient is a resident of a Country with a Favourable Tax Regime), as applicable, and account for the withheld amounts to the relevant authority. The GDR Holders who are eligible for a lower withholding income tax rate should later be able to claim a refund of overpaid tax from the Bank. In doing so, the GDR Holders should provide the Bank with a notarised copy of a document confirming their titles to GDRs and the document confirming tax residency of GDRs Holders meeting the requirements mentioned above in this Offering Memorandum.

United Kingdom Taxation

The following is a summary of certain aspects of United Kingdom tax treatment of an investment in the GDRs. It is for general information only and is not exhaustive. It does not constitute legal or tax advice.

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs published practice (which may not be binding on HM Revenue & Customs) as at the date of this Offering Memorandum, both of which are subject to change, possibly with retrospective effect. They are intended as a general guide and apply only to holders of the GDRs resident and in the case of an individual, domiciled, for tax purposes in the United Kingdom and to whom "split year" treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents or domiciliaries), who hold GDRs as an investment and who are, or are treated as, the absolute beneficial owners thereof. The discussion does not address all possible tax consequences relating to an investment in the GDRs. Certain categories of holders of GDRs, including those carrying on certain financial activities, those subject to specific tax regimes or benefiting from certain reliefs or exemptions, those connected with the Bank and those for whom the GDRs are employment related securities, may be subject to special rules and this summary does not apply to such holders. This summary also does not apply to any holder of GDRs who, alone or with certain associated persons, is (or has been) interested or treated as interested in more than 5 per cent. of the ordinary share capital of the Bank.

Holders of GDRs and prospective holders of GDRs who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

This summary assumes that the Shares underlying the GDRs are not registered in a register kept in the United Kingdom by or on behalf of the Bank.

Taxation of the Bank

The Board of Directors intend to conduct the affairs of the Bank so that the Bank does not become resident in the United Kingdom for taxation purposes or otherwise subject to United Kingdom corporation tax. The summary below is written on the basis that the Bank is and remains resident for tax purposes solely in Kazakhstan.

Taxation of Dividends

The Bank will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

Individual holders of GDRs

Dividends received by a United Kingdom resident individual holder of GDRs will generally be subject to tax as dividend income.

An annual tax-free allowance (the "Dividend Allowance", currently £2,000 for the tax year ending 5 April 2020) is available for dividend income (including any dividends in respect of the underlying Shares) received by such an individual in a tax year, and so no income tax will be payable in respect of such amounts.

Where the total dividend income of such an individual exceeds the Dividend Allowance (such excess being referred to as the "Taxable Excess"), then the Taxable Excess will be subject to tax depending on the tax rate band or bands it falls within. The relevant tax rate band is determined by reference to the total income of a United Kingdom resident individual holder of GDRs charged to income tax (including the dividend income within the Dividend Allowance) less relevant reliefs and allowances (including the personal allowance of such individual). The Taxable Excess is treated as the top slice of that total income. So, on that basis:

- To the extent that the Taxable Excess falls within the basic rate band, a United Kingdom resident individual holder of GDRs will be subject to tax on it at the dividend basic rate of 7.5 per cent.
- To the extent that the Taxable Excess falls within the higher rate band, a United Kingdom resident individual holder of GDRs will be subject to tax on it at the dividend upper rate of 32.5 per cent.
- To the extent that the Taxable Excess falls within the additional rate band, a United Kingdom resident individual holder of GDRs will be subject to tax on it at the dividend additional rate of 38.1 per cent.

Any Kazakhstan withholding tax properly withheld from a payment of a dividend and not recoverable by the holder may be available as a credit against the income tax payable by the holder in respect of the dividend.

Corporate holders of GDRs

Holders of GDRs who are within the charge to corporation tax in respect of GDRs will be subject to corporation tax on any dividends paid by the Bank unless (subject to special rules for such holders of GDRs that are small companies) the dividends fall within an exempt class and certain other conditions are met. The position of each holder of GDRs will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Bank would fall within an exempt class.

Non-UK resident holders of GDRs

Holders of GDRs where not resident in the United Kingdom will not be subject to United Kingdom tax in respect of dividends received by them provided that they do not receive the dividends in connection with a trade carried on in the United Kingdom through a permanent establishment (in the case of corporate holders) or a branch or agency (in the case of other holders).

Taxation of Capital Gains

Holders of GDRs who are resident in the United Kingdom, or, in the case of individuals, who cease to be resident in the United Kingdom for a period of five years or less ("temporary non-residents"), may depending on their circumstances (including the availability of exemptions or reliefs) be liable to United Kingdom taxation on chargeable gains in respect of gains arising from a sale or other disposal of GDRs.

In the case of individual Shareholders described above, an annual tax-free allowance is available for each tax year (the "Annual Exempt Amount", currently £12,000 for the tax year ending 5 April 2020). Any chargeable gain arising from a sale or other disposal of the Offer Shares will be aggregated with that individual Shareholder's total chargeable gains for the relevant tax year. Any amount of such gains which is in excess of the Annual Exempt Amount and which, when aggregated with that Shareholder's taxable income for the relevant tax year, falls within the basic rate band will be subject to United Kingdom capital gains tax at a rate of 10 per cent. Any amount of such gains which exceeds the basic rate band will be taxed at a rate of 20 per cent.

In the case of United Kingdom resident corporate shareholders, any such gains should be subject to United Kingdom corporation tax on chargeable gains (at a rate of 19 per cent., noting that legislation has been enacted with the effect that the rate will reduce to 17 per cent. with effect from 1 April 2020).

Credit may be available against any liability to United Kingdom taxation on chargeable gains payable on a disposal of GDRs for any tax properly payable in Kazakhstan in respect of such disposal which is not recoverable by such holder.

Non-Resident Holders of GDRs

Holders of GDRs who are not resident in the United Kingdom (other than temporary non-residents addressed above) will not be subject to United Kingdom tax in respect of gains arising from a sale or other disposal of GDRs provided that the GDRs are not used, held or acquired for the purposes of a trade carried on in the United Kingdom through a permanent establishment (in the case of corporate holders) or branch or agency (in the case of other holders).

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

No UK stamp duty or SDRT will be payable on (i) the issue of the GDRs, (ii) the delivery of the GDRs into DTC, Euroclear or Clearstream or (iii) any dealings in the GDRs once they are delivered into such clearance systems, where such dealings are effected in book-entry form in accordance with the procedures of DTC, Euroclear or Clearstream (as applicable) and not by written instrument of transfer.

In the case of any transfers of, or agreements to transfer, GDRs otherwise than within, and in accordance with the procedures of, DTC, Euroclear or Clearstream (as applicable), no SDRT will be payable in respect of any agreement to transfer the GDRs. Assuming that any written instrument of transfer of GDRs or Shares (or an equitable interest therein), or any document containing an agreement to transfer an equitable interest in GDRs or Shares is neither (i) executed in the United Kingdom, nor (ii) relates to any property situate, or to any matter or thing done or to be done, in the United Kingdom, then no United Kingdom stamp duty should be required to be paid on such document.

If a written instrument of transfer of GDRs or Shares (or an equitable interest therein), or a document containing an agreement to transfer an equitable interest in GDRs or Shares, is (i) executed in the United Kingdom and/or (ii) relates to any property situate, or to any matter or thing done or to be done, in the United Kingdom, the normal sanction for failing to stamp on such instrument of transfer (or other stampable document) is that such document cannot be produced as evidence in a UK court or other proceedings. Accordingly, in practice it should not be necessary to pay any UK stamp duty unless and until it is required to produce the relevant document for such purpose. If it is necessary to pay UK stamp duty, it may also be necessary to pay interest and penalties.

Inheritance Tax

The GDRs will be assets situated outside the United Kingdom for the purposes of United Kingdom inheritance tax provided the Shares (and any other property represented by the GDRs) are situated outside the United Kingdom, the GDRs are not registered in any register kept in the United Kingdom and the Depositary remains a non-UK incorporated company acting from an office outside the United Kingdom. The Shares will be assets situated outside the United Kingdom for these purposes on the basis that they are not registered in any register kept in the United Kingdom. A gift of such assets by, or the death of, an individual holder of such assets who is domiciled or is deemed to be domiciled in the United Kingdom may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to the death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Where a holder is neither domiciled nor deemed domiciled (under certain rules relating to long residence or previous domicile) in the United Kingdom, neither a gift of such assets by the holder nor the death of such holder will give rise to a liability to United Kingdom inheritance tax.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Shares or GDRs by a U.S. Holder (as defined below). This summary deals only with initial purchasers of GDRs under the GDR Offering that are U.S. Holders and that will hold the Shares or GDRs as capital assets. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Shares or GDRs by particular investors (including consequences under the alternative minimum tax or Medicare tax on net investment income), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5 per cent. or more of the shares of the Bank by vote or value, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, brokers or dealers in securities or currencies, securities traders that elect to use the mark-to-market method of accounting, investors that will hold the Shares or GDRs as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. Dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Shares or GDRs that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons has the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Shares or GDRs will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Shares or GDRs by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE SHARES OR GDRS, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Passive foreign investment company considerations

A non-U.S. corporation will be a passive foreign investment company ("PFIC") in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable "look-through rules", either (i) at least 75 per cent. of its gross income is "passive income" or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. For this purpose, "passive income" generally includes interests, dividends, rents, royalties, and gains from certain securities transactions.

Based on the composition of its income, the valuation of assets and the activities conducted by the Bank, there is a significant risk that the Bank will be a PFIC for its current taxable year and in future taxable years. If the Bank is a PFIC in any year during which U.S. Holders own Shares or GDRs, the Bank will generally continue to be treated as a PFIC in all succeeding years during which the respective U.S. Holders continue to hold their Shares or GDRs, regardless of whether the Bank continues to meet the income or asset tests discussed above.

If the Bank is a PFIC in any year during which a U.S. Holder owns Shares or GDRs, the U.S. Holder generally will be subject to special rules with respect to (i) any "excess distribution" (generally, any distributions received by the U.S. Holder on the Shares or GDRs in a taxable year that are greater than 125 per cent. of the average annual distributions received by the U.S. Holder in the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the Shares or GDRs) and (ii) any gain realised on the sale or other disposition of

Shares or GDRs. Under these rules (a) the excess distribution or gain will be allocated rateably over the U.S. Holder's holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which the Bank is a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable taxpayer for that year and an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year. If the Bank is a PFIC, a U.S. Holder of Shares or GDRs generally will be subject to similar rules with respect to distributions to the Bank by, and dispositions by the Bank of the stock of, any direct or indirect subsidiaries of the Bank that are also PFICs ("Lower-Tier PFICs"). Additionally, dividends paid by the Bank will not be eligible for the special reduced rate of tax described below under "*—Distributions*".

Certain elections may be available to U.S. Holders that may result in alternative tax treatment. U.S. Holders can avoid the interest charge by making a "mark to market election" with respect to the Shares or GDRs, provided that the Shares or GDRs are "marketable". The Shares or GDRs will be marketable if they are regularly traded on a non-U.S. stock exchange which meets certain trading, listing, financial disclosure and other requirements. In addition, for these purposes, the Shares or GDRs generally will be considered regularly traded during any calendar year during which they are traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. U.S. Holders should consult their tax advisers as to whether the Shares or GDRs are considered marketable for these purposes.

A U.S. Holder that makes a mark to market election must include in ordinary income for each year an amount equal to the excess, if any, of the fair market value of the Shares or GDRs at the close of the taxable year over the U.S. Holder's adjusted basis in the Shares or GDRs. An electing holder may also claim an ordinary loss deduction for the excess, if any, of the U.S. Holder's adjusted basis in the Shares or GDRs over the fair market value of the Shares or GDRs at the close of the taxable year, but this deduction is allowable only to the extent of any net mark to market gains for prior years. Gains from an actual sale or other disposition of the Shares or GDRs will be treated as ordinary income, and any losses incurred on a sale or other disposition of the Shares or GDRs will be treated as an ordinary loss to the extent of any net mark to market gains for prior years. Once made, the election cannot be revoked without the consent of the IRS unless the Shares or GDRs cease to be marketable. If the Bank is a PFIC for any year in which the U.S. Holder owns the Shares or GDRs but before a mark to market election is made, the interest charge rules described above will apply to any mark to market gain recognised in the year the election is made.

Because the mark-to market election cannot be made for any equity interests in any Lower-Tier PFICs the Bank may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to any indirect investments held by the Bank that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

A U.S. Holder would not be able to avoid the tax consequences described above by electing to treat the Bank as a qualified electing fund ("QEF") because the Bank does not intend to provide U.S. Holders with the information that would be necessary to make a QEF election with respect to the Shares or GDRs.

A U.S. Holder who owns, or who is treated as owning, PFIC stock during any taxable year in which the Bank is classified as a PFIC may be required to file IRS Form 8621. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime to their investment in the Bank.

Distributions

Subject to the PFIC rules discussed above, distributions paid by the Bank out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes) generally will be taxable to a U.S. Holder as ordinary dividend income, and will not be eligible for the dividends received deduction allowed to corporations. The amount of such dividend will include amounts, if any, withheld by the Bank or the Bank's paying agent in respect of any foreign taxes. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purpose by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Bank with respect to the payment. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's basis in the Shares or GDRs and thereafter as capital gain. However, the Bank does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Bank with respect to Shares or GDRs will be reported as ordinary dividend income.

Dividends paid in a foreign currency will be included in income in a U.S. Dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the U.S. Holder (in the case of Shares) or the depositary (in the case of the GDRs), regardless of whether the foreign currency is converted into U.S. Dollars at that time.

A U.S. Holder generally will be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Kazakhstan taxes withheld. U.S. Holders that are eligible for benefits of the income tax treaty between the United States and Kazakhstan will not be entitled to a foreign tax credit for the amount of any Kazakhstan taxes withheld in excess of the applicable treaty rate. Dividends from the Bank with respect to the Shares or GDRs will generally constitute non-U.S. source income and be treated as "passive category income" for foreign tax credit limitation purposes. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability of foreign tax credits with respect to any Kazakhstan income taxes withheld from a dividend with respect to the Shares or GDRs.

U.S. Holders should consult their own tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Bank.

Sale or other disposition

Subject to the PFIC rules discussed above, upon a sale or other disposition of Shares or GDRs (other than an exchange of GDRs for Shares or vice versa), a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder's tax basis in the Shares or GDRs, in each case as determined in U.S. Dollars. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in the Shares or GDRs exceeds one year. Non-corporate U.S. Holders are subject to tax on long-term capital gain at reduced rates. Any gain or loss generally will be U.S. source. The deductibility of capital loss is subject to limitations. U.S. Holders should consult their own tax advisers about how to account for proceeds received on the sale or other disposition of Shares that are not paid in U.S. Dollars.

Information reporting and backup withholding

Payments of dividends on Shares or GDRs and proceeds from the sale or other disposition of Shares or GDRs by a U.S. paying agent or other U.S. intermediary will be reported to the Internal Revenue Service and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Shares or GDRs, including requirements related to the holding of certain "specified foreign financial assets".

FATCA withholding

Pursuant to certain provisions of the Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Bank may be a foreign financial institution for these purposes. A number of jurisdictions (including Kazakhstan) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Shares or GDRs, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Shares or GDRs, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Shares or GDRs, under proposed U.S. Treasury Regulations, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Shares or GDRs.

PLAN OF DISTRIBUTION

The GDR Offering consists of an offering of 29,316,603 GDRs in the International Offering and the Domestic Offering.

The International Offering consists of an offering of 23,634,000 GDRs by the Selling Shareholder (i) outside the United States in "offshore transactions" in reliance on Regulation S under the Securities Act to institutional investors in a number of countries and (ii) in the United States only to QIBs as defined in Rule 144A under the Securities Act, in reliance on Rule 144A or another exemption from, or a transaction not subject to, the registration requirements of the Securities Act. The International GDR Offering will be managed by Deutsche Bank, J.P. Morgan and Renaissance Capital.

Concurrently with the International Offering, the Selling Shareholder is offering 5,682,603 GDRs in Kazakhstan, which represent 1.9 per cent. of the Bank's outstanding shares. The Domestic Offering is being carried out pursuant to the AIX Prospectus Summary under Rule 1.4 of the AIFC. Prospective investors who intend to participate in the Domestic Offering should review the AIX Prospectus Summary which will contain important information about the Domestic Offering. The International GDR Offering will be managed by Halyk Finance.

Underwriting Agreements

International Offering

Under the terms of, and subject to, the conditions contained in an underwriting agreement (the "International Underwriting Agreement"), expected to be dated on or around 7 October 2019, among the Bank, the Selling Shareholder, Deutsche Bank, J.P. Morgan and Renaissance Capital, Deutsche Bank, J.P. Morgan and Renaissance Capital have severally (but not jointly or jointly and severally) agreed to procure purchasers for, or failing which to purchase, the respective number of the GDRs offered in the International Offering set forth in the table below.

Joint Global Coordinators and Joint Bookrunners	Number of GDRs
Deutsche Bank AG, London Branch	10,324,250
J.P. Morgan Securities plc	10,324,250
Renaissance Securities (Cyprus) Limited	2,985,500
Total	23,634,000

Domestic Offering

Under the terms of, and subject to, the conditions contained in an underwriting agreement (the "Domestic Underwriting Agreement"), dated 4 October 2019, between the Bank, the Selling Shareholder and Halyk Finance, Halyk Finance has agreed to procure purchasers for, or failing which to purchase, 5,682,603 GDRs offered in the Domestic Offering.

Offer Price

The Offer Price is U.S.$11.75 per GDR. The GDRs are offered at the same Offer Price in the International Offering and the Domestic Offering.

Listing, Trading and Settlement

The existing common shares of the Bank are traded on the Kazakhstan Stock Exchange under the symbol "HSBK".

The existing GDRs are traded on the London Stock Exchange under the symbol "HSBK". Pursuant to the prior applications made to the FCA and the London Stock Exchange in relation to GDRs to be issued from time to time against the deposit of shares, the GDRs being offered pursuant to the GDR Offering will be admitted to trading from the date of their creation on the Closing Date. Accordingly, there will be no additional application made to the FCA, the London Stock Exchange or any other exchange in connection with the admission and trading of the GDRs being offered pursuant to the GDR Offering.

Application has been made to the AIX to: (i) admit the GDRs and the Shares to the official list of the AIX; and (ii) admit the GDRs and the Shares to trading on the AIX. Trading on the AIX is expected to start on 9 October 2019.

The GDRs being offered pursuant to the GDR Offering are expected to be delivered on or around 8 October 2019 (the "Closing Date").

Other Relationships

The Joint Global Coordinators and Joint Bookrunners are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, issuing or creating and trading in securities and financial products, publishing research and exercising voting power over securities on behalf of third parties, financing and brokerage activities, for which they received customary fees. In the ordinary course of the Joint Global Coordinators' and Joint Bookrunners' trading, brokerage, asset management, and financing activities, the Joint Global Coordinators and Joint Bookrunners may at any time deal as principal or agent for more than one party in, or hold long or short positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of the Bank, the Selling Shareholder, their respective associates or any counterparty.

Each Joint Global Coordinator and Joint Bookrunners may have and may in the future have investment and commercial banking, trust and other relationships with parties other than the Bank, which parties may have interests with respect to the Bank, the Selling Shareholder, their respective affiliates or other persons. The Joint Global Coordinators and Joint Bookrunners and their respective affiliates may provide such services for the Bank and the Selling Shareholder and their respective affiliates in the future. Moreover, Halyk Finance is an affiliate of the Bank.

In connection with the GDR Offering, each of the Joint Global Coordinators and Joint Bookrunners and any of their respective affiliates, acting as an investor for its own account, may take up a portion of the GDRs in the GDR Offering as a principal position and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in such securities, any of the Bank's other securities or other related investments in connection with this GDR Offering or otherwise. Accordingly, references in this Offering Memorandum to the GDRs being issued, offered, subscribed or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Joint Global Coordinators and Joint Bookrunners or any of them and any of their respective affiliates acting as an investor for its or their own account(s). In addition, certain of the Joint Global Coordinators and Joint Bookrunners or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Joint Global Coordinators and Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of the GDRs. None of the Joint Global Coordinators and Joint Bookrunners intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Lock up Arrangements

The Bank has agreed that, without the prior written consent of Deutsche Bank and J.P. Morgan, it and its officers and directors will not during a period of 365 days from the Closing Date, neither the Bank nor any of its subsidiaries nor any person acting on its or their behalf will, without the prior written consent of Deutsche Bank and J.P. Morgan, directly or indirectly: (i) issue, offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares, or any securities convertible into or exercisable or exchangeable for Shares, or publicly file any prospectus or any similar document with any other securities regulator, stock exchange, or listing authority with respect to any of the foregoing; (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares, whether any such transaction described in clause i) or ii) is to be settled by delivery of Shares, or other securities, in cash or otherwise, (iii) publicly announce such an intention to effect any such transaction; or (iv) make any demand for or exercise any right with respect to, the registration under U.S. securities laws of any of its shares or any security convertible into or exercisable or exchangeable for its shares. The foregoing sentence shall not apply to (i) the Bank's subsidiaries for the purposes of satisfying any awards or options granted under any employee share scheme of the Bank, (ii) Halyk Finance JSC in respect of the Shares offered in the Domestic Offering, or (iii) Halyk Finance JSC and JSC Kazkommerts Securities in respect of their asset management, brokerage and trading activities conducted in the ordinary course of business for and on behalf of their clients, proprietary trading of Halyk Finance JSC up to U.S.$5 million per annum, and market making operations on the Kazakhstan Stock Exchange.

The Selling Shareholder has agreed that, without the prior written consent of Deutsche Bank and J.P. Morgan, it will not during a period of 365 days from the date of the Closing Date, neither the Selling Shareholder nor any of its affiliates (other than the Bank and its subsidiaries) nor any person acting on its or their behalf will, without the prior written consent of Deutsche Bank and J.P. Morgan, directly or indirectly, (i) offer, pledge, sell, contract to sell, sell or grant any option, right, warrant or contract to purchase, exercise any option to sell, purchase any option or contract to sell, or lend or otherwise transfer or dispose of any Shares or demand that the Bank publicly file any prospectus any similar document with any other securities regulator, stock exchange or listing authority with respect to any of the foregoing, (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of any Shares, whether any such transaction described in clause (i) or (ii) is to be settled by delivery of Shares or such other securities, in cash or otherwise; (iii) publicly announce such an intention to effect any such transaction; or (iv) make any demand for or exercise any right with respect to, the registration under U.S. securities laws of any shares of the Bank or any security convertible into or exercisable or exchangeable for shares of the Bank. The foregoing sentence shall not apply to (i) the sale by the Selling Shareholder of the GDRs being offered pursuant to the GDR Offering; (ii) any transfer of Shares to any legal successors following a merger, liquidation, demerger or similar transaction, provided that such transferee shall continue to be bound by the foregoing restrictions for remainder of the lock-up period; (iii) any transfer of Shares following the acceptance of a public takeover bid in respect of the Shares; and (iv) the transfer of Shares that occurs by operation of law or by order of a court of competent jurisdiction.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

The distribution of this Offering Memorandum and the GDR Offering in certain jurisdictions may be restricted by law. Therefore, persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set forth in the paragraphs below. Any failure to comply with these restrictions may constitute a violation of applicable securities laws.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the GDRs, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the GDR Offer, in any jurisdiction where action for such purpose is required. This Offering Memorandum does not constitute an offer to subscribe for or buy any of the GDRs offered in this GDR Offering to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. Accordingly, the GDRs may not be offered or sold, directly or indirectly, nor may this Offering Memorandum or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

EEA

In relation to each Member State no offer to the public of GDRs which are the subject of the GDR Offering contemplated by this Offering Memorandum has been, or will be, made in that Member State other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Regulation;
- to fewer than 150 natural or legal persons (other than Qualified Investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the Joint Global Coordinators and Joint Bookrunners for any such offer; or
- in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of GDRs shall require the Bank or any Joint Global Coordinators and Joint Bookrunners to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of GDRs to the public" in relation to any GDRs in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDRs to be offered so as to enable an investor to decide to purchase or subscribe for any GDRs, and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

Kazakhstan

This Offering Memorandum does not constitute an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer securities in Kazakhstan to or for the benefit of any Kazakhstan person or entity, except for those persons or entities that are capable to do so under the legislation of the Republic of Kazakhstan and any other laws applicable to such capacity of such persons or entities. This Offering Memorandum shall not be construed as an advertisement (i.e., information intended for an unlimited group of persons which is distributed and placed in any form and aimed to create or maintain interest in the Bank and its merchandise, trademarks, works, services and/or its securities and promote their sales) in, and for the purpose of the laws of, Kazakhstan, unless such advertisement is in full compliance with Kazakhstan laws. The GDRs will not, directly or indirectly, be offered for subscription or purchase in Kazakhstan, nor will invitations to subscribe for or buy or sell GDRs be issued in Kazakhstan, nor will any draft or definitive document in relation to any such offer, invitation or sale be distributed in Kazakhstan, except in compliance with the laws of Kazakhstan.

United Kingdom

This Offering Memorandum and any other material in relation to the GDR Offering described herein is only being distributed to, and is only directed at persons in the United Kingdom who are Qualified Investors as defined in the Prospectus Regulation that are also: (i) persons having professional experience in matters relating to investments falling within the definition of "investment professionals" falling within Article 19(5) of the

Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"); or (ii) persons who are high net worth bodies corporate, unincorporated associations and partnerships and the trustees of high value trusts, as described in Article 49(2)(a) to (d) of the Order; or (iii) persons to whom distributions may otherwise lawfully be made (all such persons together being referred to as "Relevant Persons") or otherwise in circumstances which do not require publication by the Bank of a prospectus pursuant to section 85(1) of the UK Financial Services and Markets Act 2000 (the "FSMA"). The GDRs are only available to, and any investment or investment activity to which this Offering Memorandum relates is available only to, and will be engaged in only with, Relevant Persons). This Offering Memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Persons who are not Relevant Persons should not take any action on the basis of this Offering Memorandum and should not rely on it.

United States

The GDRs have not been and will not be registered under the Securities Act and the GDRs may not be offered or sold within the United States except in certain transactions exempt from, or in a transaction not subject to the registration requirements of, the Securities Act. The GDRs will be offered and sold in the United States only to QIBs in reliance on Rule 144A or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and outside the United States in offshore transactions in reliance on Regulation S.

Until the expiration of 40 days after the later of the commencement of the GDR Offering and the original issue or sale date of the GDRs offered in the GDR Offering, an offer, sale or transfer of the shares within the United States by a dealer may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to an exemption from registration under the Securities Act.

Australia

This document:

(a) does not constitute a prospectus or a product disclosure statement under the Corporations Act 2001 of the Commonwealth of Australia ("Corporations Act");

(b) does not purport to include the information required of a prospectus under Part 6D.2 of the Corporations Act or a product disclosure statement under Part 7.9 of the Corporations Act;

(c) has not been, nor will it be, lodged as a disclosure document with the Australian Securities and Investments Commission ("ASIC"), the Australian Securities Exchange operated by ASX Limited or any other regulatory body or agency in Australia; and

(d) may not be provided in Australia other than to select investors ("Exempt Investors") who are able to demonstrate that they: (i) fall within one or more of the categories of investors under section 708 of the Corporations Act to whom an offer may be made without disclosure under Part 6D.2 of the Corporations Act; and (ii) are "wholesale clients" for the purpose of section 761G of the Corporations Act.

The GDRs may not be directly or indirectly offered for subscription or purchased or sold, and no invitations to subscribe for, or buy, the GDRs may be issued, and no draft or definitive offering memorandum, advertisement or other offering material relating to any GDRs may be distributed, received or published in Australia, except where disclosure to investors is not required under Chapters 6D and 7 of the Corporations Act or is otherwise in compliance with all applicable Australian laws and regulations. By submitting an application for the GDRs, each subscriber or purchaser of GDRs represents and warrants to the Bank, the Selling Shareholder, the Joint Global Coordinators and Joint Bookrunners and their affiliates that such subscriber or purchaser is an Exempt Investor.

As any offer of GDRs under this Offering Memorandum or any other document will be made without disclosure in Australia under Parts 6D.2 and 7.9 of the Corporations Act, the offer of those GDRs for resale in Australia within 12 months may, under the Corporations Act, require disclosure to investors if none of the exemptions in the Corporations Act applies to that resale. By applying for the GDRs, each subscriber or purchaser of GDRs undertakes to the Bank, the Selling Shareholder and the Joint Global Coordinators and Joint Bookrunners that such subscriber or purchaser will not, for a period of 12 months from the date of issue or purchase of the GDRs, offer, transfer, assign or otherwise alienate those GDRs to investors in Australia except in circumstances where disclosure to investors is not required under the Corporations Act or where a compliant disclosure document is prepared and lodged with ASIC.

South Africa

Due to restrictions under the securities laws of South Africa, the GDRs are not offered, transferred, sold, made, renounced or delivered in South Africa or to a person with an address in South Africa and the GDR Offering is not made, offered, transfer, sold, renounced or delivered in South Africa or to a person with an address in South Africa, unless such person falls within one or more of the exemptions to the securities laws relating to offers to the public set out in Section 96 of the Companies Act No. 71 of 2008 (as amended). The exemption include

- Offers made only to the following persons, namely (i) persons whose ordinary business, or part of whose ordinary business, is to deal in securities, whether as principals or agents; (ii) the Public Investment Corporation as defined in the Public Investment Corporation Act, No. 23 of 2004 (as amended); (iii) persons regulated by the Reserve Bank of South Africa; (iv) authorised financial services providers as defined in the Financial Advisory and Intermediary Services Act, No. 37 of 2002 (as amended); (v) financial institutions as defined in the Financial Services Board Act, No. 97 of 1990; (vi) wholly owned subsidiaries of the persons contemplated in (iii), (iv) and (v) acting as agent in the capacity of authorised portfolio manager for a pension fund registered in terms of the Pension Funds Act, No. 24 of 1956 or as a manager for a collective investment scheme registered in terms of the Collective Investment Schemes Control Act, No. 45 of 2002; (vii) any combination of the persons contemplated in (i) to (vi); and

- Offers made to a single address acting as principal where the contemplated acquisition cost of GDRs is equal to or greater than R1,000,000.

The GDR Offering does not constitute an offer for the sale or subscription for, or solicitation of an offer to buy and subscribe for, GDRs to the public as defined in the Companies Act, No. 71 of 2008 (as amended) and will not be distributed to any person in South Africa in any manner which could be construed as an offer to the public in terms of the Companies Act, No. 71 of 2008 (as amended) and should any person who does not fall into any of the above exemptions receive this Offering Memorandum they should not and will not be entitled to acquire any GDRs or otherwise act thereon. This Offering Memorandum does not, nor is it intended to, constitute a prospectus prepared and registered under the Companies Act, No. 71 of 2008 (as amended).

Canada

The GDRs may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the GDRs must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment hereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal adviser.

Pursuant to section 3A.3 of NI 33-105, the Joint Global Coordinators and Joint Bookrunners are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this GDR Offering.

United Arab Emirates (excluding the Dubai International Financial Centre)

This Offering Memorandum is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. If you are in any doubt about the contents of this document, you should consult an authorised financial adviser.

By receiving this Offering Memorandum, the person or entity to whom it has been issued understands, acknowledges and agrees that this Offering Memorandum has not been approved by or filed with the UAE Central Bank, the UAE Securities and Commodities Authority (the "SCA") or any other authorities in the UAE (outside of the financial free zones established pursuant to UAE Federal Law No. 8 of 2004), nor have the Joint

Global Coordinators and Joint Bookrunners received authorisation or licensing from the UAE Central Bank, SCA or any other authorities in the UAE to market or sell securities or other investments within the UAE. No marketing of any financial products or services has been or will be made from within the UAE other than in compliance with the laws of the UAE and no subscription to any securities or other investments may or will be consummated within the UAE. It should not be assumed that any of the Joint Global Coordinators and Joint Bookrunners is a licensed broker, dealer or investment adviser under the laws applicable in the UAE, or that any of them advise individuals resident in the UAE as to the appropriateness of investing in or purchasing or selling securities or other financial products. The GDRs are not intended for circulation or distribution in or into the UAE, other than to persons who are "Qualified Investors" within the meaning of the SCA's Board of Directors Decision No. 3 of 2017 Concerning the Organisation of Promotion and Introduction to whom the materials may lawfully be communicated. This does not constitute a public offer of securities in the UAE in accordance with the SCA Chairman of the Board Resolution No. 11/R.M of 2016 on the Regulations for Issuing and Offering Shares of Public Joint Stock, or otherwise.

Nothing contained in this Offering Memorandum is intended to constitute investment, legal, tax, accounting or other professional advice. This Offering Memorandum is for your information only and nothing in this Offering Memorandum is intended to endorse or recommend a particular course of action. Any person considering acquiring securities should consult with an appropriate professional for specific advice rendered based on their respective situation.

Dubai International Financial Centre

The GDRs have not been offered and will not be offered to any persons in the Dubai International Financial Centre except on that basis that an offer is: (a) an "Exempt Offer" in accordance with the Markets Rules ("MKT") module of the Dubai Financial Services Authority (the "DFSA"); and (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook. The DFSA has not approved this Offering Memorandum nor taken steps to verify the information set out in it, and has no responsibility for it. The GDRs to which this Offering Memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the GDRs offered should conduct their own due diligence on the GDRs. If you do not understand the contents of this Offering Memorandum, you should consult an authorised financial adviser.

Qatar

This Offering Memorandum is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the State of Qatar including the rules and regulations of Qatar Financial Centre Authority ("QFCA") or the Qatar Financial Centre Regulatory Authority ("QFCRA"). The GDRs have not been and will not be listed on the Qatar Exchange and are not subject to the rules and regulations of the DSM Internal Regulations applying to the Qatar Exchange, the Qatar Financial Markets Authority ("QFMA"), the Qatar Central Bank ("QCB"), the QFCA or the QFCRA, or any laws of the State of Qatar.

This Offering Memorandum has not been and will not be:

i. lodged or registered with, or reviewed or approved by the QFCA, the QFCRA, the QCB or the QFMA; or

ii. authorised or licenced for distribution in the State of Qatar, and the information contained in this Offering Memorandum does not, and is not intended to, constitute a public or general offer or other invitation in respect of shares or other securities in the State of Qatar or the QFC.

The offer of the GDRs and interests therein do not constitute a public offer of securities in the State of Qatar under the Commercial Companies Law No. (5) of 2002 (as amended) or otherwise under any laws of the State of Qatar, including the rules and regulations of the QFCA or QFCRA.

The GDRs are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such GDRs. No transaction will be concluded in the jurisdiction of the State of Qatar (including the jurisdiction of the Qatar Financial Centre). The Bank is not regulated by the QCB, QFMA, QFC Authority, QFC Regulatory Authority or any other government authority in the State of Qatar. The Bank does not, by virtue of this Offering Memorandum, conduct any business in the State of Qatar. The Bank is an entity regulated under laws outside the State of Qatar.

Transfer Restrictions

Rule 144A GDRs

Each purchaser of GDRs pursuant to Rule 144A under the Securities Act, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged as follows:

- The purchaser (i) is a QIB, as defined by Rule 144A, (ii) is aware that, and each beneficial owner of such GDRs has been advised that, the sale to it is being made in reliance on Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act, (iii) is acquiring such GDRs for its own account or for the account of a QIB and (iv) if it is acquiring such GDRs for the account of one or more QIBs, it has sole investment discretion with respect to each such account and it has full power to make (and does make) the acknowledgements, representations and agreements herein on behalf of each such account.
- The purchaser is aware that the GDRs purchased pursuant to Rule 144A have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act, only in transactions not involving any public offering in the United States and are restricted securities within the meaning of the Securities Act.
- In the future, if the purchaser decides to offer, resell, pledge or otherwise transfer the GDRs purchased pursuant to Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act or the Shares represented thereby, such GDRs may be offered, sold, pledged or otherwise transferred only in accordance with the following legends, which the GDRs purchased pursuant to Rule 144A or another exemption from, or in a transaction not subject to, registration under the Securities Act will respectively bear unless otherwise determined by the Bank and the Depositary in accordance with applicable law:

  THIS RULE 144A MASTER GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF JSC "HALYK BANK" REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF BY PURCHASING THE GDRs, AGREES FOR THE BENEFIT OF JSC "HALYK BANK" THAT THE GDRs AND THE SHARES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER OF THE GDRs WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF SUCH GDRs OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT, OR CAUSE TO BE DEPOSITED, SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.
- For so long as the Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will not deposit such Shares into any depositary receipt facility in respect of shares established and maintained by a depositary bank other than a Rule 144A restricted depositary receipt facility.
- The Bank, the Selling Shareholder, the Joint Global Coordinators and Joint Bookrunners named in "*Plan of Distribution*" and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Prospective purchasers are hereby notified that the sellers of GDRs purchased in this GDR Offering may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Regulation S GDRs

Each purchaser of GDRs offered in reliance on Regulation S under the Securities Act, by its acceptance of delivery of this Offering Memorandum, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- the purchaser is, at the time of the offer to it of GDRs and at the time the buy order originated, outside the United States for the purposes of Rule 903 under the Securities Act;
- the purchaser is aware that such GDRs have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S;
- any offer, sale, pledge or other transfer made other than in compliance with the above-stated restrictions shall not be recognised by the Bank in respect of such GDRs; and
- the Bank, the Selling Shareholder, the Joint Global Coordinators and Joint Bookrunners named above in "*Plan of Distribution*" and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

It is expected that delivery of the GDRs will be made against payment therefor on or about the date specified below under "*Settlement and Transfer*".

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

The Clearing Systems

Euroclear and Clearstream

Euroclear and Clearstream each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

DTC

DTC has advised the Bank as follows: DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "*Taxation*".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form of GDRs

Book-entry interests in the GDRs held through Euroclear and Clearstream will be represented by the Master Regulation S GDR Certificate registered in the name of a nominee of the common depositary for Euroclear and Clearstream. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR Certificate registered in the name of Cede & Co., as nominee for DTC, which will be held by the Depositary as custodian for DTC. As necessary, the Registrar will adjust the amounts of GDRs on the relevant register for the accounts of the common nominee and nominee, respectively, to reflect the amounts of GDRs held through Euroclear, Clearstream and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common nominee for Euroclear and Clearstream and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Bank for holders holding through Euroclear and Clearstream are credited to Euroclear or Clearstream, as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Bank for holders holding through DTC are received by DTC. The address for DTC is P.O. Box 5020, New York, New York 10274, United States. The address for Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium. The address for Clearstream is 42 Avenue J.E Kennedy, L-1855 Luxembourg, Luxembourg. The Bank will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the GDR terms and Conditions.

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Global Master GDR Certificates. Purchasers electing to hold book-entry interests in the GDRs through Euroclear and Clearstream accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

Transfer Restrictions

For a description of the transfer restrictions relating to the GDRs, see "Terms and Conditions of the Global Depositary Receipts—Transfer and Ownership" and "Selling and Transfer Restrictions".

Trading Between Euroclear and Clearstream Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the normal procedures applicable to depositary receipts.

Trading Between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading Between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, as the case may be, to credit the relevant account of the Euroclear or Clearstream participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (1) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate and (2) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR Certificate.

Trading Between Clearstream/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream participant to the account of a DTC participant, the Euroclear or Clearstream participant must send to Euroclear or Clearstream a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream participant, as the case may be. On the settlement date, Euroclear or Clearstream, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, as the case may be, shall on the settlement date instruct the Depositary to (1) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR Certificate and (2) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR Certificate.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream and DTC, none of Euroclear, Clearstream or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Bank, the Joint Global Coordinators and Joint Bookrunners, the Depositary, the Custodian or the Bank's or their respective agents will have any responsibility for the performance by Euroclear, Clearstream or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is an entity established in the State of New York, and is a state chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Department of Financial Services. The Bank of New York Mellon was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Mellon Corporation, a Delaware bank holding company. The Depositary's principal executive and administrative offices are located at 240 Greenwich Street, New York, New York 10286. A copy of the Depositary's articles of association, as amended, is available for inspection at the offices of The Bank of New York Mellon, London branch, at One Canada Square, London, E14 5AL, United Kingdom.

LEGAL MATTERS

Certain legal matters in connection with the GDR Offering will be passed upon for the Bank with respect to the laws of England and the United States by Linklaters LLP, London, England and with respect to Kazakhstan law by Kinstellar LLP. Certain legal matters in connection with the GDR Offering will be passed upon for the Joint Global Coordinators and Joint Bookrunners with respect to the laws of England and the United States by Shearman & Sterling (London) LLP and with respect to Kazakhstan law by GRATA International.

INDEPENDENT AUDITORS

The Bank's independent auditors are Deloitte LLP, acting as auditors under the licence No. 0000015 dated 13 September 2006 issued by the Ministry of Finance of the Republic of Kazakhstan. Deloitte LLP has audited the consolidated financial statements of the Bank as at and for the years ended 31 December 2018, 2017 and 2016 in respect of which it has delivered an unqualified audit opinion. Deloitte LLP has also reviewed the interim condensed consolidated financial statements of the Bank as at and for the six months ended 30 June 2019 and 2018 in respect of which it has delivered a review report on interim condensed consolidated financial information. The Bank does not publish non-consolidated financial statements. The Audited Financial Statements, together with Deloitte LLP's audit report with respect thereto, and the Unaudited Interim Condensed Consolidated Financial Information, together with Deloitte LLP's a review report on interim condensed consolidated financial information, are incorporated by reference into this Offering Memorandum.

INFORMATION INCORPORATED BY REFERENCE

The table below sets out the documents of which certain parts are incorporated by reference into, and form part of, this Offering Memorandum, and only the parts of the documents identified in the table below are incorporated into, and form part of, this Offering Memorandum.

Information incorporated by reference from the Unaudited Interim Condensed Consolidated Financial Information of the Bank as at and for the six months ended 30 June 2019

The following pages are incorporated by reference from the Unaudited Interim Condensed Consolidated Financial Information of the Bank as at and for the six months ended 30 June 2019.

Information	Pages
Report on Review of the Interim Condensed Consolidated Financial Information	2
Interim Condensed Consolidated Statement of Financial Position	3
Interim Condensed Consolidated Statement of Profit or Loss	4
Interim Condensed Consolidated Statement of Other Comprehensive Income	5
Interim Condensed Consolidated Statement of Changes in Equity	6-7
Interim Condensed Consolidated Statement of Cash Flows	8-9
Selected Explanatory Notes to the Interim Condensed Consolidated Financial Information	10-53

Information incorporated by reference from the Audited Financial Statements of the Bank as at and for the years ended 31 December 2018, 2017 and 2016

The following pages are incorporated by reference from the Audited Financial Statements of the Bank as at and for the years ended 31 December 2018, 2017 and 2016.

Information	Pages
Independent Auditors' Report	2-7
Consolidated Statements of Financial Position	8
Consolidated of Profit or Loss	9
Consolidated Statements of Other Comprehensive Income	10
Consolidated Statements of Changes in Equity	11-13
Consolidated Statements of Cash Flows	14-15
Notes to the Consolidated Financial Statements	16-126

GLOSSARY OF TERMS AND DEFINITIONS

Terms and definitions used in this Offering Memorandum have the meanings set forth below:

Term/Definition	Meaning
Additional GDR Rights	additional rights which are not attributable to the Deposited Shares, as further defined in "*Terms and Conditions of the Global Depositary Receipts*"
Additional GDR Rights Requests	GDR rights requests, as defined further in "*Terms and Conditions of the Global Depositary Receipts*"
Agents	agents appointed by the Depositary, as described in "*Terms and Conditions of the Global Depositary Receipts*"
AIFC	the Astana International Financial Centre
AIFC Law	The Constitutional Law of the Republic of Kazakhstan No. 438-V "On International Financial Centre 'Astana'", dated 7 December 2015 (as amended)
AIX	the Astana International Exchange
ALCO	Asset and Liability Management Committee
Almex or Selling Shareholder	JSC "Holding Group "ALMEX"
AML/CFT Rules	the Bank's internal control rules for anti-money laundering and countering financing of terrorism
AML Law or Anti-Money Laundering Law	The Law of the Republic of Kazakhstan No. 191-IV ZRK "On Countering the Legalisation (Laundering) of Criminally Obtained Income and the Financing of Terrorism", dated 28 August 2009 (as amended)
Antimonopoly Consent	Consent from the relevant antimonopoly authority for the acquisition of KKB on 1 June 2017
Audited Financial Statements	the audited financial information of the Bank, as described in the "*Presentation of financial and Certain Other Information*", and incorporated by reference into this Offering Memorandum
Bank or Halyk Bank	JSC "Halyk Bank"
Bank Holding	entity which holds shares in Kazakhstan banks, as described in "*Banking Sector in Kazakhstan*"
Banking Law	The Law of the Republic of Kazakhstan No. 2444 "On Banks and Banking Activity in the Republic of Kazakhstan", dated 31 August 1995 (as amended)
Banking Licence	the Bank's Licence No. 1.2.47/230/38/1 dated 8 November 2016 for performing banking and other operations and conducting activity in the securities market

Term/Definition	Meaning
Basel III	the Basel III International Convergence of Capital Measurement and Capital Standards
Basel Committee	the Basel Committee on Banking Supervision
BIS	the Bank for International Settlements
Blacklisted Jurisdictions	the blacklisted jurisdictions enumerated in "*The Banking Sector in Kazakhstan—Acquisition of Interests in Kazakhstan Banks—Blacklisted Jurisdictions prohibition*"
BTA Bank	JSC BTA Bank
BTA Bank Facility Agreement	the facility agreement between KKB and BTA Bank, as described in "*Banking Sector in Kazakhstan*"
Central Securities Depository	Central Securities Depository JSC
CET1	the Bank's Common Equity Tier I capital adequacy ratio
Charter	the Bank's Charter adopted by its General Shareholders' Meeting on 20 December 2006
CIS	Commonwealth of Independent States
Civil Code	Civil Code of the Republic of Kazakhstan (special part), dated 1 July 1999 (as amended)
Closing Date	closing date of the GDR Offering
Committee of Statistics	Committee of Statistics of the Ministry of National Economy of the Republic of Kazakhstan
Corporate Governance Code	the Corporate Governance Code of the Bank (as amended)
Currency Law	The Law of the Republic of Kazakhstan "On Currency Regulation and Currency Control" dated 2 July 2018 (as amended)
Custodian	JSC Halyk Bank
Deed Poll	The deed poll dated 7 December 2017 in respect of the GDRs.
Deposit Agreement	an agreement dated 20 December 2006, as amended and restated as of 7 December 2017, between the Bank and The Bank of New York Mellon in its capacity as depositary
Depositary	The Bank of New York Mellon
Deposited Property	the Deposited Shares and all and any rights, interests and other securities, property and cash held by the Custodian or the Depositary or their respective agents which are attributable to the Deposited Shares

Term/Definition	Meaning
Deposited Shares	the Shares which are for the time being deposited with and held by the Custodian or its agents for the account of the Depositary
Disclosure	disclosure of identity of GDR holders to the Central Securities Depositary for the purposes of exercising their voting rights at a general meeting of shareholders of the Bank, as further described in the "*Risk Factors*"
DMC	Decision-making Centre
DTC	The Depository Trust Company
EAD	exposure at default
ECL	expected credit loss
EEU	Eurasian Economic Union
EIR	effective interest rate
ES	expected shortfall methodology
Euroclear	Euroclear Bank S.A./N.V.
Exchange Act	The United States Securities Exchange Act of 1934
Facility	The Regulation S Facility or the Rule 144A Facility, as defined therein
FATCA	Foreign Account Tax Compliance Act, as further defined in "*Terms and Conditions of the Global Depositary Receipts*"
FDIC	U.S. Federal Deposit Insurance Corporations
FHB	JSC First Heartland Bank
FHS	JSC First Heartland Securities
foreign passthru payments	payments, which a foreign financial institution may be required to withhold pursuant to certain provisions of the Internal Revenue Code of 1986
FPL	JSC Fund of Problem Loans
Framework Agreement	the framework agreement between Bank, Mr. Kenges Rakishev, the NBRK, the Government, as described in "*Banking Sector in Kazakhstan*"
FSMA	the Financial Services and Markets Act 2000, as amended
Fund	Insurance Payment Guarantee Fund
FVTOCI	fair value through other comprehensive income
GDP	Gross Domestic Product

Term/Definition	Meaning
GDPR	European General Data Protection Regulation
GDR Offering	offering of GDRs by JSC "Holding Group "ALMEX"
GDRs	global depositary receipts each representing an interest in 40 common shares of the Bank
GEL	Georgian Lari
Government	the Government of the Republic of Kazakhstan
Government Support Programmes	government support programmes aimed at providing support to private businesses in order to promote the stability and balanced growth of regional businesses in the primary sectors of the economy, as well as to maintain and create new jobs in these sectors
Halyk Bank Georgia	JSC Halyk Bank Georgia
Halyk Bank Kyrgyzstan	OJSC Halyk Bank Kyrgyzstan
Halyk Bank Tajikistan	CJSC Halyk Bank Tajikistan
Halyk Finance	JSC Halyk Finance
Halyk-Inkassatsiya	LLC Halyk-Inkassatsiya
Halyk Insurance	JSC Halyk Insurance Company
Halyk Leasing	JSC Halyk-Leasing
Halyk Life	JSC Halyk Life
Homebank	the Bank's online retail internet banking platform
IBNR	incurred but not reported reserves
IFRS	the International Financial Reporting Standards
IMF	International Monetary Fund
Instruction Date	date and time specified by the Depositary for the conclusion of the Primary GDR Rights Offering as described in "*Terms and Conditions of the Global Depositary Receipts*"
Insurance Holding	an entity which holds ownership in Kazakhstan insurance company as described in "*Banking Sector in Kazakhstan*"
Insurance Law	The Law of the Republic of Kazakhstan No. 126-II "On Insurance Activity", dated 18 December 2000 (as amended)
International Underwriting Agreement	underwriting agreement, expected to be dated on or around 7 October 2019, among the Bank, the Selling Shareholder and the Joint Global Coordinators and Joint Bookrunners named therein

Term/Definition	Meaning
IPO	initial public offering of the Bank's common shares in December 2006 and March 2007
Joint Global Coordinators and Joint Bookrunners	Deutsche Bank AG, London Branch, JSC Halyk Finance and J.P. Morgan Securities plc
Joint Bookrunner or Renaissance Capital	Renaissance Securities (Cyprus) Limited
JSC Law	The Law of the Republic of Kazakhstan No. 415-II "On Joint-Stock Companies", dated 13 May 2003 (as amended)
KASE	Kazakhstan Stock Exchange
Kazakhstan, the Republic or the State	Republic of Kazakhstan
Kazakhstan Corporate Governance Code	Corporate Governance Code approved by the Council of Issuers and the Council of Financial Institutions Association of Kazakhstan
Kazkommerts Securities	JSC Kazkommerts Securities
Kazteleport	JSC Kazteleport
KDIF	Kazakhstan Deposit Insurance Fund
KKB	JSC Kazkommertsbank
KKB Merger	merger of KKB into the Bank in 2018, as described in "*Banking Sector in Kazakhstan*"
KKB MoU	memorandum of understanding between Bank, Mr. Kenges Rakishev, the NBRK, the Government, as described in "*Banking Sector in Kazakhstan*"
KKB SPA	sale and purchase agreement between Bank, Mr. Kenges Rakishev, the NBRK, the Government, as described in "*Banking Sector in Kazakhstan*"
Law on Fund	The Law of the Republic of Kazakhstan No. 423-II "On the Insurance Payment Guarantee Fund" dated 3 June 2003 (as amended)
LCR	liquidity coverage ratio
LGD	loss given default
Major Participant	holder of shares of a Kazakhstan bank, as defined in "*Banking Sector in Kazakhstan*"
Major Participant of the Kazakhstan Insurance Company	holder of shares of a Kazakhstan insurance company, as defined in "*Banking Sector in Kazakhstan*"
Major Shareholder	major shareholder or group of shareholders of the Bank representing not less than 10 per cent. of the voting shares, as further described in "*Description of Share Capital and Certain Requirements of Kazakhstan Law*"

Term/Definition	Meaning
Mandatory Offer	mandatory offer, as defined in the JSC Law and as further defined in "*Description of Share Capital and Certain Requirements of Kazakhstan Law*"
Margin	net interest income before credit loss expense as a percentage of average interest-earning assets
Maximum Additional Subscription	the maximum number of Additional GDR Rights as defined in "*Terms and Conditions of the Global Depositary Receipts*"
MCI	monthly calculation indexes as defined in "*Risk Factors*"
Moskom	JSC CB Moskommertsbank
NBRK	National Bank of the Republic of Kazakhstan
New York Convention	The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards dated 10 June 1958 (as amended)
OCI	other comprehensive income
OECD	Organisation for Economic Co-operation and Development
OFAC	Office of Foreign Assets Control
Offering Memorandum	the offering memorandum relating to an offering by the Selling Shareholder of 29,316,603 GDRs of the at a price of U.S.$11.75 per GDR
Official List	the Official List of the Financial Conduct Authority
Onlinebank	the Bank's corporate internet banking platform
Order	the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended)
Payment Systems Law	The Law of the Republic of Kazakhstan No. 11-VI ZRK "On Payments and Payment Systems", dated 26 July 2016 (as amended)
PD	probability of default
Pension Law	The Law of the Republic of Kazakhstan "On Provision of Pensions", dated 21 June 2013 (as amended)
Personal Data Law	The Law of the Republic of Kazakhstan No. 94-V ZRK "On Personal Data and the Protection Thereof", dated 21 May 2013 (as amended)
PFIC	passive foreign investment company
POCI	purchased or originated credit-impaired assets

Term/Definition	Meaning
Pre-Release	the right of the Depositary to execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares, as further described in "*Terms and Conditions of the Global Depositary Receipts*"
Pre-Releasee	any person to whom GDRs or Deposited Property are to be delivered as part of the Pre-Release, as further described in "*Terms and Conditions of the Global Depositary Receipts*"
Primary GDR Rights Offering	Depositary's offer of rights, as defined in "*Terms and Conditions of the Global Depositary Receipts*"
Proceedings	any suit, legal action or proceedings arising out of or related to the Deposited Property, the GDRs, the Terms and Conditions of the Global Depositary Receipts or the Deposit Agreement
Programme	Government programme for provision of loans to SMEs operating in certain industries, as further described in "*Selected Statistical and Other Information*"
Prospectus Regulation	Regulation (EU) 2017/1129
Prudential Norms	prudential norms set by NBRK
QIBs	has the meaning given to such term in Rule 144A
QPayments	JSC QPayments
Qualified Investors	persons who are "qualified investors" within the meaning of the Prospectus Regulation
Register	books of the Depositary containing the registered holders of the GDRs, as further described in "*Terms and Conditions of the Global Depositary Receipts*"
Regulation S	Regulation S under the Securities Act
Regulation S GDRs	GDRs offered under Regulation S
Relevant Persons	persons to whom distributions may otherwise lawfully be made under the order
Restricted Parties	legal entities registered in certain specified off-shore jurisdictions that are not permitted to directly or indirectly own Shares pursuant to certain provisions of Kazakhstan law
restricted securities	securities within the meaning of Rule 144(a)(3) under the Securities Act
Rights Issue	the Bank's offer of 55,000,000 new common shares by way of a rights issue completed in March 2007
Rule 144A	Rule 144A under the U.S. Securities Act

Term/Definition	Meaning
Rule 144A GDRs	GDRs offered under the Rule 144A of the U.S. Securities Act
Rules	rules of the London Court of International Arbitration
Russian Roubles or RUB	Russian Roubles
Samruk-Kazyna	JSC Samruk-Kazyna
SDRT	stamp duty reserve tax
Securities Act or U.S. Securities Act	the United States Securities Act of 1933, as amended
Securities Market Law	The Law of the Republic of Kazakhstan No. 461-II "On the Securities Market", dated 2 July 2003 (as amended)
Shares	ordinary shares of the Bank
SMEs	small and medium-sized enterprises
SOM	Kyrgyz Som
SPPI	solely payments of principal and interest
Squeeze-Out	a squeeze-out as defined in the JSC Law and as further defined in "*Description of Share Capital and Certain Requirements of Kazakhstan Law*"
Tax Code	the Code of the Republic of Kazakhstan "On Taxes and Other Mandatory Payments to the Budget" introduced with effect from 1 January 2018 (as amended)
Temirbank	JSC Temirbank
Tenge or KZT	Kazakhstan Tenge
TJS	Tajikistani Somoni
Tenge Bank	JSC Tenge Bank
TsesnaBank	JSC TsesnaBank
Unaudited Interim Condensed Consolidated Financial Information	the unaudited financial information of the Bank as described in the "*Presentation of financial and Certain Other Information*", and incorporated by reference into this Offering Memorandum
Unsubscribed Rights	any rights offered in the Primary GDR Rights Offering which have not been subscribed, as further defined in "*Terms and Conditions of the Global Depositary Receipts*"
U.S. Dollars, USD or U.S.$	United States Dollars
VaR	value-at-risk

Term/Definition	Meaning
Wholesale trade	means trade with fast moving consumer goods (various household chemical goods), food and beverages, wheat and corn, gasoline and other fuel, pharmaceutical products, automobile spare parts, clothes and other items
WTO	the World Trade Organisation
Yield	interest income as a percentage of average interest-earning assets, calculated from monthly averages for the six months ended 30 June 2019 and 30 June 2018 and for the years ended 31 December 2018, 2017 and 2016.

REGISTERED OFFICE OF THE BANK

JSC "Halyk Bank"
40 Al Farabi Avenue
Almaty A26 M3K5
Kazakhstan

SELLING SHAREHOLDER

JSC "Holding Group "ALMEX"
17 Kabanbay Batyr ave.
Block E, Esil district, 010000
Nur-Sultan
Kazakhstan

JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

JSC Halyk Finance
109 "V" Abay Avenue
Almaty A05 A1B9
Kazakhstan

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

JOINT BOOKRUNNER

Renaissance Securities (Cyprus) Limited
Arch. Makariou III,
2-4, Capital Center,
9th Floor, Nicosia, 1065,
Republic of Cyprus

LEGAL ADVISERS TO THE BANK

As to English and United States Law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Kazakhstan Law

Kinstellar LLP
Kurmangazy St 6la
Almaty 050000
Kazakhstan

LEGAL ADVISERS TO THE JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

As to English and United States Law

Shearman & Sterling (London) LLP
9 Appold Street
London EC2A 2AP
United Kingdom

As to Kazakhstan Law

GRATA International
104, M. Ospanov Str.
Almaty 050020
Kazakhstan

DEPOSITARY

The Bank of New York Mellon
240 Greenwich Street
New York, NY 10286
United States of America

INDEPENDENT AUDITOR TO THE BANK

Deloitte LLP
36 Al-Farabi Avenue
Almaty Financial District, Building B
Almaty 050059
Kazakhstan